WESLEYAN

we are all about you

CREATING BRIGHTER FINANCIAL FUTURES

ANNUAL REPORT AND ACCOUNTS

For the year ended 31 December 2021

Company number: ZC000145

PARENT ACCT
SC126957

THURSDAY
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SCT 18/08/2022 #139
COMPANIES HOUSE

OUR PURPOSE: CREATING BRIGHTER FINANCIAL FUTURES FOR THE PROFESSIONS WE ALL TRUST - DOCTORS, DENTISTS AND TEACHERS

We've been creating brighter financial futures since the height of the Industrial Revolution. We started with support for Birmingham factory workers - covering their most pressing needs in times of sickness and to aid funeral expenses.

Since then Wesleyan has grown and evolved, adapting to a changing world while staying true to our principles and always keeping our customers front and centre of everything we do.

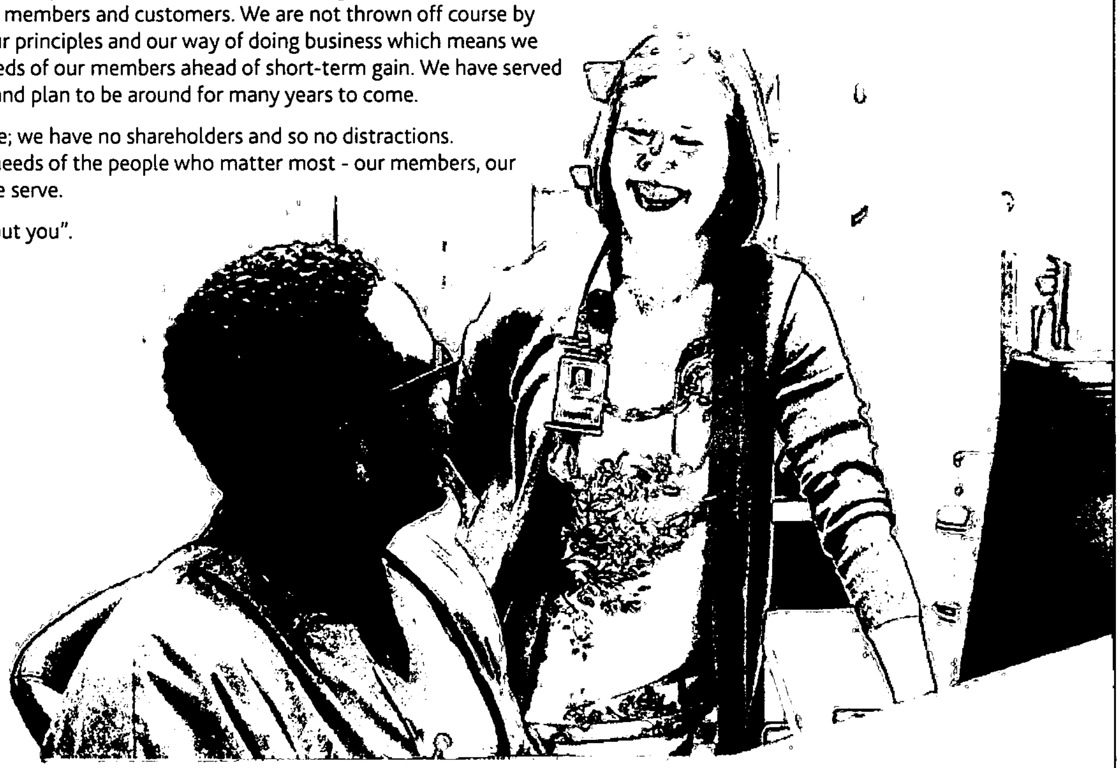
This was especially true during the Covid-19 pandemic when many of our key worker customers dealt with the impact of the pandemic on a daily basis. We have tried to support our doctors, dentists and teachers in the way they have supported us.

As a financially strong business with capital in reserve, we can take long-term decisions that deliver the best outcomes for our members and customers. We are not thrown off course by events around us. We stand by our principles and our way of doing business which means we always put our values and the needs of our members ahead of short-term gain. We have served our members for over 180 years and plan to be around for many years to come.

Our mutuality defines who we are; we have no shareholders and so no distractions.
We thrive by staying true to the needs of the people who matter most - our members, our customers and the professions we serve.

That's why we say "we are all about you".

For more information,
visit wesleyan.co.uk



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2021 HIGHLIGHTS

2021 was a year of progress for Wesleyan as we delivered an operating profit of £6.1m despite the ongoing impact of the Covid-19 pandemic. We also advanced our strategic plans to secure the long-term success and sustainability of our business, including investing £34.5m in technology and infrastructure to benefit members and customers.

As UK and global equity markets recovered ground following the difficult trading conditions in 2020, we increased our capital strength. We were pleased to share the benefits of this by distributing a Mutual Bonus of around £36m to Wesleyan investors in the With Profits Open Fund.

Read more in Our financial performance on pages 24 to 27

Read more in Our operational performance on pages 14 to 16

£6.1M

↑ Group Operating Profit/(Loss)
(2020: £(18.6)M)

£8.5BN

↑ total assets actively managed or administered by or on behalf of the Group
(2020: £7.9BN)

£36.0M

↑ boost to the investment returns of our Wesleyan With Profits Open Fund investors through our Mutual Bonus payout
(2020: £29.7M)

£589.1M

↑ Group Fund for Future Appropriations which represents our financial strength
(2020: £564.9M)

£34.5M

↑ invested in building a stronger, more sustainable business to benefit members and customers
(2020: £28.0M)

£3.9M

↑ awarded by the Wesleyan Foundation since its launch in 2017, supporting our customers and communities across the UK
(2020: £3.0M)

98%

↑ of personal income protection claims paid compared to an industry average of 86.5%[a]
(2020: 96%)

+58

↓ Customer Index reflects overall satisfaction, trust and ease of doing business with us, as well as Net Promoter Score showing how likely customers are to recommend an organisation.
(2020: +59)

4 AWARDS

- Championing Social Mobility[b]
- Championing Gender Diversity[b]
- Excellence in Responsible Business[c]
- Workplace Wellbeing Foundation Award[d]

a Association of British Insurers 2020 (figures published in 2021)
b Financial Adviser Diversity in Finance awards
c Greater Birmingham Chambers of Commerce awards
d West Midlands Combined Authority Thrive at Work Programme

OUR SUSTAINABLE BUSINESS MODEL

Our customers trust us to look after their financial futures – from savings and investments to mortgages and retirement planning. As a proud mutual, we add value to our members, building on our 180-year heritage of making a difference to our customers, colleagues and communities.

Being a sustainable business underpins everything we do because we know that to thrive for the next 180 years, we need to take action today. We're focused on sustainable investing, managing our environmental impact and driving positive change on social matters in our communities.

When we say "we are all about you", we're all about the world you live in too. You can read more about our sustainable business model over the page and later in this Report.

" If we truly want to meet the needs of our professional customers, we need to understand what's impacting their worlds. Whether it's their day-to-day working lives, financial needs or views on climate change, we are proud to understand and serve them. "

MARIO MAZZOCCHI
Group Chief Executive

WHO WE SERVE

DENTISTS

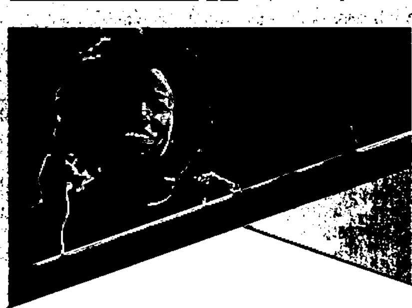
We understand the dental profession and can support you, whether your needs are personal finance or practice-related. Practice Plan, DPAS and Medenta are part of the Wesleyan Group and are market leaders in providing dental membership plans and business support.

TEACHERS

Designed to cater for the financial needs of the teaching profession, our expertise and experience, gained from working in conjunction with the NASUWT and other unions, enables us to assist you with everything from making the most of the Teachers' Pension Scheme to retirement planning and investing.

DOCTORS

We have a long-standing heritage of providing financial advice for medical professionals, including GPs and Hospital Doctors. We are proud to act as the exclusive financial advice provider to the Royal College of General Practitioners (RCGP). Whether you're a student, a GP or a consultant, we can help with many areas of specialist planning, such as your NHS Pension Scheme.



INDEPENDENT FINANCIAL ADVISERS (IFAs)

In 2021, we took the strategic decision to make our flagship With Profits Fund available to a wider customer base through IFAs. IFAs on the Novia investment platform now offer our With Profits Fund to their clients, helping to extend our reach without adversely impacting our specialist financial advice model. In 2022 we will extend our With Profits Fund to more IFAs and their clients.

OUR STRATEGY

LIFELONG PARTNER

To meet the financial needs of trusted professionals through specialist financial advice, our own tailored financial products and those from selected third parties, providing choice of when and how customers do business with us.

Read more about how our specialist financial advice is tailored to our customers' life stages on pages 4 to 5

BRILLIANT TO DO BUSINESS WITH

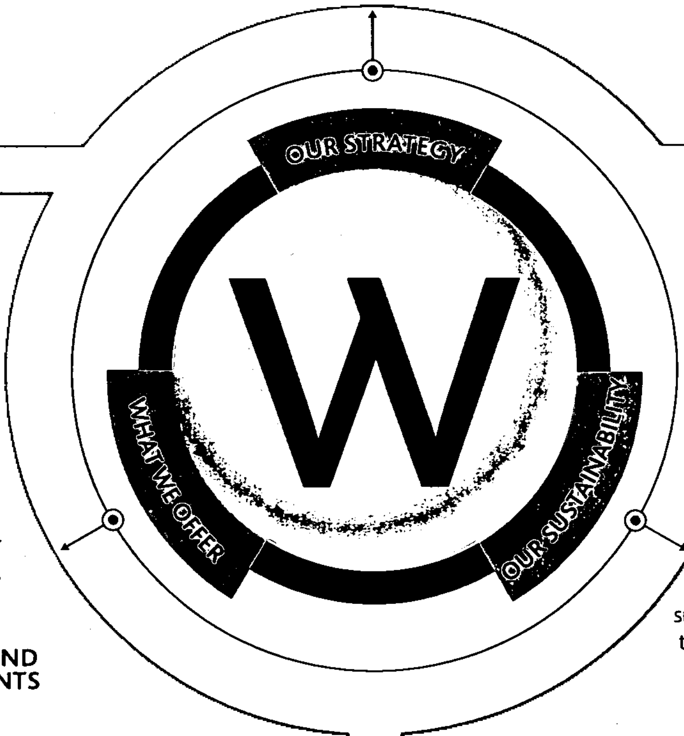
To build a sustainable and resilient business so that we can offer an outstanding service in a cost-efficient way that meets the needs of customers not only today but for many years to come.

Read more about how we made progress in 2021 and our plans for 2022 on pages 18 to 19

MUTUALITY WITH EDGE

As a mutual, our ethos of care is at the heart of everything we do. We are also driven to succeed. We work hard to get the best opportunities for our customers and members, to run a financially strong business and to deliver a healthy return on capital to our members.

Read more about mutuality on pages 6 to 7



WHAT WE OFFER

We provide a range of personal and professional products and services designed to meet the needs of our professional customers at every stage of their life. This includes:

- SPECIALIST FINANCIAL ADVICE
- SAVINGS AND INVESTMENTS
- MORTGAGES
- PENSIONS AND RETIREMENT PLANNING
- LIFE ASSURANCE AND PROTECTION
- GENERAL AND COMMERCIAL INSURANCE
- DENTAL MEMBERSHIP PLANS

Visit our website at www.wesleyan.co.uk to see more about our range of products and services.

OUR SUSTAINABILITY FRAMEWORK

BUSINESS IMPACT

Looking after you and your world starts with how we manage our business on your behalf.

We ensure that our own business practices are sustainable, including committing to being operationally carbon net zero by the end of 2023.

Read more on page 32

COMMUNITY & CITIZENSHIP

As a mutual we take our responsibilities to our communities and the wider society seriously.

We strive to make a difference for our members, our colleagues, and the communities we all live and work within through our day-to-day activities as well as our charitable Foundation.

Read more on pages 33 to 35

SUSTAINABLE INVESTING

At Wesleyan we manage over £8bn of your money. Like you, we care as much about *what* your investments are doing as well as *how* they are doing.

Read more on page 31

OUR SUSTAINABLE BUSINESS MODEL
CONTINUED

WHAT WE OFFER

SPECIALIST FINANCIAL ADVICE:
Through our dedicated Specialist Financial Advisers, Wesleyan Financial Services seeks to understand your needs and make personalised recommendations. Whether you are a doctor, dentist or teacher our Specialist Financial Advisers have a detailed understanding of your profession, pension schemes and career options in order to offer financial advice that is tailored to your profession.

SAVINGS AND INVESTMENTS:
We know how hard you work for your savings and so we have a number of product and fund choices to help make those savings work harder. Whether you're looking to buy your first home or invest for retirement, our savings accounts and investment plans are designed to support you whatever stage you're at in life (see below). From ISAs to Capital Investment Bonds, we have a range of investment plans including our flagship With Profits Fund to suit your aspirations and attitudes to risk. Our With Profits Fund is also available to a select number of IFAs and their clients.

PENSIONS AND RETIREMENT:
It's never too early to start planning for the later years in life which is why Wesleyan's Specialist Financial Advisers are experts on the NHS and Teachers' pensions schemes. Covid-19 has led to many of our trusted professionals carrying out additional work or returning to the workplace from retirement, resulting in a need for further expert advice on how to avoid unexpected tax bills. We've also seen increasing interest from those planning an early retirement. We are able to offer advice and products supporting retirement including personal pensions and annuities.

HERE FOR YOU AT EVERY STAGE OF YOUR LIFE

STARTING A CAREER
Through university, graduation and transitioning into working life.

How Wesleyan supports:
- Financial education programme - "The Next Step"
- Savings options

PUTTING DOWN ROOTS
Buying a home, building a family.

How Wesleyan supports:
- Saving for a deposit
- Mortgage advice
- Saving for the future
- Protecting your income and your home

LIFE ASSURANCE AND PROTECTION:
Wesleyan is able to offer products and advice on how to plan for some of life's unexpected events. Protection options with Wesleyan include Life Assurance (a tax-free lump-sum for your family in the event of your death), Critical Illness Cover (providing a lump sum payout in the event of a serious health condition), Mortgage Protection (to pay off any outstanding mortgage in the event of your death) and Income Protection (to keep money coming in when you're off work with ill health).

GENERAL AND COMMERCIAL INSURANCE:
Wesleyan offers a wide range of insurances to protect your property, vehicles and travel arrangements. From 'standard' home and motor insurance to more specialist needs such as subsidence, renovation, non-standard or holiday homes, our experts are available on the phone to provide tailored advice and find the right deal. For business owners we offer a range of specialist medical and dental insurance, as well as professional indemnity and commercial property insurances.

MORTGAGES:
Our specialists have access to a wide range of leading lenders, including access to products you won't see on the high street. We are able to support with purchases, remortgages and buy-to-lets and our team manage the application every step of the way.

DENTAL MEMBERSHIP PLANS:
Practice Plan Group are the UK's number one provider of practice-branded dental plans. They offer business advice to dentists and are the experts when it comes to supporting dental practices making the move into private dentistry. We also offer dental patient finance through Medenta, part of the Practice Plan Group.

STARTING AND GROWING A BUSINESS

Starting your own business, becoming a partner, buying a practice.

How Wesleyan supports:

- Commercial protection and insurance options
- Dental Membership Plans
- Patient Finance

BUILDING A SECURE FUTURE

Saving for your future including planning retirement options.

How Wesleyan supports:

- Savings and investments products to help you make your money work harder, whether you're saving for a rainy day or an early retirement
- Buy to Let Mortgage advice and Landlord Insurance
- Retirement planning advice backed by specialist knowledge of occupational pension schemes
- Retirement options including Pension, Flexible Access Drawdown and Annuities

RETIREMENT AND LATER LIFE

Ensuring a comfortable retirement and that inheritance affairs are in order.

How Wesleyan supports:

- Retirement range including Flexible Access Drawdown and Annuities
- Inheritance Tax Planning/Capital Gains Tax Planning

MUTUALITY: MEMBERS AT THE HEART OF OUR BUSINESS

Wesleyan has been a proud mutual since we were first founded over 180 years ago. Our mutuality is an integral part of who we are and how we operate. We don't have shareholders which means we can take a long-term view. It also means we can share our success and how we run our business with our members. We thrive by staying true to the needs of the people who matter most - our members, our customers and colleagues, as well as to the communities in which we all live and work.

BENEFITS OF BEING A MEMBER

SHARING OUR FINANCIAL STRENGTH

As a financially strong, well managed mutual, we proudly share the benefits of our success with members in the form of a Mutual Bonus, when conditions allow.

INSURANCE DISCOUNTS

We set aside over £2.5m in 2021 to offer 20% discounts to members on key insurance products, including a price match promise on home and motor policies.

YOUR MUTUAL: YOUR VOICE

Every year members can have a say on how we run our business by voting on key matters in our Annual General Meeting and putting questions to our Board of Directors.

SUPPORTING YOUR WELLBEING

To support your mental and physical health, as well as your financial health.

Members have free access to the Wellspace wellbeing app. Visit **wesleyan.co.uk/wellspace** to find out more.

GIVING BACK

Through the Wesleyan Foundation we give back to our community - supporting the charities and causes that matter to our members and customers. Since its launch in 2017, over £3.9 million has been awarded to deserving causes across the UK.

SUPPORTING A SUSTAINABLE WORLD

When investing with Wesleyan, members can be reassured that our investment funds seek to reduce harm, have a positive impact on the environment and drive change. Last year we sold over £40m of investments that failed to meet our 'Reducing Harm' requirements.

THE MUTUAL THAT GIVES MORE

MEMBER REWARDS

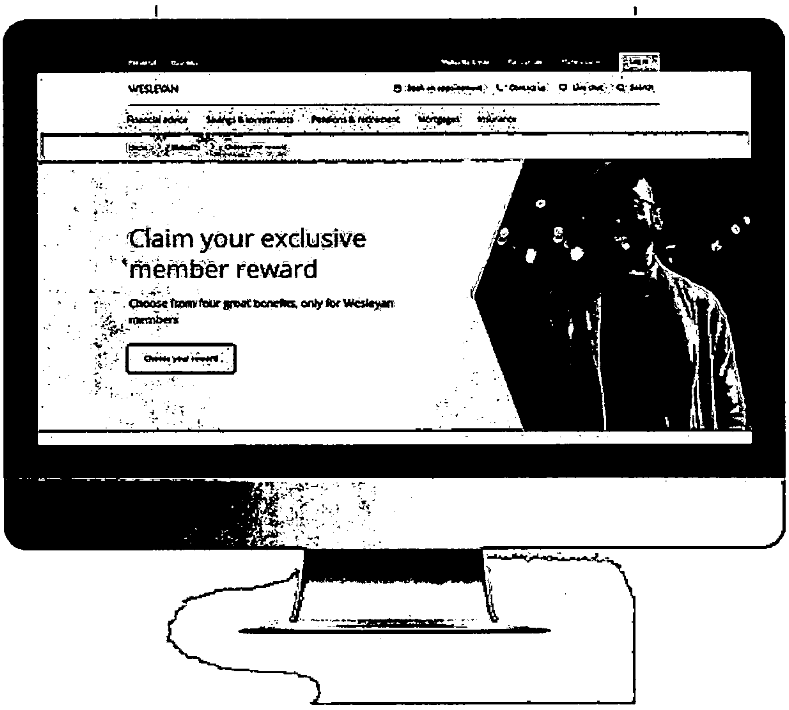
We're always looking for ways to drive more value for our members and in 2022 we'll be launching a new rewards scheme. The scheme, currently in pilot phase, will offer members a selection of exclusive rewards to choose from. Look out for more details on the Wesleyan reward scheme later in the year.

DEDICATED MEMBER PORTAL

Members will be invited to a dedicated website which makes choosing your rewards simple.

ALL ABOUT YOU

Whether it enhances your physical, mental or financial wellbeing, our member rewards are designed to be 'all about you'.



AVERAGE GENERAL INSURANCE SAVING IN 2021*

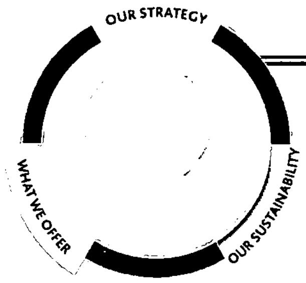
£124
ON PERSONAL INSURANCE

£496
ON COMMERCIAL INSURANCE

*Based on 20% member discount

SUPPORTING OTHERS:

"Through our popular Next Step Programme, we support young people starting professional life by running financial and wellbeing education initiatives that support them with the transition from qualification into working life.



A SUSTAINABLE MUTUAL

OUR SUSTAINABILITY APPROACH AND STRATEGY

As a mutual we believe we should act in a sustainable and responsible way in all our business operations in line with our commitment to doing the right thing for our members, customers, colleagues and communities.

We recognise that sustainability is a journey for us; with short, medium and longer-term activity required to meet our aims. Our approach is governed by our Sustainability Strategy which is approved by our Board of Directors.

With Environmental, Social and Governance (ESG) at its core, this strategy sets out our key sustainability principles, encompassing areas such as sustainability in our product offerings, our infrastructure, how we invest customers' funds, support and guidance for our colleagues, and the good causes we support. The Sustainability Strategy drives vital behaviours and actions to ensure we meet our sustainability goals.

ENVIRONMENTAL

Reducing our impact on global temperature increases, limiting Greenhouse Gas (GHG) emissions and reducing pollution

SOCIAL

Tackling inequality and helping disadvantaged communities

GOVERNANCE

Following good governance practices, including effective oversight from the Board, appropriate governance structures, Board approved policies incorporating sustainability and demonstrating compliance with all laws and regulations

To support the delivery of our goals we have an internal framework in place, designed to focus our employees' efforts in three key areas most relevant to our business. These are:

SUSTAINABLE INVESTING

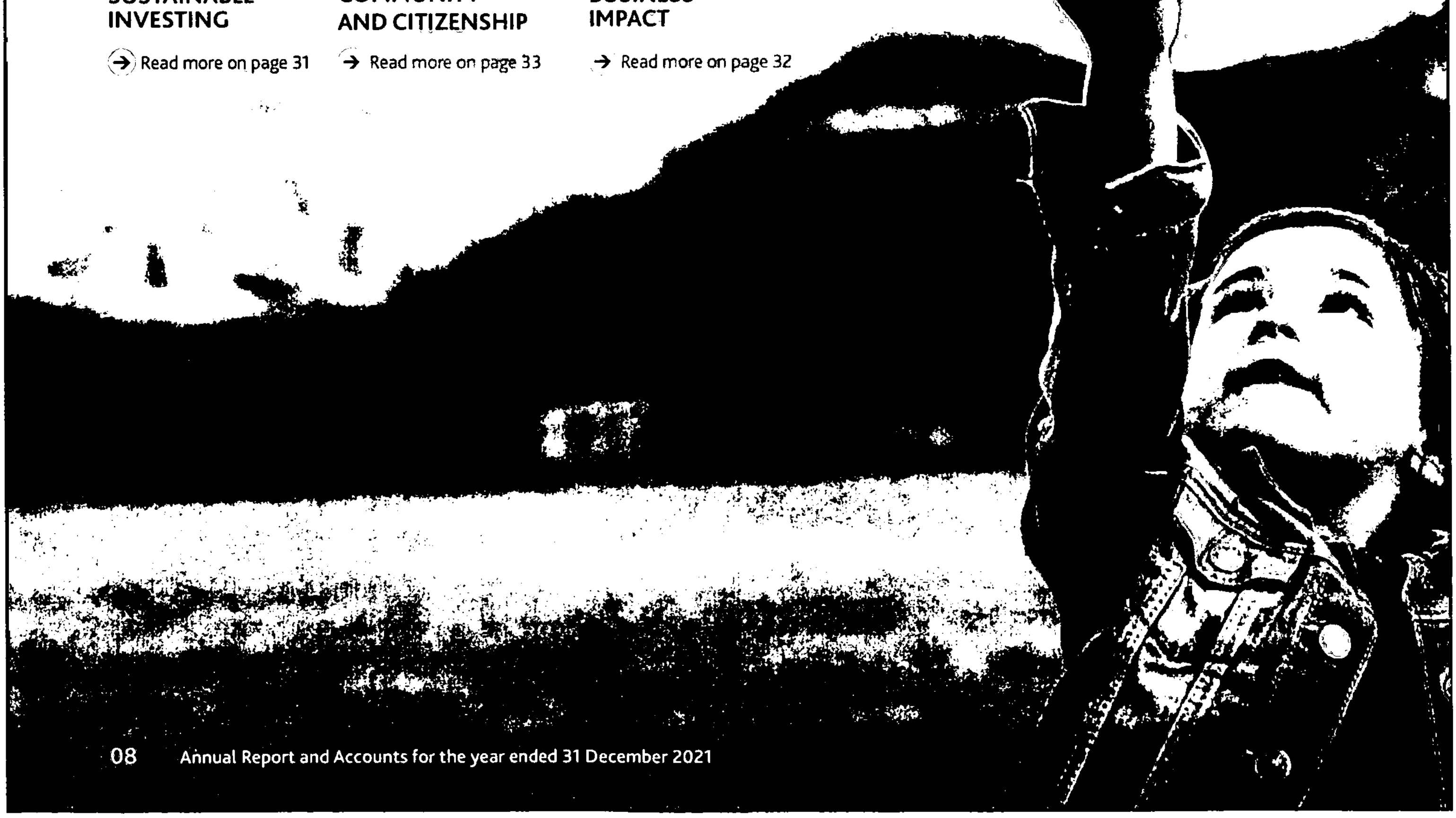
→ Read more on page 31

COMMUNITY AND CITIZENSHIP

→ Read more on page 33

BUSINESS IMPACT

→ Read more on page 32



WHAT WE HAVE DONE SO FAR

2021 was a challenging year due to continued disruption from the Covid-19 pandemic. However, despite these headwinds, we achieved the following key sustainability milestones:

1. Implemented a new Sustainable Investing Policy to improve the sustainability of our Investment portfolio ("Reducing Harm", "Positive Impact", "Driving Change"); which included selling £40m of assets to align to our new approach.

2. Moved our electricity supply to a 100% renewable energy supplier and replaced our Head Office boilers to improve their efficiency. This will significantly reduce our operational carbon footprint going forward.

3. Introduced EVolve, a new company car scheme offering electric and low emission vehicles through salary sacrifice. This has been well received by colleagues and we are phasing out our previous company car scheme.

4. Embedded sustainability governance and oversight, including the operation of a Sustainability Committee overseeing key responsibilities within the business.

5. Further bolstered our Socially Responsible Investment team to provide expert analysis into ESG issues and their likely financial impact on our investments.

6. Monitoring the sustainability profile of our investments via ESG and carbon footprint benchmarks for the majority of the assets we manage.

7. Good progress towards becoming carbon neutral in our operations by the end of 2023, and fully carbon neutral (including Investment Funds under management) by 2050 at the latest. See page 47 for Key Metrics.

8. Provided information, support and guidance to our employees on a range of sustainability matters.

9. Collaborated with the wider business community - we are proud signatories of the UK Business Group Alliance initiatives for Net Zero and for a green recovery from Covid.

10. Aligned our Corporate Social Responsibility activity to United Nations (UN) Sustainable Development Goals (SDGs) and are signatories of the UN Principles for Responsible Investment.

WHAT WE ARE DOING NEXT

As part of our continued sustainability commitment, 2022 will see a key focus on sustainability being further embedded through every area of the organisation. To demonstrate our ongoing commitment to this, we have recently employed a Group Sustainability Manager to support the Society in achieving its goals. We will create a carbon reduction roadmap to better align to our carbon neutral targets, which may involve an element of offsetting through credible channels. We are aiming to reduce our carbon footprint by more than 50% over 2022 (relative to 2020 levels, see "Metrics and Targets" section on page 47 for further information).

In addition to this, we will continue to challenge companies we are invested in to ensure they align with our Sustainable Investing Policy and the United Nations Sustainable Development Goals, and we will focus on harnessing all of the good work being undertaken at Wesleyan and communicating that both internally and externally through regular updates and reporting.

Q&A WITH CHAIR, NATHAN MOSS

Nathan Moss, Chair of Wesleyan Board of Directors, gives an overview of how Wesleyan progressed in 2021 and tells us why mutuality works for customers and colleagues as well as members.

HOW WOULD YOU SUM UP WESLEYAN'S PERFORMANCE IN 2021?

As the Covid-19 pandemic kept its hold on the world, we like most other businesses, spent 2021 operating in a very uncertain environment. However, the plans we made in 2020 to protect our business against the ongoing impact of Covid-19 kicked in and we are pleased with the outcome and the value we were able to deliver for our members as the year progressed.

Following an operating loss of £18.6m in 2020, we believed we were setting a stretching target to reach a break-even financial performance in 2021. The fact we ended the year with a £6.1m profit is positive and testament to the hard work of everyone at Wesleyan. Income increased as we grew further in our core customer markets and we were particularly proud to see Practice Plan Group hit the one million customer mark in the summer. We remain committed to our specialist business model and this is a clear indicator that there is room for further growth.

Despite the ongoing difficult trading conditions we retained our capital strength closing the year with the Fund for Future Appropriations, a measure of financial strength, standing at £589m. As investment markets rebounded, we were pleased to see our flagship With Profits Fund deliver a competitive return of 12.7%. We continued to build on the strength of our With Profits offering by increasing access to the Fund, more of which later. Costs were well managed and Wesleyan ended the year firmly ahead of expectations.

We continued to invest in the infrastructure of our business with new technology and digital capability. This included strengthening our resilience in the face of increasingly sophisticated cyber attacks. We have increased monitoring and controls, bringing in a variety of tools to enhance detection and protect our IT systems.

WHAT IMPACT DID THE PANDEMIC HAVE ON YOUR BUSINESS?

Many of our customers continued to work tirelessly managing the ongoing impact of the pandemic in their schools, surgeries and hospitals. We thank them for their efforts and have tried to reflect our appreciation through some of the projects we funded through our Foundation, which you can read about on page 34.

Read more in Our Operational performance on pages 14 to 16

From a business perspective, Covid continued to impact our ability to see our customers in person and deliver our live events programme, providing financial education for those new to the professions. We want our customers to access their Specialist Financial Adviser in a way and at a time that suits them. For many, the increased focus on online advice has been welcome but for those customers who prefer the in person approach it has caused some frustration. At the time of writing, Covid restrictions have eased and we are able to offer our full range of advice options to customers.

DID YOU HAVE TO ADAPT YOUR STRATEGY OVER THE YEAR?

When the pandemic first took hold in March 2020, we quickly realised that we needed to take proactive action to protect against the potential financial impact on our business. We built a detailed transformation plan that supports our strategy and is taking us on a journey of significant growth as we create a stronger, more sustainable organisation. This plan remained the roadmap for everything we did in 2021. We delivered some exciting new projects that will make a huge contribution to Wesleyan's future success. You'll read more about this in the report from our Group CEO, Mario Mazzocchi, on page 14.

WHAT WERE THE KEY STRATEGIC DECISIONS FROM YOUR PERSPECTIVE?

We made good progress against a number of our key strategic aims. In 2020 we began a pilot to make our With Profits ISA available to a wider audience online and through aggregator sites. We have been pleased with the progress made and this is now supported by the launch of our new website to support our growing online business.

The interest in our With Profits ISA confirmed to us there is demand for a well-managed With Profits Fund. In July, we announced a new partnership with leading wealth management company Novia, to make our Fund available to Independent Financial Advisers (IFAs) through their investment platform. This allows us to grow the Fund and provide the potential for a stronger member benefits programme. Those accessing the Fund in this way will not become members of the Society.

WERE THERE ANY OTHER BIG CHANGES FOR WESLEYAN?

A significant development was the sale of Wesleyan Bank to Hampshire Trust Bank Plc (HTB) which was agreed in 2021 and received regulatory approval this February.

We are committed to managing our capital in the right way to deliver the best outcomes for members. The sale of the Bank allows us to maximise investment in our core business and generate stronger returns for members. it also allows the Bank to fulfil its potential as part of a wider banking organisation with a broader range of customers.

I would like to thank the Wesleyan Bank Board for their stewardship of the Bank over the transitionary period, as well as Bank CEO Andrew D'Arcy and all of his team for their hard work over the years. We wish both them and

HTB every success in the future. Thanks also to Wesleyan Bank customers for their ongoing support of our business over the years. You can read more on this on page 15.

ARE YOU STILL COMMITTED TO YOUR MUTUAL STATUS?

We remain completely committed to being a mutual. It's a model that's served us well for over 180 years and has more resonance today than ever.

As a mutual we care passionately about our customers, colleagues and the communities in which we all live and work. In 2021 the Wesleyan Foundation, which really brings to life our mutual values, donated just under £1m to more than 150 good causes, many of which were related to healthcare and education reflecting our customers' professional interests. You can read more about this on page 34.

I was very pleased to see our sustainability agenda progress considerably over the year as we widened our horizons and looked at the impact we have on the wider world. As a mutual, with no shareholder pressure, we can take a long-term approach which aligns with our sustainability commitment. It means we can proactively seek opportunities to be a positive force for change in a number of key areas of sustainability including our investment funds. In 2021 we put in place clear principles so that Wesleyan directly invests only in companies that are reducing negative impact, are committed to doing good in the world and drive positive change. This meant selling £40m of less sustainable assets and bolstering our investments in companies aligning with our new criteria. You can read more on page 31.

Another passion of mine is Equality, Diversity and Inclusion (EDI) which remains a priority for the Society. As a Board we recognise the need to accelerate our efforts to make Wesleyan a more diverse and inclusive employer and are taking action to achieve this. We recognise genuine diversity of thought will make us a stronger business and give us a wider understanding of our customers.

We are making strong progress against our target to increase female representation in our senior leadership team. At the end of 2021 33% of the team were women, bringing us in line with our target a year ahead of schedule. We are aiming for at least 40% representation by 2024. We must work harder to increase representation from ethnic communities among senior leaders. Our target is 15% representation by the end of 2022, increasing to 20% by the end of 2025. This compares to 8.6% representation at the end of 2021. You can read more about our Inclusivity plans on page 37.

WERE THERE ANY CHANGES FOR MEMBERS IN 2021?

As a capitally strong mutual, we're pleased to to be in a position to pay a mutual bonus to Wesleyan policyholders in our With Profits Open Fund. This will take the form of a 1% uplift on their investments to be distributed in 2022, based on 2021 performance. We also launched a new member reward scheme in 2021 which is currently in pilot phase and will allow each member to select a new annual personal benefit from a range of options. This is of course on top of our existing discounts, products and services. For more information please see page 6.

WERE THERE ANY CHANGES TO THE BOARD OVER THE YEAR?

We were pleased to welcome Harpreet Sood to the Board. He is a Non-Executive Director of Health Education England and a practicing GP so brings extensive and relevant experience to our Board as we strengthen our focus on the specialist needs of our customers.

We are sorry to say goodbye to Martin Bryant as he steps down from the Board after 10 years. He took on the role of Senior Independent Director in 2019 and has been Chair of Wesleyan Bank since 2013. Martin has played an integral role in helping us to reshape the future of Wesleyan and will be missed. Anne Torry, who has been with us since 2019, steps into the role of Senior Independent Director.

CLOSING REMARKS

At the time of writing the crisis in Ukraine continues to unfold with no certainty to how it will play out. Our thoughts are with those impacted by these events and in conflict zones around the globe. We are offering practical support through the Wesleyan Foundation, donating £10,000 to charities supporting the medical humanitarian efforts in Ukraine and around the world. We are grateful to the international medical community for their unrelenting efforts to save lives in times of crisis.

The longer the crisis continues, the worse the impact will be on the UK economy. There are likely to be some difficult months ahead as energy and fuel prices continue to rise. Food prices are also likely to be impacted and many commentators are predicting even higher rates of inflation. This will undoubtedly put pressure on household incomes and could lead to a drop in economic growth if the cost of living crisis impedes consumer spending. Our purpose to create brighter financial futures for the professions we all trust will motivate us to support our customers through this difficult time, helping them to make the most of their hard earned income.

Over the year we will also be planning for one of the largest regulatory changes for some years in the financial services industry. The Financial Conduct Authority plan to introduce a new consumer duty to ensure a higher level of consumer protection across the industry. We look forward to receiving the new rules, expected at the end of July and will be working hard to ensure we comply with them.

I hope to see many of our members at our online AGM which takes place on 26 May when you'll have your chance to input on some key business matters. Until then thank you to all of our wonderful Wesleyan colleagues who have worked so hard to build a stronger, more successful business in 2021 and my sincere thanks to all of our members and customers for trusting us with their financial futures.

NATHAN MOSS
Chair

31 March 2022

> "The plans we made in 2020 to protect our business against the ongoing impact of Covid-19 kicked in and we are pleased with the outcome."

NATHAN MOSS
Chair

STRATEGIC REPORT

KEY PERFORMANCE INDICATORS

GROUP OPERATING PROFIT/ (LOSS)

21 £6.1m

20 £(18.6)m

Operating Profit/(Loss) for the Group represents profit after project costs, in force experience and exceptional costs.

Further information: Please refer to Our Financial Performance Section on pages 24 to 27. The Group made an operating profit in 2021 as the business was able to capitalise on the improving economic conditions as the UK emerged from the impacts of Covid-19.

SOCIETY NEW BUSINESS (ANNUAL PREMIUM VALUE)

21 £50.8m

20 £35.2m

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 regular premium policies and 10% of single premiums received in the year.

Further information: The increase in 2021 new business is primarily due to the recovery from the impact of Covid-19. The hybrid advice model adopted by the Business has enabled us to recover to a position in excess of pre Covid-19 levels.

SOCIETY PREMIUM INCOME

21 £477m

20 £307m

The total premiums received during the year for Life and Pensions business.

Further information: The increase in premium income in 2021 is driven from the pension business being £45m better than 2020 (35% increase), ISA business which grew by £30m (33% increase), life business which grew by £25m (45% increase) and c.£70m of reinvested premiums following the SIPP closure.

ASSETS UNDER MANAGEMENT

21 £8.5bn

20 £7.9bn

The total assets actively managed or administered by, or on behalf of, the Group.

Further information: As a result of the improving investment conditions and the increased new business levels, Assets Under Management increased from £7.9bn to £8.5bn.

INVESTMENT RETURN - WITH PROFITS FUND

21 12.70%

20 (1.40)%

The return earned by our key investment fund including income and capital growth.

Further information: The investment return was positive in 2021 as stock markets, particularly in the UK, recovered from the effects of Covid-19. Additional investment commentary can be found on page 28.

GROUP FUND FOR FUTURE APPROPRIATIONS (FFA)

21 £589m

20 £565m

A measure of the Society's financial strength.

Further information: The increase in FFA is the result of strong investment returns coupled with the improved operating performance.

SOLVENCY RATIO

21 306%

20 314%

The Solvency Ratio is a measure of financial strength, calculated as the ratio of eligible capital to the regulatory capital requirement.

Further information: The fall in the Solvency ratio is caused by an increase to the regulatory capital requirements due to increased equity risk and also a change to the Standard formula stresses used to calculate the capital requirements. Whilst this is a slight decrease from 2020, the Society's Solvency ratio remains strong.

CUSTOMER INDEX

21 58

20 59

Our Customer Index is based on a monthly survey and made up of four key indicators covering Customer Satisfaction, Ease of Doing Business, Brand Trust and Net Promoter Score (NPS). NPS shows how likely customers are to recommend an organisation.

Further information: Despite a slight drop in this metric for 2021, feedback shows we are continuing to meet the expectations of our customers and are a brand they would recommend to family, friends and colleagues. We have set ourselves ambitious targets to improve customer experience further in 2022 in line with our strategy of being brilliant to do business with.

ENGAGEMENT SCORE

21 7.6

20 8.0

An assessment of how employees feel about working for Wesleyan based on a survey by an independent provider.

Further information: Employee engagement has decreased by 0.4 points from 2020. We predicted the ongoing challenges of remote working and Covid-19 alongside Wesleyan transformation activities would impact engagement but it was to a lesser degree than expected. In 2022 we are launching new Engagement 'clinics' for colleagues to discuss their feedback with subject matter experts in areas such as reward, learning and development, agility and change.

OUR OPERATIONAL PERFORMANCE

> "We are building on Wesleyan's rich heritage to evolve our business into one that is relevant to the needs of our members both today and in the years to come."

