WESLEYAN

Group Solvency and Financial Condition Report 2019

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CONTENTS

SUMMARY

This Solvency and Financial Condition Report has been prepared as at the reporting date of 31 December 2019 for the reporting period 1 January 2019 to 31 December 2019. The Society holds one insurance subsidiary, Practice Plan Insurance Limited (PPIL) that underwrites non life business. The PPIL non life business is immaterial in comparison to the life business. Wesleyan Assurance Society (the Society) is the participating insurance undertaking (the ultimate parent) to which supervision applies.

The following paragraphs provide a summary of each Section, of this report.

Business and Performance

The entirety of the Group's underwriting relates to business sold in the UK.

The material lines of business written by the Society are:

- Life ordinary regular
- Life ordinary single
- Pension regular
- Pension single
- Health regular
- With Profits ISA regular
- With Profits ISA single

The principal activities of the Society are the provision of financial advice to doctors, dentists, teachers and lawyers and the transaction of long-term insurance business in the UK. The Society administers both reviewable and guaranteed business contracts, and also unit-linked, conventional and income protection insurance.

Complementary to these activities, the Group provides a number of other financial services, through wholly-owned subsidiary undertakings, including retail banking, retail and commercial lending, unit trust management, mortgage broking, acting as a general insurance broker and providing dental patient membership plans (including non-life cover for dental emergency/trauma). With Profits Policyholders share in the profits and losses of these subsidiary companies.

Underwriting income and expenses over the reporting period

Premium income has increased in 2019 following an improvement in new business volumes, with new business premiums having risen by 25%. The increase in premium income has been predominantly driven by With Profits business, with higher sales of pension and investment bond products. Existing business has also remained strong with no unusual variances in lapse rates.

Investment performance over the period

Investment performance in 2019 has been very strong. Our flagship With Profits Fund delivered a return of 15.2% (2018: -2.4%), which is 1.1% ahead of the internal benchmarks we use to monitor our investment performance. Total assets under management are now £8.0bn (2018: £7.2bn).

Further information on Business and Performance is provided in Section A of the report.

System of Governance

The Society has a Governance Strategy in place which sets out the principles by which the Society Board and senior management oversee the Society's business and the means by which members of the Board and senior management are held accountable and responsible for their actions.

An Executive restructure took place in 2019 following the appointment of a new Chief Executive Officer in August 2019. This change was designed to provide a strong foundation on which to grow the business further. Further information on the System of Governance is provided in Section B of the report.

Risk Profile

There have been no material changes to the Society's risk profile.

The Society's risk profile is consistent with its risk appetite. Market risk is the most significant risk for the Society. The Society utilises a selection of different risk mitigation techniques to help it manage its risk exposure including the use of derivatives, reinsurance arrangements and holding collateral. Sensitivity and scenario analysis is used to help the Society to better understand and manage its risk profile and mitigation actions.

Further information on the Risk Profile is provided in Section C of the report.

Valuation for Solvency Purposes

There have been no material changes to the asset or liability valuation bases, methods and assumptions.

Asset shares are calculated on a Pillar 2 basis and include subsidiaries at their fair value. However, subsidiaries are valued at net asset value under Solvency II Pillar 1, which is £31m lower (2018: £56m lower). This £31m valuation difference is held as an asset in the Estate for Pillar 1 ('planned deduction' from asset shares').

As at the reporting date, the value of assets, as reported in the Group's Solvency II balance sheet, was £103m less (2018: £114m less) than that reported in the Group's statutory accounts for financial reporting purposes. This was mainly attributable to the differing valuation methodology applied for subsidiary undertakings and intangible assets. The Group's statutory accounts recognise intangible assets and subsidiary undertakings at their fair values, whereas for Solvency II purposes, subsidiary undertakings were recognised at their net asset values and intangible assets were valued at nil.

The total liabilities at the reporting date were £154m less (2018: 135m less) on the Group's Solvency II balance sheet than reported in the Group's statutory accounts for financial reporting purposes. The main differences in the valuation of total liabilities on a Solvency II basis and financial reporting basis were as follows:

- The MSS Fund technical provisions on the financial reporting basis were set equal to the assets of the MSS Fund, to recognise that all of these assets would be distributed to current policyholders, whereas under Pillar 1 of Solvency II, amounts set aside but not yet allocated to policyholders were not included in the technical provisions.
- Subsidiaries and intangible assets were treated on a Solvency II basis as a deduction to assets held for With Profits Policyholders, reducing technical provisions. This is in recognition of the prudent way these assets are valued under Solvency II, which is discussed above. Under the financial reporting basis, no adjustment was required as subsidiary undertakings and intangible assets were recognised at their fair values.