MARIO MAZZOCCHI
Group Chief Executive

INTRODUCTION

2021 was a landmark year for Wesleyan as we celebrated our 180th anniversary and made progress in getting back on track following the difficult trading conditions caused by the pandemic in 2020. We ended the year ahead of expectations and successfully delivered some key projects in our ambitious transformation programme that will strengthen our business and deliver greater value to our members.

In my Report I want to update you on some of these very positive developments as we continue to build on Wesleyan's rich heritage to evolve our business so it remains relevant to the needs of our members and customers both today and in the future.

A YEAR OF SUSTAINABLE GROWTH

2021 was very much a story of sustainability, both for our business and the impact we have on the world around us. We are committed to making Wesleyan more sustainable so that it can continue to serve members successfully for many years to come. This means making sure we have a solid infrastructure in place and a robust approach to cost management that ensures we are more efficient, resilient and able to meet the changing needs our of customers in a competitive marketplace.

We undertook a forensic examination of the role we need to play as a responsible mutual to better protect the world around us. We discussed these issues with you, our members and customers, and it was clear you wanted more from us. This led to the launch of a new Sustainability Strategy and a bold new approach to investing.

We set clear and transparent sustainable investing criteria that will ensure Wesleyan's direct managed funds only invest in companies that have stated commitments to reducing harm, having a positive impact and driving change. To put our words into action, we sold over £40m of investments in companies that no longer met our criteria and invested further in ones that do.

This means our investors don't need to choose between what's best for their investments or best for the planet as we strive to deliver both on their behalf. You can read more about this on page 31.

Read more in Sustainability at Wesleyan on pages 30 to 47

A LIFELONG PARTNER TO OUR SPECIALIST CUSTOMERS

We remain committed to our specialist business model and believe we have room to grow further in our core medical, dental and teaching markets. A key pillar of our strategy is to build lifelong partnerships with our professional customers throughout their careers and into retirement. This means understanding their needs and ambitions at every stage of their life, as well as what's impacting them personally and professionally.

We pride ourselves on our deep insight into these professions and the relationships we have established within them. We believe it to be one of the key reasons our customers choose us and we will continue to deepen our understanding in order to add further value. One of the ways we do this is through our Advisory Boards, made up of experienced doctors, dentists and teachers who provide us with regular updates on the challenges and opportunities they and their colleagues face. These provide a sometimes sobering reminder that our professions continue to grapple with many issues on top of the additional pressures of Covid-19, including recruitment and retention, lack of training provision, mental wellbeing and burnout. You can read more about the issues impacting our professional customers and how we're supporting them on page 20.

BEING BRILLIANT TO DO BUSINESS WITH

In 2021 we invested £34.5m in projects that support our strategy of being brilliant to do business with. This was focused in four key areas: projects that will enhance our digital proposition; help us to better use and protect data; deliver increased cost efficiencies and deliver a first-class service to our customers.

Part of this means ensuring customers can do business with us at a time and in a way of their choosing, whether this is online or through personal contact with our teams. We are committed to increasing our digital capability and made good progress in 2021 with the launch of our new website. The site has been completely redesigned with a relentless focus on what customers want from it. Feedback has been positive and we've seen some excellent results with more customers visiting the site, spending longer on it and returning more often. It has also supported our online business and attracted new customers to Wesleyan. Next steps in our digital plans will include a new customer portal to make it easier to manage Wesleyan policies and enact servicing needs online.

We remain committed to our face-to-face advice model but giving more choice through digital channels provides a better customer service and creates a more efficient business. By enabling simple transactions to take place online, our Specialist Financial Advisers can support customers with their more complex needs such as retirement planning. We saw an increased demand for their specialist financial advice in 2021 and customers continue to tell us how much they value them with 94% saying their Adviser is good or excellent[1].

We also continued the development of our Customer Operations teams who are on hand to help customers and process their requests. We introduced new training plans to cross-skill colleagues so there is additional support at peak times and took steps to simplify and digitise key processes. We were pleased to see progress against all of our service targets and positive feedback from customers.

While we were pleased to welcome increasing numbers of new customers to the Group, we also saw some attrition above our expected target. We are investigating thoroughly the reasons for this. It will be a key focus for our newly established Customer Committee where we review customer feedback so we can further improve our service.

Looking forward, we will continue to invest in both customer experience and reducing our 'cost to serve' so that we can deliver a service that Wesleyan customers deserve and expect.

MUTUALITY WITH EDGE

We were proud to celebrate our 180th anniversary in 2021 and took the opportunity to reflect on the brilliant work Wesleyan has done since it was first founded during the Industrial Revolution. Core to our success is our ability to innovate and adapt as the world around us changes. We are committed to passing on a strong, resilient business to future generations of members while delivering greater value for our members today. In 2021 we delivered a number of key projects that strengthened our business and demonstrated our credentials as a modern mutual.

One of Wesleyan's great assets is our With Profits Fund which is among the best in the market. We shared with you in recent years our plans to increase access to the Fund to more customers and in 2020 we made the With Profits ISA available online and through aggregator websites. We are pleased with the outcome with over 4,400 new policies sold online. This exceeded our targets and brought a healthy amount of additional income into the business at relatively low cost.

The success of this activity proved to us that there is wider demand for our well-managed With Profits Fund. In June we announced a new partnership with Novia, an established wealth management company, making the Fund available via Independent Financial Advisors (IFAs) who use Novia's investment platform. Clients who access the Fund in this way do not become Wesleyan customers or members.

We believe this activity very much supports our core purpose and drives value for our members. We are using existing infrastructure and expertise so there is little additional investment required and as the Fund grows, we have the potential to offer a stronger mutual member benefits programme. Progress made to-date is pleasing and we are confident that there is greater potential to grow the With Profits Fund through third party platforms. We plan to capitalise on further opportunities available to us in 2022.

As a mutual we take long-term decisions to benefit our business and our members. This includes ensuring we use our capital in the right way to drive member value. We therefore made the decision to sell Wesleyan Bank following a full strategic review. The Bank has grown substantially in recent years and shown resilience over the course of the pandemic.

To fully realise its growth potential we recognised it would require further expansion outside of our core markets and additional capital injections from the Society. While we are a financially strong organisation we must make choices on how to optimise the resources we have to generate the best returns for members and fulfil our purpose of creating brighter financial futures for the professions we all trust. We believe the sale of the Bank will enable us to have greater focus on our core customer base and invest in exciting opportunities for the future.

OUR OPERATIONAL PERFORMANCE CONTINUED

The Bank has now moved under the ownership of Hampshire Trust Bank plc (HTB), a specialist, award-winning bank. We were sorry to say goodbye to our Wesleyan Bank colleagues and wish them every success in the future. Thank you to them and to the Bank customers who have been such great supporters of our business. I also want to take this opportunity to thank my Executive colleagues Gillian Cass and Andrew D'Arcy as well as all those who worked so hard on this transaction to get the right result for our business and our members.

PEOPLE AND CULTURE

We continue to aspire to having a truly inclusive culture at Wesleyan that is reflective of our customers and wider society. While we are making good progress with gender diversity in our senior leadership team, we have much further to go to achieve proportionate representation from minority communities. Diversity targets have been in place for the Board and Executive Team for some time now. In 2022 we are setting similar objectives for all senior managers and doing more to encourage colleagues to play their part in creating an inclusive culture. We are grateful to the members of our diversity networks for leading the way. You can read more about our work in this area on page 37.

We know Wesleyan colleagues are passionate about our business and particularly about our mutual status. At a time when many companies are struggling to recruit, our value of care is a point of differentiation in a competitive market. However, we can't be complacent and we are working to develop the proposition we offer to current and future employees. This will ensure Wesleyan remains a great place to work and we are able to attract and retain the talent we need to serve our members and customers. This will begin to roll out in 2022 as we aim to define and share more succinctly the compelling reasons for working at Wesleyan.

As Covid restrictions have lifted many companies are looking at ways of working in the future. At Wesleyan, we have seen very real benefits from flexible working and do not want to stipulate a one size fits all approach when it comes to returning to the office. We are asking teams to agree together ways of working that will deliver the right outcomes for the individual, their colleagues, the business and most importantly our customers. We want to ensure we retain some of the flexibility that working from home brings while protecting our culture and ensuring the needs of the business continue to be met.

Read more in People and Culture on pages 36 to 37

Our new ways of working will mean that we no longer require the same amount of office space and we have reduced our Head Office footprint by 40% as we move to a smarter working environment. We will also rent out sections of our building to third parties – another example of optimising our resources to generate income to invest back into our business.

LOOKING AHEAD

While we hope for a speedy and diplomatic resolution to the current conflict in Ukraine, we recognise that these events are likely to have a significant impact on the UK economy for some time to come. This may have knock-on effects on our business but our financial strength allows us to stand strong and not be thrown off course by the world around us. It also means we can withstand significant market movements and we will continue to take a long-term view to benefit our members and customers.

While we made good progress with our transformation plans in 2021, we know there is more to do to in order for us to be a true lifelong partner that is brilliant to do business with. We will retain our absolute commitment to building brighter financial futures for our professional customers and will work harder to find more efficient ways to deliver products and services to them.

We remain firmly committed to our mutual status and recognise that it is valued by our professional customers with 88% agreeing that Wesleyan is a brand that they can trust[2]. Mutuality also differentiates us from many of our competitors and allows us to give more back to our members, customers, colleagues and the communities in which we live and work.

We'll continue to support colleagues as we all adapt to new ways of working and make every effort to build a more inclusive business and have a more diverse senior leadership group taking us into 2023.

We have made no changes to the Executive Team since our last Report in 2021 and I believe we have the right management capabilities in place to take Wesleyan into its next stage of growth. Thank you to them and to all of our colleagues who worked so hard and delivered so much in 2021. I am extremely proud of what we achieved as we move further towards being the go-to provider for our professions while building a stronger, more sustainable business for our members today and into the future.

MARIO MAZZOCCHI
Group Chief Executive

31 March 2022

1 Wesleyan Sales Survey 2021 (8, 9 & 10 out of 10. Base size: 1,310)
2 Wesleyan Customer Survey 2021 (8, 9 & 10 out of 10. Base size: 4,616)

OUR STRATEGY

Wesleyan's purpose is to create brighter financial futures for the professions we trust - doctors, dentists and teachers. We aim to achieve this by delivering our strategy which will see us become a true lifelong partner to our customers, brilliant to do business with and leverage our mutuality with edge to provide added value for members, customers, and colleagues.

The defining principles of our strategy are to:

- Use our deep insight to ensure we provide a range of products and services that meet the needs of our professional customers
- Leverage the strengths and opportunities of being a mutual
- Leverage the strength of our flagship With Profits Fund to serve a wider customer base
- Maximise opportunities that will enhance the sustainability of our business

We are confident that our strategy puts us in a position of strength to serve our customers now and in the future.

Our mutuality remains key to who we are, how we act and what we do. It underpins our approach to doing business – we work for our members, not shareholders. Because of this we can make decisions for the long term; meaning we can continue to be a sustainable business supporting future generations and enhancing benefits for members.

LIFELONG PARTNER

Establishing lifelong relationships with our customers and supporting their financial ambitions through propositions, services and advice developed to meet their needs.

2021 Progress:

- Met with an increased number of customers over the year, supporting them with tailored financial advice and products.
- Developed our remote advice offering in response to the ongoing impact of the pandemic.
- Continued to increase capacity of our telephone-based mortgage team to offer quicker and more efficient support to customers seeking to get on or move up the property ladder.
- Supported the next generation of trusted professionals starting out in their careers by continuing and strengthening our Next Step programme.
- Face-to-face engagement with our Members Advisory Board (made up of experts from the professions we serve), who provide feedback and guidance on our current and future products and propositions.
- Supported the non-financial needs of our members by offering access to the wellbeing app Wellspace.

2022 and beyond:

- Continue to develop our products and propositions in response to what customers need at every stage of their lives and careers.
- Better support our customers with the more complex aspects of their financial planning needs.
- Enhance our advice capability; meeting customer needs effectively, efficiently and appropriately at a time and in a way that is right for them.
- Continue to mature our Responsible Investing credentials, responding to the needs of our customers and communities.

THE VALUE WE GENERATE

MEMBERS AND CUSTOMERS

Short term:

- Tailored financial advice and products
- Supporting core professions by working with key partners and affinities
- News and insights pertinent to our core professions
- Discounts on selected insurance products
- Wellbeing hub

Long term:

- Mutual Benefits
- Competitive long-term investment fund performance and returns
- Advice, financial education and servicing when it's needed

BRILLIANT TO DO BUSINESS WITH

Providing an easy and efficient service for all our customers, seamlessly integrating technology and the human touch.

It's important for our customers to be able to interact with us in ways and at times that fit with their busy schedules.

2021 Progress:

- Launched a new sustainable investing policy to complement our Sustainability Strategy of being operationally carbon neutral by 2023 and company wide by 2050.
- Matured our online With Profits ISA offering, enabling more customers to invest and benefit from our flagship investment product.
- Continued to build our internal capabilities, building on how we use technology and data to improve our service for customers and internal decision making.

2022 and beyond:

- Continue to build operational capability to improve quality, efficiency and experience in dealing with us.
- Strengthen and develop how we serve and advise customers, meeting more of their needs and solving their queries quickly and efficiently, increasing choice in how they transact with us, whether face-to-face, digitally or over the phone.
- Enhance our colleagues specialist understanding of the professions we serve, through tailored training, tools and support.
- Continue with the recruitment and development of new skills and ways of working to enable us to better identify and respond to customer needs.

MUTUALITY WITH EDGE

Delivering more benefit from our mutual status for our members and communities.

We are committed to enhancing the benefits of our mutuality, which defines who we are, how we act and how we serve our members and customers. It sets us apart from many other financial services companies and is key to helping us to create brighter financial futures for the professions we all trust.

2021 Progress:

- Continued support for our members and communities through the Wesleyan Foundation.
- Increased access to our leading With Profits Fund to a wider number of customers outside our professional segments, thus strengthening the Fund, offering the potential for a stronger member benefits programme and building a more sustainable business.
- Sale of Wesleyan Bank enabling the business to focus on its specialist customers.

2022 and beyond:

- Launch of an exciting new way for members to access and use their rewards, developed in line with customer feedback.
- Continue to identify and develop opportunities to widen access to and strengthen our With Profits Fund.
- Develop a compelling Employee Proposition to attract and reward colleagues who understand that great customer service and outcomes underpin all that we do.
- Allocate a further £1m to good causes through the Wesleyan Foundation.

LOCAL COMMUNITIES

Short term:

- Partnering with and supporting charities and good causes that make a positive social impact
- Supporting local communities via volunteering days that are available to colleagues

Long term:

- Offering financial support and assistance to good causes around the UK through the Wesleyan Foundation

EMPLOYEES

Short term:

- Employee benefits
- Promoting equality, diversity and inclusion in the workplace
- Being an employer of choice, we set out to recruit the best people for the job; no applicant is treated less favourably than another on the grounds of age, disability, race, religion, gender or sexual orientation

Long term:

- Health and wellbeing
- Inclusive working practices
- Enhanced Employee Proposition that defines why Wesleyan is a great place to work

ENVIRONMENT

Short term:

- Offset our paper usage and reduce the environmental impact of printing by certifiably planting trees around the world
- Reduce our carbon emissions
- Help colleagues reduce their impact on the environment
- Communicate our environmental activity to increase awareness

Long term:

- Enhance our sustainable investment offering
- Become carbon neutral by end 2023 (operational measure), fully carbon neutral by 2050
- Ensure sustainability is a core part of our key processes

OUR MARKETPLACE

WE ARE ALL ABOUT YOU

A BRIEF LOOK AT THE OPERATING ENVIRONMENT IN 2021 AND WHAT IT MEANT FOR OUR CUSTOMERS

While the Covid-19 pandemic continued to dominate the news agenda in 2021, the rollout of vaccination programmes and the easing in restrictions throughout the year led to a more positive economic outlook. Consumer confidence increased and the economy grew ahead of forecast over the year.

Global financial markets sought to capitalise on an improving economic backdrop. Despite a spate of Covid 'waves', equity investors were able to reap impressive returns. The UK stock market rose by around 18%, outperforming many of its peers, although optimism was most evident in the US. Bond markets, on the other hand, unwound some of the strong returns they built during the initial 2020 Covid outbreak, as confidence in the recovery solidified.

An unintended consequence of the strengthening economic recovery began to emerge in 2021 as supply chains were unable to match the robust customer demand - exacerbated by stringent lockdowns in countries such as China. This has resulted in shortages of labour and materials, leading to steep price increases in the costs of goods and services, or inflation. The pay of doctors, dentists and teachers has failed to keep pace with inflation over the long-term and the current environment will do little to improve matters in 2022.

With prices rising and low unemployment we are seeing central banks taking the opportunity to gradually increase interest rates and withdraw stimulus packages which were introduced during the pandemic.

SUPPORTING OUR CUSTOMERS

We are proud to support some of society's most trusted professions and aim to create brighter financial futures for them. We steered them through the challenging economic conditions of 2021, providing guidance on how to get the most from their money at a time of low interest rates and rising inflation. We helped an increasing number of customers seeking to take early or phased retirement to ensure they have the right plans in place. We also provided mortgage advice, helping customers take advantage of the stamp duty holiday which ended at the end of September in England and Northern Ireland.

We have been using our specialist knowledge to provide support for our customers on a range of issues that have been particularly impacting their profession. This includes navigating the outcome of the McCloud judgement which, put simply, aims to remedy age discrimination in public sector pension schemes, arising from government reforms in 2015. This potentially impacts members of the NHS and Teachers Pension schemes who may need to make a decision on how they want their pension benefits calculated. It's a complex issue and we have been working with impacted customers to help them understand the potential outcomes.

We've also seen increasing numbers of our medical customers at risk of unplanned tax bills as increased working hours during the pandemic has caused them to fall foul of Annual Allowance charges, a complex pensions tax measure that is causing some doctors to consider reducing their working hours or leave their valuable pension scheme.

In addition to supporting financial needs, we recognised that many of our customers have been going through a period of prolonged stress as Covid continued to impact their profession. We have therefore aimed to provide additional wellbeing support including giving all members free access to Wellspace, an online resource.

We also continued to support charitable organisations providing support to doctors, dentists and teachers through the Wesleyan Foundation.

95%

OF CUSTOMERS AGREE THAT THEIR SPECIALIST FINANCIAL ADVISER DEMONSTRATES KNOWLEDGE OF THEIR PROFESSION

Wesleyan Sales Survey 2021 (8, 9 and 10 out of 10. Base size: 1,217)

95%

OF CUSTOMERS AGREE THAT WESLEYAN MAKES THEM FEEL VALUED AS A CUSTOMER

Wesleyan Sales Survey 2021 (8, 9 and 10 out of 10. Base size: 1,296)

WE ARE ALL ABOUT YOU: DOCTORS

Doctors continued to be on the frontline of the nation's response to the pandemic in 2021. Workload pressures further increased, with hospitals striving to manage growing waiting lists of patients whose care had been delayed during the height of the pandemic. GPs across the UK played a leading role in the largest-ever NHS vaccination programme with over 130 million Covid-19 vaccinations administered in 2021.

Workforce issues also contribute to the ongoing pressures that doctors face. The British Medical Association (BMA) has calculated a 50,000 shortfall in the number of doctors required to keep up with patient demand, while the number of doctors retiring early has trebled since 2008. Many of these retirements are driven by complex and punitive pension taxes and regulations.

The twin effects of workload and workforce are affecting doctors' mental health and wellbeing. Research in 2021 by the General Medical Council (GMC) paints a picture of rising burnout, declining job satisfaction and growing workloads against 2020 levels. In 2021, 23% of doctors said they were planning to leave the profession, up from 19% in 2020. 42% said that the pandemic had had a negative effect on their mental health and wellbeing.

Beyond 2021

The development of Integrated Care Systems (ICSs), which will be placed on a statutory basis through the Health and Care Bill, aims to join up the range of health and social care services that patients receive. The new Health and Social Care Levy will make available additional investment of around £12bn per year on average for health and social care across the UK over the next three years - much needed funds which will be used to help tackle the NHS waiting list, which is forecast to keep growing for another two years.

Here For You

Here are some ways in which we supported the medical profession in 2021:

- Changing Face of Medicine: We provided ongoing support for the Changing Face of Medicine project, that brings together leading medical professionals to look at the role of the doctor in the future. The project aims to influence long-term policy in the medical field and to engage the public with findings to generate constructive debate.
- Doctors in Distress: We donated £20,000 through the Wesleyan Foundation to support the emotional and mental wellbeing of doctors. The charity aims to ensure that doctors have the tools and permission to look after their own mental wellbeing so they can better care for themselves, their colleagues and their patients.

Wesleyan Financial Services is the exclusive financial advice provider to RCGP members and their families.

RCGP **PLUS**

WE ARE ALL ABOUT YOU: TEACHERS

2021 was a roller coaster year for the education sector as the repercussions of the pandemic continued to be felt with a significant increase in teachers' workload.

School resources continued to face pressure as additional costs were incurred such as PPE, cleaning supplies, signage and supply cover. The government's £1.4 billion Covid Catch-up budget for schools is less than one-tenth of the £15 billion recommended by the education recovery commissioner for England.

Staff shortages became evident which can be partly attributed to the budget deficit, as underfunded schools were forced to downsize staff. Reducing the number of teaching assistants and teachers, as well as cutting learning resources spending are reported as the most common responses to financial pressure in secondary schools. Additionally, Department for Education data showed that the government missed its secondary teacher recruitment target in 2021, having exceeded it in 2020.

The education secretary Nadhim Zahawi has asked the body responsible for advising on teacher pay to make recommendations for the next two years as part of a move to raise starting salaries to £30,000 alongside "significant, but sustainable uplifts to the pay of more experienced teachers".

Beyond 2021

A schools' white paper was published by the government in early 2022, maintaining the commitment to moving towards a system where every school in England is part of a family of schools in a multi-academy trust.

Here For You

Here are some ways in which we supported the education profession in 2021:

- We were pleased to donate £70,000 to the National Literacy Trust to support their campaign aimed at improving wellbeing for school staff (see page 34 for more information).
- We donated £50,000 to fund laptops for children who would otherwise have no access to online learning.

Wesleyan Financial Services is the preferred provider of specialist financial advice to NASUWT members, giving access to local Specialist Financial Advisers who focus exclusively on the education profession.

NASUWT
The Teachers' Union

WE ARE ALL ABOUT YOU: DENTISTS

The impact of Covid-19 continued to affect dentists and their businesses throughout 2021, although there was some return to normality, albeit with much stricter infection control measures. In October 2021, dental practices that had been participating in the prototype scheme exploring models for a new dental contract, were told that the scheme was ending in April 2022. This was seen as a precursor to the long awaited reform of the NHS dental contract in England which has been promised for April 2022 - though at time of writing, nothing has been announced. Devolution has led to differing approaches to dental policy and funding across the four nations. The UK governments are currently looking at how the provision of NHS dentistry may need to change in the future.

In England, working to NHS activity targets as a condition for receiving government support has had a negative impact on morale during 2021. Research by the British Dental Association indicates that over 40% of NHS dentists are likely to change career or seek early retirement given the current pressures. Over half state they are likely to reduce their NHS commitment.

A result of the ongoing pandemic has been the continued reduction in surgery capacity as deep cleans and increased "fallow" time between patients persists. The consequences of this have been felt by patients and dentists/practices alike although in very different ways: increased waiting time to receive treatment for patients and the subsequent negative impact on dentist/practice finances (coupled with increased costs to cover cleaning and PPE equipment).

Beyond 2021

If dentists are unhappy with the reformed dental contract in 2022, it's likely many will decide to go private or even leave dentistry altogether. The constrained supply of dentistry, also caused by fewer European dentists, more part-time dentists and higher retirement numbers, means that the opportunity for private dentistry has never been greater. The overall appetite for dental acquisitions remains strong with dental corporates continuing to buy practices.

Practice Plan Group supported a record number of patients in 2021 as well as dentists who chose to move from NHS to private practice. Continued high demand for their services is anticipated in the year ahead.

Here For You

Here are some ways in which we supported the dental profession during 2021:

- Dentists' Health Support Programme (DHSP): DHSP provides free telephone support and advice to dentists on mental health, alcohol and drug issues. A donation was made to support the increased demand in their services.
- We also supported Dentaid with £10,000 to operate a series of mobile dental clinics in Birmingham and northern England aiming to reach the most vulnerable in society, including the homeless, vulnerably housed and asylum seekers/refugees.

We awarded £10,000 to the Townhall Foundation in West Yorkshire to kickstart their bid to get funding for a Mobile Dental Van fully equipped with a dental surgery that will deliver emergency oral health treatment to people in the community, many of whom are outside their traditional reach. It's planned that the dental van will visit schools, football clubs and other sporting venues to promote good dental hygiene and oral health.

OUR FINANCIAL PERFORMANCE

> **"Our performance in 2021 indicates that our strategy is working as we seek to build a more sustainable business."**
>
> **GILLIAN CASS,**
> Chief Financial Officer

Operating profit was ahead of target at £6.1m despite the ongoing impacts of the Covid-19 pandemic. This came on the back of a difficult 2020, when we experienced some of the toughest trading conditions in recent memory, resulting in an operating loss of £18.6m.

Our plan for 2021 was to get back on track while continuing to progress our plans to transform and create a more resilient business. We anticipated that, by generating additional income and retaining strong cost control, we could achieve a break even financial performance. To end the year ahead of our target, in profit, is therefore very pleasing and a strong indication that our strategy is working as we seek to build a stronger, more sustainable business to benefit members and customers.

OPTIMISING OUR RESOURCES

A core part of our strategy is to optimise our resources and there were two key developments in 2021 that brought this to life. Firstly, we created a new income stream for the business by making our With Profits Fund available through a third-party investment platform. You can read more about this on page 15. We believe that we have the potential to generate much greater levels of income through this channel, and at very little extra cost, as we are utilising existing infrastructure and expertise. This increased profitability can be used to grow our business to benefit members and customers.

We made the strategic decision to sell Wesleyan Bank last year to Hampshire Trust Bank Plc (HTB) which completed on 28 February 2022, following regulatory approval. We recognised that for the Bank to reach its full potential, it would need to pursue wider customer markets which would require increasing levels of capital from the Society. The sale of the Bank allows us to focus on our core business, maximise investment in it and generate stronger returns for members. It also gives the Bank an opportunity to grow as part of a larger banking entity. We wish Wesleyan Bank, its staff and customers every success as part of the HTB group.

We also invested £34.5m[1] in transformation projects in 2021 that will make a real difference to the long-term sustainability of our business including new technology, digital capability and infrastructure. As part of this investment we delivered a new accounting system that will deliver improved reporting and efficiencies using a modern, cloud-based solution.

Over the year we continued to build on our financial principles of prudent and effective capital management, alongside careful cost management. This allows us to grow the business without exposing policyholders to undue risk and maintain our financial strength. We know that our members value being part of a financially strong mutual and we plan to share the benefits of this with them again this year in the form of a Mutual Bonus to enhance investments in the Open With Profits Fund.

GROWING INVESTMENTS

2021 was a good year for equity markets with both the UK and global equities growing sharply from the recent low positions seen during 2020. This, combined with our new business income, increased Assets Under Management (AUM) to £8.5bn (2020: £7.9bn). Investment returns have also benefitted with our flagship With Profits Fund, showing a competitive return in 2021 at 12.7% (2020: -1.4%). With Profits is an investment designed for the long-term and the cumulative return on the Fund over 10 years is +114%.[2]

1 In accordance with the Groups Accounting policies, £22.4m of this spend is in the Income Statement with the remaining spend capitalised.

2 Before charges and after smoothing

GROUP OPERATING PROFIT RECONCILIATION

The 2020 comparatives have been restated due to a change in accounting policy following the decision to adopt a full consolidation methodology. The impact of this change is fully explained in note 25.

	2021 £m		2020 (restated) £m	
Group Operating Profit/(Loss) (before projects, experience adjustments and exceptional costs)		**15.3**		**(3.7)**
Project costs	(22.4)		(18.7)	
In Force Experience	14.0		6.2	
Exceptional Costs	(0.8)		(2.4)	
Group Operating Profit/(Loss) (after projects, in force experience and exceptional costs)		**6.1**		**(18.6)**
Experience Assumptions	3.9		(13.6)	
Group Operating Profit/(Loss) (after projects, exceptional costs and experience adjustments)		**10.0**		**(32.2)**
Adjusting for the following items:				
Short-term Income and Cost Variances				
Investment Returns	73.2		(66.4)	
Other Estate variances	(1.9)		0.7	
Tax	–		1.8	
		71.3		**(63.9)**
Benefits to Policyholders				
Cost of providing guarantees on existing business	14.5		(21.4)	
Mutuality, Membership and Charity	(4.3)		(3.6)	
Transfer to policyholders	(80.5)		65.7	
		(70.3)		**40.7**
Movement in Internal Available Capital		**11.0**		**(55.4)**
Statutory Accounting Adjustments		**13.2**		**22.1**
Transfer (from)/to the FFA		**24.2**		**(33.3)**

HOW WE MEASURE GROUP OPERATING PROFIT

In order to present an understanding of the underlying performance of the Group, the Board monitors performance through Group Operating Profit.

This includes:

- Operating profit for manufacturing new business sales, calculated as the discounted value, at the point of sale, of future profits expected to be earned over the term of each new policy and includes the costs of providing guarantees on new business which provide a benefit to customers
- Operating profit for each of the subsidiary companies:
  - Wesleyan Financial Services, including the General Insurance broking operation
  - Wesleyan Bank (part of Group in 2021)
  - Practice Plan Group
  - Wesleyan Unit Trust Managers
- Group costs
- The (short-term) best estimate investment return on the Society's estate
- Project costs incurred by the Society
- Exceptional one-off costs, including costs to embed a new operating structure, and impairment of fixed and intangible assets
- Certain items of experience on the Society's in-force book over the year, for example the impact of lapses and sickness claims

The increase in operating profit in 2021 of £6.1m from the operating loss in 2020 of £18.6m is the result of an increase in new business levels in 2021, as well as the volume and mix of new business, expense savings achieved and any management actions undertaken that impacted profitability.

Experience assumptions are long-term in nature. In 2020, actuarial assumptions were revised to include a short term impact of Covid-19 and further revisions to expenses. In 2021 the assumptions were updated for the latest lapse and persistency assumptions reflecting the customer behaviour observed during the year.

Statutory accounting adjustments between the internal and statutory balance sheets arise from valuation methodology differences on a number of items including the pension scheme.

The transfers to policyholders reflect the With Profit policyholders participating in the results of the Society. Where the Society made a loss, as in 2020, the policyholders share this loss and when a profit is made, as in 2021, the profit is shared.

FUND FOR FUTURE APPROPRIATIONS

The Fund for Future Appropriations (FFA) represents the excess of assets over liabilities and is a measure of financial strength. In 2021 the FFA increased from £565m to £589m. This was predominantly due to the trading performance of the business and the improvement in market conditions as a result of the recovery from the pandemic, in particular the improvement in equities. As a result of this, the FFA remains strong and we are in a position to distribute both surplus capital and a share of business profits back to our members. We will distribute our highest ever Mutual Bonus during 2022, with each member in our With Profits Open Fund receiving a 1% additional uplift on their investments. This will be credited in 2022 based on 2021 performance. This is not applicable to investors accessing the Fund via the third party platform.

OUR FINANCIAL PERFORMANCE CONTINUED

The internal Group Operating Profit measure is different to the reported change in FFA, the differences occurring as a result of:

SHORT-TERM INCOME AND COST VARIANCES

- Investment return fluctuations are driven by the wider market performance of assets, which in turn had a substantial impact on the FFA
- Other estate variances include economic assumption changes such as inflation and interest rates which cannot be influenced by the Society
- Tax costs incurred during the year, including movement in tax reserve

BENEFITS TO POLICYHOLDERS

- Costs of providing guarantees on existing business which provide a benefit to customers. Existing business guarantee costs relate to changes caused by market and assumption movements
- Mutuality, membership and charity includes donations made through the Wesleyan Foundation and other charitable donations, as well as member benefits outlined on page 6
- Transfers to policyholders reflecting the profit made in the year which is allocated to With Profits policyholders

AROUND THE GROUP:

Wesleyan Financial Services (WFS) and Direct Channel

Many of our customers are key workers and during the height of the pandemic found little time to think about their finances. While they remained under pressure in 2021, we were pleased to see an increased demand for our products and services. In 2020, as we experienced stringent lockdowns, we quickly adapted our predominantly face-to-face financial advice service to move online. We were able to build on this last year, offering an established hybrid service, meeting customers and hosting webinars online or in person when restrictions allowed.

The increased demand for our offering led to a 25% rise in new business income compared to 2020. We also saw an increase in Society new business premiums to £50.8m, 44% higher than the previous year (2020: £35.2m).

Our General Insurance broking business, which provides a range of personal and commercial products and services, enjoyed a strong year with a profit of £0.7m (2020: profit of £0.7m).

Our decision to make our With Profits ISA more widely available for customers who do not require financial advice delivered positive results. This product, now directly available on our website and through aggregator websites saw 4,400 policies sold online.

Practice Plan Group

Practice Plan and DPAS combined are the largest providers of practice-branded dental membership plans in the UK. In 2021 Practice Plan celebrated its 21st anniversary. The Group also marked the milestone of achieving over one million patients on dental plans, with numbers continuing to grow. In addition, we supported a record number of dental practices with their dental plan needs. This led to a £6.1m operating profit (2020: £5.6m profit). As increasing numbers of dentists decide to move from the NHS to private practice, we expect to see an increased demand for Practice Plan's services in 2022 as we support our customers through this process.

Practice Plan's subsidiary, Medenta, continued to benefit from an increased demand for cosmetic dentistry and ended the year positively. We introduced a new lender to support Medenta's customers helping to manage the increased demand in a sustainable way while maintaining the same high levels of customer service.

Wesleyan Bank

Loans and advances to customers grew by 27% to £486m in 2021, with £243m loans provided to our own customers in line with 2020 performance and an additional £59m loans brokered out to third parties. At the peak of the first lockdown in 2020, the Bank supported its customers by providing over 500 of them with loan forbearance arrangements. The vast majority of these have recommenced payment. In recognition of this the Bank has been able to release net £1.8m of impairment provisions to profit. As stated earlier in my Report, Wesleyan Bank has now moved to new ownership under Hampshire Trust Bank Plc.

FINANCIAL STRENGTH

Maintaining a high level of financial strength sits at the core of our strategy, making us resilient and able to support our members and customers. We continue to believe that equities and property provide the best returns for policyholders over the longer-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 requirements. The Society manages its capital to a much higher level than the minimum requirement. This financial strength, along with enhanced risk management, ensures we can grow the business without exposing policyholders to undue risk, particularly at times of market volatility such as those experienced during 2020.

For the second year, we are reporting as a solo entity, as we ceased to be classified as an insurance group. Our Solvency Ratio on this basis, a measure of our financial strength, was 306% at 31 December 2021, a decrease from 314% in 2020. I believe that the Society remains in a strong and resilient position.

OUR FOCUS FOR THE FUTURE

Our capital strength has enabled us to endure the difficult conditions seen in 2020 and benefit from the improving conditions in 2021, and our FFA remains resilient with a healthy surplus. We have ambitious plans to grow our business and we will continue making considerable investment to enable us to create and deliver improved returns for members.

This investment will be balanced between different end goals:

- We will continue to manage risk across the business in relation to regulatory and compliance matters as well as emerging technology and cyber risks
- We aim to make significant improvements to our capability to provide advice to customers in the ways they prefer
- We will continue to enhance our product range and further widen access to our With Profits Fund through alternative distribution channels
- We will invest in creating a customer focused operating model that helps us grow the business at a lower cost, thereby protecting our responsibility to our members

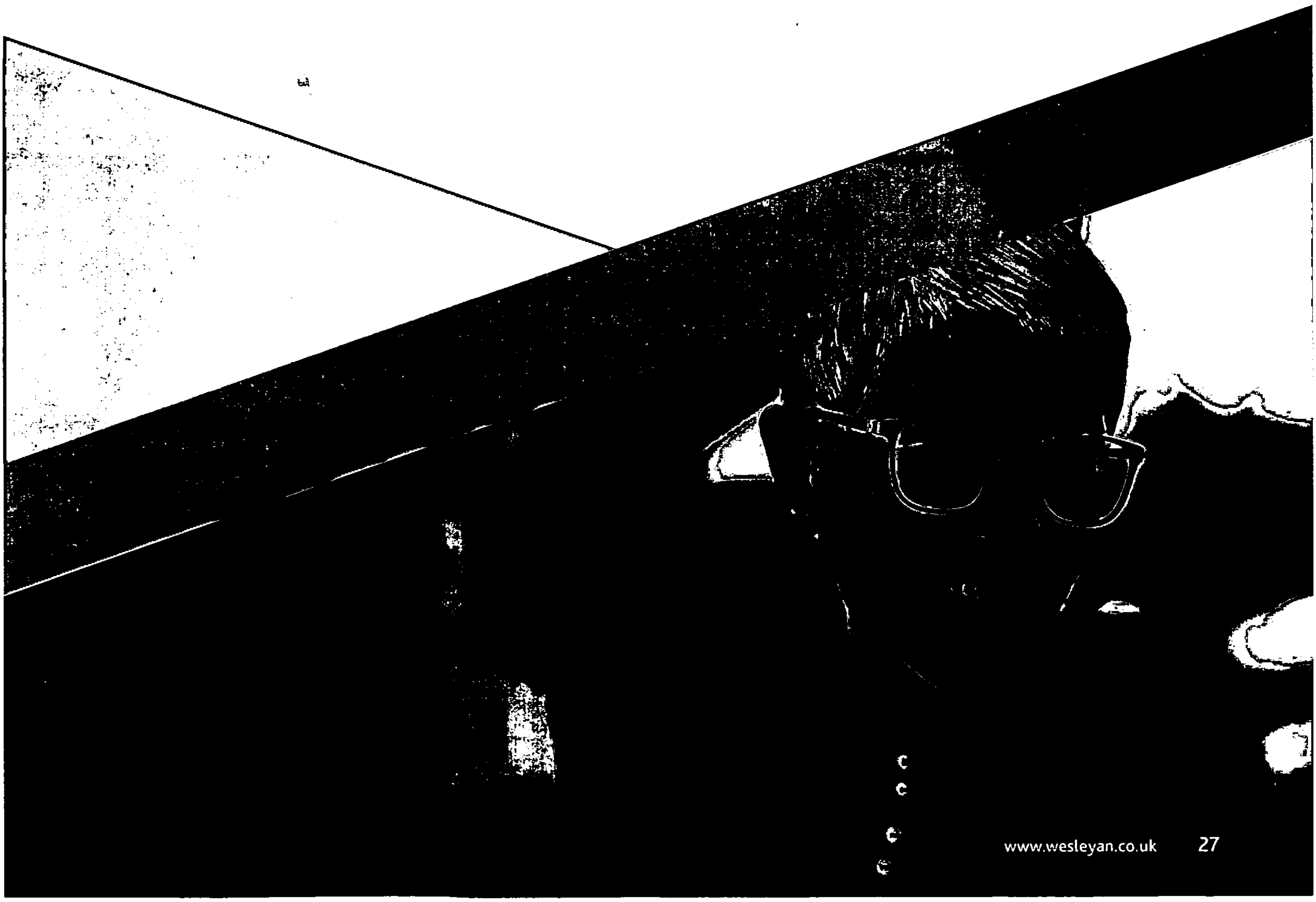
We will maintain a relentless focus on cost management and optimise our resources to maximum effect, as we navigate through the continued economic uncertainty caused by the pandemic and other world events. We will always seek to deliver the best outcomes for members.

We are expecting 2022 to continue to be a difficult year for our customers as many will face ongoing challenges resulting from the pandemic as well as the impacts of the macro economic environment, compounded by events in Ukraine. As inflation continues to rise at a much quicker pace than interest rates, there will be a greater squeeze on finances and a need to manage money more effectively. We remain committed to serving the needs of our customers and creating brighter financial futures for them in every way we can.

I look forward to answering any questions members may have on our financial performance and plans at our Annual General Meeting.

GILLIAN CASS
Chief Financial Officer

31 March 2022



INVESTMENTS UPDATE

"As a responsible investor we are truly dedicated to achieving sustainable long-term outcomes for you - our members and customers - and the wider world."

MARTIN LAWRENCE
Director of Investments

2021 proved a more positive story for investment markets after the turbulence of 2020. Covid-19 continued to leave its mark on the world but the development and subsequent roll-out of effective vaccines was a crucial step forward in protecting people's lives and livelihoods.

LOOKING BACK AT MARKETS

Many businesses, such as those in the healthcare, travel and leisure industries, continued to face challenges over the year. However, other sectors fared better and with more businesses able to operate, and the world on a path back towards 'normality', the global economy continued to recover.

From an investor's perspective, this background caused widespread optimism among global stock markets, which led to impressive results across the year. The UK performed well although the US was the standout performer, helped by its thriving technology businesses. Fixed income assets did not fare well. This was in contrast to the peak of the pandemic, when the backdrop of uncertainty saw nervous investors seeking a 'safe haven' in government bonds.

Overall, UK commercial property investments were a mixed picture. Industrial units, such as the warehouses used to fulfil online shopping orders, were in high demand. However, high street footfall was sharply down, which led to low demand for shop units. Meanwhile, the UK's residential property sector flourished, with the average house price up by more than 10%[1]. Many home movers and first-time buyers sought to take advantage of the temporary stamp duty cuts, and the competitive mortgage deals linked to low interest rates.

Yet those same interest rates meant that cash returns were minimal throughout the period, with only a slight rate rise in December. Coupled with rising inflation, this was bad news for savers, and this is unlikely to change in the foreseeable future.

OUR TEAM AND FUND PERFORMANCE

Wesleyan's funds are managed by our in-house Investments department, which includes our Fund and Property Managers, Analysts and newly formed Socially Responsible Investment (SRI) team. They work together to identify and invest in the assets they believe will achieve the best possible long-term returns for our funds, treating every pound of our customers' money as if it were their own. As a responsible investor we are truly dedicated to achieving sustainable long-term outcomes for you - our members and customers - and the wider world. In recognition of our approach, we were named 'Responsible Investor of the Year' by the Insurance Asset Risk Awards 2022.

As a direct consequence of our strategic asset allocation last year and holding our nerve by being overweight in equities where possible, our funds recovered the performance ground lost during the pandemic's peak. We saw gains for all our multi-asset funds, including our flagship With Profits Fund, and equity-focused funds. Our low-risk funds, which have a greater exposure to cash and bonds, struggled however. In the short term, central banks are likely to raise interest rates, but only by relatively small amounts. Therefore, among asset classes, we continue to believe equities offer the most scope for long-term investment returns.

The short-term performance of investment markets remains a key part of our analysis. Nevertheless, we remain committed to a long-term 'buy and hold' strategy, which aims to maximise the financial returns for our funds and customers over a period of at least five years, but typically 10 years or longer. This goes hand-in-hand with our recently enhanced sustainable investing approach. We believe sustainable businesses are more likely to be adaptable and perform better than their competitors over time.

LOOKING AHEAD

While the 2021 global economy continued to recover from the fall-out of the pandemic, and should show further improvement this year, 2022 is unlikely to be plain sailing.

Businesses around the world are likely to benefit from lessons learned during the pandemic – such as improving efficiencies and embracing new ways of working – which is encouraging news for their future prospects. That said, they could face some challenges in the coming 12 months, including rising costs for employees and their pay packets, labour shortages, supply chain bottlenecks and increased taxes. Households are set to face an upsurge in living costs too, including expenses for the weekly food shop and energy bills. In short, there are some anticipated obstacles along the road to recovery, which could affect the sentiment among stock markets but these shouldn't be insurmountable.

It's also worth noting that governments and central banks had to 'step in' to keep their economies afloat during the pandemic. In the UK, the furlough scheme was just one example of the government's intervention. The scale of financial support made available to those affected, while necessary, would have been unthinkable just a few years ago. Other developed nations faced a similar situation and many are laden with debt mountains that were accumulated during the pandemic, which will have to be paid back. Governments will be reluctant to add to those debts. In 2022, as the world charts a course back towards more familiar territory, we expect government support, monetary policies and economies to return closer to a pre-pandemic state.

Our Investments team will continue to monitor key geopolitical events that have the potential to impact our performance and where we choose to invest. This includes the impact of Brexit on trade between the UK and EU, which is already starting to show; the UK government's leadership stability; elections in France; the performance of the new German government, following Angela Merkel's departure after 16 years at the helm; and international relations with China. At the time of writing, the crisis in Ukraine continues. Russia's objectives remain unclear and nobody can predict what the final outcome will be, but we stand united with everyone hoping for a swift diplomatic solution. Our thoughts are with everyone affected, as well as all those caught up in wars and conflict zones across the world. To investment markets, which are forward-looking and see the world through a dispassionate lens, geopolitical events are an ever-present backdrop. We closely monitor such events – and the impact they can have on markets – as part of our fund management approach. It is also worth noting that our diversified portfolios are designed to help cushion our customers from market uncertainty.

We mustn't be complacent regarding Covid-19 either. The Omicron variant has spread rapidly around the world but investment markets have taken it in their stride, reassured by the safety net of 'booster' vaccine doses. As long as no new vaccine-resistant variants emerge in the year ahead, and confidence in the global economy continues to grow, we are cautiously optimistic that our funds should continue to perform well in the years ahead.

1 Source: UK House Price Index for October 2021 on gov.uk

INVESTING TO BEAT INFLATION

Towards the end of last year, US inflation reached its highest level for more than 30 years and a similar situation can be seen in other countries. Inflation in the UK is far beyond the Bank of England's 2% target, and it is broadly in line with the modest inflation levels that can be seen across the Eurozone, but it's expected to reach around 7.25%. On the whole, it's bad news for those with cash savings. Investing wisely is one way to avoid inflation eroding the 'buying power' of your money.

INSURANCE ASSET RISK AWARDS 2022

Responsible investor of the year – re/insurer

RESPONSIBLE INVESTOR OF THE YEAR

In recognition of our work to ensure that we invest in a sustainable, responsible manner, our in-house Investments team was recently named 'Responsible Investor of the Year' by the Insurance Asset Risk Awards.

SOCIALLY RESPONSIBLE INVESTORS

Our dedicated Socially Responsible Investment (SRI) team bring the three principles of sustainable investing to life through their work, sharing research findings with our equity Analysts to produce reports and investment proposals for our Fund Managers. This collaborative way of working engenders rich discussions while ensuring Wesleyan's Sustainable Investing Policy is adhered to.

We also have an important role to play in supporting the companies we invest in, to help them become more sustainable. Our SRI team leads on all our stewardship and engagement activities with external management teams and Boards, particularly in companies where we believe change is needed and action will positively shift the dial. By engaging with external stakeholders to collaborate or voice our concerns, putting pressure on them when appropriate, and having open dialogue with management teams about areas for improvement, we proactively try to help them improve on numerous issues. These can range from Executive remuneration to environmental concerns, and from safety track records to Board diversity and independence.

Another way we look to encourage positive change is by using our corporate voting rights. Last year, we voted at over 500 company meetings, ensuring our voice as an investor was heard and as a way to encourage better behaviours. Ultimately, however, if a company fails to meet our sustainable investing criteria or we don't believe it is doing enough when it comes to sustainability, we will take our money out and invest it elsewhere. In 2021, we divested £40m from several companies that failed to make improvements even after we engaged with them.

SUSTAINABILITY AT WESLEYAN

As a trusted mutual we believe in doing the right thing by our members, employees and the communities we all live and work within.

In this section of the Report, we will share more detail on our sustainability framework, including our approach to climate related financial disclosures. With Environmental, Social and Governance (ESG) at its core, our framework encompasses how we invest customers' funds, manage our impact on the environment and make a positive difference to charities and community groups.

OUR SUSTAINABILITY FRAMEWORK

Sustainable Investing

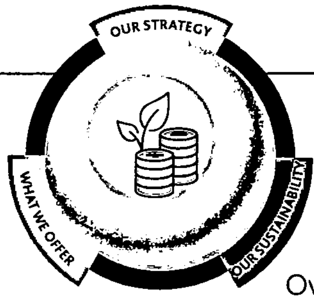
Read more on page 31

Business impact

Read more on page 32

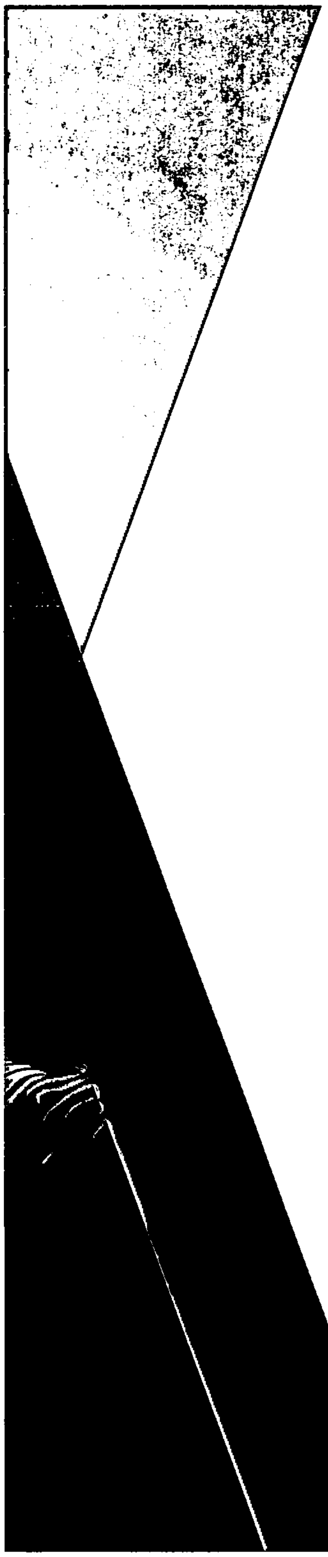
Community and citizenship

Read more on page 33



SUSTAINABLE INVESTING

Over the past 18 months, there has been a noticeable shift in the investment industry towards sustainability, ensuring more rigour when it comes to Environmental, Social and Governance (ESG) factors. Policymakers and regulators are focused on making improvements and holding institutional investors to greater account.



OUR 'SUSTAINABLE INVESTING' PRINCIPLES

This trend has been powered by high profile events such as COP26 and international commitments to 'do better' on green issues. To highlight this, the UK government launched its Net Zero Strategy last year, which outlines its plan to ensure our economy meets a 'carbon net zero' target by 2050. Wesleyan is committed to being operationally carbon neutral by the end of 2023 and for the whole organisation – including our full investment portfolio – to be carbon neutral by 2050 at the latest.

In a society where more and more of us care about what our investments are doing - as well as how they're doing - Wesleyan relaunched its Sustainable Investing Policy in October 2021, based on customer research and feedback. Being a mutual provides us the advantage of investing with a long-term approach, without pressure from shareholders to pursue short-term gains. And, this aligns with our sustainability commitment.

We firmly believe that sustainable businesses will be more profitable in the long term, which impacts how our funds perform and the level of investment returns we can generate for everyone who invests with us.

OUR THREE PRINCIPLES

Sustainability is at the heart of what we do, but sustainable investing can mean different things to different businesses. Our approach applies to all our directly-managed customer funds, not just a small selection of them. This means that our Investments team have to follow these three principles.

Reducing harm

Our members and customers can rest assured that we will invest their money in businesses committed to reducing the negative impact they may have on people, communities and the environment.

Positive impact

We believe investments have the power to do good in the world, which is why we invest in companies that are actively involved in improving the environment, our society and peoples' lives.

Driving change

We work with other companies and like-minded investors to drive positive change within the businesses we invest in, encouraging them to take steps that improve their sustainability and achieve better outcomes for the environment and society.

Each of these principles has various rules associated with it, such as the type of businesses we can invest in and exclusions we must adhere to. We are signatories of the Principles for Responsible Investment, which is supported by the United Nations (UN) and outlines formal guidance for professional investors to align to, in order to invest responsibly and sustainably. We also invest in several social initiatives and support bodies that are dedicated to improving people's lives around the world, including the Access to Medicine Foundation, which tackles illness in poorer countries, as well as direct activities managed through the Wesleyan Foundation.

PROGRESS SO FAR

This is just the start of a new chapter for us. Since 2020 we have invested over £25m in funds focused on sustainable energy production. We own £100m in companies contributing to social equality and £350m in healthcare businesses.

As signatories of Climate Action 100+ – an organisation focused on ensuring the world's largest greenhouse gas emitters take necessary action – we take the threat of climate change seriously. We will not invest in any oil and gas company that doesn't have a clear commitment to being carbon neutral by 2050 at the latest. Similarly, we won't invest in a company that produces electricity from coal-fired power stations without a plan to reduce this to zero by 2030.

In launching our Sustainable Investing Policy, our aim is to be totally transparent for everyone who trusts us to be responsible guardians of their money. Being a mutual, with no shareholders, we do everything in our power to invest our customers' money wisely, to provide them with a brighter financial future. Together, we make money make a difference.

More information is available on our website at www.wesleyan.co.uk/sustainable-investing.

BUSINESS IMPACT

A key element of our Environmental, Social and Governance Strategy (ESG) is Business Impact. We have sought to manage the impact we have on the environment for many years and in 2021, crystalised those efforts by setting progressive targets to achieve carbon neutrality.

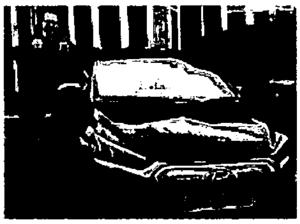
We are committed to being operationally carbon neutral by the end of 2023 – and for the whole organisation, including our investments portfolio, to be carbon neutral by 2050 at the latest. You can read more about these commitments, our action plan and the climate related risks being faced by Wesleyan on pages 40 to 47.

MAKING AN IMPACT TODAY

Our focus on reducing our carbon usage links directly to our brand, as we know we can't be "all about you" if we are not all about the world you live in.

In 2021 we took steps to reduce our carbon footprint through a range of interventions including capitalising on new ways of remote working to maintain a reduction in business travel, moving to a renewable energy supplier and making a number of changes within our Head Office in Birmingham. You can read more about these changes on pages 40 to 47 and in the case studies below.

MAKING AN IMPACT: COLLEAGUES



In November 2021 we introduced a new salary sacrifice car scheme to support and encourage our employees' move into Electric (EV) or hybrid vehicles. Our EVolve car scheme has enabled colleagues to reduce the impact of their personal and business miles in a tax efficient way. Based on the estimated annual mileage of those who have taken up the scheme to date, we predict that around 2 million miles will now be undertaken on electric power rather than petrol or diesel over the duration of their leases.

Darren Kelly, Operational Resource Planner in our Customer Operations Team in Birmingham was the first employee to receive their car – a Hyundai IoniqEV.

Darren said: "I'm delighted to be doing my bit for the planet whilst also saving on fuel costs, and it's great that Wesleyan's new scheme enables colleagues to make the move to EVs more easily. I found the process really easy, and I am loving my new car!"

MAKING AN IMPACT: COMMUNITIES

We were delighted to play a small part in the COP26 Conference in Glasgow when our community partner WildHearts invited Wesleyan's Social Responsibility Manager to get involved in their Global Youth Summit, billed as the world's largest, free, youth-led climate event and live streamed to over 50,000 students worldwide.

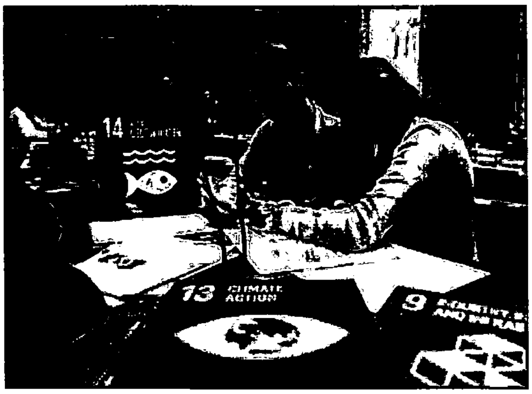
The concerns on climate change among young people came across loud and clear with one teacher at the event commenting: "These lessons challenged us to think about sustainability and how we can be more sustainable now and in the future, as well as the role business can play to help address climate change."

MAKING AN IMPACT: CUSTOMERS

Our experience of the early Covid-19 lockdowns in 2020 demonstrated to us that many of our customers were happy to receive financial advice from us online. This experience continued into 2021 as our Specialist Financial Advisers made decisions in collaboration with our customers to meet online more frequently, leading to a reduction in business travel in 2021.

Specialist Financial Adviser, Lee Quinn, said: "Wesleyan prides itself on its ability to offer our clients face-to-face financial advice to fit in with their day-to-day lives. Although I like to sit at a table and engage with my clients in person, the pandemic has brought us a new way of working virtually, which for many people can be more convenient and has wider benefits relating to both time and carbon emissions."

Ian Ferguson a retired Deputy Headteacher and one of Lee's clients said: "After having a face-to-face meeting with Lee in early 2020, Covid-19 forced us into holding our follow up meetings online. I recognise that this is not for everyone, but we actually found this preferable. It provides us with greater flexibility, but more importantly to us, it reduces the impact on the environment, with Lee no longer needing to travel the many miles to our home. We are likely to continue working this way in the future."



OUR STRATEGY
WHAT WE OFFER
OUR SUSTAINABILITY

COMMUNITY AND CITIZENSHIP

As a mutual, we strive to make a difference for our members, colleagues and the communities in which we all live and work; this is embodied through our value of care.

We aim to give back to great causes that support the specialist professions of our members and customers through our charitable Foundation and colleague volunteering.

Since it launched in 2017, the Wesleyan Foundation has awarded over £3.9 million to good causes across the UK, supporting more than 100,000 people.

VOLUNTEERING

We offer colleagues two volunteering days per year that they can use to support those causes that matter most to them. Covid-19 continued to impact our ability to volunteer in person in 2021 so many colleagues moved online, volunteering more than 700 hours in total to support charities and individuals in a number of ways from mentoring to supporting hospice shops.

MAKING AN IMPACT

For the third year running Wesleyan partnered with youth social mobility charity Envision to support 130 young people from less advantaged communities in Birmingham to develop essential skills and confidence through tackling social issues affecting their community. Each year, in partnership with a local school, Wesleyan colleagues volunteer as business mentors, working collaboratively with young people on their social action projects whilst helping to give them an insight into the world of work.

We were also keen to support our specialist customers through targeted activity in schools. In 2021 we worked with Governors for Schools, planted trees at a school in Shropshire and supported key events in the academic year such as World Book Day with donations of materials and helping to deliver workshops with the children.

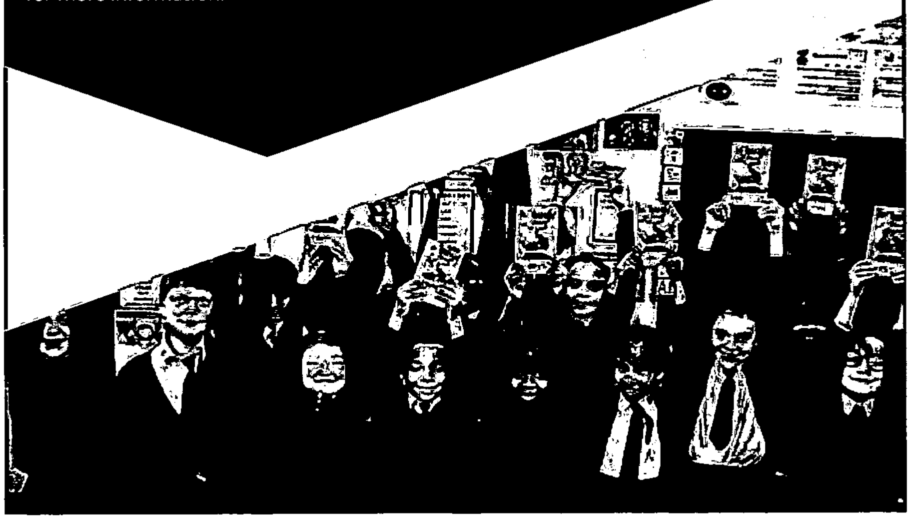
WESLEYAN FOUNDATION

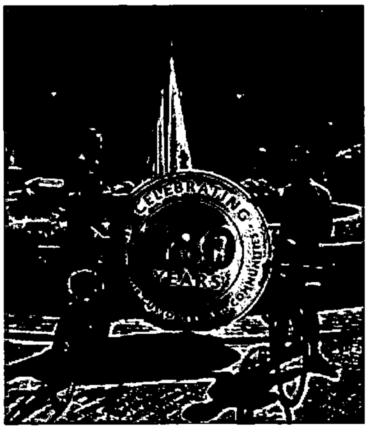
In 2021 we were delighted to use our grants programme, working with our partner the Heart of England Community Foundation, to support grass roots organisations that have faced unprecedented pressures on their services in light of the pandemic. We donated over £900,000 to good causes that support our customer base of doctors, teachers and dentists and other local community organisations in line with the Foundation's core themes of health, social and education.

Members got involved by voting at our Annual General Meeting; for every vote received we donated £5 to causes supporting the mental health of the professions we serve with Doctors in Distress, Dentist Health Support Trust and Education Support each receiving over £6,000. This was just one of a number of initiatives we took to support our professions in light of the extreme pressure placed on front line services during the pandemic.

Dame Clare Gerada, Chair of Doctors in Distress expressed her thanks for Wesleyan's support saying: "We are very grateful for the funding from the Wesleyan Foundation. Our aim is to help NHS staff find ways to cope with the many stresses that come with their valuable jobs. These funds and the support from the Wesleyan Foundation will allow Doctors in Distress to continue to build our services, reaching out to and working with more of the Doctors, Nurses and other medical professionals who most need our support."

The Wesleyan Foundation is continuing its work in 2022. If you know of an organisation deserving of a grant, please visit wesleyanfoundation.co.uk for more information.





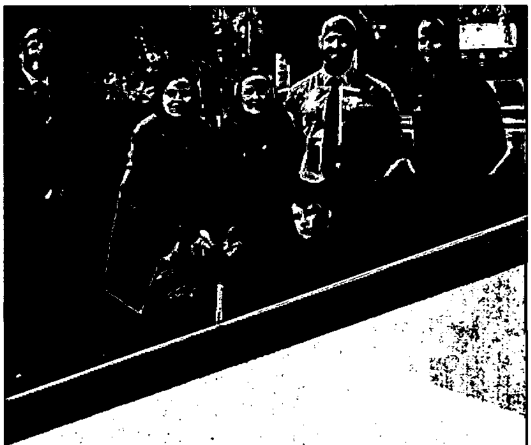
PUTTING THE FUN IN FUNDRAISING

Our colleagues are passionate fundraisers from growing 1970s style moustaches for Movember in support of men's health issues to running, walking and even dancing to raise cash for great causes.

So it was no surprise to see fundraising activity going into overdrive as we celebrated our 180th birthday on 23 April. Two of our sporting Executive members led the way by cycling 180 miles to the Wesleyan Head Office in Birmingham. Chief Distribution Officer Richard Harrison and Chief Operating Officer David Stewart raised £3,700 for NHS Charities Together and arrived at Head Office to lead a virtual Hour of Fun culminating in a Charity Auction.

WESLEYAN FOUNDATION IN ACTION

The Wesleyan Foundation supported nearly 160 good causes in 2021. Here's a small selection of some of the projects we worked with.



CREATING NEW WOODLANDS

Having first worked with Small Woods Association in 2019 to fund the creation of a new woodland learning area at a secondary school for pupils with complex needs, we were pleased to get involved on a larger scale by donating £25,000 to Small Woods to create four sustainable woodlands across the UK.

The woodlands located in England, Wales, Scotland and Northern Ireland are designed to benefit the health, wellbeing and education of local communities. These will be new woodlands where Birch and Hazel will be planted and harvested on a rotating seven-year basis to encourage rapid growth and carbon capture.

The material that is taken out will be used with partner organisations, including Mind, for their service users to learn craft and woodland skills, such as creating baskets and garden materials that will be sold to generate income for local users of the woodlands.

The first woodland has begun development within the grounds of Charlton School in Telford, Shropshire forming part of an outdoor learning centre.

> “Wesleyan is a great example of what can be achieved when a corporate organisation works together with locals to ensure benefits can be brought to the community. For us, it's particularly important to see that their values align with ours, specifically to support health, education and the environment.”

JULIA ALLINSON
Small Woods Association Development Officer

SUPPORTING TEACHERS AND SCHOOLS

We were excited to launch our biggest partnership to date in September supporting the National Literacy Trust, an independent charity that works with schools and communities to give disadvantaged children the literacy skills to succeed in life.

In early 2021 we started discussions with the Trust about how we could work together to support teachers and school staff through the ongoing pandemic. The impact of going above and beyond to maintain some semblance of stability in children's lives was affecting mental health and wellbeing.

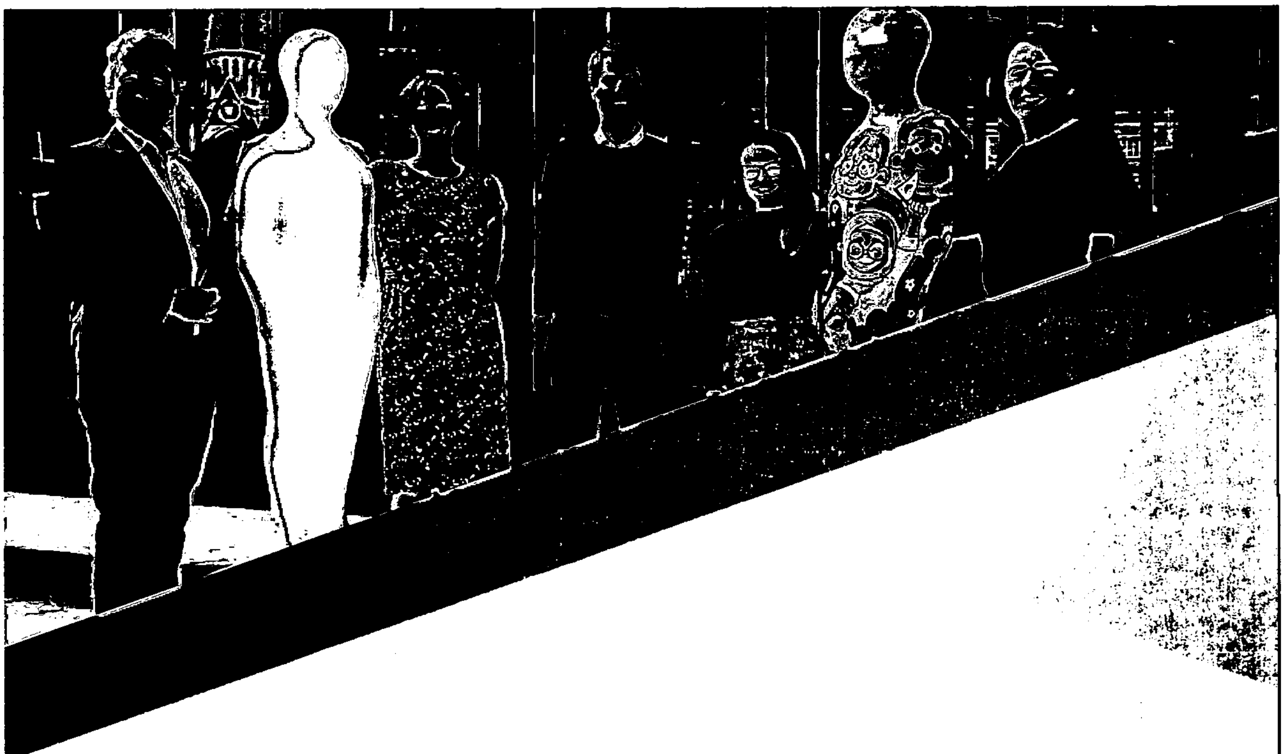
With £70,000 of funding from the Foundation, the Trust launched a year-long Teacher Wellbeing campaign with a new website that provides a wealth of resources including expert advice, guidance and practical ideas to support teachers and help maintain balance in their lives.

With 62% of education professionals describing themselves as stressed, there is a clear need for the website and we were pleased to also provide access to our own Wesleyan wellbeing app for additional support.

We also supported the National Literacy Trust's 'Take 10' initiative, a nationwide campaign to encourage reading in schools and workplaces. On 8 October the Trust asked us all to stop work and start reading for just 10 minutes to encourage mental wellbeing and literacy. Wesleyan colleagues were among over 165,000 people who took part in the initiative with 573 schools signed up for the challenge.

> “We are so pleased to launch our Teacher Wellbeing campaign with support from the wonderful team at Wesleyan. We know that teachers are regularly very short on time and commit themselves to pupils rather than taking time out to focus on their own wellbeing and this has only been exacerbated by the disruption and increased pressure of the pandemic. Pupils benefit from well-rested, happier teachers, so everyone in education stands to gain from the launch of this brilliant new platform.”

JONATHAN DOUGLAS CBE
Chief Executive of the National Literacy Trust



SHOWING GRATITUDE FOR KEY WORKERS

If there is one word that conveys how we feel about NHS staff, dentists, teachers and other key workers who worked tirelessly through the pandemic it's gratitude. So when NHS Together approached us with an idea to bring that gratitude to life in art form we were ready to get involved.

Gratitude became the name of an exciting public art installation designed to pay tribute to the amazing contribution of our key workers. The installation consisted of 51 human-form statues painted by professional artists and reflecting different stories of Covid.

The statues were displayed in a number of our largest cities starting in Birmingham, where we were proud to be location sponsors. It was a memorable way to celebrate our 180th anniversary by helping to bring art to the streets and enable thousands of people to enjoy the unusual display and reflect on their own thoughts on the pandemic.

OUR SCULPTURES

We sponsored two sculptures:

We can be Heroes – depicts a colourful expression of Gratitude to doctors and other essential workers and celebrates the community coming back together.

Us – depicting multiple key workers on one statue, this was especially poignant as we asked colleagues to put forward their own community heroes and two of these people are painted on the sculpture. It now stands proudly in our Head Office reception as we bought it when the sculptures were auctioned to raise substantial proceeds for NHS Charities Together.

To celebrate the launch of the Gratitude exhibition Wesleyan Foundation also offered schools the chance to win a share of £30,000 of funding to support community and schools' projects. Winning entries included a plan to develop a sensory garden to provide a quiet space for children and funding for a severely under-resourced primary school library.

" We are particularly grateful to Wesleyan for your sponsorship of Gratitude and for purchasing your wonderful sculpture. It's thanks to your sponsorship that Gratitude was able to take place in Birmingham. The NHS is treasured by us all and we hope that you feel incredibly proud to be part of a community helping to make a genuine difference to NHS staff and the patients they care for. Wesleyan have contributed so much to support our healthcare service, both locally and nationally, and we are so grateful for your amazing contribution of £20,000 to NHS Charities Together in 2021. "

LOUISE MCCATHIE,
Director of Fundraising at NHS Charities Together

PEOPLE AND CULTURE

As 2021 drew to a close, Wesleyan colleagues had been mostly working from home for over 20 months, with many new employees yet to visit an office.

We were delighted to see our teams thrive in a virtual world and continue to expertly meet the needs of our customers. However, we were aware that such long periods of remote working could bring challenges to both mental and physical health. We renewed our focus on employee wellbeing as part of our culture of care.

BE WELL AT WESLEYAN

Here's some of the ways we supported colleague wellbeing in 2021:

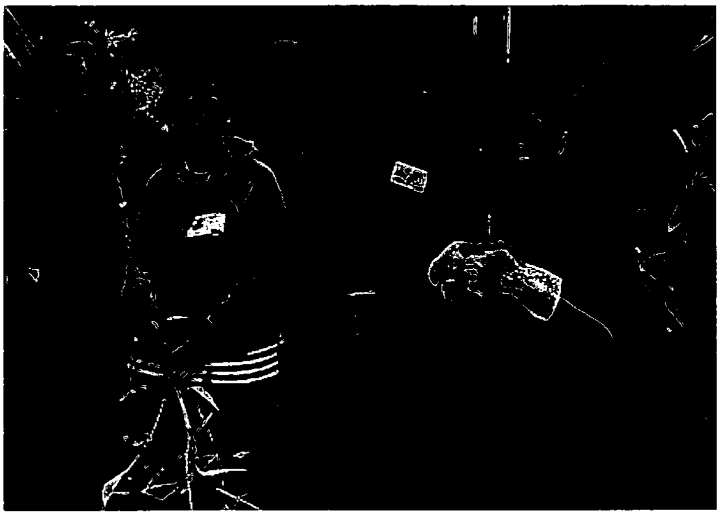
- Provided all colleagues free access to Wellspace, an online and app-based resource offering advice, guidance and daily health tracking metrics.
- Our Network for Employee Wellbeing (NEW;) continued to champion the mental and physical wellbeing of colleagues. They worked with the business to support key national milestones throughout the year such as suicide prevention day, wellbeing month and happiness at work week. We arranged physical and mental wellness sessions for colleagues and expert insight through webinars and podcasts.
- Trained 17 Mental Health First Aiders to support colleagues in need. Members of the team once again volunteered to be available over the Christmas period for anyone who wanted additional support.
- Modernised our Employee Assistance Programme (a 24/7 independent support service) and developed a new "Financial Wellbeing" module, both of which went live early in 2022.

We were delighted to be recognised for our wellbeing efforts, achieving the Foundation level 'Thrive at Work' accreditation from the West Midlands Combined Authority.

PROUD OF OUR CULTURE

As a mutual, we are incredibly proud of our culture of care, for employees, our customers and the community. Our reputation for 'doing the right thing' has extended to our handling of Covid-19 and the level of flexibility we have shown our people as they sought to balance the needs of our customers with pressures at home. Our 'Smart Working' guide and associated managers' advice was put in place to recognise 'one size does not fit all' when it comes to work / life balance, and we aim to find flexible working solutions that meet the needs of colleagues, customers and the business.

Our people worked hard in 2021 to meet challenging targets so that we could offer our members and customers a great experience. The Executive Team wanted to show their thanks for this in a tangible way and so we came up with a Gratitude package that included an additional day's leave and some budget for teams to have a small celebration to reconnect when lockdown was lifted for a time.



A LISTENING ORGANISATION

As a business we recognise the value our colleagues bring when it comes to improving the experience of working with or for Wesleyan. We have put in place a robust listening framework for our Board, Group Executives and Senior Leadership Team to hear from and engage with colleagues on a wide range of topics. Through our Partnership Council (an employee led feedback forum with CEO and Senior Independent Director), employee network groups (in place to support inclusion and wellbeing), and regular "Meet the Board" sessions, we are able to listen to colleague feedback in order to make ongoing enhancements for customers and colleagues alike.

EMPLOYEE ENGAGEMENT

Our employee engagement score was down slightly overall in the year (7.6 out of 10 from 8.0). Despite this, we were ahead of our annual target, demonstrating our ability to keep colleagues engaged during a challenging period of transformation and long-term remote working. Our culture and the relationships our colleagues have with one another scored 9 out of 10 and is in the top 5% when compared to other financial services organisations. Areas of improvement include transparency around our pay and reward processes and more clarity on the impact our strategy has at a team level. In 2022 we are launching new Engagement 'clinics' for colleagues to discuss their feedback with subject matter experts in areas such as reward, learning and development, agility and change.

LOOKING AHEAD

In late 2021 our Board and Group Executive Committee approved a new bi-annual "culture report" which uses feedback from our employees as well as a clear dashboard of metrics to assess whether our culture is where we want it to be, in line with guidance from our regulator. Customer centricity, conduct, engagement and accountability are a small subset of our culture assessment. We look forward to running the report early in 2022 and enhancing our culture even further.

EQUALITY, DIVERSITY AND INCLUSION

A FOCUS ON INCLUSION

We moved towards our goal of being a more inclusive employer in 2021 but still have much more to do to meet our aspirations. We were particularly pleased to reach our target to have women make up a third of our senior leadership team a year ahead of schedule. We also achieved our 'Disability Confident Level 2' accreditation and were proud signatories of the Association of British Insurers' (ABI) 'Making Flexible Work' campaign, promoting inclusive ways of working throughout the Group.

Our employee base is not yet representative of our customers or society. In common with many in our industry, we must do more to get people from ethnic minority backgrounds into senior positions. We are seeking to proactively address this through targeted interventions. From signing up to support the 10,000 Black Interns project, employee training and a more inclusive recruitment process we hope to meet our initial target of having at least 15% of our senior leaders from ethnic backgrounds by the end of 2022. Our BeMe (Black, Ethnic Minority, Everyone) network help us keep conversations around race alive and ensure we celebrate events that are important to all our people.

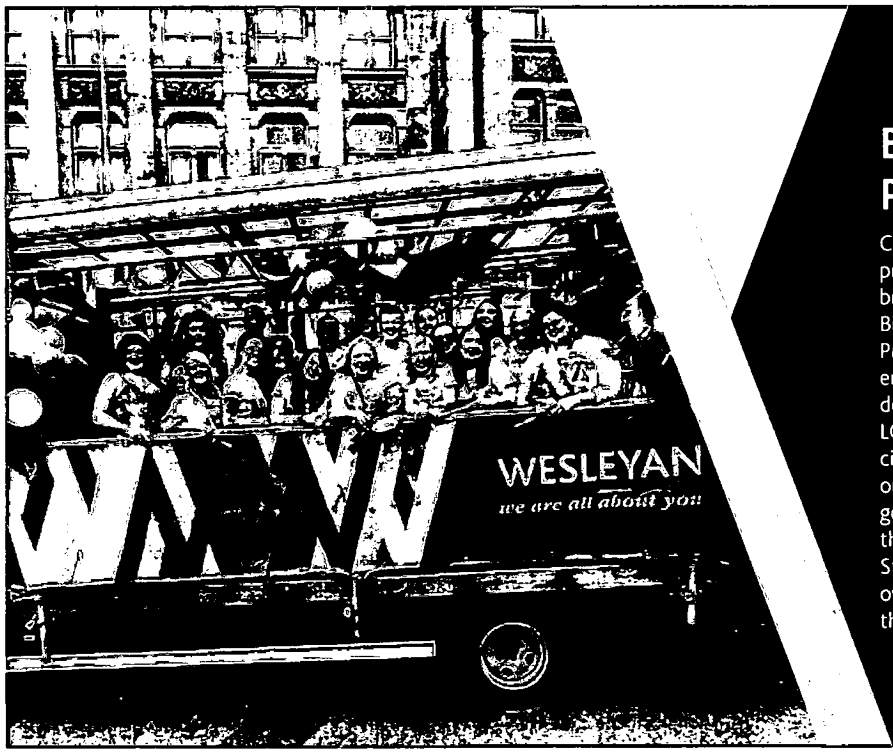
We were delighted to win in two categories at respected industry publication FT Adviser's Diversity in Finance Awards. The awards aim to showcase best practice examples from across the UK's financial services, highlighting and commending companies that have made significant strides towards improving Equality, Diversity and Inclusion over the past 12 months.

In a year of record entry numbers, Wesleyan won the award for Championing Social Mobility and also Championing Gender Diversity. The judging panel commended Wesleyan for our passion and commitment to social mobility that has extended into the community and also for our great ideas and best-practice examples on how to embed diversity and inclusion.

CHAMPIONING SOCIAL MOBILITY

We have a five-year partnership with Aston University to help young people from disadvantaged backgrounds into medicine. This includes creating seven new 'Wesleyan Foundation Scholarships' at Aston Medical School. Scholarship students tell us how invaluable they find the support from the Foundation to cover travel costs to placements and buy essential kit such as stethoscopes and text books. In 2022 we will also be working with Birmingham University to provide similar bursaries.

We also donate each year to support Aston University projects aligned with the Wesleyan Foundation's own focus areas of health, education, social development, and innovation.



BIRMINGHAM PRIDE PARADE

Colleagues from across Wesleyan proudly led Wesleyan's first ever branded float through the streets of Birmingham at the much-anticipated Pride parade. As an inclusive employer, we were delighted to demonstrate our support of the LGBTQ community in our home city, just a few moments' walk from our Head Office. In 2021 we made good progress in our journey to be in the top 100 list of employers in the Stonewall Equality Index, jumping over 100 places to rank at 215 in the Index.

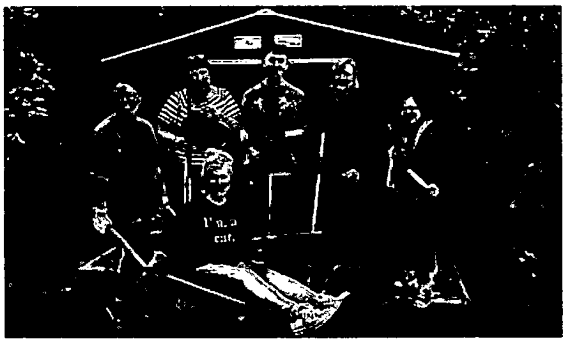
NON-FINANCIAL INFORMATION

We aim to comply with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. This table seeks to demonstrate the Group's position in key areas and links to further information.