Further information on the Valuation for Solvency Purposes is provided in Section D of the report.

Capital Management

There have been no material changes to the Society's capital management processes.

Group Eligible Own Funds at the reporting date amounted to £606m, a reduction of £48m over the reporting period. The reduction is driven primarily by a reserve of £33m (2018: £28m) set aside for future payment as a mutual bonus for with-profits policyholders in 2019 and a c£20m reduction in the net pension asset.

The Group's Solvency Capital Requirement (SCR), which represents the capital required to cover a 1 in 200 year event, or a 99.5% probability of being solvent in 1 years' time, increased over the reporting period from £174m to £200m. This is mainly due to a more onerous fall in equity values of -38.9% being applied this year (2018: -32.7%), as required by the Solvency II rules and an increase in the capital requirement for the Wesleyan Bank subsidiary following an increase in the total assets of Wesleyan Bank.

The Group’s capital coverage ratio, which is the ratio between eligible Own Funds and the SCR, has decreased from 376% to 304% due to the reduction in own funds and increase in SCR. This illustrates the considerable financial strength of the Group and that the Group is able to withstand extreme events.

Furthermore, 99% of the Group’s Own Funds are classed as Tier 1 capital, the category of the highest quality. The quality of capital is important, as the higher the quality, the more likely it will be available in an extreme event. Therefore, the Group significantly exceeds the requirement that at least 50% of the SCR must be covered by Tier 1 capital.

Further information on Capital Management is provided in Section E of the report.

Note: Due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

DIRECTORS' STATEMENT

We acknowledge our responsibility for preparing the Group SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, the Group has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable at the level of the Group; and

b) it is reasonable to believe that the Group has continued so to comply subsequently and will continue so to comply in future.

Nathan Moss
Chair

Mario Mazzocchi
Group Chief Executive

Andrew Neden
Chair of the Audit Committee

17 April 2020

INDEPENDENT AUDITOR’S OPINION

Report of the independent external auditor to the Directors of Wesleyan Assurance Society (‘the Company’) pursuant to Rule 4.1(2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Group Solvency and Financial Condition Report

Opinion
Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2019:

- The ‘Valuation for solvency purposes’ and ‘Capital Management’ sections of the Group Solvency and Financial Condition Report of the Company as at 31 December 2019, (‘**the Narrative Disclosures subject to audit’**); and
- Group templates S.02.01.02, S.23.01.22, S.25.01.22, S.32.01.22 (‘**the Templates subject to audit’**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the **‘relevant elements of the Group Solvency and Financial Condition Report’**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The ‘Business and performance’, ‘System of governance’ and ‘Risk profile’ elements of the Group Solvency and Financial Condition Report;
- Group templates S05.01.02
- Information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with an EU instrument other than the Solvency II regulations. (‘**the sectoral information’**); and
- the written acknowledgement by management of their responsibilities, including for the preparation of the Group Solvency and Financial Condition Report (‘**the Responsibility Statement**’);

To the extent the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report of Wesleyan Assurance Society as at 31 December 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations**.**

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Group Solvency and Financial Condition Report 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
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the Group Solvency and Financial Condition Report is not appropriate; or
- the Directors have not disclosed in the Group Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Group Solvency and Financial Condition Report is authorised for issue.

Emphasis of Matter – Basis of Accounting & Restriction on Use
We draw attention to the 'Valuation for solvency purposes', 'Capital Management' and other relevant disclosures sections of the Group Solvency and Financial Condition Report, which describe the basis of accounting. The Group Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. The Group Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority.

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of the External Audit Part of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of this matter.

Other Information
The Directors are responsible for the Other Information. Our opinion on the relevant elements of the Group Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Group Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Group Solvency and Financial Condition Report 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 relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Group Solvency and Financial Condition Report
The Directors are responsible for the preparation of the Group Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations on which they are based which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of the Financial Services and Markets Act 2000, the PRA Rules and the Solvency II Regulations 2015**.**

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Group Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report
It is our responsibility to form an independent opinion as to whether the relevant elements of the Group Solvency and Financial Condition Report are prepared, in all material respects, with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Group Solvency and Financial Condition Report 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 it 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 decision making or the judgement of the users taken on the basis of the Group Solvency and Financial Condition Report.

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/Our-Work/Audit-and-Actuarial-Regulation/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx.** The same responsibilities apply to the audit of the Group Solvency and Financial Condition Report.

Report on Other Legal and Regulatory Requirements.