SOCIAL MATTERS

The Wesleyan Foundation has continued to support our local communities and professions, outlined on pages 34 to 35. In addition these further initiatives took place in 2021;

- Supported more colleagues to use their volunteering time to become School Governors in partnership with Governors for Schools
- Supported the Business in the Community National Business Response Network with charitable donations
- Further supported Business in the Community with their Jobs Fair in Coventry providing funding for jobseekers' public transport fees
- Supported the West Midlands Air Ambulance Mission Critical Campaign in the West Midlands to help promote the work of the charity over the last 25 years
- Offered virtual volunteering opportunities with Make Good Grow to provide virtual skills-based volunteering opportunities
- Continued to support MicroTyco virtually, ensuring students could continue to access learning around business behaviours in a safe, 'micro' environment
- Supported World Book Day at Shirestone Academy and donated a Dreams Workshop session and books for the children to enjoy different activities at home with their parents, carers and siblings throughout the week.
- Employees have continued to supported students from across the UK with mentoring through the Social Mobility Foundation, Envision and The Girls Network
- Continued to support the Homelessness Task Force in Birmingham and made a donation of £5,000 to the Change in to Action Fund which is provided by the West Midlands Combined Authority and is an alternative giving platform to support people out of homelessness



ENVIRONMENTAL MATTERS

Protecting our environment is important to us and is a key element of our Sustainability Strategy. We have committed to reduce the impact our business has on the environment, and as part of this we have set a target to be Carbon Neutral in our Operations by the end of 2023. To meet this target, activity already underway includes:

- **Reducing our use of paper and printing.** We've reduced paper from printers and offset the effect of essential printing by planting trees in Brazil, Madagascar, Dominican Republic and Ireland. We also reuse 80% of our printer toner cartridges with the remainder being recycled so none are sent to landfill or incineration.
- **Sustainable practices in our offices.** These include installing LED lighting in our Head Office; reduced water usage in Head Office and introducing reusable bio-degradable plates for meetings. In 2021 we moved our electricity supply to a 100% renewable energy supplier and have replaced our Head Office boilers to improve their efficiency.
- **Travel.** We are reducing our business travel where possible through the greater use of technology and by supporting our employees through the Cycle to Work Scheme. In November 2021 we introduced EVolve, a new car scheme offering electric and low emissions vehicles to our employees through salary sacrifice.
- **Suppliers.** Our sustainability principles are embedded into our procurement policies when choosing suppliers, outsourcers and other business partners. We have started to capture environmental performance data (including carbon footprint) of Wesleyan's suppliers on our supplier management system. Once we have collected this data, we will incorporate appropriate metrics and targets into our reporting.
- **Collaborating with the wider business community.** We are proud signatories of the UK Business Group Alliance initiatives for Net Zero and for a green recovery from Covid.
- **Wesleyan Woodlands.** We have donated £25,000 to fund the creation of four new sustainable woodlands across the UK, with the first being at Charlton School in Shropshire. Three further woodlands will be planted in 2022.

Further details on our Business Impact activity can be found on page 32.

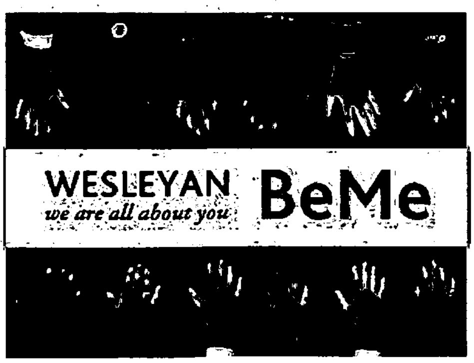
EMPLOYEES

Policies/Guidance/Statements

- Employee Conduct Policy
- Employee Assistance Programme
- Career Break Policy
- Talent and Development Policy
- Family Leave Policy
- Health and Safety Policy
- Inclusion & Diversity Policy
- Reasonable Adjustments Policy

Initiatives

- Partnership Council, an enhanced employee consultative body which can report to the Board and has a named Non-Executive Director representative
- Agreed expenditure from apprenticeship levy since 2017 is £762,417.86
- Employee Networks continue to improve inclusion and diversity
- Annual employee census to encourage disclosure and ensure accuracy of our Equality, Diversity and Inclusion (ED&I) data
- Recruitment charter to hold our partners to account when it comes to ED&I, ensuring more representative recruitment
- Employee Engagement – Employee Opinion Survey undertaken on a bi-annual basis as a minimum
- Launched our Smart Working guidance to enable employees to work when, and where, is most effective for themselves, their customers and the business
- Be Well at Wesleyan – internal wellbeing strategy to actively support the mental health and wellbeing of employees
- Mandatory Mental Health training for managers
- Wellspace – our new employee wellbeing hub with resources, supportive guidance and wellbeing challenges
- Revised our pay rise approach to link increases to individual performance, rewarding colleagues for their unique contributions to the delivery of our strategy and contribution to our culture.



RESPECT FOR HUMAN RIGHTS

Policies/Guidance/Statements

- Volunteering Policy
- Anti-Bullying and Harassment Policy
- Inclusion and Diversity Policy
- Slavery and Human Trafficking Statement
- Domestic Violence Policy
- Vulnerable Customer Policy

ANTI-CORRUPTION AND ANTI-BRIBERY

Policies/Guidance/Statements

- Speak Out Policy
- Gifts and Hospitality Policy
- Grievance Policy
- Financial Crime Policy
- Fit and Proper Policy
- Conflicts of Interest and Anti-Bribery policy

Initiatives

- All colleagues undertake annual training to recognise and combat corruption, bribery, and financial crime and receive regular updates to promote the Speak Out Policy
- All colleagues undertake training to ensure awareness of Conduct Rules in Financial Services
- All colleagues declare and record gifts or hospitality offers of any value monthly

To protect against increasingly sophisticated cyber security threats, we have upskilled our people to recognise and respond appropriately to the potential threats:

- Annual Cyber Training
- Quarterly Phishing simulations and follow up training
- Privileged user/high risk user training

Read more in People and Culture on page 36

MANAGING SUSTAINABILITY

GOVERNANCE

The Wesleyan Board has overall responsibility for our Sustainability Strategy. Operational responsibility for implementing it (including managing climate-related financial risks) has been allocated to the Chief Risk Officer, who also chairs the Society's Sustainability Committee.

Accountability for managing climate-related risks and opportunities is embedded into individual business areas and is facilitated by various Board and Executive level committees. This includes the People, Culture & Governance Committee which receives regular reports on progress against the agreed principles in the Sustainability Strategy.

Ultimately, the Society Board has responsibility for setting the risk appetite and strategic direction for the Society, including climate related risks and opportunities. The Board approves the Sustainability Strategy and our annual Climate Financial Risk assessment as part of the ORSA (Own Risk and Solvency Assessment) process, which underpins the Society's strategic plans. The Board received regular progress updates on sustainability related activity throughout 2021.

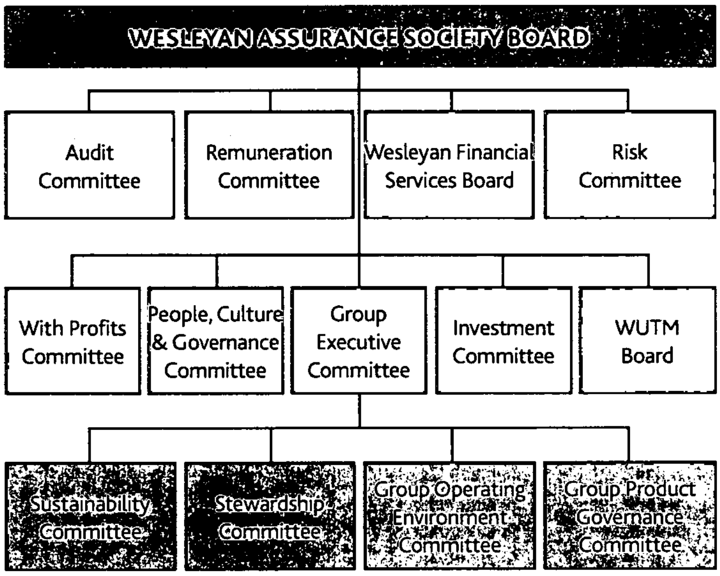
The Risk Committee is responsible for providing independent oversight of the Society's management of climate-related risks. This includes review and challenge of the Climate Financial Risk Assessment in the ORSA report as well as the overall effectiveness of the Group's Risk function,. Integrated Risk Management (IRM) framework, policies and processes in managing these risks.

The Investment Committee provides independent oversight of the Group's investment performance and monitoring that investments are managed in line with our Sustainable Investing policy. This documents our three Sustainable Investing Principles ("Reducing Harm", "Positive Impact", "Driving Change") and includes targets for both Environmental, Social & Governance (ESG) scores and carbon footprint against benchmark for each investment fund. During 2021, the committee also provided review and approval of our first Stewardship Code Report, this was accepted by the Finacnail Reporting Council (FRC) in early March 2022.

The Audit Committee provides independent assurance to the Board on the effectiveness of the Society's controls over managing climate-related risks. During 2021, Corporate Audit completed reviews for both the Society and for Wesleyan Bank on our adequacy and effectiveness to meet the requirements of PRA supervisory statement SS3/19 (Financial Risks from Climate Change). The function also provided feedback on the draft Stewardship Code Report.

The Remuneration Committee determines Remuneration policies for the Society, which includes setting appropriate environmental targets and other sustainability measures for the Balanced Scorecard used in determining performance-linked pay awards for the Executive team.

The Wesleyan Financial Services Board are responsible for overseeing the provision of high-quality financial advice to our customers to help create brighter financial futures for the professions we all trust. This includes meeting our customers' views on their Environmental, Social and Governance (ESG) preferences wherever possible.



The With Profits Committee and Wesleyan Unit Trust Managers Limited Board recieve regular updates on how the Sustainable Investing Policy is being embedded.

Operational oversight of climate-related work is provided by the Sustainability Committee, a sub-Committee of the Group Executive Committee that provides governance and oversight for all sustainability activity, including climate-related developments.

The Sustainability Committee meets monthly and receives regular reports on progress against sustainability objectives, as well as receiving updates on sustainability related risks and opportunities through regular and ad hoc reports.

Other climate-related activity completed during 2021 reported through the Sustainability Committee included:

- Horizon scanning: considering latest market developments for sustainability activity from our customers, competitors, regulators, and any legal developments; this information helps us to assess any reputational risks and prioritise our sustainability work
- Sustainability communications: reviewing sustainability messages in customer brochures and other marketing material, analysing customer and employee engagement feedback on sustainability views, and contributing to external climate-related surveys and development of corporate communications on sustainability
- External validation: validating our Sustainable Investing Policy and how our current approach to allowance for ESG and carbon footprint ratings in investment decisions compare to other firms in our industry

The Stewardship Committee meets quarterly to oversee engagement with companies that the Society's funds are invested in and to produce the annual Stewardship Code Report. Stewardship is one of our Sustainable Investing Principles ("Driving Change") and the committee provides regular updates to Investment Committee on its activities. Response to climate change is a key factor that we consider when monitoring investee companies, which influences how we decide to exercise our voting rights and whether we provide challenge to senior management of these firms.

MANAGING SUSTAINABILITY CONTINUED

The Group Operating Environment Committee is responsible for managing the execution of day-to-day business operations to meet the Society's business plan. This includes delivering various elements of the Board's climate strategy such as switching our energy supply to more renewable sources, moving towards becoming a paperless office, capturing data on our suppliers' carbon footprint and providing employees with a Salary Sacrifice scheme for ultra-low emission cars (EVolve).

The Group Product Governance Committee is responsible for overseeing product governance and making decisions to ensure that our products and funds meet the needs of professional customer segments, including their ESG and climate-related preferences.

More granular ownership of specific sustainability risks and opportunities have been allocated to individuals at Executive and Senior Management level.

SUSTAINABILITY AND REMUNERATION

We have started to reflect these strategic changes into our remuneration strategy, e.g. the 2022 Incentive Plan for the Executive Management team includes a target to reduce our operational carbon footprint by 55% by end 2022 relative to 2020 levels.

The Investments Team bonus scheme is also linked to targets for ESG and carbon footprint against benchmark for the relevant investment funds.

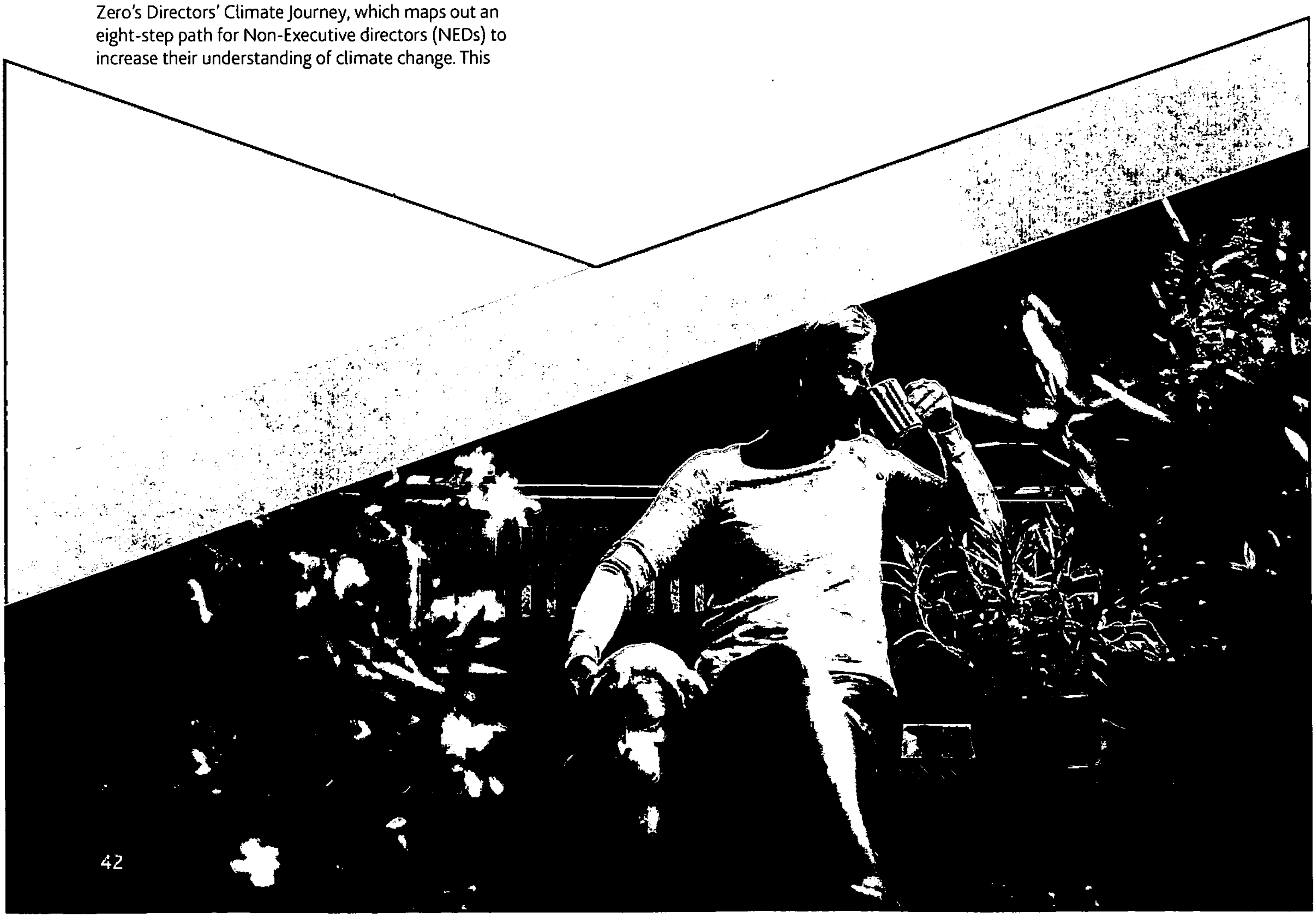
We have also provided Board training using Chapter Zero's Directors' Climate Journey, which maps out an eight-step path for Non-Executive directors (NEDs) to increase their understanding of climate change. This journey aims to support our NEDs to have informed and effective boardroom discussions about climate change, to encourage debate on the impacts on our business, and to help them lead the Society's strategic response to climate-related risks and opportunities. This also supports their assessment of Executive progress and commitment, supporting remuneration decisions.

CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate change is a global challenge with local implications. Businesses like Wesleyan must take responsibly for their role in making a difference and we must understand the implications for how we manage our business.

The Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD) with the aim of improving industry disclosure of climate-related risks and opportunities. Wesleyan's climate-related disclosures are partially aligned to the TCFD framework. We have committed, by signing a Statement of Support, to implementing the TCFD's recommendations in full at Society level by the end of 2022. This report includes the core elements of these recommendations and we intend to enhance our assessment and metrics disclosures in time for next year's Report and Accounts.

The TCFD recommendations cover four thematic areas: Governance, Strategy, Risk Management and Metrics and Targets; our approach to managing climate change is summarised in this way in the following sections.



STRATEGY, RISKS AND OPPORTUNITIES

Climate change brings many risks and opportunities to our business and to those that we invest in.

Climate-related risks are commonly categorised as either transition risks – risks arising from the transition to a lower carbon economy, or physical risks – risks from the physical impact of climate change.

Climate-related opportunities arise from the regular feedback we obtain from our customers on sustainability issues; we know that having a sustainable business impact and offering sustainable products is extremely important to them. As a mutual, we naturally focus on the longer-term and our overall commitment to "doing the right thing" for our customers, our employees and the community creates further opportunities for us to make more sustainable decisions.

We have identified the following climate-related risks and opportunities that could have a material financial impact on the Society, which are considered over these time horizons:

Climate Change Risks

☐ 0-5 years: Short term ☐ 5-10 years: Medium term ■ 10 years +: Long term

Transition Risks	Description	Timeframe	Potential Impact
MARKET	Market Risk due to the value of equities held by the Society falling; e.g. from the repricing of carbon intensive assets	Medium term	Lower policyholder returns and decreased capital strength
CREDIT	Credit risk on bond assets due to higher costs to tackle climate change	Medium term	Lower policyholder returns and decreased capital strength
REPUTATIONAL / BUSINESS	Failure to develop sustainable products / funds or to take action to become operationally sustainable	Short term	Decreased revenue and profitability
PROPERTY	Costs of meeting minimum energy-efficient standards for property investments	Medium term	Lower policyholder returns and decreased capital strength
REGULATORY	Costs to comply with climate-related regulatory requirements	Short term	Decreased profitability
OPERATIONAL / TECHNOLOGY	Provision of sustainability information and technological advancements to manage climate risks and opportunities more effectively	Medium term	Decreased profitability
Physical Risks	**Description**	**Timeframe**	**Potential Impact**
MARKET	Economic crisis events due to food shortages, pollution, political disruption etc.	Long term	Lower policyholder returns and decreased capital strength
INSURANCE	Increased sickness or mortality risks due to climate effects	Long term	Lower policyholder returns and decreased capital strength
PROPERTY	Losses from physical damage (e.g. due to flooding) on direct property investments	Long term	Lower policyholder returns and decreased capital strength
OPERATIONAL	Failure of material outsourcers / strategic business partners due to climate impacts	Long term	Decreased profitability

Climate Change Opportunities

Opportunities	Description	Timeframe	Potential Impact
CUSTOMER OFFERING / BRAND	Building on our Mutuality to provide sustainable advice, products, services and operations to improve customer experience, employee satisfaction and the environment	Short term	Increased revenue Positive impact on the environment
RESILIENCE	Flexible working, reduced travel and lower costs from being a climate resilient business	Short term	Increased profitability Reduced harm to the environment
MARKET	Strengthening our Sustainable Investment principles and investing in well governed, sustainable businesses for the long term	Long term	Higher policyholder returns and increased capital strength

The process we use to determine which climate-related risks and opportunities could have a material financial impact on the Society are described under the Risk Management section. Further detail on some of the largest risks and how these have impacted our business and strategy are covered overleaf.

We plan to improve our assessment of climate related financial risks in 2022 with more detailed modelling. This will further enhance our understanding of climate change risks to our investment portfolio and provide additional metrics and targets to include in future TCFD reports.

MANAGING SUSTAINABILITY CONTINUED

RISK MANAGEMENT

Climate risk is embedded into our Integrated Risk Management Framework and through our scenario testing (see below for our approach to scenario testing and page 48 for further details on how we manage our risks). Rather than treating climate risk as a separate risk type, we manage this as part of other risk types within the Framework.

Climate-related risks are currently identified and reassessed each year as part of the ORSA process in the Climate Financial Risk Assessment, which also forms the basis of the risk appetite limits for these risks included within our Risk Appetite Framework. Our climate risk appetite is defined over a ten-year time horizon, although the risk assessment itself considers much longer time periods (up to 60 years for physical risks).

These climate risk limits apply separately to Market, Insurance, Liquidity, Credit and Operational risks. For example, our Market risk limit for Climate Change is defined as: "None of the market risks within the 10-year time horizon identified as part of the 'Financial Risks from Climate Change Assessment' will fall into the red Likelihood / Impact zone on the heatmap". Our current assessment is that climate-related risks do not move the Society outside of its risk appetite for any of the key risk types listed on the previous page.

Our risk management policies incorporate climate-related and other sustainability risks where relevant. If required, specific climate-related policies have been put in place, such as the Sustainable Investing Policy. The various tools documented within our Integrated Risk Management Framework are also used to identify, assess and manage sustainability risks.

The climate-related regulatory landscape is continually developing. However, our risk management function is appropriately resourced, and the processes, systems, and controls are in place within our overall Risk Management Framework to ensure that we are effective in managing any regulatory risks from climate change:

Climate-related Regulations	How Wesleyan is impacted
PRA SS3/19: Enhancing the approach of banks and insurers to managing the financial risks from climate change	Comprehensive set of requirements from 31 December 2021 covering all aspects of managing climate-related financial risks - including Governance, Risk Management (identification, measurement, risk appetite, assessment, limits, monitoring, reporting, mitigation), Scenario Analysis and Public Disclosure.
FCA PS21/24: Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers	TCFD compliant reporting is required at both entity and individual fund level to be published before 30 June 2024.
FCA PS19/13: Improving shareholder engagement and increasing transparency around stewardship	Publication of our Shareholder Engagement policy (including ESG matters) on our website, which applies to all funds under management of Wesleyan Assurance Society, including the Wesleyan Staff Pension Scheme (WSPS) and Wesleyan Unit Trust Managers (WUTM). Additional disclosures required from insurers on their fund management arrangements under the Shareholder Rights Directive II (SRD II) are published within the Society's annual Solvency and Financial Condition Report (SFCR).
FCA PS19/30 Independent Governance Committees: Extension of remit	The Governance Advisory Arrangement (GAA) annual "Value for Money" assessments of the Wesleyan Staff Group Personal Pension Scheme and the Wesleyan Workplace Personal Pension Plans are now required to incorporate our ESG factors, Non-Financial Matters and Stewardship activity.
The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (SI 2019 No. 982)	Extensive requirements on WSPS Trustees to comply with new shareholder-engagement obligations; including updating statements of investment principles (SIPs) to incorporate information about asset management agreements and engagement policies, publishing their SIPs online, making annual statements about their adherence to the engagement policies, giving details of voting behaviour, and making that material openly available to members.
Regulations relating to sustainable operations	These laws control various environmental matters: Clean Neighbourhoods and Environment Act 2005, The Controlled Waste (England and Wales) Regulations 2012, The Waste (England and Wales) Regulations 2011, Waste Electrical and Electronic Equipment Regulations 2013, Control of Substances Hazardous to Health Regulations 2002, The Building Regulations 2010, The Climate Change Levy (General) Regulations 2001, Climate Change Act 2008, The Energy Performance of Buildings (England and Wales) Regulations 2012, The Energy Savings Opportunity Scheme Regulations 2014, The Ozone-Depleting Substances Regulations 2015, Fluorinated Greenhouse Gases Regulations 2015, SECR and The Control of Pollution (Oil Storage) (England) Regulations 2001.
Companies Act 2006, Chapter 4A, Section 414CB	Minimum disclosure required of environmental and other sustainability impacts in the non-financial information statement part of the Strategic Report in the Annual Report & Accounts (see page 38).

Risk assessments in practice – Sustainable Investing

Our risk assessments have already had a positive impact on our business strategy. For example, during 2021, we relaunched our Sustainable Investing policy, by introducing three Sustainable Investing Principles ("Reducing Harm", "Positive Impact", "Driving Change"). These include specific climate-related and other environmental elements to our investment strategy:

REDUCING HARM

OIL AND GAS

We will exclude:

- Companies that have neither comprehensive public plans to reduce the climate impact of their operations, nor a commitment to be carbon net zero by 2050
- Companies that derive more than 5% of revenue from unconventional oil and gas extraction (including oil sands, oil shale, shale gas, coal seam gas and coal bed methane)

COAL AND ENVIRONMENTAL

We will exclude:

- Companies producing electricity from coal-fired power stations, without a credible plan to reduce this to nil by 2030. We also exclude companies planning to construct any coal-fired power stations
- Companies that invest speculatively in commodities that add to price inflation. This doesn't include companies using derivatives to help reduce risk exposures
- Companies that derive more than 5% of their revenue from palm oil production not certified by the Roundtable for Sustainable Palm Oil
- Companies that produce paper products from unsustainable sourcing of timber linked to habitat destruction

POSITIVE IMPACT

CLIMATE CHANGE

Detail:

- We will invest in reducing pollution and energy waste through innovative products and services, as well as environmentally conscious assets
- We will invest in companies that are investing in infrastructure or creation of green energy, or are transitioning their business to green energy

DEFORESTATION

Detail:

- Our target is for relevant companies in our portfolios to comply with: No Deforestation, No Peat and No Exploitation (NDPE) commitments by 2023 for agricultural commodities (palm oil, soy, paper, timber and beef products), and NDPE commitments by 2030 from non-agricultural sectors (mining, metals, etc.)

ACCESS TO WATER

Detail:

- We will encourage water-intensive sector companies operating in water-stressed areas to significantly improve their water efficiency whilst ensuring water access to local communities

DRIVING CHANGE

PROPERTY

Detailed engagement criteria:

- We will only buy new property if we can attain a D or higher energy efficiency rating, and if existing property cannot be improved to this level, we will ultimately sell the property
- We will only permit new tenants to lease our commercial properties if they align to our "reducing harm" policy

CLIMATE

Detailed engagement criteria:

- We will lead engagement within certain industries such as utilities, mining, and oil and gas, to support the transition to lower carbon emissions and environmental impact. If they do not commit to be carbon neutral by 2050, or make strides towards it by 2030, we will divest
- We will align our portfolios with a maximum 2°C temperature increase target to achieve the targets by 2050

MANAGING SUSTAINABILITY CONTINUED

As we further develop and implement our Sustainable Investing policy, these risks should reduce. We have also committed to implement a 2050 (or earlier) zero carbon footprint target for all investment funds and we continue to set limits for ESG and carbon footprint in the meantime.

We will refine this monitoring and include metrics and targets in our TCFD reporting for how quickly we expect to progress towards our overall zero commitment.

INDUSTRY BEST PRACTICE

To meet our Sustainability Strategy and climate-related commitments, we have either adopted or committed to meet certain standards and have affiliated ourselves with organisations that share our sustainability goals; some of the most important ones to us are listed below:

Climate-related Standards and Organisations	How Wesleyan is Responding
UN Principles for Responsible Investment (PRI)	As a PRI member and signatory, we are fully committed to responsible investment; our Sustainable Investing policy is aligned to the six UN Principles for Responsible Investment
Climate Action 100+	Through the PRI, we support this investor led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change
Financial Reporting Council (FRC) Stewardship Code 2020	As part of our "Driving Change" strategy, we commit to meeting the standards of the new Stewardship Code. We were accepted as a signatory to the UK Stewardship Code in March 2022 by the Financial Reporting Council, showing we met expected standards of reporting in 2021
Task Force on Climate-related Financial Disclosures (TCFD)	We are aiming to implement the TCFD's recommendations in full for the end of 2022 reporting cycle
Greenhouse Gas (GHG) Protocol	We comply with this standard when accounting for greenhouse gas (including carbon) emissions and ensure it is used as the basis for the calculation of our carbon footprint
ISO 14001 Environmental Management Systems Standard	Working in the spirit of this standard helps us build an effective environmental management system (EMS) to improve the environmental performance of our business operations
UN Sustainable Development Goals	We target our CSR (Corporate Social Responsibility) activity towards meeting the United Nations sustainable development goals (SDGs) most appropriate to Wesleyan

METRICS AND TARGETS

As part of our overall sustainability commitment, we ensure that appropriate metrics and targets are in place to identify, assess, monitor, manage and report our performance against our Sustainability Strategy. Measuring our impact on the environment is an important part of this assessment and helps us meet our aim of being a sustainable business.

Key Metrics

The table below shows a summary of the sustainability metrics we are currently recording:

	2021	2020
Sustainable Investing		
Carbon intensity of Society assets (tCO_2e / £100k invested)	7.4	10.4
Number of funds with carbon intensity better than benchmark	9/10	9/10
Number of funds with ESG rating better than benchmark	10/10	10/10
% of property investments in terms of value with A or B EPC rating	24.8%	Not available
% of property investments in terms of value with D or higher EPC rating	86.9%	Not available
Business Impact		
Scope 1 Carbon Footprint	739 tCO_2e	558 tCO_2e
Scope 2 Carbon Footprint	584 tCO_2e	1,051 tCO_2e
Scope 3 Carbon Footprint	471 tCO_2e [2]	368 tCO_2e [2]
Total Carbon Footprint	1,794 tCO_2e	1,977 tCO_2e
Carbon Footprint per Employee	1.2 tCO_2e [4]	1.3 tCO_2e [4]
Waste Generated	28.41 Tonnes	Not available [1]
% waste to landfill	1.8%	Not applicable
Paper usage	947,790 sheets	1,065,126 sheets
Water usage	4,462m3 [3]	2,573m3
Electricity usage	2,749,983 kWh [3]	2,891,054 kWh
Gas usage	3,495,188 kWh [3]	3,156,707 kWh
Total Energy usage	6,245,171 kWh	6,047,761 kWh
% Electricity from renewable sources	35%	9%
Community and Citizenship		
Amount of money donated via Wesleyan Foundation	£960,000	£854,000
Other charitable donations	£85,000	£17,000
Number of volunteering days	105	67

Notes:

Scope 1 represents our direct emissions such as use of natural gas and company car travel. Scope 2 represents indirect energy emissions, predominantly our use of purchased electricity. Scope 3 represents all other indirect emissions such as homeworking, waste and water usage.

Our Carbon footprint calculations include some approximations. Key areas of uncertainty include:

- There is material uncertainty relating to the estimate of the carbon footprint generated by homeworking. The carbon footprint relating to home working assumes that the information received from employees who responded to our homeworking survey is representative of our total workforce
- Electricity and Gas usage for our smaller sites has been estimated (represents less than 5% of total energy use).
- Overall, we would expect our actual carbon footprint to be within +/- 12% of the figures quoted.

The total carbon footprint for 2021 is broken down as approximately 35% (2020: 50%) from Electricity usage, 40% (2020: 28%) from Gas usage, 20% (2020: 5%) from Homeworking, with other items derived from travel and transport making up the remaining 5% (2020: 17%).

There have been methodology changes from 2020 to 2021. In particular, homeworking now includes all homeworking. In 2020 this included only those employees formally recognised as homeworkers.

1 Data not available for 2020
2 Our carbon footprint covers scope 1, 2 and selected scope 3 items. Included within scope 3 are: Employee travel, Homeworking, Waste and Water. Excluded from scope 3 are the carbon footprint from our suppliers and the companies we invest in.
3 2021 figures include usages from our Oswestry and Northwich Offices which were not recorded in 2020
4 Based on average employee numbers across the year from 01/01/2021 to 31/12/2021.

Key Targets

Our key targets are:

1. We will be operationally carbon net zero by the end of 2023. This may include offsetting. We have already taken positive steps towards achieving this by changing our suppliers to renewable energy, changing our boilers within Head Office to be more efficient and through the introduction of our electric vehicle scheme. We may apply offsetting to help achieve this objective, however we want to ensure that we take effective action to reduce our emissions, so we have also introduced a further metric relating to the reduction of emissions.
2. We will reduce our operational carbon footprint by 55% by end 2022 relative to 2020. The actions referred to above on switching energy supply and implementing our electric vehicle scheme will support this objective.
3. We will be carbon net zero across the organisation, including our investment portfolio, by the end of 2050. This may include offsetting. This aligns to the UK target to be net zero by 2050. The steps taken to support the reduction to our operational carbon footprint will support this. We will carry out further work in 2022 to develop a roadmap to 2050.
4. To drive change through our properties, 100% of Wesleyan property will have an EPC rating of D or higher in accordance with the Governmental 2030 target.

OUR RISKS

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 are vital and we will always treat them 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.

MANAGING OUR RISKS

Risk management is fundamental to the successful delivery of Wesleyan's business objectives, including the delivery of attractive returns for its policyholders. Therefore, we have an established Risk Management Framework in place that promotes the successful management of the risks we face.

We recognise that in a fast moving and challenging external world, our strategy may need to change to respond to developments in our operating environment, an example being the challenges associated with maintaining a high-quality service to our customers during the Covid-19 pandemic. Therefore, the Board 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.

OUR RISK APPETITE

Underpinning our management of risk is Wesleyan's risk appetite, which is set by the Board and details the amount of risk 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 further broken down into the key elements of reputation, capital, business, conduct and operational, each having their own risk appetite. Our Risk Appetite Statement and the statements for each element are shown to the right.

The Board regularly reviews and monitors our actual risk profile and risk limits against the approved risk appetite for each element individually and also the aggregate impact on strategic objectives as measured by the overarching risk appetite statement. In addition to the five key elements detailed above, the Society also closely monitors its Market, Insurance, Liquidity and Credit risks against appropriate limits. Further details can be found in the Risk Management section of the notes to these accounts on pages 105 to 111.

CAPITAL

We will ensure that we remain financially strong with above average financial strength, in line with our strategic objective and consistent with our communications to policyholders.

We will also ensure that we do not become too financially strong, where alternative uses of our surplus capital may be possible which would be of greater benefit to current and future policyholders.

We will achieve these objectives by holding sufficient capital to withstand a 1 in 2000 event, which is our Internal Capital Requirement (ICR).

BUSINESS

The Society seeks to anticipate, monitor and react to external developments (such as consumer demand patterns, regulatory, competitive or technological changes) 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 limiting negative impacts on:

- Customer outcomes;
- Long term financial and operational performance.

CONDUCT

Wesleyan has a zero appetite for systemic unfair outcomes to customers at any part of the product lifecycle. While recognising that from time to time the Group may deliver isolated instances of poor outcomes to customers, colleagues or our community; we have no appetite for these failures to be systemic.

Where we identify potential poor customer outcomes, we will be proactive in reporting them, agreeing fair remedial actions, and at all times ensure that we provide clear communications to ensure that a fair outcome is achieved.

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 reputation risks and we will always treat our customers fairly and act with integrity.

OPERATIONAL

The Society has a minimal risk appetite for regulatory, mis-selling and other risks with a material reputational impact. We have a low appetite for other operational risks exposures and we will operate within an appropriate control environment based on evaluation of the costs of risk reduction.

RISK MANAGEMENT FRAMEWORK

In order to manage the risks that we face, Wesleyan has a risk management framework and methodology in place which includes the following key components:

- The definition of Wesleyan's appetite for our key risk types;
- An appropriate governance structure that gives sufficient focus to risk issues, with clearly defined roles and responsibilities;
- Management information such as Key Risk Indicators and Key Performance Indicators, which report our position relative to its risk appetite;
- A review of the significant internal and external risks that may impact us and/or our customers;

- Significant new emerging risks are considered and reviewed and reported on a regular basis;
- A risk identification, categorisation and assessment methodology for operational risks;
- An annual Own Risk and Solvency Assessment, which includes a forward-looking view of the risks faced by the Society and projections of our financial strength under a range of scenarios;
- An Operational Resilience Policy and Framework which requires the assessment of our ability to continue to provide Important Business Services to our customers in the event of severe disruption;
- Risk identification, management and governance procedures for major change initiatives;
- The detailed review of and reporting on certain material risks
- The Society's approach to embedding an effective risk culture.

GOVERNANCE AND OVERSIGHT

As part of our Risk Management Framework; a three lines of defence model governance structure exists (illustrated right) to actively identify, manage and monitor risks. Robust risk management is also embedded within the culture of the Society. The effectiveness of risk management and the internal control systems is reviewed at least annually, including reviews undertaken by Corporate Audit, the scope of which are aligned to the key risks we face.

COVID-19

Like most businesses across the world, Covid-19 continued to have a material impact on Wesleyan in 2021 and we have had to respond in an agile way to manage the risks to us from the pandemic. In order to continue to provide great service to our customers and ensure our staff's safety, we have had to quickly make significant changes to the way we interact with our customers and how we operate our business. For example, we had to make material development in our technology to enable most of our staff to work from home at short notice, to ensure our customer service was not impacted and safety of staff was not compromised. Our risk management framework had previously identified the risks associated with a pandemic, and therefore we have been able to respond in the most appropriate way and adapt as new variants, including the latest Omicron variant, and corresponding measures emerge in order to safeguard both our customers and our business.

UKRAINE

In early 2022 geopolitical risks have risen significantly, with particular focus on the ongoing conflict in Ukraine. Whilst Wesleyan does not have any direct exposure to Russia in our managed investment portfolio, we may be impacted by the increased uncertainty over the macroeconomic environment or by other issues such as an impact on a supplier and / or a heightened levels of cyber risk. Our current scenario testing, carried out as part of our ORSA, shows that we continue to hold sufficient capital under a range of severe but plausible market stresses. We will continue to monitor the ongoing impact of geopolitical risks on investment markets, our supply chain and on our cyber security.

LINES OF DEFENCE

01 Business Management has primary responsibility for the identification and day-to-day management of risks

02 Relevant Executive Committee and the Risk Committee

03 Audit Committee

Reporting to the Risk Committee: Risk oversight by the Risk and Regulatory function includes 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 function

Reporting to the Audit Committee, Corporate Audit provides independent assurance on the design and effectiveness of the overall system of internal control, including risk management and compliance

BREXIT

Wesleyan has not been significantly impacted by Britain's exit from the EU. Wesleyan was required to make some minor changes, predominantly for a very small number of customers residing in France and Ireland. Prior to Brexit occurring, an exercise was undertaken internally to identify any regulatory impact of Brexit on Wesleyan's operational ability, which concluded that the longer-term regulatory impact is minimal.

STRATEGIC RISKS

The Board regularly reviews the Society's strategic plans and in particular its transformation activity 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. In 2021, as summarised below, key decisions were made to progress the strategy; the risks related to these were carefully considered to ensure undue risks were not accepted in pursuit of those plans.

- The With Profits Fund was made available via a third-party investment platform provided by leading wealth management company, Novia, to its network of independent financial advisers. This partnership enables us to increase and optimise our distribution options by reaching new customers. This arrangement complements our core advice business and will leverage existing infrastructure and expertise associated with our With Profits Fund.
- We widened access to the With Profits ISA by making it available direct through a number carefully selected aggregator sites. This decision allows us to leverage existing infrastructure and expertise associated with our With Profits Fund to further grow the Fund to the benefit of our members and our business.
- We agreed to sell Wesleyan Bank to Hampshire Trust Bank plc (HTB) which completed on 28 February 2022. HTB is a specialist, award-winning bank who provide business finance, specialist mortgages and development finance solutions to UK businesses. This decision will enable us to have greater focus on our core customer base and optimise our resources.

OUR RISKS CONTINUED

Below is a summary of the key risks faced in 2021, the actions taken to manage and mitigate them and extent of the risk post mitigation.

Linked Primary Risk	Description	Mitigation	2021 Assessment
1 Operational Business	The Transformation Programme may not deliver the required customer outcomes or commercial benefits.	We have an agreed change framework which starts with approval of a 'case for change' for a project. This sets out the costs, timelines, financial and non-financial benefits for customers and the Society and is further developed during the lifecycle into a final Business case. Projects are governed in accordance with a tiering framework driven by complexity, value and impact. Lowest tier projects are governed through monthly Project Action Groups chaired by an accountable Sponsor, with those in medium and high tiers requiring Transformation Committee and Board oversight respectively. Benefits are actively tracked for all projects during and post project implementation with results reported to the Group Executive Committee, With Profits Committee and Society Board on a quarterly basis.	Medium
2 Operational Business	Even if the Transformation Programme delivers as planned, we may need to develop our strategy further to achieve our strategic goals due to other internal and external factors.	We monitor the progress against our goals closely through our governance structures. We also monitor any changes affecting our target market as part of our strategic planning process. This means that any mitigating actions can be identified and taken in a timely way.	Medium
3 Operational	A number of 'People' risks have arisen as a result of the rapid pace of change within the Society and the impact of Covid-19.	We actively monitor information relating to our people and have given close focus to our Employee Value Proposition. We have moved to Smart working, which offers our staff greater flexibility over their working arrangements. We have been and will continue to offer wellbeing support for all staff.	Medium
4 Operational Conduct Reputation	Severe operational disruption leads to us being unable to provide important business services to our customers in a timely manner. This includes the threat from Cyber Risk.	We have introduced an Operational Resilience Policy and Framework during 2021 which incorporates improved controls and monitoring to mitigate this risk. We have invested significantly in a variety of tools to protect our IT infrastructure and continue to enhance our approach to cyber security, including detection and response to increased sophistication of cyber-attacks.	Medium
5 Operational Conduct Reputation	We are reliant on third parties to provide services to the business. If these businesses do not provide the expected levels of service, or fail, then customer outcomes would be affected.	We have a Procurement and Supplier Relationship Management Policy in place which details the investigations, controls and on-going monitoring that should be undertaken to ensure effective relations with our third-party suppliers.	Medium
6 Business Reputation	Climate change and sustainability are becoming bigger risks for us. The short-term risks are from transition; impacts on our investments and meeting the current and future expectations of our customers. The physical risks to the Society are generally low.	We have continued to develop our sustainability risk management processes, and in 2021 we have introduced further governance and oversight structures. We have developed relevant policies and we have improved sustainability related reporting metrics.	Medium
7 Business Capital	There is still significant economic uncertainty in the UK and globally. UK inflation is increasing and there is significant Government debt following Covid-19. There are also concerns over energy supplies and a potential further wave of Covid-19 in Europe.	We remain financially strong, which means that we have some protection against adverse market movements. We also regularly monitor our solvency to check that we remain financially strong. As part of the Own Risk and Solvency Assessment (ORSA) we assess the impact on our financial strength in a variety of extreme adverse scenarios to ensure that our solvency would not be compromised.	Low
8 Business Capital	There is a risk that the longer-term effects of Covid-19 will impact on the Society. This is mainly in respect to the impact on our medical segments but does introduce uncertainty into our morbidity and mortality assumptions.	We offer wellbeing support to our long-term claimants and have processes in place to identify and support vulnerable customers. We undertake regular reviews of our claims experience and investigate external opinions in order to estimate the expected future experience.	Low
9 Capital Reputation	Policyholder returns and our financial strength would be negatively affected by falling equity markets or increased equity volatility, or by increased credit spreads held on corporate bonds held by the Society.	Policies and procedures are in place to ensure that our funds are managed in line with risk appetite, including the need to balance risk and return. We review the asset allocation of our funds and the performance of our fund managers on a regular basis, with oversight from the Investment Committee and the Board.	Low

KEY

High	Risk remains high after actions to mitigate. Significant risk to financial strength, reputation of the Society or its ability to provide fair outcomes for our customers
Medium	Risk partially controlled by actions to mitigate. Moderate risk to financial strength, reputation of the Society or its ability to provide fair outcomes for our customers
Low	Risk well controlled by actions to mitigate. Limited risk to financial strength, reputation of the Society or its ability to provide fair outcomes for our customers

VIABILITY STATEMENT

The Society's Board of Directors have 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 next five years. This expectation is based on a thorough understanding and analysis of our long-term risks and the associated risk management processes as set out in the Own Risk and Solvency Assessment (ORSA).

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 48 to 50 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 and challenged by the Risk and Regulatory team, and also a number of first line risk roles that are embedded within operational areas to help promote the risk management culture. Corporate Audit 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 ORSA. This is an annual process where we look at the years 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 analysed 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 three-year business planning period. We also consider longer term capital projections over ten years.

We set our capital risk appetite at a much higher level than the minimum regulatory requirements, in line with our strategy of maintaining financial strength.

"We set our capital risk appetite 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 allow 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 Board. The Society's ORSA includes capital projections over a 10 year period. These incorporate short and medium term strategic plans and, therefore highlight the financial impact of these plans over the next 10 years.

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 12 to 53 was approved by the Board on 31 March 2022 and signed on its behalf by

MARIO MAZZOCCHI
Group Chief Executive

31 March 2022

SECTION 172 REPORTING

PRINCIPAL DECISIONS DURING 2021

Statement by the Directors in performance of their statutory duties in accordance with section 172 (1) of the Companies Act 2006:

Board meetings follow an agenda agreed in advance between the Chair, Chief Executive Officer and Company Secretary. These cover the financial performance of the Society, including updates from the Chief Executive Officer, Chief Financial Officer and Chief Risk Officer, as well as progress on strategic initiatives including around Sustainability, Customer and Product related reports, and People, Culture and Communication matters. The Board receives reports from its sub-committees and reviews its performance after each meeting, as well as annually. The Risk and Audit Committees particularly pay consideration to fair outcomes for customers in their discussions and pay due regard to expectations of our Regulators. The People, Culture and Governance Committee focuses on people and governance matters including such areas as diversity and inclusion and sustainability, considering both outcomes for employees and the wider community. The Remuneration Committee determines remuneration for Executives including determining long term incentives linked to successful delivery of the Society's strategy. The With Profits Committee focuses on the needs of With Profits Policyholders and seeks to independently protect their interests.

Updates on the progress of the Strategic Plan to transform the business were received by the Board throughout the year, this ensured the Board was able to provide challenge and guidance on all key components of the plan.

Summary of decision	Impact	Stakeholder influences	See also
Following a strategic review, the Board took the decision to sell Wesleyan Bank to Hampshire Trust Bank Plc.	▶ Our strategic review found that to enable the Bank to fully maximise its growth opportunities it would need to target more customers who sit outside of our specialist markets and required additional capital investment to do this. The sale, therefore, will best enable both businesses to meet their strategic aims.	▶ From a Society perspective in line with our strategy, we must make choices on how to optimise the resources we have to generate the best returns for members. This decision will enable us to have greater focus on our core customer base.	Pages 10, 15, 19, 24, 49, 62 and 83
An agreement with Novia to place the Society's With Profits Fund on the Novia platform was approved. Previously the fund had only been available through the Society's Specialist Financial Advisers.	▶ This offers greater opportunity to bring investment inflows into the business to help ensure a long-term sustainable future for the Society and its members. This will contribute to profits which are passed on to the Society's members.	▶ This helps to develop optionality in our strategy to make it more diversified and able to withstand changes in the external environment. ▶ This will help build greater scale to ensure the Society can continue to financially support a tailored service to its core members and customers.	Pages 2, 10, 15, 19, 24, 49 and 63
Approval was given to enhance member benefits by adding a new benefit with an element of choice which will be launched in 2022.	▶ This enhances the overall benefit package for members. ▶ Members will have a choice in regard to the new benefit which will be available through our website during 2022.	▶ Extensive research was carried out with current and potential members which showed that they valued an element of choice in the benefits they receive. ▶ A new portal is being developed with customer input and will be designed to offer an enhanced customer experience .	Pages 6, 10 and 63
The Board has received regular updates around the production of Annual Statements in 2021 and has approved an approach to improve the process which will deliver improvements in 2023.	▶ Annual Statement production has improved in 2021 and statements were issued earlier than in 2020, although there were still some issues and more still needs to be done to reduce manual processes and improve timeliness.	▶ Options were explored to use external expertise to supplement and complement inhouse capabilities. ▶ External consultants will be engaged to improve processes around more complex areas of statement production which will deliver improvements in 2023.	Pages 63, 67 and 84

Summary of decision	Impact	Stakeholder influences	See also
Wesleyan's With Profits Fund is our largest and best-selling fund. It has had a historical preference for UK equities although it has started to diversify into overseas markets. The Fund has a great track record but the UK bias impacted relative performance in 2020. As the Fund has recovered in 2021 from the worst impacts of Covid-19 we have taken the opportunity to reassess its asset allocation and the Board has approved some minor changes to its strategy.	▶ The changes will help to diversify the fund over time away from the UK to a more balanced position with a larger holding of global equities.	▶ This change is designed not to increase investment risk for customers but to help increase diversification to protect against adverse conditions impacting the UK, as experienced in 2020.	Pages 13, 15, 24, 28 and 63
Following Board input the Society launched its Sustainable Investing Principles and our carbon neutrality target was brought forward to be carbon neutral for operations by 2023 instead of 2030, with the remainder of emissions being carbon neutral by 2050 at the latest.	▶ Wesleyan has committed to investing in companies that seek to reduce harm, have a positive impact and drive positive change. This has included divesting from investments that do not meet these principles and has been done without negatively impacting on investment returns. ▶ Our Head Office has transitioned to 100% renewable energy and boilers have been replaced for A rated efficiency. ▶ An electric car scheme has been launched for employees.	▶ Research was carried out with customers to understand their views on sustainable investing, this feedback will be repeated on a regular basis so it can be factored into our sustainability ambitions. ▶ Our colleagues feed into our sustainability plans and were consulted before the roll out of our electric car scheme.	Pages 3, 8, 19, 31, 32, 38 and 40 to 47
The Board has endorsed our approach of closely following government guidance on the Covid-19 pandemic during 2021. This included a phased return to our head office during H2 when restrictions allowed. During this time we have continued to engage with customers in the way that best suits them adapting as guidance has changed.	▶ The business has built on what it learnt about remote working in 2020. Specialist Financial Advisers held around 80% of meetings with customers using remote methods in line with their preferences. ▶ 'Smart' working was introduced to our offices in March 2021. This is designed to help colleagues to work in the right locations at the most effective times, based on the needs of our customers, the task, the individual and the team.	▶ Our 'Smart' working approach has been designed in conjunction with our colleagues. Our experience in 2020/2021 has helped catapult us forward to develop better ways of working which recognises that 'one size does not fit all' for colleagues and customers.	Pages 16, 36, 39 and 50
Approved the payment of a Mutual Bonus during 2022.	▶ 1% Mutual Bonus will be applied to investments in the With Profits Open Fund in April 2022.	▶ The Board has considered if payment of a Mutual Bonus in 2022 would be in the long-term interests of policyholders and has concluded that a bonus would be applied from 1 April 2022 subject to no extreme adverse variation in the Society's solvency position before the distribution date.	Pages 1, 6, 11 and 24

OUR GOVERNANCE

SENIOR LEADERSHIP TEAM

MARIO MAZZOCCHI
Group Chief Executive Officer

GILLIAN CASS
Chief Financial Officer

RICHARD HARRISON
Chief Distribution Officer

MARTIN LAWRENCE
Director of Investments

JAMES NEEDHAM
Chief Product Officer

LISA PERKINS
HR Director

DAVID STEWART
Chief Operating Officer

NATHAN WALLIS
Chief of Staff

JONATHAN WELSH
Chief Risk Officer

SELENA PRITCHARD
Company Secretary

OUR BOARD OF DIRECTORS

NATHAN MOSS

Society Chair and Chair of People, Culture and Governance Committee

B D

- Nathan was appointed Chair in January 2018, having joined the Society's Board in July 2017.
- He has more than 40 years' experience in the wealth management, bank and insurance sectors, including with HSBC, Scottish Widows, Lloyds TSB and Friends Life.
- Nathan also currently serves as Non-Executive Director at Canada Life Group where he chairs the group's board risk committee and also serves as a Non-Executive Director of Canada Life Platform Ltd and Chair of Canada Life Home Finance in the UK. He was previously a non executive director at One Savings Bank plc, and Homeserve Membership Ltd.

ANNE TORRY

Senior Independent Director and Chair of the With Profits Committee

B D E

- Anne joined the Board in January 2019. She is Chair of Wesleyan's With Profits Committee and also on the Remuneration and People, Culture and Governance Committees. Anne was appointed as Senior independent Director in January 2022.
- She has more than 30 years' experience of insurance, strategic leadership and change, working internationally in the general insurance, life and savings sectors. Most recently she served as CEO of Zurich UK Life.
- Anne is a Non-Executive Director at Aon UK Ltd and Homeserve Membership Ltd where she acts as Senior Independent Director.

IAN MCCAIG

Non-Executive Director

C F

- Ian joined the Board on 30 September 2019 and was appointed to the Society's Risk Committee. He also serves on the Investment Committee and is Chair of Wesleyan Unit Trust Managers.
- He has worked across a number of sectors, most recently as CEO of First Utility Ltd. He led the company through several years of significant growth before its acquisition by Shell at the end of 2017. Prior to that Ian was CEO of lastminute.com
- Ian is also on the Board of Seedrs Ltd and English Heritage, serving as Chair of the Audit and Risk Committees at both; the Board of M-Kopa where he is Chair of the Operating Committee and is Chair of the Board at Festicket.

ANDREW NEDEN

Chair of the Audit Committee

A C

- Andrew was appointed to the Board in November 2014. He joined the Board of Wesleyan Unit Trust Managers in 2019 and Board of Wesleyan Financial Services in 2021. 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 also chairs the Nottingham Building Society and Aetna Insurance Company Limited, and is chair of the audit, board compliance and remuneration committees as a Non-Executive Director at ABC International Bank PLC. He is also a director/trustee of a number of charities.

PHILIP MOORE

Chair of the Risk Committee

A C E

- Philip joined the Board in October 2020 and has almost 40 years' experience within financial services.
- Until his retirement in 2017, Philip was Group Finance Director for LV=. Prior to this, Philip held a number of roles, including Chief Finance Officer and then Chief Executive Officer at Friends Provident plc. Philip also spent nine years with PwC, where he developed its life actuarial business in the UK.
- Philip serves on the Boards of Scandinavia's third largest non-life insurance company Codan A/S, where he chairs the Audit and Risk Committee. He is also a Non-Executive Director at Skipton Building Society and Bank of Ireland (UK) plc. He is also a governor/trustee of a number of other not for profit organisations.

LINDA WILDING

Chair of the Remuneration Committee and Chair of Investment Committee

A B F

- Linda joined the Board on 1 June 2019 and was appointed Chair of the Remuneration Committee later in the year. Linda became chair of the Investment Committee in December 2021.
- She has extensive experience in the private equity investment and healthcare sectors and worked in the private equity division of Mercury Asset Management from 1989 to 2001.
- She is currently a Non-Executive Director at Unbound Group Plc, BMO Commercial Property Trust Plc and Skagen Conscience Capital. She is also a governor/trustee of a number of other not for profit organisations.

HARPREET SOOD
Non-Executive Director

C

- Harpreet joined the Board in May 2021 and is a member of the Risk Committee and a Board member of Wesleyan Financial Services.
- He is a practicing NHS GP, a board member of Health Education England and an adviser to early-stage digital health companies. He co-founded the NHS Digital Academy, a programme to build leadership digital health and informatics workforce capability in England.
- Harpreet was formally Senior Adviser to Health Technology at Reckitt and a non-executive director at Digital Health London, a network that supports more than 30 digital health companies.

MARIO MAZZOCCHI
Group Chief Executive

F

- Mario became Wesleyan Group CEO on 1 August 2019, having joined Wesleyan in December 2018 as Chief Operating Officer.
- Mario is a member of the Investment Committee and an attendee of the Risk, Audit, Remuneration and People, Culture and Governance Committees.
- He moved from Lloyds Banking Group where he was Chief Operating Officer for the Insurance & Wealth Division having held a number of other senior appointments in the Group.
- Before working at Lloyds, Mario gained extensive experience in different industries, markets and sectors including marketing, sales and strategy.

GILLIAN CASS
Chief Financial Officer

F

- Gillian joined Wesleyan as Chief Financial Officer in October 2020 and has over 20 years of financial services experience.
- She is a member of the Investment Committee and an attendee of the Risk and Audit Committees.
- Gillian joined from M&G Plc where she was CFO of Customer Savings & Investments and Operations. Gillian held a number of senior finance roles at Aviva, including Director of Global Finance Operations, Chief Accounting Officer of Aviva Investors and Chief Accounting Officer of the UK Life business.
- In addition to Finance, Gillian also has accountability for Wesleyan's Company Secretary, Legal, Strategy, Culture and Communications teams.

Key

Membership of Board Committees

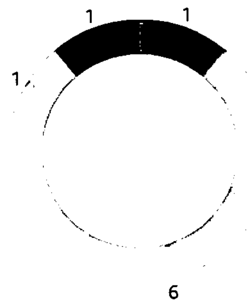
A Audit
B Remuneration
C Risk
D People, Culture and Governance
E With Profits
F Investment

Directors

☐ Non-Executive Directors
■ Executive directors

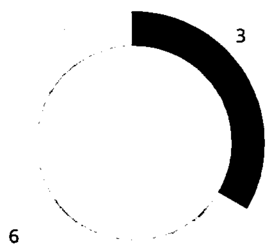
BOARD DIVERSITY

TENURE



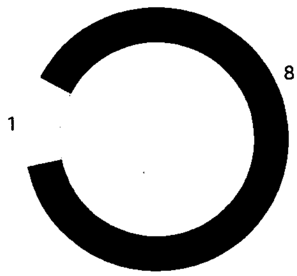
■ 0-1 years
1-3 years
3-5 years
■ 5-7 years
■ 7-10 years

BOARD GENDER MIX



Male
■ Female

ETHNICITY DIVERSITY



Black Asian Minority Ethnic
■ White

→ Further information about the Diversity of our Board and what we are doing about it can be found on p65

CORPORATE GOVERNANCE

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.

There was one area where we did not comply in 2021 concerning the extended tenure of Martin Bryant who served more than 9 years on the Board to help oversee the sale of Wesleyan Bank Limited of which he was Chair.

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.

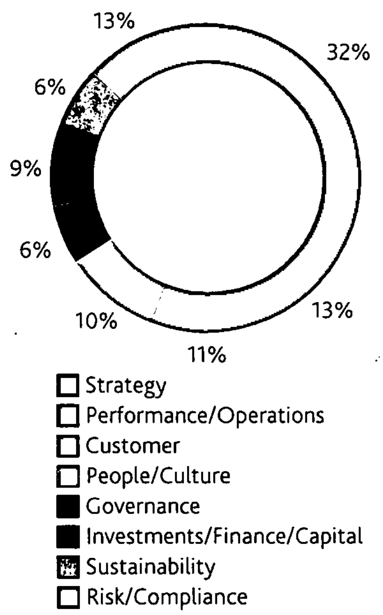
GOVERNANCE BY DIRECTORS

The Board

The Board meets regularly to lead, control and monitor the overall performance of the Society, including high-level consideration of succession planning. The Board regularly assesses the opportunities and risks to the future success of the business, the sustainability of the company's business model and the delivery of its strategy.

Senior management provides the Board with appropriate and timely information and is available to attend meetings and answer questions. The Chief Risk Officer, Head of Internal Audit 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.

Board Focus



Annual Board Evaluation

The Board carries out an annual evaluation of its effectiveness and an internal evaluation was completed in 2020. In 2021, in line with the Corporate Governance Code, an externally facilitated review was commissioned and it was agreed to complete this on a three year rolling cycle which would maintain focus and momentum. In 2022 a light touch approach will be used, with a deeper evaluation being completed in 2023 and support for a self-assessment being provided in 2024. All members of the Board contribute to the evaluations, as do the Chief Risk Officer, the Company Secretary and other members of the Group Executive. In addition, feedback is requested from Board members following each meeting.

Actions resulting from the 2021 Review

Following the 2020 Board Evaluation, an action plan for completion in 2021 was agreed, with progress made in the following areas:

- Board recruitment in 2021 brought positive benefits from increased diversity of skills and insights, in particular, in relation to customer segments and investments. The Board also demonstrated its support for inclusivity and diversity throughout the business.
- Board/customer engagement opportunities were created in 2021.
- Actions in relation to sustainability were accelerated to ensure embedding within the Society's activities. Good progress was made with recognition of the need to maintain momentum.
- Board agendas were refocused on key topics, papers were made more succinct and outcome focused and discussion and challenge facilitated and encouraged.
- The approach to providing education and training to Board members was reviewed and improved to ensure it is focused and timely. Topical training during 2021 covered Technology and Cyber Risk, role of the With Profits Committee, Regulatory matters and Investment Platform Governance.

The Board and its Committees have access to the Chief Product Officer, Chief Actuary, With Profits 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 member profiles are shown on pages 56 to 57. All Directors hold policies with the Society in accordance with the Rules of the Society. The Remuneration Report on pages 68 to 80 explains the basis of remuneration of the Executive and Non-Executive Directors.

Section	Description	Further information
1 Board leadership and company purpose	Wesleyan is led by the Board whose role is to promote its long-term sustainability, generating value for members and contributing to wider society. It is supported in its role by a number of sub-Committees. The Board establishes Wesleyan's purpose, values and strategy and oversees that these and its culture are aligned.	Learn more about the Directors' skills and experience on pages 61 to 63
2 Division of responsibilities	The Board demonstrates objective judgement and promotes a culture of openness and debate. It includes an appropriate combination of executive and independent non-executive directors with a clear division of responsibilities between the leadership of the Board and the executive leadership.	You can read about the division of responsibilities on page 64
3 Composition, succession and evaluation	Appointments to the Board are subject to a formal, rigorous and transparent procedure, and an effective succession plan is in place. Board and Senior Management diversity in all its forms is promoted. The Board and its Committees have the right combination of skills, experience and knowledge.	You can read about the Board's composition, succession and evaluation on page 65
4 Audit, risk and internal control	The Board has procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Society is willing to take in order to achieve its long-term strategic objectives.	You can read more about our approach to risk management on pages 66 to 67
5 Remuneration	There is a formal and transparent process in place for setting executive remuneration and for fixing the remuneration packages of individual Directors. The Remuneration Policy aims to attract, retain and motivate by linking reward to performance.	Read more on our Remuneration policy on page 70

1 BOARD LEADERSHIP AND COMPANY PURPOSE

Wesleyan is led by the Board whose role is to promote its long-term sustainability, generating value for members and contributing to wider society. It is supported in its role by a number of sub-Committees. The Board establishes Wesleyan's purpose, values and strategy and oversees that these and its culture are aligned.

LEADERSHIP STRUCTURE

BOARD OF DIRECTORS

AUDIT COMMITTEE

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).

RISK COMMITTEE

The Risk Committee assists the Board by providing independent oversight of the Group's risk management across all of its subsidiaries and reviews the Society's Own Risk and Solvency Report (ORSA).

INVESTMENT COMMITTEE

The Investment Committee provides oversight of the Society's investment performance and monitors that investments are managed within the agreed investment strategy.

REMUNERATION COMMITTEE

The Remuneration Committee determines the terms of remuneration for Executive Directors and members of the Executive, including short and long-term incentive plans.

PEOPLE, CULTURE AND GOVERNANCE COMMITTEE

The People, Culture and Governance Committee reviews and assesses the structure, size and composition of the Board, the balance of skills, knowledge and experience and nominates candidates to fill Board vacancies. It also oversees matters relating to diversity and inclusion, culture, our people, sustainability and governance.

WITH PROFITS COMMITTEE

The With Profits Committee acts in an advisory capacity to inform the decision making of the Board. The Committee acts as a means by which the interests of the With Profits policyholders are appropriately considered within the Society's governance structure.

CHAIR'S COMMITTEE

The Chair's Committee meets on an ad-hoc basis to consider any matters reserved for the Board, to discuss important matters between scheduled meetings.

BOARD COMMITTEES

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

AUDIT COMMITTEE

Andrew Neden has served as Chair of this Committee from his appointment to the Board with effect from 17 November 2014. The Committee comprises three other Non-Executive Directors. Philip Moore is a member of the Audit Committee and also acts as Chair of the Society's Risk Committee. Philip was previously the Finance Director at LV= and is a Fellow of the Institute of Actuaries. Other attendees include the Group Chief Executive, the Chief Financial Officer, the Chief Product Officer, the Chief Risk Officer and the Head of Corporate Audit. A separate Audit Committee for Wesleyan Bank was established in September 2015 with independent Non-Executive Directors appointed.

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 in place an arrangement 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.

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. Philip Moore was appointed Chair Designate of the Risk Committee in December 2020 before assuming responsibility in February 2021. The Committee comprised three other Non-Executive Directors following the appointment of Harpreet Sood to the Committee in May 2021, 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 Product Officer, the Chief Risk Officer and the Head of Corporate Audit. A separate Risk Committee for Wesleyan Bank was established in September 2015 with independent Non-Executive Directors appointed.

It is the Chair's practice to meet separately with the Chief Risk Officer ahead of most meetings. The Committee's main activities during 2021 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, including the impact of Covid-19 and the Society's transformation plans;
- 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, new products, sustainability and regulatory change.
- Receiving a report from the Chief Risk Officer assessing the impact of the financial risks from climate change and proposing relevant actions to address.

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 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. Priscilla Davies, a non-Board Non-Executive Director, stepped down as Chair in June 2021 and Nathan Moss stepped down as a member of the Committee in March 2021. Anna Troup chaired the Committee in September 2021, with Linda Wilding becoming Chair in October 2021 following her appointment to the Committee in June 2021. The Committee also comprises one other Board Non-Executive Director. In addition, the Group Chief Executive and Chief Financial Officer are members and other attendees include the Chief Product Officer, the Chief Risk Officer and Director of Investments. The Committee's main activities during 2021 included:

- Reviewing the strategy for all funds (including With Profits, Estate and Wesleyan Unit Trust Managers funds) in light of the Board's risk appetite and risk framework, reflecting recommendations from an externally led review of investment strategy;
- Reviewing investment performance and ESG matters using external benchmarks as appropriate;
- Reviewing impacts of market conditions such as the impact on performance from the Covid-19 pandemic and what this might mean for future strategy;
- Considering and examining governance / audit and compliance issues, including the respective roles and responsibilities of Asset Owner and Asset Manager.

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

REMUNERATION COMMITTEE

Linda Wilding was appointed Chair of the Committee in September 2019. The Committee comprised two other Non-Executive Directors during 2021. The Group Chief Executive and the HR Director are 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.

PEOPLE, CULTURE AND GOVERNANCE COMMITTEE

Nathan Moss was appointed Chair of the Committee from 1 January 2018. The Committee comprises two other Non-Executive Directors and the Group Chief Executive, with the Chief of Staff and HR Director also in attendance as required.

The Committee's main activities during 2021 included:

- Regularly reviewing the structure, size and composition of the Board, in particular the balance of skills, knowledge and experience, and considering succession planning for Directors and other Senior Executives. This has been considered particularly in light of the transformation agenda currently underway.
- The Committee has considered progress on developing and implementing initiatives to improve the Society's overall sustainability position.
- The Committee has considered activity to further improve inclusivity and diversity across the Society and the approach to address mental health issues arising from Covid-19. It has also considered the Board Committee governance structure and agreed changes to improve its effectiveness.
- The Committee has considered the current composition of the Board and determined that it continues to be appropriate to the requirements of the business identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise giving due consideration to driving diversity in its broadest sense, including gender, ethnicity, background, skill set and breadth of experience.
- 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.
- The Committee considers whether Directors can be recommended for re-election at the AGM 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, does not chair the Committee when it deals with the matter of succession to his role.

The Committee's Terms of Reference and the terms and conditions of appointment of Non-Executive Directors are available on request and from the Society's website – www.wesleyan.co.uk.

WITH PROFITS 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 2021 were:

- Anne Torry (Committee Chair, Non-Executive Director)
- Philip Moore (Non-Executive Director)
- Andrew Peck (independent external appointee)
- Roy Spragg (independent external appointee)
- Chris Davidson (independent external appointee)
- Paul McNamara (independent external appointee, appointed September 2021)

Priscilla Davies retired from the Committee in July 2021.

Stewart Gracie was appointed as With Profits Actuary from 24 June 2021. Stewart has over 25 years of actuarial experience in the insurance industry.

During the year, the Committee's key activities were 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. During 2021 this included consideration of the sale of the Wesleyan Bank, payment of mutual benefits, and strategies in relation to with profits product proposition, membership and mutuality.

Ultimate responsibility for managing the Open Fund and the MSS Fund rests with the Board. The role of the Committee is, in part, to act in an advisory capacity to inform the decision-making of the Board. The Committee also acts as a means by which the interests of the With-Profits policyholders are appropriately considered within the Society's governance structures. The Committee will address issues affecting With Profits policyholders as a whole or as separately identifiable groups of policyholders. The Committee is not empowered to take management decisions.

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.

CHAIR'S COMMITTEE

The Chair can call an ad-hoc Committee of the Board in exceptional circumstances should approval be needed for a matter reserved for the Board in between scheduled meetings. Where possible the need for a Chair's Committee to be established and its membership, purpose and agreed delegation is agreed by the Board in advance. Details of any actions taken by the Chair's Committee are reported to the next Board meeting, or immediately, if the Chair considers it appropriate. During 2021 meetings were held to oversee the sale of the Wesleyan Bank.

Advisory Board

Wesleyan's Advisory Board is made up from professionals across medical, dental and teaching and includes individuals at various stages of their careers. The Board is very important to us as it is one of the key ways we are able to collate real first hand insight into the challenges, expectations and needs of our chosen professions.

We meet with Advisory Board members on a regular basis as a group and we also work with them individually to use their unique insight as we develop new and existing propositions. As a Mutual with a clear purpose to serve the professions, their insight into their lives and careers allows us to understand how we can better help them and their wider colleagues.

Wesleyan Foundation

For more information on the Wesleyan Foundation please see pages 34 to 35.

For further details on how to apply for a grant visit our website: www.wesleyanfoundation.co.uk

Subsidiary Company Governance

The Society's main.subsidiaries are set out in Note 21 on pages 131 to 133 of these accounts. The Group is managed as far as possible as an integrated whole. Other than for Wesleyan Bank Limited, Wesleyan Financial Services Limited and Wesleyan Unit Trust Managers Limited, the Boards of the Society's subsidiary companies were chaired by a senior executive, with other senior executive colleagues appointed to the particular board relevant to their role.

THE MAIN AREAS DISCUSSED BY THE BOARD IN 2021 WERE:

Section	Description
Strategy	▶ Provided oversight and challenge to strategic plans, reviewing progress and key milestones covering the Society's continued transformation programme. This included consideration of views from the Chief Risk Officer ▶ Reviewed and agreed the proposal for the sale of the Wesleyan Bank ▶ Received updates on the Society's Product Proposition and Distribution Strategies, including proposals to transform the Society's investment product offering ▶ Received reports on Investment Performance including the strategic review of the With Profits Fund strategy ▶ Reviewed and approved the With Profits Product on a third party platform ▶ Received regular reports on progress of the Group's approach on sustainability and carbon neutrality
Customers/ members	▶ Reviewed and approved With Profits bonus rates ▶ Reviewed proposals to develop the membership and mutuality proposition, including rule changes and enhancement of member benefits ▶ Received updates from Advisory Board Members
Finance	▶ Received regular updates on the financial performance of the business ▶ Approved the three year Strategic Plan and 2022 budget ▶ Reviewed and approved the annual report and accounts and related documents, including its subsidiaries ▶ Received reports on the capital management of the business
People/ culture	▶ Discussed and agreed changes to the organisational structure and capabilities required of colleagues to support the Strategy ▶ Reviewed key People metrics including the results of the Employee Opinion Surveys undertaken during the year and the associated actions ▶ Discussed progress to meet the Group's diversity and inclusion targets including supporting bringing targets forward ▶ Received reports on the development and embedding of the Society's culture
Assurance	▶ Received regular updates on the key risks faced by the business and mitigating actions, including in relation to the production of Annual Statements and the Transformation Programme ▶ Reviewed and approved the Solvency and Financial Condition Report ▶ Reviewed and approved the Own Risk and Solvency Assessment Report
Governance/ risk	▶ Held a facilitated risk session on risks to the Strategy, including in relation to sustainability ▶ Received reports from the Board's Sub Committees and subsidiaries ▶ Reviewed and approved the approach to enhance governance over Investments ▶ Discussed progress with the actions from the 2020 Board Effectiveness review covering Board Sub Committees

2 DIVISION OF RESPONSIBILITIES

Committee Membership and Attendance at Meetings

	Society's Board	Audit Committee	Risk Committee	Investment Committee	Remuneration Committee	PCG Committee*	With Profits Committee	Chair's Committee‡
Meetings in the year	9	5	5	4	4	6	6	4
Non-Executive Directors:								
Nathan Moss	9	–	–	1/1	4	6	–	4
Martin Bryant	9	5	–	–	–	6	–	4
Andrew Neden	9	5	5	–	–	–	–	4
Anne Torry	9	–	–	–	4	6	6	4
Linda Wilding	9	5	–	3/3	4	–	–	4
Ian McCaig	9	–	5	4	–	–	–	–
Philip Moore	8	4	5	–	–	–	5	–
Harpreet Sood	7/7	–	2/3	–	–	–	–	–
Anna Troup **	4/4	1/1	–	1/1	–	–	–	–
Executive Directors:								
Mario Mazzocchi	9	–	–	4	–	–	–	4
Gillian Cass	9	–	–	4	–	–	–	4

‡ Chairs Committee to consider the proposed sale of the Wesleyan Bank.

* People, Culture and Governance Committee

** Anna first attended the Board in June 2021 and following the September 2021 meeting it was mutually agreed her appointment would not proceed due to an unforeseen potential conflict of interest.

The Board of Wesleyan Bank Limited was 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 established its own Audit Committee, Risk Committee and Nominations Committee.

The Board of Wesleyan Unit Trust Managers Limited is chaired by Ian McCaig, an independent Non-Executive Director of the Society. Andrew Neden is also a member of the Board.

The Board of Wesleyan Financial Services Limited is chaired by Andrew Neden, an independent Non-Executive Director of the Society. Harpreet Sood is also a member of the Board.

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 an Executive Committee and Transformation Committee to assist him in carrying out his responsibilities. These Committees comprise the Group Chief Executive, Chief Financial Officer, Chief Distribution Officer, Chief Operating Officer, Chief Risk Officer, Chief Product Officer, Director of Investments, HR Director and Chief of Staff and is attended by the Company Secretary and Head of Corporate Audit. Other members of senior management attend as appropriate. The Committees meet regularly to manage business activities and strategic transformation. Papers are prepared and presented to the Board after agreement by the Committees.

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.

3 COMPOSITION, SUCCESSION AND EVALUATION

The Chair

Nathan Moss has held the role of Chair since 1 January 2018.

Executive Directors

There are currently two Executive Directors on the Board, the Group Chief Executive and the Chief Financial Officer.

Non-Executive Directors

There are currently seven 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 2021 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 Board is satisfied that each Non-Executive Director is in a position to devote sufficient time to the role in order to carry out their duties effectively.

The Chair and the Deputy Chair / Senior Independent Director are appointed by the Board. The Senior Independent Director role provides a sounding board for the Chair and serves as an intermediary for the other Directors and stakeholders. Led by the Senior Independent Director, the Non-Executive and Executive Directors meet without the Chair present at least annually to appraise the Chair's performance, and on other occasions as necessary.

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 People, Culture and Governance 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 for Non-Executive Directors, 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.

During 2021, Harpreet Sood was appointed to the Board in May. Anna Troup attended the Board from June to September 2021, but due to emergence of an unforeseen conflict of interest relating to another non-executive position held, it was mutually agreed that her appointment could not proceed.

Board Diversity

- As part of our commitment to diversity we believe in the benefits of having a diverse Board and see increasing diversity at Board level as important to ensure our Board delivers optimum performance. The Board is a place where challenge, support, diversity of thought and teamwork are essential, therefore a diversity of skills, experience, gender, race and personal strengths are an important driver of good decision making by creating different perspectives among our directors and breaking down a tendency towards 'group think'.
- The Board remains committed to ensuring that diversity is taken into consideration in its broadest sense. The Chair leads the Board Diversity agenda and sets measurable objectives to continuously improve diversity, including the gender and ethnic background balance.
- The Chair has signed up to the 30% Club and has committed to 33% of top roles, Board, Executive and Senior Management to be filled by women by 2022. The Society is currently at 33.8% against the target. Similarly, we have agreed a target for 15% of the senior leadership population to be from a Black, Asian, Minority Ethnic (BAME) background by 2022. In 2021 we were are 8.6%. One of the appointments to the Board in 2021 was from a BAME background.
- The People, Governance and Culture Committee has assisted in encouraging a diverse range of candidates by introducing a Diversity Commitment Charter which sets our diversity requirements. We only work with external recruitment partners who are aligned to these requirements. We have also implemented improved reporting from partners on diversity metrics.
- The search briefs provided have placed emphasis on diversity of skills and background and have included searching in a wider pool to identify diverse talent.
- The Board continues to encourage development of a pipeline of high-calibre candidates by encouraging a diverse range of high performing individuals within the business to take on activities to gain Board experience. This has included opportunities to present at Board and meet with Board members.
- The Board has received presentations from and attended meetings with the Society's Employee Networks and Partnership Council during the year.

4 AUDIT, RISK AND INTERNAL CONTROL

Control Environment

The Society is committed to the highest standards of business ethics and conduct and seeks to maintain these standards across 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 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, led by the Group Chief Executive, which consider significant risk and control issues as part of their remit;
- 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 pandemic, cyber attack 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 & Data Protection Officer who has oversight of the compliance with the FCA's/PRA's business standards and Data Protection requirements 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 operations 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 budget and Strategic Plan 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 financial advice 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 on pages 105 to 111 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, most notably in relation to actuarial matters 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.

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 Corporate 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. During 2021 the Audit and Risk Committees have received internal and externally sourced reports detailing the issues within the annual statements production process, annuity payments and IT general controls. The Society takes the addressing of such issues extremely seriously. The Committees have and will continue to provide close oversight over enhancements to controls to ensure the timely and accurate production of annual statements, annuity payments and over enhancement of IT general controls.

Stakeholder 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 Annual General Meeting, the members of the Board are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration. In compliance with the 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**.

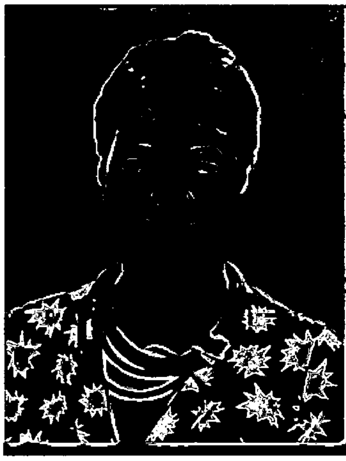
Going Concern

Under the UK Corporate Governance Code the Directors are required to state whether the business is a going concern for the 12 months from the signing date. In considering this requirement, the Directors have:

- Reviewed and 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.
- Considered the results of stress and scenario testing within the Own Solvency and Risk Assessment (ORSA), which covers a wide range of scenarios to thoroughly test the Society's resilience to severe events. This testing showed the Group to be well placed to withstand these scenarios.
- The ORSA provides assurance to the Board that the going concern basis of accounting remains appropriate and the following points are highlighted as key considerations for directors when approving the going concern basis of accounting:
  - Solvency: The Society has remained solvent throughout 2021 and the Group's Solvency Ratio was 306% as of 31st December 2021. Financial projections demonstrated the ability of the Society to withstand market shocks in a range of scenarios, including very severe ones. Specifically, the Board considered solvency projections that incorporated an estimated view of an economic downturn. The projections demonstrated that excess capital would remain in the Group in the going concern period to 31 March 2023;
  - Liquidity: Financial projections highlighted that the Society's liquidity was adequate to meet the liabilities as they fell due in the going concern period to 31 March 2023; and,
  - Operational Resilience: The Society has procedures to ensure the resilience of the Society to adverse events including business continuity plans, disaster recovery procedures and cyber resilience controls. Operational issues and working practices are kept under constant review to ensure they remain resilient.

Having carried out this assessment, and after making appropriate enquiries, the Directors confirm that they consider that the Society has adequate resources to continue in operation for the period to 31 March 2023 and it is appropriate to prepare the financial statements on a going concern basis.

DIRECTORS' REMUNERATION REPORT



> "The decisions taken by the Remuneration Committee have been taken to underpin and reward the continued strong progress towards our strategy and the requirement to retain and motivate talent in a competitive market."

LINDA WILDING
Chair of the Remuneration Committee

Dear Member,

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report. The report aims to set out simply and transparently how the Remuneration Committee addressed its responsibilities during the year and to explain the rationale for decisions made in 2021.

This year has seen the continued implementation of our transformation plan which has resulted in a much stronger financial performance. The decisions taken by the Remuneration Committee have been taken to underpin and reward the continued strong progress towards our strategy and the requirement to retain and motivate talent in a competitive market.

SALARY INCREASES FOR 2022

The Remuneration Committee has determined that the 2022 base salary increase for the Executive Directors will be 5% for the Group Chief Executive and 4% for the Chief Financial Officer. This is in line with our wider workforce, the salary increases will be implemented with effect from 1 April 2022.