Sectoral Information
In our opinion, in accordance with Rule 4.2 of the External Audit Part of the PRA Rulebook, the sectoral information has been properly compiled in accordance with the PRA rules and EU instruments relating to that undertaking from information provided by members of the group and the relevant insurance group undertaking.

Other Information
In accordance with Rule 4.1(3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Wesleyan Assurance Society's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Ernst & Young LLP

Ernst & Young LLP
Bristol
17 April 2020

The maintenance and integrity of the Wesleyan Assurance Society website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the web site.

Appendix – relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of Group template S.23.01.22
  - Rows R0410 to R0440 – Own funds of other financial sectors

- The following elements of Group template S.25.01.22
  - Rows R0500 to R0530 – Capital requirement for other financial sectors (Non-insurance capital requirements) (forming part of the sectoral information)

- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

A BUSINESS AND PERFORMANCE

A1 Business

A1.1 Name and legal form

Wesleyan Assurance Society ("the Society") is a mutual society incorporated in England by Private Act of Parliament (Registered No: ZC000145) and its Registered Office is Colmore Circus, Birmingham B4 6AR.

A1.2 Name and contact details of the supervisor and group supervisor

The Supervisory Authorities responsible for the financial supervision of the Society and the Group (comprising Wesleyan Assurance Society and its subsidiary companies) are the Prudential Regulation Authority (PRA), 20 Moorgate, London EC2R 6DA and the Financial Conduct Authority, 12 Endeavour Square, London E20 1JN.

A1.3 Name and contact details of the external auditor

The External Auditor for Wesleyan Assurance Society for the reporting period was Ernst & Young LLP, Chartered Accountants and Statutory Auditors, The Paragon, Counterslip, Bristol, BS1 6BX, United Kingdom.

A1.4 Description of holders of qualifying holdings in the Society

As a mutual organisation, the Society has no shareholders but members who have the right to vote at general meetings. Each member has a single vote.

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.

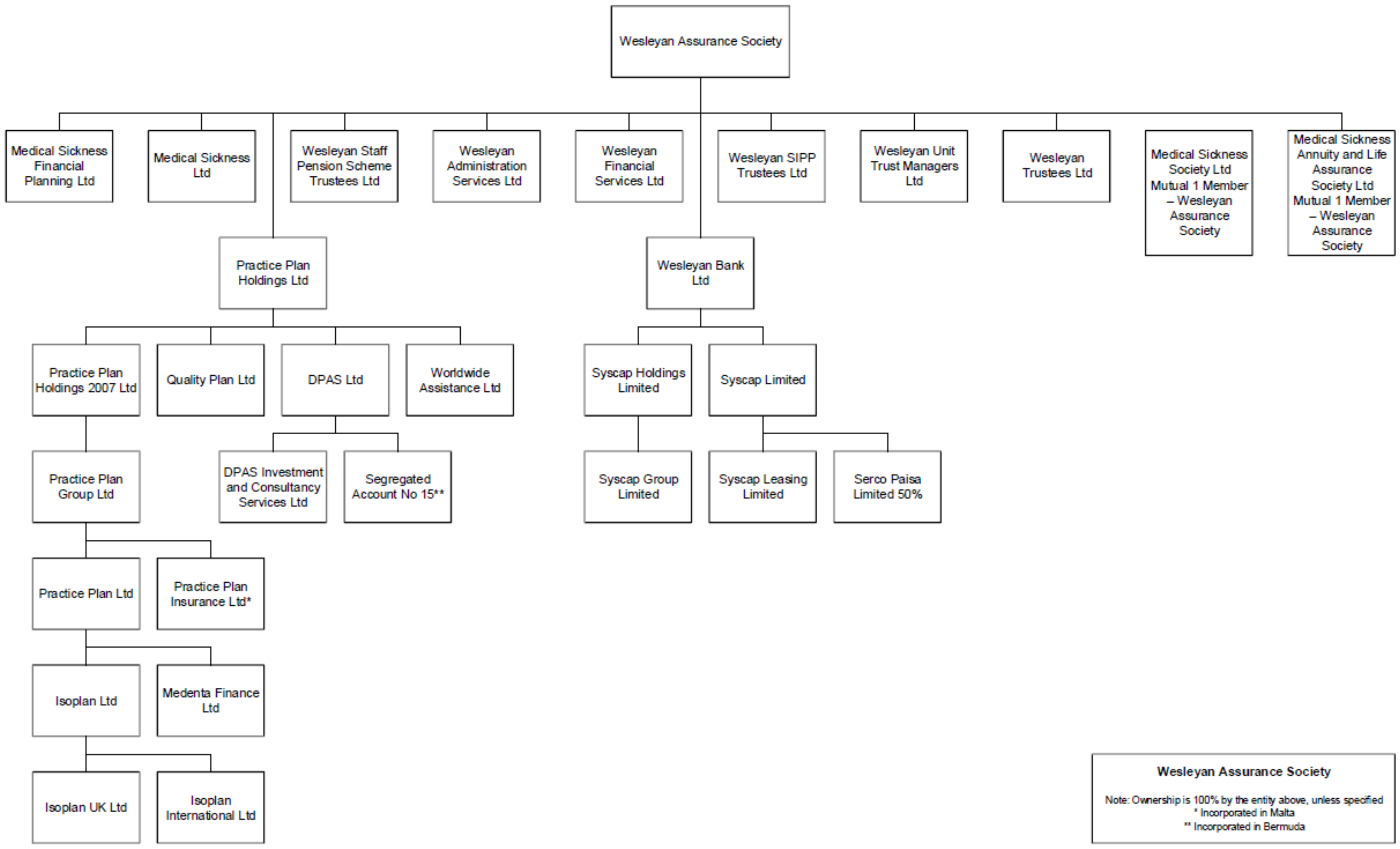
A qualifying policy is any subsisting policy issued in the ordinary life department, any policy issued after 28 April 1998 or any policy issued prior to 29 April 1998 where, on or after this date, premiums payable are increased by £25 per month or more, or additional benefits are allocated as a result 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.

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.

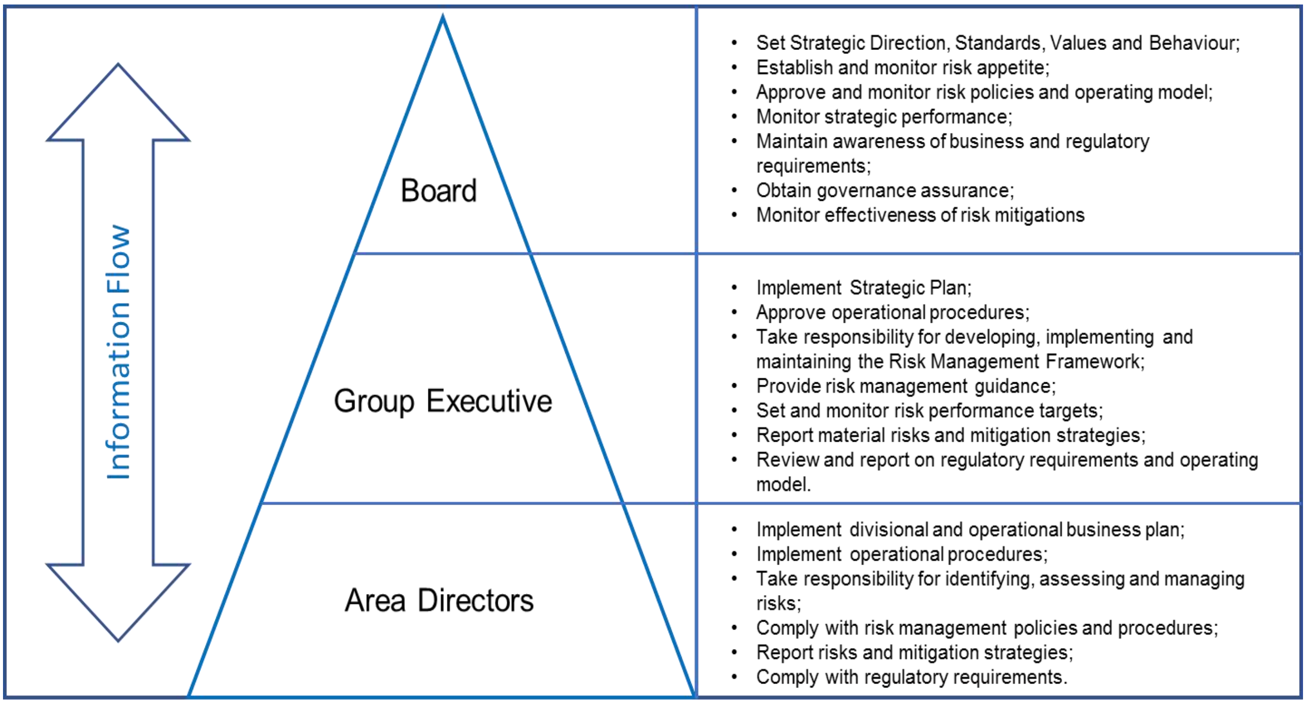
The directors may at any time confer upon any person, firm or company taking out a policy (other than a Qualifying Policy) or purchasing other products of the Society the title of "associate member" or any similar title or name determined by the directors and may, subject to the restrictions in this 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.