The Non-Executive Directors' fees will be increased by 10% with effect from 1 April 2022. This increase includes the second tranche of the scheduled increase of 7.25% which was deferred from 2021 and an increase of 2.75% for 2022. The Chair will receive an increase of 17.65% for 2022, no increase was received in 2020 or 2021. These increases reflect the complexity and time commitment required and ensures that the fees and salary are competitively positioned in line with the market benchmark data provided by Deloitte.

ANNUAL BONUS OUTCOMES FOR THE YEAR ENDED 31 DECEMBER 2021

The Remuneration Committee considers the reward package of the wider workforce when determining the Directors' remuneration for the year.

Under our annual bonus plan, performance is assessed using a balanced scorecard for both Society and individual performance measures including customer, financial, employee, strategic and ESG metrics. The scorecard is underpinned by both conduct risk and individual behaviour considerations and 50% is deferred for three years.

The maximum annual bonus possible in 2021 for the Executive Directors was 78.75% of base salary. Assessed against the balanced scorecard and individual performance the bonus out turn for 2021 has been strong. The bonus amounts earned for 2021 are 55% of salary for Mario Mazzocchi and 55% of salary for Gillian Cass. Further details are set out on page 72.

LONG-TERM INCENTIVE PLANS (LTIP)

We believe that participation in our cash settled LTIP continues to align the rewards received with the performance delivered for our customers and the long-term financial stability of the Society.

The maximum annual value of the LTIP awards that can be earned is 100% of salary for the Group Chief Executive and 75% of salary for the Chief Financial Officer. LTIP awards are subject to targets and outcomes which are assessed over a three year performance period. In line with best practice, the LTIP awards are subject to a further two year holding period such that participants are only entitled to be paid the value of vesting LTIP awards after a period of five years in total.

2020 LTIP

Due to the ongoing market uncertainty in 2020, during the global pandemic, the 2020 LTIP had three separate sets of performance conditions. The first tranche in 2020 has vested in part and the second tranche for 2021 will also vest in part. The final tranche of the 2020 LTIP will be based on 2022 performance. The results of this LTIP will be confirmed in 2023.

2021 LTIP

2021 LTIP awards will only be payable if stretching financial and non-financial performance targets are delivered over the three year performance period starting on 1 January 2021. The 2021 targets are designed to reward delivery of the Society's strategy and are detailed on page 78.

APPLICATION OF OUR REMUNERATION POLICY IN 2022

The Remuneration Committee are currently reviewing bonus parameters against the market.

STRUCTURE OF THE REPORT

This report has been structured broadly in line with the remuneration disclosure requirements which apply to UK companies listed on the main market of the London Stock Exchange. 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 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 and applying our policy for the future.

I hope that you will support this resolution.

Yours sincerely,

LINDA WILDING
Chair of the Remuneration Committee

ROLE OF THE REMUNERATION COMMITTEE

The role of the Remuneration Committee is to ensure that the Board and Group Executive Committee are appropriately rewarded for their performance throughout the year, by setting and implementing the Society's Remuneration Policy, determining each Executive Director's individual remuneration package and setting the performance measures for performance-related pay.

These decisions are carefully considered in the context of the Society's strategic goals, culture, external impacts, market practice and wider workforce remuneration.

The Remuneration Committee's role is to ensure that remuneration and incentives adhere to the principles of good corporate governance, support robust risk and conduct management practice, promote long-term sustainable Society performance and Environmental, Social and Corporate Governance.

Bonus and LTIP out turns are also assessed through an Equality, Diversity and Inclusion lens.

REMUNERATION POLICY

5 REMUNERATION PHILOSOPHY

The overarching principles of our approach to executive remuneration are:

PRINCIPLE 1	PRINCIPLE 2	PRINCIPLE 3	PRINCIPLE 4
Competitive remuneration which is sufficient to recruit, motivate and retain senior leaders of the calibre required to lead the Society successfully.	Aligned with our current financial performance, promotes robust conduct risk management, good customer outcomes and desired employee behaviours.	Support our business strategy and the long-term security for our members, customers, employees and other stakeholders.	Ensure our arrangements are transparent, understandable, fair, reasonable and proportionate.

MEMBER ENGAGEMENT

The Directors' Remuneration Report (supported by more than 96% of our members at the last AGM) will be subject to an advisory vote at our 2022 AGM. The Directors Remuneration Policy was supported by over 93% of those voting at the 2020 AGM. In line with the regulations for listed organisations the Remuneration Policy will be subject to an advisory vote at the AGM every three years, or earlier if there is a significant policy change.

REMUNERATION POLICY TABLE

Element	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary	To attract and retain high performing individuals to lead the Society.	Base salary is reviewed annually, or more frequently if there is a significant change in an individual's role or responsibilities. Any decision on base salary is influenced by a range of factors including but not limited to: ▶ level of experience; ▶ Society affordability and performance; ▶ ability to attract/retain/motivate; ▶ pay awards for the wider workforce; ▶ prevailing market conditions; and, ▶ periodic external benchmark data	There is no maximum base salary. Increases in base 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; 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 structure.	Benefits currently provided are: ▶ a car allowance ▶ private medical cover for the individual and their family; ▶ medical assessment; ▶ group product discounts (available to the wider workforce and directors on the same terms); and, ▶ death in service benefit of 4x pensionable base salary (8x for employees who joined prior to 1 October 2021)	There is no restriction on the benefits provided and other benefits may be added if considered appropriate. However, the cost of these benefits are taken into account in assessing affordability.	N/A

Element	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Pensions	To provide post-retirement benefits in a cost-effective manner.	All Executive Directors are either a member of the Society's pension scheme or if they are in excess of the Annual or Lifetime Allowance they receive a cash allowance.	Pension scheme: The Society contributes up to 10% of base salary. If a cash allowance is paid the amount paid is reduced to allow for the cost of employer's National Insurance Contributions. The Society regularly reviews pension benefits for Directors taking account of tax and legislative changes.	N/A
Annual bonus	To ensure that there is an appropriate incentive for Executive Directors to meet the annual objectives of the Society.	Individual performance evaluations for bonus are recommended by the Group Chief Executive following a similar procedure applied to the wider workforce 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 desired behaviours and strategic goals, engendering robust risk, conduct and compliance management and customer outcomes. Performance evaluation of the Group Chief Executive is recommended by the Society's Chair with input from other Non-Executive Directors. 50% of any bonus earned is deferred. Any deferred amounts will be paid in three equal tranches after one, two and three years. Variable pay is subject to malus and clawback provisions.	Overall cash payment of: ▶ 35% of base salary if both the Society and individual perform on target; and, ▶ a further 43.75% of base 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 ISA 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 strategic metrics. The Remuneration Committee may increase or decrease pay-outs based on the evaluation of personal behaviours and any risk, conduct, compliance or other concerns.
LTIP	To strengthen the link between the rewards received for the performance delivered for our members and the long-term financial stability of the Society.	Any payment will be made in cash, net of relevant taxes. The awards will vest following the assessment of the relevant performance conditions which will, normally, be assessed at the end of a three year performance period and then will be subject to a further holding period of two years. The Remuneration Committee may adjust pay-outs based on the evaluation of personal behaviours and any conduct risk, compliance or other concerns. LTIP awards will be subject to malus and clawback provisions up to the end of the holding period.	The maximum award is 100% of base salary. For awards granted in 2022, the maximum award for the Group Chief Executive will be 100% of salary and 75% of salary for the Chief Financial Officer. All LTIP payments are subject to approval by the Remuneration Committee and are non-pensionable.	LTIP awards will be subject to financial and non-financial measures that are aligned to the Society's strategy. Vesting of any LTIP award will be subject to satisfactory overall conduct risk and performance. Awards will vest at 25% of maximum for threshold performance, rising with linear progression to full vesting at stretch target.

The Remuneration Committee may vary or substitute any performance targets for the annual bonus or LTIP if an event occurs which causes it to determine that it would be appropriate to do so, provided that any such variation or substitution is fair and reasonable and (in the opinion of the Remuneration Committee), the change would not make the condition less demanding than the original condition would have been but for the event in question.

REMUNERATION POLICY CONTINUED

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

Our Remuneration Policy, which was approved by members at the 2020 AGM, was developed based on the key principles outlined on page 70. Our Remuneration Policy continues to be applied in a measured way to ensure that we reward the right performance contribution and behaviours and support the short-term and long-term strategic goals of the Society. The table below summarises the application of the Directors' Remuneration Policy for 2022.

The Remuneration Committee is not considering any material changes to our Remuneration Policy during 2022. We will continue to monitor the effectiveness of our policies to ensure they support the Society and the long-term interests of our customers, members and other stakeholders.

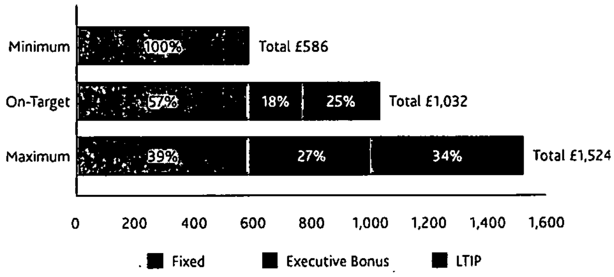
Pay element	Approach	Mario Mazzocchi	Gillian Cass	Change from 2021
Fixed pay	Base salary	£525,000 (effective 1 April 2022).	£291,200 (effective 1 April 2022)	5% for Mario Mazzocchi 4% for Gillian Cass
	Pension	10% of salary in line with wider workforce	10% of salary in line with wider workforce	No change
	Benefits	Car allowance, private medical, medical assessment, group product discount and death in service	Car allowance, private medical, medical assessment, group product discount and death in service	No change
Variable pay linked to performance	Annual bonus	35% on target to maximum 78.75% of salary	35% on target to maximum 78.75% of salary	The Remuneration Committee are currently reviewing bonus parameters against the market
		Balanced scorecard based on Society and individual performance	Balanced scorecard based on Society and individual performance	No change
		50% deferred for three years paid in annual tranches	50% deferred for three years paid in annual tranches	No change
	LTIP	Maximum 100% of salary	Maximum 75% of salary	No change
		Three year performance period	Three year performance period	No change
		Two year holding period	Two year holding period	No change
		Conduct risk underpin	Conduct risk underpin	No change

ILLUSTRATION OF REMUNERATION POLICY FOR 2022

The charts below illustrate the amounts that Executive Directors would be paid in respect of 2022 under three different performance scenarios:

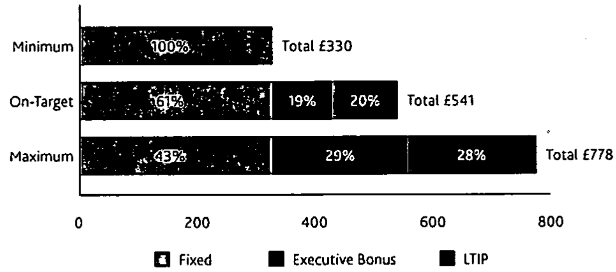
Mario Mazzocchi

Percentages/Amounts (£000's)



Gillian Cass

Percentages/Amounts (£000's)



Minimum performance	Fixed elements of remuneration only — base salary, benefits and pension
On target performance	Annual Bonus: For illustrative purposes all Executive Directors have been assumed to be paid the same level of variable pay (35% of base salary), the actual amount payable to each Director would depend on the Remuneration Committee's evaluation of individual performance. LTIP: For illustrative purposes we have assumed 50% achievement of maximum LTIP potential for both the Group Chief Executive and for the Chief Financial Officer.
Maximum performance	Annual bonus: For illustrative purposes all Executive Directors have been assumed to be paid the same level of bonus (78.75% of base salary) assuming both the Society and individual have performed at stretch performance. LTIP: 100% of the maximum LTIP opportunity has been shown (100% of salary for the Group Chief Executive and 75% of salary for the Chief Financial Officer).

REMUNERATION POLICY CONTINUED

REMUNERATION POLICY FOR THE CHAIR AND NON-EXECUTIVE DIRECTORS

Element	Approach of the Society
Principles	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.
Fees	Non-Executive Directors' remuneration comprises a base fee and additional amounts for Committee work, including a role of Chair and a specific fee for the role of Senior Independent Director.
Benefits	No bonuses, pension or other benefits are provided to Non-Executive Directors other than Group product discounts which are available to the wider workforce and Directors on the same terms and reimbursement of travel and other expenses whilst on Society business.

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. 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 Senior Independent Director and three months for other Non-Executive Directors.

REMUNERATION POLICY FOR THE WIDER WORKFORCE

In setting the 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.

Employees are engaged through the Partnership Council, information cascades and the Employee Opinion Survey (EOS). The wider workforce have not been consulted on the content of the Remuneration Policy statement, but the overall pay review process has been communicated and feedback sought through employee cascades and communicated to the Executives and the Board. Feedback is gathered regularly on Reward through the EOS.

During 2021 we reviewed our reward framework including our job families and salary ranges. This review included the introduction of Market Anchor Points to obtain more granularity on market rates for roles within the Society to ensure we remain competitive.

In addition, our entry salary level is paid at least in line with the real Living Wage.

REMUNERATION POLICY FOR NEW APPOINTMENTS

Remuneration packages for new appointments will comply with the pay policy set out in this report.

Additional awards may be made when hiring new appointments 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 targets 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.

REMUNERATION POLICY FOR TERMINATION OF SERVICE CONTRACTS AND PAYMENTS FOR LOSS OF OFFICE

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

Element of remuneration	Policy
Notice period	Up to twelve months.
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 usually be limited to no more than one year's base salary plus benefits in kind. Benefits may also be provided in connection with termination of employment and may include, but are not limited to, statutory payments, outplacement, legal fees and payments in respect of accrued holiday.
Annual bonus	**LEAVERS DURING THE ANNUAL BONUS PERFORMANCE YEAR** Awards may ordinarily only be paid to individuals that remain an employee, however, the Remuneration Committee has the discretion to determine an appropriate bonus amount taking into consideration the circumstances of the leaver. No bonus award will be paid unless the leaver is determined to be a 'good leaver'. For a 'good leaver' the Remuneration Committee has the discretion to grant awards on such basis as it deems appropriate (this could include pro-rating for time and performance). Awards may be paid at the Remuneration Committees discretion in line with the deferral schedule or on cessation of employment. **UNPAID DEFERRED BONUS PREVIOUSLY AWARDED** Unless determined as a 'good leaver' unpaid deferred bonus awards will lapse upon cessation of employment. For a 'good leaver' awards will typically be paid in full on the scheduled date. **MALUS AND CLAWBACK** The Remuneration Committee may decide that elements of bonus should be paid back subject to claw back 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.
LTIP	**LEAVERS DURING THE THREE YEAR PERFORMANCE PERIOD** Unless determined as a 'good leaver' unvested LTIP awards will lapse upon cessation of employment. **GOOD LEAVERS DURING THE THREE YEAR PERFORMANCE PERIOD** In a limited number of circumstances, a leaver may be determined by the Remuneration Committee to be a 'good leaver'. Awards to 'good leavers' will normally vest to the extent determined by reference to the performance targets and the proportion of the performance period that has elapsed at cessation of employment. LTIP awards will then be paid at the end of the holding period. In exceptional circumstances the Remuneration Committee retains the discretion to waive any of the conditions for a 'good leaver'. **LEAVERS DURING THE TWO YEAR HOLDING PERIOD** If an employee ceases employment following the end of the three year performance period but before the end of the two year holding period, the vested LTIP award will be paid in line with regulation requirements and scheme rules.
'Good leaver'	A 'good leaver' for the purposes of the variable pay will be any employee 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 Remuneration Committee so decides.

The Remuneration Committee reserves the right to agree 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.

ANNUAL REPORT ON REMUNERATION

REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2021

Single Figure of Remuneration for Each Director

The remuneration of the Directors of Wesleyan Assurance Society for the year ended 31 December 2021 and the previous year is set out in the tables below.

Director	Base salary/ fees	Benefits	Pension Contributions	Bonus		Long-term incentives	Sub-total-ongoing	Other	Total Remuneration
				Cash	Deferred				
Year ended 31 December 2021, £'000									
Executive									
Mario Mazzocchi	500	14	44	137.5	137.5		833		833
Gillian Cass	280	12	25	77	77		471		471
Non-Executive									
Nathan Moss (Chair)	128						128		128
Martin Bryant (SID)	84						84		84
Andrew Neden	56						56		56
Anne Torry	56						56		56
Linda Wilding	56						56		56
Iain McCaig	56						56		56
Philip Moore	56						56		56
Harpreet Sood (joined May 2021)	34						34		34
Total	**1,306**	**26**	**69**	**214.5**	**214.5**		**1,830**		**1,830**
Year ended 31 December 2020 £'000									
Executive									
Mario Mazzocchi	492	14	43	0	0		549		549
Ahmed Farooq (left 31 December 2020)	275	12	36	0	0		323	523	846
Gillian Cass (joined 19 October 2020)	57	2	5	0	0		64	98	162
Non-Executive									
Nathan Moss (Chair)	128						128		128
Martin Bryant (SID)	80						80		80
Nigel Masters (left 31 December 2020)	53						53		53
Andrew Neden	53						53		53
Anne Torry	53						53		53
Linda Wilding	53						53		53
Ian McCaig	53						53		53
Phillip Moore (joined 1 November 2020)	9						9		9
Total	**1,306**	**28**	**84**	**0**	**0**		**1,418**	**621**	**2,039**

Notes:

Anne Torry was appointed as Senior Independent Director ("SID") from 1 January 2022.

Ahmed Farooq stepped down from the Board with effect from 31 December 2020 and the termination payments received are detailed in the 2020 report. In line with the member approved Remuneration Policy, all outstanding incentives will continue to be retained and will be paid at the scheduled time.

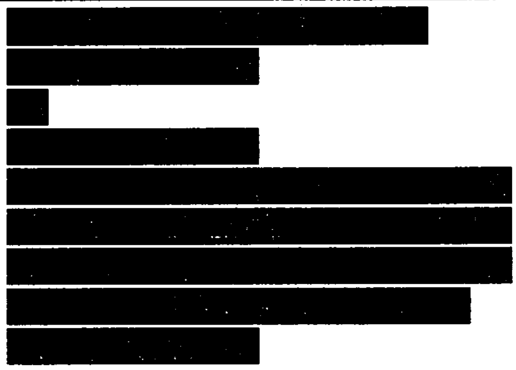
Mario Mazzocchi took up a Non-Executive Director role for Vita Gem in September 2021, he received no payments for this role in 2021.

The Non-Executive Directors' fees will be increased by 10% with effect from 1 April 2022. This increase includes the second tranche of the scheduled increase of 7.25% which was deferred from 2021 and an increase of 2.75% for 2022. The Chair will receive an increase of 17.65% for 2022, no increase was received in 2020 or 2021. These increases reflect the complexity and time commitment required and ensures that the fees and salary are competitively positioned in line with the market benchmark data provided by Deloitte. The SID role is inclusive of an additional fee of £28,487 per annum in 2022. There will be no increase to the inclusive fee payable to the SID for 2022.

2021 ANNUAL BONUS AWARD

The maximum annual bonus possible in 2021 for the Executive Directors was 78.75% of base salary. The bonus amount is based on the results achieved through the Balanced Scorecard (BSC) for 2021 and individual performance. The targets set were aligned to the budget and support the three year plan. 8 of the 9 targets were achieved which resulted in a bonus payment of 55% of salary for Mario Mazzocchi and 55% of salary for Gillian Cass. These results reflect the strong financial performance achieved in 2021.

Strategic Priority	Weighting	Performance Measure	Below Target	At Target	At Stretch
Life Long partner	25%	Customer Numbers			
		Products per Customer			
		Net Investment Inflows			
Mutuality with Edge	50%	Cost Reduction			
		Operating Profit			
		Income			
		Direct Sales			
Brilliant to do business with	25%	Employee Opinion Survey (EOS)			
		Customer Index			



BONUS PAYMENTS DEFERRED FROM PREVIOUS YEARS

The following table sets out the amounts paid in respect of the outstanding deferred variable pay awards. 50% of the historical bonus is deferred and paid in equal tranches over the following three years. The value is adjusted to reflect the movements in the Society's ISA With Profits Fund. The performance of the ISA With Profits Fund for 2021 was 10.99%.

Bonus Period	Payable	Mario Mazzocchi		Gillian Cass	
		Current (£)	Original (£)	Current (£)	Original (£)
2018 Deferred 3	March 2022	23,529	21,350	n/a	n/a
2019 Deferred 2	March 2022	29,652	28,464	n/a	n/a
2019 Deferred 3	March 2023	29,652	28,464	n/a	n/a
2020 Deferred 1	March 2022	0	0	16,333	16,333
2020 Deferred 2	March 2023	0	0	16,333	16,333
2020 Deferred 3	March 2024	0	0	16,333	16,333
2021 Deferred 1	March 2023	45,833	45,833	25,667	25,667
2021 Deferred 2	March 2024	45,833	45,833	25,667	25,667
2021 Deferred 3	March 2025	45,833	45,833	25,667	25,667

Mario Mazzocchi's deferred bonus for 2018 represents payments made to compensate for bonus forfeited from his previous employment of which 50% has been deferred over three years (payable in 2020, 2021 and 2022) and is subject to performance of the ISA With Profits Fund and malus and clawback conditions.

Gillian Cass' deferred bonus for 2020 represents payments made to compensate for bonus forfeited from her previous employment of which 50% has been deferred over three years (payable in 2022, 2023 and 2024) and is subject to malus and clawback conditions.

ANNUAL REPORT ON REMUNERATION CONTINUED

LTIP AWARDS

2020 LTIP

The 2020 LTIP has 13 participants. In response to market uncertainties and the impact of the pandemic the Remuneration Committee decided uniquely that the 2020 LTIP had three separate sets of annual targets, rather than a continuous three year period. This arrangement meant meaningful and robust measures and targets could be established. Based on the performance against a balanced scorecard of measures designed to deliver the Society's strategy, the first tranche of the 2020 LTIP has vested in part and the second tranche will vest in part. The tranches will continue to be subject to a conduct risk underpin. The final tranche of the 2020 LTIP will be based on 2022 performance. An indication of performance against the targets for tranche 3 will be disclosed in next year's Directors' Remuneration Report with the final vesting amounts for each tranche confirmed.

2021 LTIP

The 2021 LTIP has 15 participants. The 2021 LTIP awards will only be payable if stretching financial and non-financial performance targets are delivered over the three year performance period starting on 1 January 2021.

2022 LTIP

The 2022 LTIP has 18 participants. The measure and weighting will be consistent with the 2021 LTIP measures. However, the ESG performance condition will be measured against a carbon reduction target.

<table>
<tr><th>Strategic Priority</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th><th>2024</th><th>2025</th><th>2026</th></tr>
<tr><td rowspan="2">2020 LTIP</td><td>Tranche 1: On track to vest based on 2020 performance</td><td>Tranche 2: On track to vest based on 2021 performance</td><td>Tranche 3: Will be assessed based on 2022 performance</td><td colspan="2" rowspan="2">Payment will be paid at the end of the two year holding period</td><td colspan="2" rowspan="2"></td></tr>
<tr><td colspan="3">Risk underpin assessed over three years 1 January 2020 to 31 December 2022</td></tr>
<tr><td>2021 LTIP</td><td></td><td colspan="3">2021 LTIP awards will only be payable if stretching financial and non-financial performance targets are delivered over the three year performance period starting on 1 January 2021</td><td colspan="2">Payment will be paid at the end of the two year holding period</td><td></td></tr>
<tr><td>2022 LTIP</td><td colspan="2"></td><td colspan="3">2022 LTIP awards will only be payable if stretching financial and non-financial performance targets are delivered over the three year performance period starting on 1 January 2022</td><td colspan="2">Payment will be paid at the end of the two year holding period</td></tr>
</table>

The weighting of the elements of the performance targets for the 2020, 2021 and 2022 LTIPs are summarised in the table below. All participants are measured against the same targets.

		2020 Tranche 1	2020 Tranche 2	2020 Tranche 3	2021	2022
Life long partner	Customer Numbers	7.50%	7.50%	15%	15%	15%
	Product Penetration	7.50%				
	Assets under Management		7.50%	15%	15%	15%
Brilliant to do business with	Customer Attrition	5%	5%	10%	10%	10%
	Culture / EOS	10%	10%	10%	10%	10%
Mutuality with edge	Cost Income Ratio	10%	10%	20%	15%	15%
	Return on Capital	10%	10%	20%	15%	15%
Diversity and Inclusion	Gender and Ethnicity	-	-	10%	10%	10%
Environmental	Sustainability				10%	10%
Transformation		50%	50%			
Total		100%	100%	100%	100%	100%

PAYMENTS TO FORMER DIRECTORS IN 2022

In line with the disclosures made in previous Directors' Remuneration Reports:

- Craig Errington received a payment of £38,288 in respect of outstanding deferred bonus awards, following his departure from the Society on 31 December 2019.
- Ahmed Farooq received a payment of £15,496 in respect of outstanding deferred bonus awards, following his departure from the Society on 31 December 2020.

No other payments have been made to former Directors for 2021 other than retirement benefits.

TABLE OF HISTORIC GROUP CHIEF EXECUTIVE DATA FOR THE LAST 10 YEARS

Year	CEO salary (£'000)	CEO Single figure of remuneration (£'000)	Annual bonus pay out against maximum opportunity (%)	LTIP vesting rates against maximum opportunity (%)
2021 (Mario Mazzocchi)	**500**	**833**	**70**	**-**
2020 (Mario Mazzocchi)	**492**	**549**	**0**	**-**
2019 (Mario Mazzocchi) [1]	**466**	**720**	**54**	**n/a**
2019 (Craig Errington) [2]	**502**	**807**	**55**	**n/a**
2018	492	674	0	59
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

1 Remuneration pro-rated to full year in role as Group CEO
2 Based on full year in role

PAY RATIOS

The following illustrates the pay ratio between the Group Chief Executive and the wider workforce.

YEAR	METHOD	PERCENTILE 25th	Median	75th
2021	Mirroring approach to CEO single figure	29.12:1 £833,028:£28,607	18.07:1 £833,028:£46,103	11.94:1 £833,028:£69,780
2020		20.1:1 £548,958:£27,284	12.6:1 £548,958:£43,668	8.8:1 £548,958:£62,624
2019*		26.7:1 £720,273:£26,953	17.1:1 £720,273:£42,225	11.4:1 £720,273:£63,101

*During 2019, there was a change in CEO. Mario Mazzocchi's remuneration (including bonus and pension) on becoming CEO was pro-rated up as if he had been in the role for a full year.

PERFORMANCE AND VARIABLE PAY

We have recently introduced performance pay for the 2022 annual pay review process for the wider workforce. Individual performance is assessed using the behaviour indicators and individual objectives. Senior Leaders have been provided with a 5% salary pot to make their pay recommendations. The increases awarded have been between 0% and 19% with an average increase of 5.10% being awarded, increases have also been reviewed through a gender and ethnicity lens. We have also continued our work on closing the gender pay gap and have increased female representation at Senior Leader level. There has also been focus on increasing the Black Asian Minority Ethnic (BAME) representation at the Senior Leader level and across the Society. All Senior Leader grades and above will have an Equality, Diversity and Inclusion (ED&I) objective set for 2022 to ensure that we are continuing our Environmental, Social Governance (ESG) work.

The bonus scheme multiplier for the annual Wesleyan Employee Bonus Scheme has paid out in full for 2021 due to the Operating Profit target being exceeded, this has resulted in employee bonus payments being increased by 1.5x.

A new one-off additional bonus scheme for 2022 only has been introduced for all employees (excluding Executives) and the aim of the bonus is to reward employees for their work in achieving the transformation plans during the year. The bonus is based on one measure from the Group BSC and one from the LTIP, it will only be paid in March 2023 if the targets are met.

ANNUAL REPORT ON REMUNERATION CONTINUED

RELATIVE IMPORTANCE OF SPEND ON PAY

Pay is a significant element of Society expenditure, representing 57% (2020: 53%) of operating expenses of the group.

	2021 (£m)	2020 (£m)	Change (%)
Expenses of the group (net operating expenses and investment expenses and charges)	183.4	177.4	(3.4)
Overall expenditure on pay	105.8	94.8	(11.6)

REMUNERATION COMMITTEE MEMBERS AND ADVISERS

The members of the Remuneration Committee are all independent Non-Executive Directors of the Society. During the year the Remuneration Committee members were Linda Wilding (Chair), Nathan Moss (Society Chair) and Anne Torry.

The Remuneration Committee was supported during the year by the HR Director 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. Benchmarking data has been received from Willis Towers Watson to support remuneration decisions. 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 Remuneration 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 £7,000 for Deloitte.

STATEMENT OF VOTING AT 2021 ANNUAL GENERAL MEETING

The following table sets out the number of votes for, against and abstentions for the advisory vote on the Directors' Remuneration Annual Report on Remuneration at the Society's AGM held in May 2021.

Resolution text	**Votes for**	**Votes against**	**% For**	**Withheld**
To receive the Directors' Remuneration Report — advisory vote only	3,607	150	96	90

L Wilding

LINDA WILDING
Chair of the Remuneration Committee

31 March 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 and FRS 103 "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 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:

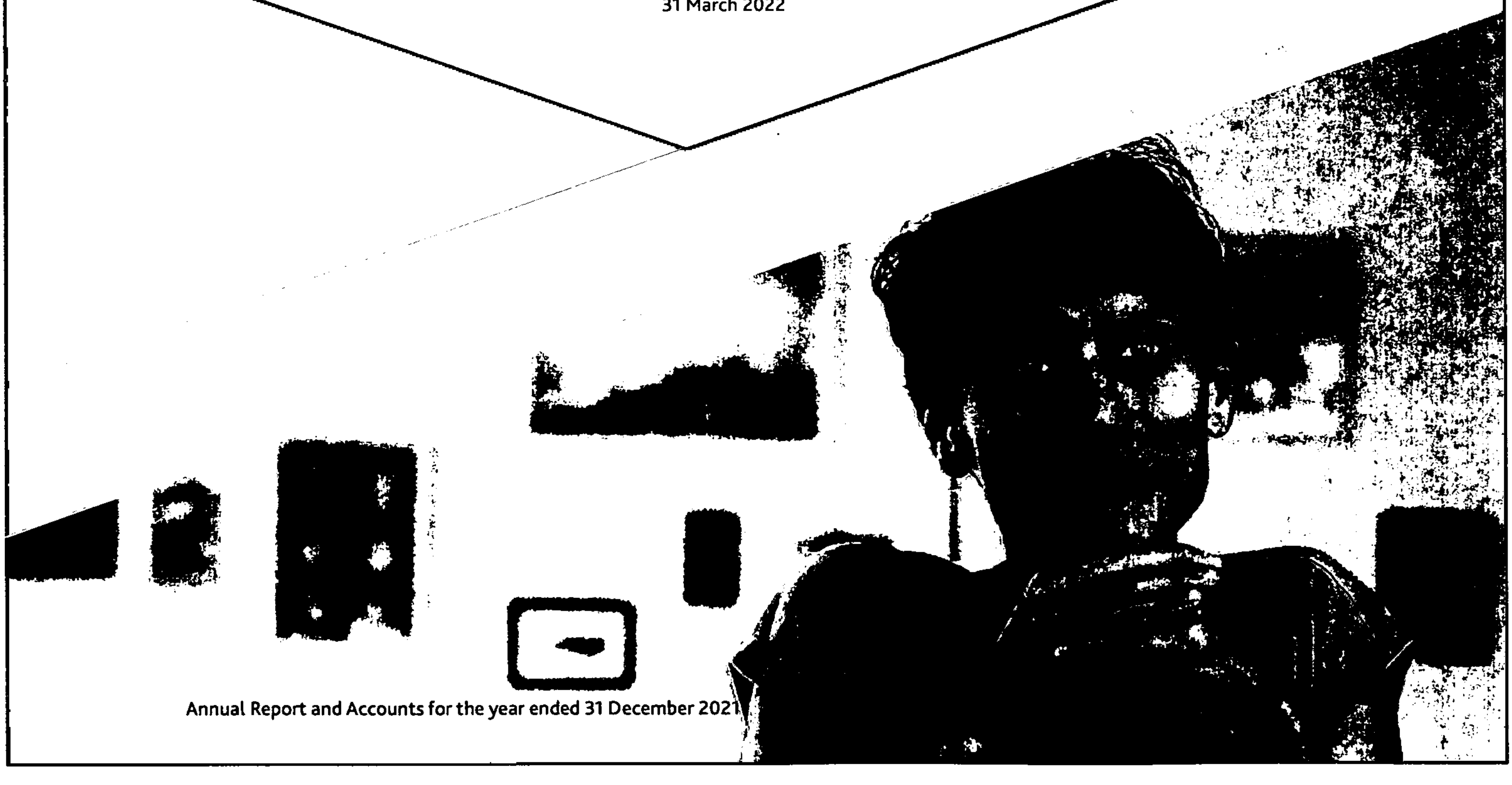
So far as the Director is aware, there is no relevant audit information of which the Society's auditors are unaware. They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Society's auditors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

By Order of the Board,

S. Pritchard

SELENA PRITCHARD
Company Secretary

31 March 2022



DIRECTORS' REPORT

The Directors present their Annual Report and audited Consolidated Financial Statements for the year ended 31 December 2021.

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 26 to these accounts.

Principal Activities

The principal activities of the Group during 2021 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, deposit taking, 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 10 to 11and in the Strategic Report on pages 12 to 53. 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 2022 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 13. 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.

During 2021, the Society's Board took the decision to sell Wesleyan Bank with the sale to Hampshire Trust Bank plc announced on 7 October 2021. Since that date activity took place to ensure a smooth transfer of the business and this was concluded on 28 February 2022.

Results and Bonus Declaration

The financial statements and accompanying notes on pages 97 to 138 show the results for the year ended 31 December 2021 and the financial position at that date. The financial results are presented in accordance with the Companies Act 2006 and have been reviewed by the Chief Actuary. The Directors, having taken advice from the Chief Actuary, have declared rates of bonuses which can be found on our website.

Risk Management

Details of the key risks to the Society and its approach to risk management are set out on pages 48 to 50 and in Note 2 to these financial statements.

Details on the adequacy of the Society's financial strength is covered in Note 2.

Directors

The Directors of the Society are as set out on pages 56 to 57.

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 as at 31 December 2021 will be standing for re-election at the Society's AGM on 26 May 2022 along with Harpreet Sood who will be standing for confirmation as a Director following his appointment in 2021. 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.

Anti-Corruption and Anti-Bribery

The Society is fully committed to complying with the Bribery Act 2010 and has developed a Financial Crime Policy and Conflicts of Interest and Anti-Bribery Policy which are made available to all employees. Each member of staff is required to periodically complete a mandatory financial crime course.

Controls are in place to identify and report any instances of corruption or bribery and procedures are in place to report and investigate any instances should they arise.

Respect for Human Rights

The Society has a Speak-Out Policy and policies in place in relation to Anti-Bullying and Harassment and Inclusion and Diversity. An Employee Assistance programme is also in place for all employees.

Wesleyan recognises the importance of the Modern Slavery Act 2015 and is committed to acting ethically in all business dealings, in particular with suppliers. Our full Slavery and Human Trafficking Statement can be found on the Society's website.

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 £1,045,216 (2020: £871,067). Over £963,216 in grants was allocated to nearly 160 projects via the Wesleyan Foundation. 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	960
Other donations	85
Total	1,045

Independent Auditor

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

S. Pritchard

SELENA PRITCHARD
Company Secretary

31 March 2022

REPORT FROM THE AUDIT COMMITTEE

"The Board considers that all the members of the Committee are independent and bring significant and relevant skills and experience to its function."

ANDREW NEDEN
Chair of the Audit Committee

Membership and Role of the Committee

The members of the Committee at 31 December 2021 were Andrew Neden (Chair), Philip Moore, Martin Bryant and Linda Wilding. 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.

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 Philip Moore, formerly Finance Director at LV= and a Fellow of the Institute of Actuaries, are considered by the Board to have recent and relevant financial experience.

In order to help the Committee meet its oversight responsibilities, regular updates are provided by external auditors, Ernst & Young LLP, on significant and topical areas affecting businesses. In addition, the Committee received knowledge building sessions covering Client Assets and Operational Resilience.

The terms of reference of the Audit Committee include all the matters required under the UK Corporate Governance Code, Prudential Regulation Authority (PRA) Rules and follow Financial Reporting Council (FRC) guidance. The Committee plays a key role in assisting the Board with regard to financial reporting (Annual Accounts and submissions to the PRA including those for subsidiary companies) and ensuring that the internal controls (including financial and operational controls and risk management processes) within the Society are appropriately robust. During 2021 responsibility for oversight of compliance controls was transferred to the Risk Committee.

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 Chief Financial Officer, the Chief Actuary and the external Auditor at least once a year.

Summary of Key Activities During 2021:

During the year the Committee:

- Recommended to the Board the Society's Annual Report and Accounts (including statements on going concern and viability), Solvency II Reporting Policy, Solvency and Financial Condition Reports, Regular Supervisory Reports and Valuation Reports, after reviewing the processes for their production and discussing the assumptions underlying the models and valuations which underpin the reports and statements;
- 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;
- Monitored the Group's internal controls by considering a number of third party, external and internal audit reports (including on client money matters) on the key controls and risk management functions;
- Ensured that significant findings and recommendations made - including findings raised by External Audit 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;
- Reviewed the half yearly assessment of cultural and conduct issues from the Head of Corporate Audit;
- Obtained assurance that the control environment remained robust during periods of Covid-19 related lockdown;
- Received reports detailing the resolution of issues within the annual statements production process. The Audit Committee has and will continue to provide close oversight over enhancements to controls to ensure the timely and accurate production of the statements;
- Received updates on progress with End to End Process Mapping, Group Finance Transformation and Data Projects;
- Received reports detailing resolution of issues related to IT general computer controls; and,
- Oversaw the migration of data to the new general ledger system.

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 broadly consistent with those identified in 2020 and are set out in the below significant issues table.

AREAS OF FOCUS

Data Quality.

Audit Committee Action

The Committee reviewed the Annual Report on Valuation Controls which provided assurance on the controls in place to ensure the accuracy of the year end valuation.

Conclusion/Outcome

The Committee was satisfied with the controls over the valuation of these assets and liabilities, noting that further enhancements were planned to improve processes to produce actuarial and accounting data.

AREAS OF FOCUS

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.

Audit Committee Action

The Committee considered the methods used to determine the current level of expenses to maintain policies and the expected level of future inflations, taking into account recent experience and future plans.

Conclusion/Outcome

The Committee concurred with the expectation of increased levels of long-term expense inflation.

AREAS OF FOCUS

Assumptions in relation to morbidity, mortality and lapse rates.

Audit Committee Action

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 and reflecting that 2020 and 2021 would not be representative due to Covid-19.

In particular, the Committee reviewed reports from management proposing changes to the lapse rates on the Income Protection Policies.

Conclusion/Outcome

The Committee agreed the conclusions that management used to value the insurance liabilities were appropriate and also concurred with the other proposed changes to assumptions.

AREAS OF FOCUS

Solvency and Financial Condition Report and Regular Supervisory Report.

Audit Committee Action

The Committee reviewed drafts of the Solvency and Financial Condition Report and obtained reports from management providing assurance that the reports met regulatory requirements.

Conclusion/Outcome

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.

AREAS OF FOCUS

Reporting to members.

Audit Committee Action

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.

Conclusion/Outcome

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

AREAS OF FOCUS

Valuation of assets.

Audit Committee Action

The Committee reviewed the processes and practices followed in valuing assets, and ensured that these were based on or derived from externally available data, with external confirmation in those areas open to more judgement, for example property valuations.

Conclusion/Outcome

The Committee was satisfied that the valuations overall were in line with market data.

INTERNAL AUDIT

Internal Audit undertakes a six monthly planning exercise to determine which activities and controls should be subject to audit review over the following period. This is based on an assessment of the level of strategic and operational importance, the level of inherent and residual risk, and the results of any other assurance activity or process that may be relevant. During 2020 a move to a flexible audit planning approach was implemented to reflect the impact of Covid-19 and quickly focus resource where needed. This approach is now considered business as usual activity. Areas subject to Internal Audit review in 2021 included but were not limited to:

- Critical services operation in remote environment;
- Key strategic transformation programmes;
- Information security & cyber security;
- Group subsidiaries including Wesleyan Bank and Practice Plan;
- Customer servicing and delivery processes;
- Operations and finance processes;
- Risk Management Framework; and,
- Key regulatory projects.

Following each review, any control weaknesses are discussed and agreed with management. Management is responsible for designing and implementing action plans to address the issues highlighted. The actions arising are tracked to ensure timely completion. Any changes to the Group internal audit plan are reviewed and approved on a quarterly basis by the Society Audit Committee.

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, its plans and processes, and the quality of its outputs. The outcome of the review undertaken in 2021 was generally positive, with only minor areas identified for development. An external review of the effectiveness of the Internal Audit Function was completed in 2021 and a final report of key findings was produced in early 2022.

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 2021 audit plan, in the light of the Group's present circumstances and changes in regulatory and other requirements, including the continued impact of Covid-19;
- 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;
- Assessed the findings of the year end audit and discussed changes made to the audit approach. Control matters highlighted were closely examined and steps taken to ensure appropriate actions were put in place. The Auditors required Letter of Representation was thoroughly reviewed before signing by the directors;
- 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; and,
- Considered the findings of the report from the Financial Reporting Council on the 2020 external audit, which stated that the quality of this audit was 'Good'.

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 was reviewed and updated in 2021. 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.

Ernst & Young LLP were appointed as external Auditors on 11 May 2017 following a tender exercise. A resolution proposing the reappointment of Ernst & Young LLP as external Auditor was put to the AGM held on 27 May 2021. 97% of votes cast were in favour and Ernst & Young LLP were duly reappointed. The current external audit partner is Andy Blackmore who has held this position since Ernst & Young were appointed. The Society expects to tender for its external Auditor at least every ten years and rotate its audit partner at least every five years. The outcome of the review of the effectiveness of the external audit process undertaken in March 2021 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. In 2021, only minor areas for improvement were identified. 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

31 March 2022

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 2021 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; and
- 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 (the 'Society') and its subsidiaries (the 'group') for the year ended 31 December 2021 which comprise:

Group	Society
Consolidated balance sheet as at 31 December 2021	Balance sheet as at 31 December 2021
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 28 to the financial statements including a summary of significant accounting policies
Related notes 1 to 28 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. 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.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and Society's ability to continue to adopt the going concern basis of accounting included.

- confirmed our understanding of management's going concern assessment process and obtained management's assessment which covers 12 months from the date of approval of the financial statements;
- with support from our actuarial team, challenged the key actuarial assumptions used in management's five-year Annual Operating Plan ('AOP') and determined that the models are appropriate to enable management to make an assessment on the going concern of the Society. We have observed that assumptions used in the five-year AOP form the basis for management's going concern projections;
- assessed the accuracy of management's analysis by testing the inputs and the clerical accuracy of the models used;
- evaluated the liquidity and solvency position of the Society by reviewing base case liquidity and solvency projections.
- obtained and reviewed the latest Board approved ORSA, assessed whether the stress testing included in the ORSA was reasonable and considered the solvency position under each stress scenario;
- evaluated management's forecast analysis to understand how severe the downside scenarios would have to be to result in the elimination of solvency headroom and concluded it to be remote;
- assessed the plausibility of available management actions to mitigate the impact of the key risks by comparing them to our understanding of the Society;
- performed enquiries of management and those charged with governance to identify risks or events that may impact the Society's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board and its committees, and made enquiries as to the impact of Covid-19 on the business; and
- assessed the appropriateness of the going concern disclosures by comparing the consistency with management's assessment and for compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and Society's ability to continue as a going concern for the 12 month period from the date of approval of the financial statements.

In relation to the group and Society's reporting on how they have voluntarily applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Society's ability to continue as a going concern.

OVERVIEW OF OUR AUDIT APPROACH

Audit scope	We performed an audit of the complete financial information of the Society and audit procedures on specific balances for a further five components The components where we performed full or specific audit procedures accounted for 99.8% of Total assets and 98.4% of Total liabilities.
Key audit matters	Valuation of gross technical provisions - actuarial expense and demographic assumptions Valuation of assets with more complex valuation methodologies - Property and derivatives Migration of Coda General Ledger (GL) to new Dynamics GL system
Materiality	Overall Group materiality of £15m which represents 2.65% of Fund for Future Appropriations.

AN OVERVIEW OF THE SCOPE OF THE SOCIETY AND GROUP AUDITS

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company 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 such as recent Internal audit results when assessing the level of work to be performed at each company.

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 eight reporting components of the Group, we selected six components, 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 it's 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 99.8% (2020: 99.3%) of the Group's Total assets and 98.4% (2020: 98.6%) of the Group's Total liabilities. For the current year, the full scope component contributed 91.5% (2020: 92.7%) of the Group's Total assets and 91.5% (2020: 93.8%) of the Group's Total liabilities. The specific scope components contributed 8.3% (2020: 6.6%) of the Group's Total assets and 6.9% (2020: 4.8%) of the Group's 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 components that together represent 0.2% (2020: 0.7%) of the Group's Total assets and 1.6% (2020: 1.4%) of the Group's 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 performing analytical review procedures, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

Changes from the prior year

There are no significant changes in scoping the group audit from prior year.

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 another UK EY team 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 Group 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.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact companies. The Group has determined that the physical and transition risks from climate change do not currently pose a material risk to the Society. This is explained on pages 40-47 in the Managing Sustainability section, which forms part of the "Other information" rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

Our audit effort in considering climate change was focused on challenging management's risk assessment of the impact of physical and transition risks and the resulting conclusion that there was no material impact from climate change and the adequacy of the Company's disclosures on page 100 of the financial statements which explain the rationale.

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

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.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of gross technical provisions: actuarial expense and demographic assumptions The valuation of the technical provisions as at 31 December 2021 is £6,582.4m (2020: £6,143.2m) as disclosed in note 14 to the financial statements. The valuation of technical provisions is 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. The assumptions that we consider to have the most significant impact are the base and trend longevity, persistency, assured mortality and expenses. We consider the Covid-19 pandemic to have increased the risk associated with the longevity and assured mortality assumptions. Demographic assumptions are set based on internal and market experience, overlaid with the application of judgement, in particular, around expectations of 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. These assumptions are used as inputs into a valuation model which uses standard actuarial methodologies.	To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, we engaged our actuarial specialists as part of our audit team and performed the following procedures: We obtained an understanding and tested the design and operating effectiveness of key controls over management's process for setting and updating actuarial assumptions. We tested that the policy records data used in the process for setting and updating demographic and expense assumptions was complete and accurate. We reviewed and challenged the results of management's experience analysis, including the base longevity, persistency and assured mortality, to assess whether these justified the adopted assumptions. This incorporated specific challenge of management's consideration of Covid-19 in the setting of these assumptions and whether it was appropriate for management not to adjust the key long term assumptions for the impact of Covid-19. In respect of longevity improvements, we have evaluated the use of the chosen industry standard Continuous Mortality Investigation ('CMI') model and the parameters used to validate that it was appropriate relative to the industry and reflects the expected longevity of the Society's policyholders relative to those in the CMI model. We reviewed the approach to setting expense assumptions against Solvency II guidance (being the basis of measurement of technical provisions within the statutory accounts) and market practice. 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 benchmarking survey.	We determined that the actuarial assumptions used by management are reasonable based on the analysis of the experience to date, industry practice and the financial and regulatory requirements. We consider it appropriate that long term assumptions have not been adjusted to reflect the impact of Covid-19 as the longer term impact on morbidity and mortality in particular is not yet clear, and the position adopted by management is consistent with that taken by most companies operating in the life insurance sector.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of assets with more complex valuation methodologies – Property and Derivatives 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 £457.8m (2020: £473.6m) (derivatives - £62.8m (2020: £106.1m) and property – £395.0m (2020: £367.5m)) as disclosed in notes 10(D) and 10(E) 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 consider the risk associated with valuation of Derivatives and Property to have increased as a result of the Covid-19 pandemic.	We performed walkthroughs of 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 EY derivative valuation specialists, we performed independent valuations of a sample of the derivative portfolio. We utilised EY property valuation specialists to independently value 27 (2020: 33) investment properties (representing 49.8% (2020: 56.5%) of the balance). Separately, we assessed the competence and objectivity of management's expert for the remainder of the properties. We selected our sample of properties based on property sectors which have the greater risk of valuation volatility as a result of Covid-19. We determined that retail has been the most affected industry but other impacted sectors include hospitality, commercial and leisure.	We have concluded that the valuation of the derivative portfolio is in the middle of a reasonable range. We have concluded that the valuation of the property portfolio is in the middle of a reasonable range.
Migration of Coda General Ledger (GL) to new Dynamics GL system Given the fundamental nature of the general ledger system and its importance in the preparation of the financial statements, there is a risk that the migration results in lost or altered data during the transfer that could materially affect the financial statement line items.	Compared the closing Coda GL balances to the opening Dynamics balances and investigated any reconciling items and differences. In conjunction with our IT specialists, we ensured that the governance of the project was appropriate including the controls put in place during the migration.	We have determined that the migrated data from the old GL system (Coda) to the new GL system (Dynamics 365) is complete and accurate.

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

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 £15 million (2020: £15 million), which is 2.65% (2020: 2.87%) of Funds for Future Appropriations. We believe that Funds for Future Appropriations provides us with the most appropriate basis for determining materiality as it is the equivalent of net assets in an insurance company.

We determined materiality for the Parent Company to be £15 million (2020: £215 million), which is 2.65% (2020: 2.87%) 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 75% of our planning materiality, namely £11.25m (2020: £7.5m). We have set performance materiality at this percentage because our prior year audit experience indicates a lower risk of misstatements, both corrected and uncorrected for all significant accounts other than taxation. Our performance materiality for taxation related balances was £7.5m (2020: £7.5m).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total 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 £2.5m to £7.5m.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total 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 £2.5m to £7.5m.

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 £0.75m (2020: £0.75m), 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, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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.

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 those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the strategic report or the directors' report; or
- the information voluntarily given in the Corporate Governance Statement set out on pages 66-67 and in the Audit Committee Report on pages 84-86 with respect to internal control and risk management systems and about share capital structures, in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or

- the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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

VOLUNTARY REPORTING RELATING TO THE CORPORATE GOVERNANCE STATEMENT

The directors have voluntarily complied with the UK Corporate Governance Code and prepare a Corporate Governance Statement in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority ("FCA").

The directors have requested that we review the parts of the Corporate Governance Statement relating to the Society's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) as if the Society were a premium listed company.

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and Society's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 67;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 51;
- Directors' statement on fair, balanced and understandable set out on page 82;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 51;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 48-51; and;
- The section describing the work of the audit committee set out on pages 84-86.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 82, 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.

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are 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 understood how the Group 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.

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

- 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, which were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. 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 Group's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.
- The Group 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.

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.

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 5 years, covering the years ending 31 December 2017 to 31 December 2021.
- 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.

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.

Ernst & Young LLP

ANDY BLACKMORE

(Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
Bristol

[02] April 2022

OUR FINANCIALS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £m	2020 (restated) £m
Profit and Loss Account			
Technical Account - Long-term Business			
Earned premiums, net of reinsurance	3(A)		
Gross premiums written		**407.0**	264.7
Outward reinsurance premiums		**(4.1)**	(5.7)
		402.9	259.0
Investment income	4	**349.2**	287.0
Unrealised gains on investments	4	**298.2**	-
Other income	5	**51.2**	44.6
Total Technical Income		**1,101.5**	590.6
Claims incurred, net of reinsurance	6		
Claims paid - gross amount		**(402.9)**	(302.5)
- reinsurers' share		**8.2**	11.4
- net of reinsurance		**(394.7)**	(291.1)
Change in the provision for claims		**1.8**	(4.9)
		(392.9)	(296.0)
Change in other technical provisions, net of reinsurance	14		
Long-term business provision - gross amount		**(330.0)**	94.5
- reinsurers' share		**(6.0)**	(14.0)
		(336.0)	80.5
Operating expenses	7	**(168.1)**	(164.2)
Investment expenses and charges	4	**(15.3)**	(13.2)
Unrealised losses on investments	4	**-**	(269.5)
Allocation of net investment return to investment contracts	14	**(169.5)**	35.1
Tax attributable to the long-term business	9	**(24.3)**	6.9
Change in present value of future profits on linked non-profit business written in the With Profits Fund		**7.3**	(13.7)
Transfers (to)/from the Fund for Future Appropriations	13	**(2.7)**	43.5
		(372.6)	(375.1)
Total Technical Charges		**(1,101.5)**	(590.6)
Balance on the Technical Account - Long-term Business		**-**	-
			-
Other Comprehensive Income			
Actuarial (loss)/gain on pension scheme	24	**26.9**	10.0
Revaluation (loss)/gain on tangible fixed assets	12(B)	**(5.4)**	0.2
Transfers to the Fund for Future Appropriations	13	**(21.5)**	(10.2)
Other Comprehensive Income for the year		**-**	-
Total Comprehensive Income for the year		**-**	-

The total transfer to the Fund for Future Appropriations was £24.2m (2020, transfer from the Fund for Future Appropriations: £33.3m).

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 2021

	Note	Group		Society	
		2021 £m	2020 £m	**2021 £m**	2020 £m
Assets					
Intangible assets					
Intangible assets	12(A)	**71.4**	69.8	**62.4**	60.0
Goodwill	12(A)	**22.1**	27.8	**–**	–
Investments					
Investment Property	10(D)	**395.0**	367.5	**395.0**	367.5
Group undertakings and participating interests	21	**–**	–	**123.7**	95.2
Other financial investments	10(A)	**5,754.2**	5,233.1	**5,176.1**	4,835.6
		6,149.2	5,600.6	**5,694.8**	5,298.3
Value of in-force linked non-profit business		**52.9**	45.5	**52.9**	45.5
Assets held to cover linked liabilities	10(B)	**1,306.3**	1,197.1	**1,306.3**	1,197.1
Reinsurers' share of technical provisions					
Long-term business provision	14	**16.3**	22.3	**16.3**	22.3
Claims outstanding		**0.2**	0.3	**0.2**	0.3
		16.5	22.6	**16.5**	22.6
Debtors					
Debtors arising out of direct insurance operations - policyholders		**0.9**	0.7	**0.9**	0.7
Debtors arising out of reinsurance operations		**1.8**	5.1	**1.8**	5.1
Other debtors	11	**19.1**	18.3	**5.0**	1.9
		21.8	24.1	**7.7**	7.7
Other assets					
Tangible assets	12(B)	**25.0**	33.9	**20.9**	28.2
Cash at bank and in hand		**51.5**	49.1	**10.7**	12.4
		76.5	83.0	**31.6**	40.6
Prepayments and accrued income					
Accrued interest and rent		**18.7**	20.3	**18.7**	20.3
Other prepayments and accrued income		**13.5**	13.7	**5.6**	4.9
		32.2	34.0	**24.3**	25.2
Total Assets (excluding pension asset)		**7,748.9**	7,104.5	**7,196.5**	6,697.0
Pension Asset	24	**131.5**	102.7	**131.5**	102.7
Total Assets (including pension asset)		**7,880.4**	7,207.2	**7,328.0**	6,799.7

The notes on pages 100 to 138 form an integral part of these financial statements.

BALANCE SHEETS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Liabilities					
Non-current liabilities:					
Fund for Future Appropriations	13	**589.1**	564.9	**588.7**	552.0
Technical Provisions					
Long-term business provision	14	**5,276.0**	4,946.1	**5,275.2**	4,921.2
Claims outstanding		**18.6**	14.8	**18.6**	14.8
		5,294.6	4,960.9	**5,293.8**	4,936.0
Technical provisions for linked liabilities	14	**1,306.3**	1,197.1	**1,306.3**	1,197.1
Provisions for other Risks	15	**93.5**	71.1	**91.7**	69.8
Deposits received from Reinsurers	16	**16.3**	21.2	**16.3**	21.2
Deposits from banks	2	**98.5**	13.0	**–**	–
Derivative Liabilities	10(E)	**2.5**	–	**2.5**	–
Current liabilities:					
Creditors					
Creditors arising out of direct insurance operations		**6.6**	3.4	**6.6**	3.4
Creditors arising out of reinsurance operations		**0.4**	–	**0.4**	–
Other creditors	18	**25.3**	21.1	**15.4**	15.3
Customer bank accounts	2	**412.1**	330.0	**–**	–
		444.4	354.5	**22.4**	18.7
Accruals and Deferred Income		**35.2**	24.5	**6.3**	4.9
Total Liabilities		**7,880.4**	7,207.2	**7,328.0**	6,799.7

The notes on pages 100 to 138 form an integral part of these financial statements.

The financial statements on pages 97 to 99 were approved by the Board of Directors on 31 March 2022 and signed on its behalf by:

NATHAN MOSS
Chair

MARIO MAZZOCCHI
Group Chief Executive

GILLIAN CASS
Chief Financial Officer

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES

Basis of presentation

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 SI 2008/410.

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.

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.

Going Concern

Under the UK Accounting Standards, the Directors are required to state whether the business is a going concern for the 12 months from the signing date. In considering this requirement, the Directors have taken into account financial projections which demonstrate the ability of the Group to withstand market shocks in a range of scenarios, including very severe ones. Specifically, the Board considered solvency projections that incorporated an estimated view of an economic downturn. The projections demonstrated that excess capital would remain in the Group under all plausible scenarios and that liquidity was adequate to meet liabilities as they fell due in the going concern period to 31 March 2023.

Having carried out this assessment, and after making appropriate enquiries, the Directors confirm that they consider it appropriate to prepare the financial statements on a going concern basis.

Basis of Consolidation

The consolidated financial statements of the Group incorporate the assets, liabilities, and results of the Society and its subsidiary undertakings and are drawn up to 31 December each year.

In 2021 the Group's accounting policy for the presentation of the Group Income Statement has been revised to disaggregate the gross profits and losses of Society subsidiaries through applicable income and expense lines.

In prior periods the gross profits and losses of subsidiaries were consolidated through 'Other Technical Income and Charges'. This accounting policy change has no impact on the transfer to the Fund for Future Appropriations and is for presentational purposes only.

For consistency of presentation, the prior year Consolidated Statement of Comprehensive Income on page 97 has also been restated. Further information on this restatement is detailed in note 25.

The financial statements produced by subsidiaries for inclusion in the Group financial statements are prepared using accounting policies consistent with those adopted by the Group. Intra-group transactions, balances and unrealised gains and losses on intragroup transactions are eliminated on consolidation.

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.

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.

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 the Society has the rights to the asset upon wind up of the scheme. A pension valuation is carried out every three years, with the most recent valuation of the scheme as at 31 December 2018. These judgements and estimates have been disclosed in Note 24. 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 2018 have been adjusted to the balance sheet date taking account of experience over the period since 31 December 2018, changes in market conditions and differences in the financial and demographic assumptions.

Investment properties, including those occupied by the Society, are valued by external professionally qualified valuers, having an appropriate recognised professional qualification, as well as recent experience in the location and category of the property being valued. In estimating the fair values of the properties within the portfolio, the highest and best use of the properties is their current use.

Derivative financial instruments are measured at fair value, which is 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.

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

1. ACCOUNTING POLICIES CONTINUED

same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Impact of climate risk on accounting judgments and estimates

In preparation of these financial statements, the Group has considered the impact of climate change across a number of areas, predominantly in respect of the valuation of financial instruments, insurance and investment contract liabilities and goodwill and other intangible assets. Many of the effects arising from climate change will be longer-term in nature, with an inherent level of uncertainty, and have been assessed as having a limited effect on accounting judgments and estimates for the current period.

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.'

(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 statement of comprehensive income, 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 statement of comprehensive income 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

Fees receivable from investment contracts include the management charge payable for administration of the relevant funds and is calculated as a percentage of the fund value for each policy (included in 'other technical income'). The fees are recognised in the statement of comprehensive income at the same time as they are charged to the policy.

Investments

(I) INVESTMENT PROPERTIES

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, with no changes to the valuation technique during the year.

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.

1. ACCOUNTING POLICIES CONTINUED

(II) INVESTMENTS IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

In the Society's balance sheet, 'Investments in Group undertakings and participating interests' are stated at fair value through profit and loss, for each individual subsidiary company in accordance with section 9 of FRS 102. The valuation techniques and assumptions used for determining fair value have been disclosed in Note 21.

(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;
- Derivatives – 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 income 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 statement of comprehensive income 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.

Investment income from Wesleyan Bank comprises interest receivable from loans, finance leases and similar agreements such as hire purchase, and operating lease rental income receivable as lessor.

Interest receivable from loans is recognised using the effective interest rate method. The effective interest rate ("EIR") is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of a financial instrument or, where appropriate, a shorter period, to the net carrying value of the financial instrument. In calculating the EIR the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

Rental income from operating leases is recognised on a straight line basis over the life of the agreement.

Investment expenses include interest payable by Wesleyan Bank in respect of customer accounts, which is accounted for using the EIR method.

(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.

Other Income

(i) Advice and Commission Income

Commission income within Wesleyan Financial Services is received from customers and third party manufacturers. Protection product and advisor charge 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.

(ii) Dental Membership and Administration Fee income

Income within the Practice Plan Group primarily relates to the total amount receivable for the provision of administration and other support services to dental practices.

1. ACCOUNTING POLICIES CONTINUED

(iii) Unit Trust Management Fee Income

Management Fee income within Wesleyan Unit Trust Managers in the consideration received or receivable for management fees of the Wesleyan Unit Trust range of funds under management, calculated as a percentage of funds under management.

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.

Assets held to cover linked liabilities

Assets held to cover linked liabilities are valued at fair value through the statement of comprehensive income.

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 cost for the scheme is analysed between 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.

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 updating the latest actuarial valuation to reflect conditions at the balance sheet date are included as a separate line in the statement of comprehensive income.

Present value of future profits on linked non-profit business written in the With Profits Fund

For investment contracts, the excess value of future profits from linked business written by the Society over any value taken into account in calculating the best estimate liabilities for with profits business is recognised as an asset and allows for the repayment of initial expenses incurred on this business that have not yet been recouped.

The value assigned to this asset is calculated in accordance with 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 10 and 15 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.

Intangible Assets

Intangible assets relate to computer software development, assets in the course of construction, 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.

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 and are not amortised.

NOTES TO THE ACCOUNTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2021

1. ACCOUNTING POLICIES CONTINUED

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.

Freehold buildings (which includes the owner occupied section of the Head Office property) are revalued 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.

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.

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.

Long-term business provision

The long-term business provision is determined by the Directors, having taken advice from the Chief Product Offer 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 statement of comprehensive income 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.

1. ACCOUNTING POLICIES CONTINUED

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 statement of comprehensive income. 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

In addition to the components detailed in the Risk Management Section on pages 48 to 50, the Board is responsible for maintaining a sound system of Risk Management and Internal Controls. Wesleyan's Risk Management Framework incorporates the following:

- The market, credit, insurance and operational risks it faces and 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 effected through calculation of the Solvency Capital Requirements and internal capital risk appetite measures, as part of the Solvency II directive.
- A Capital Plan focusing on the quantification of market, credit and insurance risk with the application of detailed modelling to assess the sensitivity of the Society's position to economic and business scenarios over a ten-year period.
- The 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 each 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.
- Risks arising from weaknesses in internal controls over operations. The Society monitors operational performance and the associated risks to our customers, reputation, and financial strength.
- A Board approved Operational Resilience Policy. The policy governs how the Society monitors and strengthens its ability to provide the most importance services to our customers including in the event of severe operational disruption.

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, Wesleyan places particular focus on the control of Business, Conduct, Capital Operational and Reputation Risks; as well as the overall risk profile for the Society and its With Profits policyholders.

2. RISK MANAGEMENT CONTINUED

Business Risk

Business risk is defined as the risk that external factors (such as consumer demand patterns, regulatory, competitive or technological changes) will result in an unexpected loss now and/or reduced income/increased costs in the future; and as the risk that the Society's response to external factors is inappropriate or does not deliver the desired outcome over the longer term. 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 through 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 other regulatory initiatives, the actions of competitors or new entrants to the market. Recent examples of these events are the economic uncertainties created by Covid-19, Brexit, the phasing out of LIBOR, and changes to GP Contracts. Internal events include the quality and range of products and services offered, the strategic decisions made by the Society and the Society's ability to adapt its strategy to respond to change.

As business risk is inherent in the Society's business model, its identification focuses on understanding the business model in the context of the environment in which Wesleyan operates and the adaptability of the business to changes to the internal and external environment. Each year, the Society identifies the factors that could affect its business strategy to determine the key business risks.

Controls and processes are in place to manage business risk. These include: a clearly defined set of strategic objectives with associated measures, targets and accountability attached to them; processes to translate the Society's strategy into initiatives and business plans for business operating units; appropriate governance processes; sufficient resources and capability to deliver strategic objectives, associated initiatives and business plans are tracked, reviewed and regularly evaluated; regular reviews by executive management of progress towards strategic objectives and implementation of strategy; an annual risk assessment based on the strategic objectives of the Society; active monitoring of the sources and levels of income and costs to understand adverse deviations; and 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 Wesleyan's Key Risks on pages 48 to 50.

Conduct Risk

Wesleyan has a zero appetite for systemic unfair outcomes to customers at any part of the product lifecycle. While recognising that from time to time the Group may deliver isolated instances of poor outcomes to customers, colleagues or our community; we have no appetite for these failures to be systemic. Where we identify potential poor customer outcomes, we will be proactive in reporting them, agreeing fair remedial actions, and at all times ensure that we provide clear communications to ensure that a fair outcome is achieved.

We are proactive in our approach to identifying issues that could be of concern, including considerations for product design, sales advice, complaint handling and across all other areas of customer contact. This risk is monitored through conduct risk indicators such as: advice quality, monitoring of complaints, delivery of fair customer outcomes (including value for money assessments), customer service performance against service standards, adherence to conduct regulations, performance of outsourced activities from third party administrators, conduct risk and rules training assessments, and sales force remuneration.

Capital Risk

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

The Society's internal capital requirements are set at a higher level than the minimum regulatory requirements; internal metrics (used to monitor the capital levels) are measured against these internal requirements, ensuring that the Society remains financially strong and that it holds more capital than is required by regulations.

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 minimal appetite for regulatory risk, mis-selling risk and other risks with a material reputational impact, and a low appetite for other 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 is responsible for ensuring that material operational risks are identified, assessed, reported and managed using the approach 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 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;
- Mis-selling, which covers the quality of advice given to customers; and
- Transformation, which covers the delivery of major projects to stated objective, outcomes and benefits.

2. RISK MANAGEMENT CONTINUED

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.

An aspect of operational risk that has been prevalent this year is the management of risks around remote working, which has increased significantly since March 2020, as the Society responds to the challenges associated with Covid-19 whilst maintaining our level of customer service as far as possible.

Reputation Risk

The Society recognises that our long-term sustainability depends on the strength of our reputation and relationship with our customers and key stakeholders. We strive to treat our customers fairly and act with integrity. Reputational risk is monitored through various 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 delivery of its strategic objectives. Further details on how the following risks are managed are set out below:

- Market risk
- Insurance risk
- Liquidity risk
- Credit risk

Market Risk

(I) OVERVIEW

Market risk is the risk that the fair value of the Society's assets and liabilities fluctuate because of changes in market prices. The key components of market risk are equity and property price risk, interest rate risk and currency risk. Investments are split into the Non-Profit Pool and the With Profits Pool, the overall strategies for which are as follows:

(a) the Non-Profit Pool is established by matching specific fixed interest and index-linked assets to the non-profit and index-linked liabilities within the fund; and

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

Separate investment strategies are 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 Society carries out investigations to explore the financial impact of a range of market stresses through Stress and Scenario testing and the Own Risk and Solvency Assessment (ORSA).

(II) EQUITY PRICE RISK

The Society is exposed to equity 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.

Investments held are primarily 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 its exposure to equities both in aggregate terms and by geography and counterparty. 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 the risk of falling property values as a result of its direct holdings in property. The 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 sector 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.

NOTES TO THE ACCOUNTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2021

2. RISK MANAGEMENT CONTINUED

(IV) INTEREST RATE RISK

Interest rate risk is the risk that the fair value or cashflows from a financial instrument will vary as market interest rates vary.

For Wesleyan, interest rate risk reflects the risk that interest rate movements increase the value of our liabilities by more than the change in fair value of the assets (or, conversely, reduce the fair value of our assets by more than the change in the value of the liabilities).

The Society's exposure to interest rate risk principally arises from the outflows required to meet guaranteed policy payments which are fixed. 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, especially annuities in payment. However, backing all policy guarantees with fixed interest assets would restrict the Society's investment choices and prevent it from 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 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 use of exposure limits, authorisation controls and the use of derivatives to hedge currency exposure, operated within the risk management framework outlined above.

Of the £914.8m (2020: £759.2m) non-linked assets held in other currencies, £505.9m (2020: £413.1m) is held in US-denominated assets, £258.9m (2020: £215.5m) is held in euro-denominated assets, and £150.0m (2020: £130.6m) 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 for 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. These 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 taken on 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) may 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; a final bonus may also be applied when the policy becomes a claim. The Society can vary the future bonuses paid, including reducing future bonus additions to zero, although it 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 for the rate of mortality are taken account of 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. We also control expenses on an ongoing basis, and the Society's right to vary future bonus additions can be used to further mitigate this risk.

2. RISK MANAGEMENT CONTINUED

Non-participating insurance contracts – Protection contracts

Key terms and conditions

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

Key risk factors

- Mortality and morbidity: The Society has partially mitigated these risks through varying the premium rates charged under the policy conditions and by using 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 enough 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 to 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 some 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 swaps and 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.

NOTES TO THE ACCOUNTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2021

2. RISK MANAGEMENT CONTINUED

(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 and persistency experience in these professions. The Society's Risk Committee regularly monitors exposure to these risks.

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.

Liquidity Risk

The Society ensures that it can meet its financial obligations as they fall due, even in extreme circumstances.

The level of liquidity is regularly monitored with available funds held at levels considered appropriate to meet anticipated liabilities and unexpected levels of demand.

For our insurance business, 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.

Liquidity risk for Wesleyan Bank is governed by a separate Bank liquidity policy; 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 an 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 daily. It should be noted that the Bank has no immediate access to any liquid assets held by the rest of the Group, however the Group has committed to fund the liquidity needs of the bank under certain circumstances.

The liquidity position for the Bank is set out below:

	2021		2020	
	Customer bank accounts £m	**Deposits from banks £m**	Customer bank accounts £m	Deposits from banks £m
Repayable on demand	**74.2**	–	51.7	–
Three months or less but not on demand	**33.4**	–	38.6	–
One year or less but over three months	**132.8**	–	122.8	–
Five years or less but over one year	**171.7**	**98.5**	116.9	13.0
	412.1	**98.5**	330.0	13.0

In addition to the customer bank accounts and deposits from banks shown above, the deposits received from reinsurers, other creditors, creditors arising out of direct insurance operations and creditors arising out of reinsurance operations are financial liabilities, which are measured at amortised cost. The liquidity risk for these financial liabilities, as listed in the Balance Sheet, are set out below:

	Group		Society	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Repayable on demand	–	–	**3.1**	4.5
Three months or less but not on demand	**32.1**	23.5	**19.1**	13.2
One year or less but over three months	**3.9**	4.6	**3.9**	4.6
Five years or less but over one year	**10.4**	14.1	**10.4**	14.1
More than 5 years	**2.2**	3.5	**2.2**	3.5
	48.6	45.7	**38.7**	39.9

In excess of £6.6bn (2020: £6.1bn) of the Group's assets are either highly liquid or readily realisable and therefore available to support the Group's liabilities at limited notice.

2. RISK MANAGEMENT CONTINUED

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.

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

	At 31 December 2021				At 31 December 2020			
	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	**3,908.8**	–	–	**3,908.8**	3,435.3	–	–	3,435.3
Debt and other fixed income securities	**2,074.4**	–	–	**2,074.4**	2,154.0	–	–	2,154.0
Deposits with credit institutions	**526.0**	–	–	**526.0**	354.2	–	–	354.2
Swaps	–	–	**48.4**	**48.4**	–	–	76.4	76.4
Swaptions	–	–	**0.4**	**0.4**	–	–	0.2	0.2
Equity Put Option	–	–	**16.5**	**16.5**	–	–	29.4	29.4
Total Assets	**6,509.2**	–	**65.3**	**6,574.5**	5,943.5	–	106.0	6,049.5

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) and asset finance loans to companies operating outside of these sectors, which are sourced by either the Bank's direct sales team, or its panel of brokers. A credit application approval policy is in place covering the acceptance of these loans.

The Society monitors its 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 2021 the Society's custodians held collateral represented by UK Government Bonds, valued at £57.3m (2020: £122.7m) and £5.3m (2020: £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 117.

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.

3(A). EARNED PREMIUMS

	2021 Gross £m	2021 Reinsurance £m	2021 Net £m	2020 Gross £m	2020 Reinsurance £m	2020 Net £m
Earned Premiums						
Premiums written						
Life ordinary business						
Non-linked regular	**11.9**	**(1.6)**	**10.3**	11.9	(1.3)	10.6
Non-linked single	**55.0**	**–**	**55.0**	35.4	–	35.4
	66.9	**(1.6)**	**65.3**	47.3	(1.3)	46.0
Pension business						
Non-linked regular	**32.7**	**–**	**32.7**	22.6	–	22.6
Non-linked single*	**156.2**	**–**	**156.2**	72.9	–	72.9
	188.9	**–**	**188.9**	95.5	–	95.5
Income protection insurance						
Non-linked regular	**28.8**	**(2.5)**	**26.3**	30.1	(4.4)	25.7
With profits ISA						
Regular	**34.3**	**–**	**34.3**	32.4	–	32.4
Single	**88.1**	**–**	**88.1**	59.4	–	59.4
	122.4	**–**	**122.4**	91.8	–	91.8
	407.0	**(4.1)**	**402.9**	264.7	(5.7)	259.0

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

	2021 £m	2020 £m
Life - regular	**6.0**	5.7
Life - single	**9.7**	4.3
Pension - regular	**22.9**	20.0
Pension - single*	**30.0**	10.3
Income protection - regular	**1.6**	1.8
	70.2	42.1

* During 2021 the Society closed the Self-Invested Personal Pension Plan (SIPP) product operated by Wesleyan Bank. This resulted in customer claim surrenders of c£85m, of which c£70m of customer premiums were reinvested back into other Society Pension Products.

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.

	2021 £m	2020 £m
Regular premiums	**24.8**	18.1
Single premiums	**24.6**	15.8
	49.4	33.9
Split by:-		
Life ordinary business	**9.5**	5.8
Pension business	**17.7**	11.3
Income protection insurance	**3.5**	3.7
ISAs*	**18.7**	13.1
	49.4	33.9
Annuities**	**1.4**	1.3
	50.8	35.2

*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 statement of comprehensive income. These 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:

	2021 £m	2020 £m
Regular	**3.3**	1.7
Single	**6.4**	4.1
	9.7	5.8
Life ordinary business	**1.8**	0.8
Pension business	**7.9**	5.0
	9.7	5.8

4. NET INVESTMENT RETURN

	2021 £m	2020 (Restated) £m
Investment income:		
Income from land and buildings	**31.2**	23.2
Income from other investments	**198.2**	167.9
Net gains on the realisation of investments	**118.3**	94.1
Net return on pension schemes (Note 24)	**1.5**	1.8
	349.2	287.0
Investment expenses and charges	**(15.3)**	(13.2)
Net unrealised gains/(losses) on investments	**298.2**	(269.5)
Net Investment return	**632.2**	4.3

5. OTHER INCOME

	2021 £m	2020 (Restated) £m
Fee income in respect of investment contracts (Note 14)	**10.7**	9.3
Advice and Commission income	**20.3**	18.5
Dental Membership and Administration Fee Income	**16.9**	14.1
Unit Trust Management Fee income	**2.9**	2.4
Other Income	**0.4**	0.2
	51.2	44.6

6. CLAIMS INCURRED

	2021 Gross £m	2021 Reinsurance £m	2021 Net £m	2020 Gross £m	2020 Reinsurance £m	2020 Net £m
Claims paid	**401.8**	**(8.2)**	**393.6**	301.4	(11.4)	290.0
Claims handling expenses	**1.1**	**–**	**1.1**	1.1	–	1.1
	402.9	**(8.2)**	**394.7**	302.5	(11.4)	291.1
Change in provision for claims	**(1.8)**		**(1.8)**	4.9	–	4.9
	401.1	**(8.2)**	**392.9**	307.4	(11.4)	296.0
Analysed by type of benefit:						
Death claims			**34.8**			31.9
Maturities			**47.8**			47.7
Surrenders*			**243.9**			148.9
Annuities			**49.2**			50.5
Income protection claims			**17.2**			17.0
			392.9			296.0

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

	2021 £m	2020 £m
Death claims	**5.5**	3.5
Maturities	**38.4**	26.2
Surrenders*	**75.9**	50.6
	119.8	80.3

* During 2021 the Society closed the Self-Invested Personal Pension Plan (SIPP) product operated by Wesleyan Bank. This resulted in customer claim surrenders of c£85m, of which c£70m of customer premiums were reinvested back into other Society Pension Products.

7. NET OPERATING EXPENSES - GROUP

	2021 £m	2020 (Restated) £m
Staff Costs (Note 8)	**105.8**	94.8
Regulatory, Professional and Admininstration Fees	**19.8**	18.8
Information Systems, Maintenance and Rent	**15.1**	13.3
Amortisation and Impairment of Intangibles (inc. Goodwill)	**18.4**	16.6
Depreciation and Impairment of Tangible Fixed Assets	**5.1**	6.1
Impairment (write-back)/charge for Credit Losses	**(1.7)**	8.0
Other Operating Expenses	**7.8**	8.9
Reinsurance Profit Share/Commission	**(2.2)**	(2.3)
Net Operating Expenses	**168.1**	164.2

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

	2021 £'000	2020 £'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	**451**	361
Fees payable to the Society's auditor for other services:		
The audit of the Society's subsidiaries	**280**	295
The audit of the Society's pension scheme	**28**	27
Audit-related assurance services	**200**	196

8. STAFF COSTS - GROUP

	2021 £m	2020 (Restated) £m
Salaries and wages	**90.0**	80.0
Social security costs	**9.6**	8.8
Pension cost	**6.2**	6.0
	105.8	94.8

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

	2021 Number	2020 Number
Wesleyan Financial Services Sales Advisors	**298**	343
General	**1,229**	1,182
	1,527	1,525

Note: Details of Directors' Remuneration are given in the Directors' Remuneration Report, Directors' Remuneration Policy and the Annual Report on Remuneration, on pages 68 to 80.

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9. TAXATION

	Group		Society	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Analysis of tax in the year:				
Current tax:				
UK corporation tax credit/(charge) on income and gains	**(1.9)**	(6.3)	**–**	(6.6)
Foreign tax	**(3.0)**	(3.0)	**(3.0)**	(3.0)
Adjustments in respect of prior periods	**0.9**	(0.8)	**–**	0.4
Total current tax charge	**(4.0)**	(10.1)	**(3.0)**	(9.2)
Deferred tax:				
Origination and reversal of timing differences	**(18.3)**	17.4	**(19.9)**	16.1
Movement on deferred tax on pension scheme	**(2.0)**	(0.4)	**(2.0)**	(0.4)
Total deferred tax (charge)/credit	**(20.3)**	17.0	**(21.9)**	15.7
Total tax (charge)/credit	**(24.3)**	6.9	**(24.9)**	6.5

The tax charge for the Society which pays BLAGAB tax is provided at a rate of 20% (2020: 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% (2020: 19%). In March 2021, the UK Government announced its intention to introduce legislation to increase the main rate of corporation tax from 19% to 25% from 1 April 2023. This was substantively enacted during 2021. Deferred taxes at the balance sheet date are measured at the rate which best reflects the expected corporation tax rate when the timing differences unwind.

The tax expense for the subsidiaries is affected by current tax 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 £85.4m (2020: £64.2m) within subsidiaries of the Wesleyan Group have not been recognised owing to uncertainty around their recovery.

10(A). OTHER FINANCIAL INVESTMENTS

		Group		Society	
	Note	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Financial assets at fair value:					
Shares and other variable yield securities		**2,904.3**	2,516.0	**2,904.3**	2,516.0
Debt and other fixed income securities		**1,910.7**	1,988.9	**1,940.7**	2,018.9
Derivative financial instruments	10(E)	**65.3**	106.0	**65.3**	106.0
Deposits with credit institutions		**387.9**	241.5	**265.8**	194.7
Financial assets at amortised cost:					
Other loans*		**486.0**	380.7	**–**	–
		5,754.2	5,233.1	**5,176.1**	4,835.6

* Other Loans represent unsecured retail loans of £26.2m (2020: £15.5m) and commercial loans and leases of £459.8m (2020: £365.3m) which are net of an impairment loss provision of £9.3m (2020: £12.9m). Collateral in the form or property and other assets is held against the long term secured commercial loans and leases.

The table above shows financial assets which are classified as other financial investments. Other financial assets and liabilities are disclosed within the Balance Sheet, and are all held at amortised cost.

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 £0.1m (2020: £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 £30.1m (2020: £30.1m). This relates primarily to loans issued to fellow Group companies.

10(B). ASSETS HELD TO COVER LINKED LIABILITIES

	Group		Society	
	2021 £m	2020 £m	2021 £m	2020 £m
Financial assets at fair value:				
Shares and other variable yield securities	**1,004.5**	919.3	**1,004.5**	919.3
Debt and other fixed income securities	**163.7**	165.1	**163.7**	165.1
Deposits with credit institutions	**138.1**	112.7	**138.1**	112.7
	1,306.3	1,197.1	**1,306.3**	1,197.1

All assets held to cover linked liabilities are listed investments with the exception of deposits with credit institutions.

10(C). ASSETS SUBJECT TO CREDIT RISK

	Society	
	2021 £m	2020 £m
AAA	**113.6**	146.2
AA	**1,351.8**	1,411.7
A	**254.4**	289.4
BBB	**682.3**	594.5
Below BBB or not rated	**171.5**	155.6
Total assets bearing credit risk	**2,573.6**	2,597.4
Derivative financial instruments	**65.3**	106.0
Sovereign Debt securities	**1,210.4**	1,350.7
Other Debt securities	**894.0**	833.3
Deposits with credit institutions*	**403.9**	307.4
Total assets bearing credit risk	**2,573.6**	2,597.4

* The Group Balance Sheet includes additional amounts within Wesleyan Bank for deposits with credit institutions of £119.4m (2020: £44.2m) which are rated A and above, as well as a £2.7m (2020: £2.6m) holding within Wesleyan Unit Trust Managers Limited's (WUTM) unit trusts funds.

	2021 £m	2020 £m
Analysis of sovereign debt securities is as follows:		
UK	**1,136.4**	1,306.3
USA	**48.8**	21.7
Germany	**1.7**	1.9
France	**2.4**	2.5
European Investment Bank	**21.1**	18.3
	1,210.4	1,350.7

	2021 £m	2020 £m
Analysis of maturity of sovereign and other debt securities:		
Less than 1 year	**114.7**	102.2
1-5 years	**606.9**	546.3
More than 5 years	**1,382.8**	1,535.4
	2,104.4	2,183.9

10(D). INVESTMENT PROPERTY

A reconciliation of investment property is shown below:	Total £m	Other freehold properties £m	Long leasehold properties £m
Current Value:			
At 1 January 2021	**367.5**	353.1	14.4
Additions	**25.9**	25.9	–
Gain on fair value adjustments	**14.9**	11.2	3.7
Disposals	**(13.3)**	(10.7)	(2.6)
At 31 December 2021	**395.0**	379.5	15.5
Cost:			
At 1 January 2021	**338.5**	326.8	11.8
Additions	**26.0**	26.0	–
Disposals	**(2.1)**	(0.4)	(1.8)
At 31 December 2021	**362.4**	352.4	10.0

10(E). DERIVATIVE FINANCIAL INSTRUMENTS

	2021			2020		
	Contract/ Notional Amount £m	**Fair Value Asset £m**	**Fair Value Liability £m**	Contract/ Notional Amount £m	Fair Value Asset £m	Fair Value Liability £m
Swaps	**184.9**	**48.4**	**–**	211.8	76.4	–
Swaptions	**144.4**	**0.4**	**–**	163.1	0.2	–
Equity Put Option	**126.7**	**16.5**	**–**	126.7	29.4	–
FX Forward	**2.8**	**–**	**(2.5)**	–	–	–
Total	**458.8**	**65.3**	**(2.5)**	501.6	106.1	–

Swap rates were in the range - 0.5% - 1.1% (2020: 0.1% - 0.6%).

11. OTHER DEBTORS

	Group		Society	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Amounts due from subsidiary undertakings	**–**	–	**1.1**	–
Income receivable	**6.3**	6.5	**–**	–
Other debtors	**5.7**	6.3	**3.9**	1.9
Deferred tax asset	**7.1**	5.5	**–**	–
	19.1	18.3	**5.0**	1.9

	Group		Society	
Movement in the deferred tax asset	**2021 £m**	2020 £m	**2021 £m**	2020 £m
At 1 January 2021	**5.5**	4.2	**–**	–
Credited during the year	**1.6**	1.3	**–**	–
At 31 December 2021	**7.1**	5.5	**–**	–

Deferred tax assets included in Other Debtors consist of losses and other timing differences which relate to subsidiary undertakings.

12A. INTANGIBLE ASSETS AND GOODWILL

		Group			
	Total £m	Computer Software £m	Assets in course of construction* £m	Customer Lists £m	Goodwill** £m
Cost:					
At 1 January 2021	**174.5**	92.5	10.1	16.8	55.1
Additions	**15.9**	1.5	14.4	–	–
Disposals	**(4.0)**	(2.5)	–	–	(1.5)
Transfers	–	14.0	(14.0)	–	–
Reclassification***	**0.9**	0.9	–	–	–
At 31 December 2021	**187.3**	106.4	10.5	16.8	53.6
Accumulated Amortisation:					
At 1 January 2021	**76.9**	41.1	–	8.5	27.3
Charge during the year	**18.4**	12.5	–	1.7	4.2
Disposals	**(2.0)**	(2.0)	–	–	–
Reclassification***	**0.5**	0.5	–	–	–
At 31 December 2021	**93.8**	52.1	–	10.2	31.5
Net Book Amount					
At 31 December 2021	**93.5**	54.3	10.5	6.6	22.1
At 31 December 2020	**97.6**	51.4	10.1	8.3	27.8

		Society			
	Total £m	Computer Software £m	Assets in course of construction* £m	Customer Lists £m	Goodwill £m
Cost:					
At 1 January 2021	**101.0**	91.0	10.0	–	–
Additions	**14.6**	0.1	14.5	–	–
Disposals	**(2.5)**	(2.5)	–	–	–
Transfers	–	14.0	(14.0)	–	–
Reclassification	–	–	–	–	–
At 31 December 2021	**113.1**	102.6	10.5	–	–
Accumulated Amortisation:					
At 1 January 2021	**41.0**	41.0	–	–	–
Charge during the year	**11.4**	11.4	–	–	–
Disposals	**(1.7)**	(1.7)	–	–	–
Reclassification	–	–	–	–	–
At 31 December 2021	**50.7**	50.7	–	–	–
Net Book Amount					
At 31 December 2021	**62.4**	51.9	10.5	–	–
At 31 December 2020	**60.0**	50.0	10.0	–	–

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

** Goodwill arising on consolidation was reduced in 2021 following receipt of deferred consideration. This has been shown as a goodwill disposal in the period.

*** Includes items reclassified from Tangible Fixed Assets

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12B. 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
Cost or Valuation:						
At 1 January 2021	**48.4**	21.4	7.2	8.3	7.7	3.8
Additions	**3.6**	–	1.1	0.3	2.1	0.1
Disposals	**(5.8)**	–	(0.3)	(1.0)	(3.6)	(0.9)
Reclassification***	**(0.9)**	–	0.3	(1.2)	–	–
Revaluations	**(6.4)**	(6.4)	–	–	–	–
At 31 December 2021	**38.9**	15.0	8.3	6.4	6.2	3.0
Accumulated Depreciation:						
At 1 January 2021	**14.5**	–	3.2	7.0	3.1	1.2
Charge during the year	**5.1**	1.0	0.8	0.7	1.9	0.7
Disposals	**(4.2)**	–	(0.1)	(1.2)	(2.4)	(0.5)
Reclassification***	**(0.5)**	–	0.4	0.9	–	–
Revaluations	**(1.0)**	(1.0)	–	–	–	–
At 31 December 2021	**13.9**	–	4.3	5.6	2.6	1.4
Net Book Amount						
At 31 December 2021	**25.0**	15.0	4.0	0.8	3.6	1.6
At 31 December 2020	**33.9**	21.4	4.0	1.3	4.6	2.6

Society

	Total £m	Freehold buildings and Leasehold property* £m	Furniture and Fittings £m	Computer Hardware £m	Equipment for Hire £m	Motor Vehicles** £m
Cost or Valuation:						
At 1 January 2021	**36.9**	21.4	6.3	5.5	–	3.7
Additions	**1.3**	–	1.0	0.1	–	0.2
Disposals	**(1.1)**	–	(0.1)	(0.1)	–	(0.9)
Reclassification	**–**	–	–	–	–	–
Revaluations	**(6.4)**	(6.4)	–	–	–	–
At 31 December 2021	**30.7**	15.0	7.2	5.5	–	3.0
Accumulated Depreciation:						
At 1 January 2021	**8.7**	–	2.7	4.7	–	1.3
Charge during the year	**2.9**	1.0	0.6	0.6	–	0.7
Disposals	**(0.8)**	–	–	(0.2)	–	(0.6)
Reclassification	**–**	–	–	–	–	–
Revaluations	**(1.0)**	(1.0)	–	–	–	–
At 31 December 2021	**9.8**	–	3.3	5.1	–	1.4
Net Book Amount						
At 31 December 2021	**20.9**	15.0	3.9	0.4	–	1.6
At 31 December 2020	**28.2**	21.4	3.6	0.8	–	2.4

*Freehold buildings include the owner occupied section of the Head Office property. The property was revalued on 1 December 2021 by independent qualified surveyors. The basis of valuation used is open market value net of cost of purchase.

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

*** Includes items reclassified as Intangible Fixed Assets

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.

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

Fund for Future Appropriations

	Group		Society	
	2021 £m	2020 £m	2021 £m	2020 £m
At 1 January 2021	**564.9**	598.2	**552.0**	594.1
Transfer to/(from) Profit and Loss Account	**2.7**	(43.5)	**15.2**	(52.5)
Transfer from Other Comprehensive Income	**21.5**	10.2	**21.5**	10.4
At 31 December 2021	**589.1**	564.9	**588.7**	552.0

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.

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

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 2021 £m	MSSF 2021 £m	Total 2021 £m	OILTBF 2020 £m	MSSF 2020 £m	Total 2020 £m
Fund for Future Appropriations	**589.1**	**–**	**589.1**	564.9	–	564.9
Adjustments to assets	**(93.1)**	**–**	**(93.1)**	(97.5)	–	(97.5)
Adjustments to liabilities	**137.1**	**40.3**	**177.4**	133.2	56.1	189.3
Total available capital resources	**633.1**	**40.3**	**673.4**	600.6	56.1	656.7
Other adjustments	**(97.4)**	**(10.7)**	**(108.1)**	(87.7)	(25.7)	(113.4)
Eligible Own Funds to meet SCR	**535.7**	**29.6**	**565.3**	512.9	30.4	543.3
Solvency Capital Requirement	**154.9**	**29.6**	**184.5**	142.6	30.4	173.0
Cover for Solvency Capital Requirement	**346%**	**100%**	**306%**	360%	100%	314%

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.

(VI) MOVEMENTS IN AVAILABLE CAPITAL RESOURCES IN PERIOD

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

	2021 £m	2020 £m
Total value of investment assets	**7,166.4**	6,671.6
Value of reinsurance	**16.5**	22.6
Total Assets	**7,182.9**	6,694.2
With profits technical provisions		
– With profits benefit reserve	**4,030.5**	3,607.4
– Options & Guarantees	**146.8**	155.3
Linked technical provisions	**1,253.5**	1,151.6
Other Life technical provisions	**836.0**	897.9
Health technical provisions	**85.3**	96.2
Other liabilities	**157.3**	129.1
Total Liabilities	**6,509.5**	6,037.5
Total Available Capital Resources	**673.4**	656.7
Solvency Capital Requirement	**184.5**	173.0
Total Surplus Capital	**488.9**	483.7

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

	OILTBF £m	MSSF £m	**Total business £m**
Balance at 1 January 2021	512.9	30.4	**543.3**
Modelling improvements	(0.4)	(0.1)	**(0.5)**
Effect of method changes	(7.1)	(12.8)	**(20.0)**
Effect of investment variations	33.3	5.7	**39.0**
Effect of experience variations	0.7	(13.8)	**(13.1)**
Effect of assumption changes	0.6	–	**0.6**
New Business	(2.1)	–	**(2.1)**
Effect of pension surplus	28.8	–	**28.8**
Effect of expense variances	(15.4)	–	**(15.4)**
Increase in risk margin	8.5	–	**8.5**
Excess surplus distribution	(25.0)	–	**(25.0)**
Other factors	4.2	5.2	**9.4**
Bank FCI adjustment	(3.4)	–	**(3.4)**
Restricted MSSF own funds	–	15.0	**15.0**
Balance at 31 December 2021	535.7	29.6	**565.3**

The table above shows key elements of the movements in Own Funds in 2021. Eligible Own Funds in the Open Fund increased by £23m, mainly due to strong investment returns increasing Own Funds by £33m and higher Wesleyan Staff Pension Scheme surplus, £29m, partially offset by a provision for distribution of excess surplus to policyholders of £25m. The risk-free interest rates used to value technical provisions published by the PRA were updated in 2021 to be based on Sterling Overnight Index Average (SONIA), a sustainable and market observable rate, which led to a one off reduction in available capital resources of £20m.

The impact from changes to insurance assumptions is also shown, including those relating to persistency, morbidity and expense assumption changes. These affect Own Funds as the assumptions have an impact on costs of guarantees, options and smoothing, the value of in-force business and the with profits benefit reserve. There were no changes in management policy assumed for determining the cost of guarantees, options and smoothing, and no significant changes in regulation.

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.
- Longevity risk in relation to annuity business, which would arise if the mortality of annuitants improved more rapidly than the assumptions used for reserving.
- Future lapse risk in relation to With Profits business, which would arise if policyholders lapsed less and thus more maturity guarantees were used in adverse market conditions

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

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.

The separate investment strategy for the assets backing policy asset shares described in the Market Risk Overview on page 107 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**	**2021 £m**	2020 £m
Demographic			
Longevity improvement	20.0%	**35.3**	35.9
Morbidity level (inceptions and terminations)	25.0% / (20.0%)	**7.4**	8.5
Change to future lapses	(50.0%)	**27.3**	38.0
Expense (level and inflation increase)	10.0% / 1.0%	**3.6**	4.0
Economic			
Equity level fall	46.1%	**55.5**	56.1
Credit stress - reduction in value of AA rated corporate bond (term 10 / 15 / 20)	8.5% / 11.0% / 13.5%	**50.0**	53.2
Interest rate rise (term 10 / 15/ 20)	1.0% / 1.0% / 1.0%	**29.4**	23.1
Property level fall	25.0%	**10.8**	12.7
Counterparty (credit quality 1-5+)	0.01%/ 0.1%/ 0.2%/ 1.2%/ 4.2%	**4.0**	4.4

The table above shows sensitivities to movements in the assumptions used at 31 December 2021 on Pillar I Own Funds, after transfer of losses 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. Reductions in interest rates have increased the Society's exposure to most risks. The biggest change this year is a reduction in lapse risk as a result of strong investment returns, which reduced the value of policyholder guarantees and sensitivity to lapses.

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

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

(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 2021 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.

COUNTERPARTY

Probability of counterparty default.
This sensitivity shows the impact of counterparty default in relation to the Society's holdings of short term deposits, reinsurance, and derivatives. In the event of a default these assets will reduce in value, potentially to nil.

INTEREST RATES

Stress to yield curve, as shown in table below:

Term (years)	5	10	15	20	25
Interest rate before stress (% per annum)	1.05	0.95	0.91	0.88	0.85
Interest rate after stress (% per annum)	2.05	1.95	1.91	1.88	1.85
Change	1.00	1.00	1.00	1.00	1.00

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.

Technical Provisions summary

Shown in the tables below are the total technical provisions of the Group at the end of 2021. 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. The technical provisions for the Society are £0.8m lower (2020: £24.9m lower) than the Group technical provisions explained below, resulting from valuing subsidiaries at fair value within the Society.

Liability Analysis	OILTBF 2021 £m	MSSF 2021 £m	Total business 2021 £m	OILTBF 2020 £m	MSSF 2020 £m	Total business 2020 £m
With profits liabilities						
Options and guarantees	**98.1**	**165.5**	**263.5**	102.9	162.7	265.6
Other policyholder obligations	**3,596.2**	**495.1**	**4,091.2**	3,190.5	495.8	3,686.3
Total with profits liabilities	**3,694.2**	**660.5**	**4,354.7**	3,293.4	658.5	3,951.9
Non-profit life assurance	**919.8**	**1.5**	**921.3**	992.2	2.0	994.2
Total long-term business provision	**4,614.0**	**662.1**	**5,276.0**	4,285.6	660.5	4,946.1
Linked provisions	**1,306.3**	**–**	**1,306.3**	1,197.1	–	1,197.1
Technical provisions in balance sheet	**5,920.3**	**662.1**	**6,582.4**	5,482.7	660.5	6,143.2

	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 2021	4,205.8	740.3	4,946.1	1,197.1	**6,143.2**
Change in technical provisions	230.9	99.1	330.0	109.2	**439.2**
At 31 December 2021	4,436.7	839.4	5,276.1	1,306.3	**6,582.4**
Reinsurers' share					
At 1 January 2021	22.3	–	22.3	–	**22.3**
Change in technical provisions	(6.0)	–	(6.0)	–	**(6.0)**
At 31 December 2021	16.3	–	16.3	–	**16.3**
Net provision					
At 1 January 2021	4,183.5	740.3	4,923.8	1,197.1	**6,120.9**
Change in technical provisions	236.9	99.1	336.0	109.2	**445.2**
At 31 December 2021	4,420.4	839.4	5,259.8	1,306.3	**6,566.1**

Change in technical provision for linked liabilities

	2021 £m	2020 £m
The change in liabilities on investment contracts comprises:		
Premiums received (Note 3(a))	**70.2**	42.1
Claims paid (Note 6)	**(119.8)**	(80.3)
Fee income deducted (Note 5)	**(10.7)**	(9.3)
	(60.3)	(47.5)
Allocation of net investment return	**169.5**	(35.1)
Change in technical provision for linked liabilities	**109.2**	(82.6)

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

Change in long-term business provision

	2021			2020		
	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	**(2.4)**	**(3.2)**	**(5.6)**	17.4	5.0	22.4
Net investment return on technical provisions	**321.1**	**76.7**	**397.8**	(11.2)	(17.5)	(28.7)
Other	**(87.7)**	**25.5**	**(62.2)**	(102.5)	14.3	(88.2)
Increase in long-term business provision	**231.0**	**99.0**	**330.0**	(96.3)	1.8	(94.5)
Reinsurers Share						
Change in liabilities comprises:						
Assumption and method changes	**-**	**-**	**-**	(4.5)	-	(4.5)
Net investment return on technical provisions	**(0.2)**	**-**	**(0.2)**	1.1	-	1.1
Other	**(5.8)**	**-**	**(5.8)**	(33.6)	-	(33.6)
Increase in long-term business provision	**(6.0)**	**-**	**(6.0)**	(37.0)	-	(37.0)

Key changes in liability during 2021 result from:

- Positive investment returns, which result in a £470m increase in liabilities, (shown in 'net investment return on technical provisions' in the table above).
- Various demographic and economic assumption changes have been made during the year, including persistency, morbidity and expense assumptions.
- 'Other' factors include net offs (in particular run-off of legacy business in the MSS Fund), reduction in risk margin, and reduction in MSSF surplus, partially offset by a provision for distribution of excess surplus to Open Fund policyholders.

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 2021. No market value reductions (MVRs) applied on early surrender or transfer at that date, and no MVRs were applied during 2021.

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

Option costs arise from the cost of providing guaranteed annuity options at retirement for pension contracts where the annuity provided is on more favourable terms than those implied by market interest rates. Guaranteed annuity options are generally considerably in the money but apply to relatively few policies, except in the MSS Fund where derivative assets are held to hedge the interest rate risk. This liability was stable over 2021 as higher interest rates, which reduce the value of the guarantee, were offset by positive investment returns, which increase the value at retirement used to purchase the guarantee.

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.

Expenses are assumed to inflate in line with RPI inflation over the long term. This rate is based on the implied price inflation curve from UK Government long dated index-linked and conventional gilts. In addition, a reserve is being held to allow for anticipated higher project costs over the short term.

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. Long term best estimate assumptions have not been adjusted for Covid-19 impacts, as this is still highly uncertain. However, the Society is holding short term provisions to reflect the potential for higher morbidity and mortality that may result

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. 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 expected 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)	**2021** **£**	2020 £
Open Fund		
Ordinary business		
Life – Premium Paying	**101.31**	96.00
Life – Single Premium/Paid Up	**101.31**	96.00
Pensions – Premium Paying	**106.59**	101.00
Pensions – Single Premium/Paid Up	**106.59**	101.00
Group Locum	**69.65**	66.00
Income Protection	**99.20**	94.00
Life and Pensions – Annuities	**87.59**	83.00
Industrial assurance business		
Premium Paying	**9.33**	8.83
Paid Up	**2.33**	2.21
MSS Fund		
Pensions – Premium Paying	**164.00**	155.00
Income Protection	**123.00**	116.00
Life – Premium Paying, Pensions – Single Premium/Paid Up	**82.00**	78.00

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

	2021 %	2020 %
% of Premium Expenses		
Open Fund		
Industrial assurance business		
Premium Paying/Premium Loan	**22.00%**	22.00%
Investment Expenses – % of fund		
Open Fund	**0.085%**	0.099%
MSS Fund	**0.080%**	0.080%

	2021 %	2020 %
Mortality		
Ordinary business		
Life assurances	**60%/70% AMC/AFC00 U**	60%/70% AMC/AFC00 U
Pensions in Payment - Wes	**None in deferment 130%/120% PMA/PFA08**	None in deferment 130%/120% PMA/PFA08
Pensions in Payment - ASW	**85% AM/AF92 U in deferment: 125%/140% PMA/ PFA08**	85% AM/AF92 U in deferment: 125%/140% PMA/ PFA08
Pension term assurance	**90%/80% AMC/AFC00**	90%/80% AMC/AFC00
Pension in Payment - Medics	**95%/80% PMA/PFA08**	95%/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)	1.05	0.95	0.91	0.88	0.85

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	2021 £m	2020 £m
Bonuses paid as claims (including terminal bonus)	**91.4**	84.7
Bonuses allocated to policies in-force at 31 December	**3.4**	2.7
Total	**94.8**	87.4

15. PROVISIONS FOR OTHER RISKS

Group	Net Deferred Tax £m	Other £m	Total £m
At 1 January 2021	69.8	1.3	**71.1**
Charged during the year	21.9	0.5	**22.4**
At 31 December 2021	91.7	1.8	**93.5**

Society	Net Deferred Tax £m	Other £m	Total £m
At 1 January 2021	69.8	–	**69.8**
Charged during the year	21.9	–	**21.9**
At 31 December 2021	91.7	–	**91.7**

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

Society	2021 £m	2020 £m
Timing differences in respect of investment values	**86.6**	64.6
Deferred tax on pension asset	**8.3**	6.5
Deferred acquisition costs	**(1.7)**	(2.0)
Deferred tax on current year losses	**(2.1)**	–
Other timing differences	**0.6**	0.7
	91.7	69.8

The provision for deferred tax on unrealised gains on linked assets is included in the provision for linked liabilities and amounts to £6.3m (2020: £4.6m).

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred taxes relate to the same fiscal authority.

There are overall deferred tax liabilities in both years, and within these liabilities deferred tax assets have been offset where they meet the criteria above.

Deferred tax assets arising from certain capital losses, excess management expenses, surplus trading losses and capital allowances are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Deferred tax assets of £7.1m (2020: £5.5m) are included in Other Debtors (see Note 11).

These deferred tax assets consist of losses and other timing differences which relate to subsidiary undertakings, with £1.6m credit (2020: £1.3m credit) recognised in through the Group Technical Account - Long-term Business.

The total deferred tax charge recognised in the Group Technical Account - Long-term Business is £20.3m (see Note 9).

In the next 12 months we expect the net reversal of deferred tax assets and deferred tax liabilities to be £2.1m (2020: £nil) for the Group of which £2.1m (2020: £nil) relates to the Society.

The £2.1m (2020: £nil) for the Group and Society is due to excess management expenses over income.

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 2021, £16.3m (2020: £21.2m) of this deposit remains outstanding.

17. REINSURANCE

The gains and losses recognised in the Statement of Comprehensive Income at 31 December 2021 relating to reinsurance amounted to a credit of £0.4m (2020: charge of £6.1m).

18. OTHER CREDITORS

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Trade creditors	**8.4**	5.5	**–**	–
Investment contract creditors	**5.5**	3.9	**5.5**	3.9
Contract purchase agreements	**1.6**	2.6	**1.6**	2.6
Amounts payable to subsidiary undertakings	**–**	–	**3.1**	4.5
Other creditors	**4.0**	3.4	**2.5**	2.0
Taxation and social security	**5.8**	5.7	**2.7**	2.3
	25.3	21.1	**15.4**	15.3

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

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Under one year	**0.9**	0.7	**0.9**	0.7
In the second to fifth years inclusive	**0.7**	1.9	**0.7**	1.9
	1.6	2.6	**1.6**	2.6

19. CAPITAL COMMITMENTS

Commitments authorised or contracted for but for which no provision had been made at the balance sheet date totalled £1.1m (2020: £2.4m) and predominantly relate to business transformation projects.

20. FINANCIAL COMMITMENTS

At 31 December 2021, the Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

Payments due	**2021 £m**	2020 (Restated) £m
Not later than one year	**0.8**	0.8
Later than one year and not later than five years	**0.6**	1.4
	1.4	2.2

21. INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

	2021 £m	2020 £m
At 1 January	**95.2**	85.9
Fair value adjustment	**28.5**	9.3
At 31 December	**123.7**	95.2

All subsidiaries have been valued using either present value techniques with forecasts based on the financial projections of the Group, or based on their surplus capital. The valuations based on financial projections are sensitive to changes in short term profits and discount rates used, so can fluctuate significantly from one year to the next.

A discount rate of 8.5% (2020: 8.0%) has been used for Practice Plan Holdings Limited (and all associated subsidiaries) and a discount rate of 13.8% (2020: 12.3%) has been used for Wesleyan Unit Trust Managers Limited.

NOTES TO THE ACCOUNTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2021

21. INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS CONTINUED

The directly held subsidiary undertakings of the Society at 31 December 2021 are shown below.

Company	Percentage Held	Principal Activities
Wesleyan Trustees Limited	100%	To provide nominee services to the Trustee of the Wesleyan Staff Pension Scheme.
Wesleyan Unit Trust Managers Limited	100%	To act as the operator of the Wesleyan range of unit trusts.
Wesleyan Bank Limited	100%	To provide banking and unsecured lending services.
Wesleyan Administration Services Limited	100%	To provide administrative services to members of the Group.
Wesleyan Financial Services Limited	100%	To act as the distribution arm of the Group's insurance and investment activities.
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.
Wesleyan SIPP Trustees Limited	100%	To act as bare trustee of the Wesleyan SIPP.
Wesleyan Staff Pension Trustees Limited	100%	To act as corporate trustee of Wesleyan Staff Pension Scheme.
Medical Sickness Financial Planning Limited	100%	Dormant company
Medical Sickness Annuity and Life Assurance Society Limited	100%	Dormant company
Medical Sickness Society Limited	100%	Dormant company
Medical Sickness Limited	100%	Dormant company

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.

The indirectly held subsidiary undertakings of the Society as at 31 December 2021 are shown below. These entities are subsidiaries of Wesleyan Bank Limited or Practice Plan Holdings Limited.

Company	Percentage Held Indirectly	Principal Activities
Practice Plan Holdings 2007 Limited	100%	Intermediary holding company
Practice Plan Group (Holdings) Limited	100%	Holding company
Practice Plan Group Limited	100%	Intermediary holding company
Practice Plan (Malta) Limited[1]	100%	To carry on business of insurance
Practice Plan Limited	100%	To provide a direct debit collection and administration service for dental practice patient membership schemes
Isoplan Limited	100%	Holding company
Medenta Finance Limited	100%	To provide credit broking services
Worldwide Assistance Limited	100%	To operate a Discretionary Scheme to assist dental plan members in the event that they suffer a dental emergency and/or trauma
Isoplan UK Limited	100%	Dormant company
Isoplan International Limited	100%	Dormant company
Syscap Holdings Limited	100%	Holding company
Syscap Group Limited	100%	Holding company
Serco Paisa Limited	50%	Joint venture with Serco Group plc to effect finance
Syscap Limited	100%	To arrange lease and loan finance
Syscap Leasing Limited	100%	To arrange lease finance and the provision of loans and associated services
DPAS Limited	100%	To act on behalf of dental practices and patient customers to provide and administer private dental plans
DPAS Investment and Consultancy Services Limited	100%	To carry out consultancy and research activities
Quality Plan Limited	100%	Dental insurance
Segregated Account 152	100%	Dental insurance

[1] Incorporated in Malta

[2] Incorporated in Bermuda

21. INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS CONTINUED

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 2020 financial year.

Companies exempt from audit	
Wesleyan Administration Services Limited	(Registered Number: 05188850)
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)
Syscap Limited	(Registered Number: 02471568)
Syscap Leasing Limited	(Registered Number: 02718043)
Quality Plan Limited	(Registered Number: NI067553)
Worldwide Assistance Limited	(Registered Number: 10907861)
DPAS Investment and Consultancy Services Limited	(Registered Number: 07606856)

22. CONTINGENT LIABILITIES

The balance sheet of Wesleyan Bank Limited ("the Bank") includes loans to customers amounting to £0.2m (2020: £0.3m), 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, 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. As at 31 December 2021 no amounts were drawn down on this agreement and as part of the completion of the sale of Wesleyan Bank this agreement was revoked in February 2022.

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 21 as exempt from audit, to enable them to meet their individual liabilities in order to protect and enhance its investments in these subsidiary companies.

Wesleyan Assurance Society entered a deed of guarantee dated 5 July 2017 in favour of the Governor and Company of the Bank of England acting for itself and on behalf of and as agent for the Bank of England Asset Purchase Facility Fund (BEAPFF). This was to cover Wesleyan bank's liabilities under the Funding for Lending Scheme, and subsequently this has been replaced with a further scheme.

As at 31 December 2021 Wesleyan Bank's liability under this facility was £98.5m (31 December 2020: £13.0m).

Following the sale of Wesleyan Bank on 28 February 2022, the guarantee is intended to be novated to Hampshire Trust Bank Plc. Until it is novated, Hampshire Trust Bank plc indemnify the Society against liabilities under the guarantee. There were no defaults on this loan prior to this date.

23. GENERAL BUSINESS

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

In order to comply with the EC Directive 2009/138/EC and PRA GENPRU 2.1.30 the Society holds capital to meet the absolute floor of the minimum capital requirement of €3.7m (2020: €3.7m).

24. PENSION SCHEMES

The Society operates a defined benefit pension scheme – Wesleyan Staff Pension Scheme ("the Scheme"), which since 1 October 2009 has been closed to new entrants, with new members of the Society from 1 October 2009 eligible to join the Society's defined contribution scheme. The Scheme is fully funded with the assets of the scheme held in a separate fund administered by the Corporate Trustee. The Scheme closed to future accrual of benefits on 5 April 2016.

The most recent valuation of the Scheme was as at 31 December 2018. 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 2018 have been adjusted to the balance sheet date taking account of experience over the period since 31 December 2018, 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

	2021 £m	2020 £m	2019 £m
Total market value of assets	**564.8**	559.8	517.4
Present value of funded defined benefit obligations	**(426.2)**	(450.1)	(420.1)
Present value of unfunded defined benefit obligations	**(7.1)**	(7.0)	(6.2)
Surplus in Scheme	**131.5**	102.7	91.1
Related deferred tax liability	**(8.3)**	(6.5)	(6.0)
Net pension asset recognised on balance sheet	**123.2**	96.2	85.1

Analysis of surplus

	2021 £m	2020 £m
Surplus in Scheme at beginning of year	**102.7**	91.1
Past service cost	–	(0.5)
Contributions	**0.4**	0.3
Other finance income	**1.5**	1.8
Actuarial gain recognised in other comprehensive income	**26.9**	10.0
Surplus in Scheme at end of year	**131.5**	102.7

Analysis of statement of comprehensive income credit/(charge)

	2021 £m	2020 £m
Past service cost	–	(0.5)
Interest on net defined benefit asset	**1.5**	1.8
Total credit recognised in statement of comprehensive income	**1.5**	1.3

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

	2021 £m	2020 £m
Opening defined benefit obligation	**457.1**	426.3
Interest cost	**6.5**	8.4
Actuarial losses on liabilities	**(13.6)**	39.0
Net benefits paid out	**(16.7)**	(17.1)
Past service cost	–	0.5
Closing defined benefit obligation	**433.3**	457.1

24. PENSION SCHEMES CONTINUED

Changes to the fair value of Scheme assets during the year

	2021 £m	2020 £m
Opening fair value of assets	**559.8**	517.4
Interest income on Scheme assets	**8.0**	10.2
Actuarial gains on assets	**13.3**	49.0
Contributions by the employer	**0.4**	0.3
Net benefits paid out	**(16.7)**	(17.1)
Closing fair value of assets	**564.8**	559.8

Actual return on assets

	2021 £m	2020 £m
Expected return on assets	**8.0**	10.2
Actuarial gains on assets	**13.3**	49.0
Actual return on assets	**21.3**	59.2

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

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Fair value of assets	**564.8**	559.8	517.4	496.7	526.6
Defined benefit obligation	**(433.3)**	(457.1)	(426.3)	(385.4)	(437.0)
Surplus	**131.5**	102.7	91.1	111.3	89.6

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

	2021 (% p.a.)	2020 (% p.a.)	2019 (% p.a.)
RPI Inflation	**3.40**	3.05	3.15
CPI Inflation	**2.60**	2.25	2.15
Rate of general long-term increase in salaries	**N/A**	N/A	N/A
Pension increases in payment (LPI)	**3.20**	2.95	3.00
Discount rate for Scheme liabilities	**1.95**	1.45	2.00

Scheme asset allocation

	2021 £m	2020 £m	2019 £m
Equities	**0.1**	0.1	0.3
Property	**0.6**	0.7	0.9
Government Bonds	**324.4**	316.8	288.9
Corporate Bonds	**237.1**	238.4	224.0
Other	**2.6**	3.8	3.3
Total	**564.8**	559.8	517.4

24. PENSION SCHEMES CONTINUED

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

Post-retirement mortality:

- 31 December 2021 - S3PxA tables with best estimate individual scaling factors and improvements in line with the CMI 2019 (Sk = 7.0, A = 0.25) projections and a long-term rate of improvement of 1.5% for males and 1.25% for females;
- 31 December 2020 - S3PxA tables with best estimate individual scaling factors and improvements in line with the CMI 2019 (Sk = 7.0, A = 0.25) 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:

	2021 Years	2020 Years
Male current pensioner	**22.6**	22.6
Male future pensioner (member currently aged 45)	**23.7**	23.7
Female current pensioner	**23.6**	23.6
Female future pensioner (member currently aged 45)	**25.4**	25.4

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 2021 £m				Approximate effect on Balance Sheet at 31 December 2021 £m		
	Service cost	**Expenses**	**Net interest cost on defined benefit liability**	**Total pension cost**	Assets (excluding any restriction)	Defined benefit obligation	Surplus
Current figures	–	–	**(2.6)**	**(2.6)**	564.8	(433.3)	131.5
Following a 0.25% p.a. decrease in the discount rate[1]	–	–	**(1.9)**	**(1.9)**	564.8	(454.9)	109.9
Following a 0.25% p.a. increase in the RPI inflation assumption[2]	–	–	**(2.3)**	**(2.3)**	564.8	(450.8)	114.0
Following a one year increase in life expectancy[3]	–	–	**(2.2)**	**(2.2)**	564.8	(454.0)	110.8

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).

25. PRESENTATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In 2021 the Group's accounting policy for the presentation of the Group Income Statement has been revised to disaggregate the gross profits and losses of Society subsidiaries through applicable income and expense lines.

In prior periods the gross profits and losses of subsidiaries were consolidated through 'Other Technical Income and Charges'. This accounting policy change has no impact on the transfer to the Fund for Future Appropriations and is for presentational purposes only

For consistency of presentation, the prior year Consolidated Statement of Comprehensive Income on page 97 has also been restated

The material changes are set out below:

(i) Investment Income

Restated 'Investment Income' includes interest income in relation to Wesleyan Bank Group of £19.9, WUTM Investment income of £1.0m and the elimination of intercompany income of £2.3m.

(ii) Investment Charges

Restated 'Investment Charges' includes £4.8m and £0.2 of interest expense in Wesleyan Bank and Wesleyan Unit Trust Managers Ltd respectively

(iii) Operating Expenses

Restated 'Operating Expenses' includes all expenses of the Society and its Subsidiaries with intercompany balances eliminated.

(iv) Other income

Restated 'Other Income' includes income in relation to WFS advice and commission of £18.5m, Practice Plan membership and administration of £14.1m and WUTM management fees of £2.4m

Previously 'Other Income' included the Gross Profit from Society owned non-insurance subsidiaries which is now allocated between income and expenses.

(v) Other Technical Charges

Prior to restatement 'Other technical charges' included the Gross losses from non-insurance subsidiaries, which is now allocated as indicated above between income and expenses.

Impact of restatement in the Consolidation Statement of Comprehensive Income

	2020 Restated	2020	Movement
Investment Income (Note 4)	287.0	268.4	18.6
Investment Charges (Note 4)	(13.2)	(8.2)	(5.0)
Operating Expenses (Note 7)	(164.2)	(98.1)	(66.1)
Other Income (Note 5)	44.6	15.6	29.0
Other Technical Charges	-	(23.5)	23.5
	154.2	154.2	-
Transfer to FFA	(33.3)	(33.3)	-

26. 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.

26. MEMBERSHIP OF THE SOCIETY CONTINUED

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.

The directors may at any time confer upon any person, firm or company taking out a policy (other than a Qualifying Policy) or purchasing other products of the Society the title of "associate member" or any similar title or name determined by the directors and may, subject to the restrictions in this Rule, confer on or apply to any such associate member such discounts bonuses or other incentives as the directors may from time to time reasonably deem appropriate. Any associate member shall not be a member of the Society, unless such associate member otherwise qualifies as a member of the Society under the Rules, and shall not be entitled to receive notice of, or attend, any annual or other general meeting of the Society nor shall such associate member have any rights to vote at any annual or other general meeting of the Society. The application of the term "associate member" shall not in any way affect the rights and liabilities of a member under the Rules.

The Society also reserves the right to introduce new products which invest in the With Profits Policyholder Fund but are distributed through third parties. Such products would not be Qualifying Products, conferring Membership rights, nor would they create eligibility to become Associate Members.

27. 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 2021 was £75,250 (2020: £158,827). No claims were paid in 2021 (2020: 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. James Needham, the Chief Product Officer, is a Director of the Corporate Trustee. The total contributions by the Society to the scheme during the year were £0.4m (2020: £0.3m).

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 2021 the total assets of the scheme were £124.6m (2020: £108.1m), of which contributions and transfers into the scheme within premium income in the year totalled £11.7m (2020: £15.3m).

Key management personnel are also part of the defined contribution scheme, with the total value of assets in the scheme relating to key management personnel being £1,289,977 as at 31 December 2021 (2020: £2,892,091).

The total employee benefits payable to key management personnel for the year ended 31 December 2021 was £7,089,532 (2020: £5,277,212).

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 £2.7m (2020: £2.6m) investment in these unit trusts, representing 1.1% (2020: 1.4%) of the total balance.

Additionally the Society directly holds an £19.0m (2020: £17.6m) 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.

Amounts owed to group undertakings from the Society relate to Wesleyan Financial Services (£2.8m) and Wesleyan Administration Services (£0.3m).

Amounts owed from group undertakings to the Society relates to Wesleyan Bank Limited (£1.1m).

28. POST BALANCE SHEET EVENT

On 28 February 2022 the Group completed the sale of Wesleyan Bank Limited ("the Bank") and its subsidiaries to Hampshire Trust Bank Plc.

As at 31 December 2021, the fair value of the Bank is £43.0m (2020: £15.1m) and is included in the Society Balance Sheet within Group Undertakings and participating interests (note 21).

The assets and liabilities of the Bank, have been consolidated into the Group Balance Sheet and the Bank's profit for 2021 of £6.0m (2020: loss of £7.0m) has been included in the Consolidated Statement of Income and Expense.

Disposal proceeds from the sale are not finalised but will be based on 55% of the agreed Net Asset Value at the date of completion.

The Group is continuing to monitor developments regarding the conflict between Russia and Ukraine. The Group has no direct exposure to Russia and Ukraine in either its underwriting or investment portfolio.

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.

BLAGAB: Basic life assurance and general annuity business is a term used to distinguish between two types of long-term business for tax purposes.

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 an 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.

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