A1.5 Group legal structure



A1.6 Organisational Accountability Structure

The Society's accountability framework is set in line with its organisational, legal and internal control structures. Organisational roles and responsibilities span the Group hierarchy which includes the Board, its subsidiary companies and its sub-committees, Executive/senior management and business operations. Each layer of accountability clarifies the respective roles of the Board and management and establishes the relationships between them. The accountability structure and the responsibilities associated with each level of the organisation are outlined in the figure below.



A1.7 Material lines of business and geographical areas

The Society operates in the United Kingdom only.

The material lines of business written by the Society are:

- Life ordinary regular
- Life ordinary single
- Pension regular
- Pension single
- Health regular
- With Profits ISA regular
- With Profits ISA single

The principal activities of the Society are the provision of financial advice to doctors, dentists, teachers and lawyers and the transaction of long-term insurance business in the UK. The Society administers both reviewable and guaranteed business contracts, and also unit-linked, conventional and with profits income protection insurance.

Complementary to these activities, the Group provides a number of other financial services, through wholly-owned subsidiary undertakings, including retail banking, commercial lending, unit trust management, mortgage broking, acting as a general insurance broker and providing dental patient membership plans (including non-life cover for dental emergency/trauma). With Profits Policyholders share in the profits and losses of these subsidiary companies.

A1.8 Significant business or other events

The significant business or other events that have occurred over the reporting period that have had a material impact on the Society are:

- Mario Mazzocchi was appointed as the Chief Executive officer of the Society from 1 August 2019, following the retirement of the incumbent Craig Errington.
- During 2019 the Society migrated c285,000 policies (c85,000 live, c200,000 closed) to a new policy system from a legacy system. After careful planning and comprehensive testing the migration successfully took place in November 2019. The new system provides greater reporting capability, better controls over manual intervention and offers much improved functionality and will serve the needs of Wesleyan for many years to come.
- During 2019, the Society took the decision to outsource its IT Data Centre activity from an on-site provision to a third party, to reduce the risk of system failure and outages. The outsourcing activity is due to be completed in H1 2020.

Subsequent to the Society's year end, the full extent of the Coronavirus (COVID-19) pandemic has begun to emerge with significant volatility in financial markets around the world and Government-imposed restrictions on movement. Despite the significant stimulus packages announced by governments around the globe it is likely that many developed economies will enter a period of downturn, the severity and length of which are unknown. The extent of the future impact on the Society cannot be estimated with any certainty. However as at the date of approving this SFCR, our trading performance for the first 3 months of the year is in line with plan and we have performed various stresses related to COVID-19 and under these stress scenarios, the Society's capital was projected to remain above regulatory requirements and sufficient liquidity existed to meet liabilities as they fell due.

As at 31 March 2020, the Society's solvency ratio had reduced from 31 December 2019 due to lower risk-free yields and wider corporate bond credit spreads. The solvency position remained above our risk appetite trigger, as specified by our capital management framework. We continue to actively monitor our solvency position and remain ready to take any necessary action to ensure we maintain a strong capital position as the pandemic develops.

A1.9 Related undertakings and branches

The directly held subsidiary undertakings of the Society at 31 December 2019 are shown below. The Group and all directly held subsidiary undertakings are incorporated and domiciled in England.

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.

Company	Percentage Held	Principal Activities
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 Limited	100%	Dormant company
Medical Sickness Society Limited	100%	Dormant company

Table A1.9 -1

The indirectly held subsidiary undertakings of the Society at 31 December 2019 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 Insurance Limited*	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
Segregated Account 15†	100%	Dental insurance

* Incorporated in Malta
† Incorporated in Bermuda

Company	Percentage Held Indirectly	Principal Activities
Quality Plan Limited	100%	To act on behalf of dental practices and patient customers to provide and administer private dental plans

Table A1.9 -2

The Society has no branches.

Further information on relevant operations and intra group transactions are given in Section A4.

A1.10 Scope of the Group for Solvency II Purposes

As at the reporting date, the Society held one insurance subsidiary, Practice Plan Insurance Limited (PPIL) that underwrites non life business. The Society is therefore the participating insurance undertaking (ultimate parent) to which group supervision applies.

The scope of the group for Solvency II purposes includes all of the group entities as disclosed in Section A1.9 above.

The Society has not applied for Article 214 exemption for any of its subsidiaries.

There were also no instances where due to non-availability of necessary information, an entity's Own Funds have been excluded from inclusion in the group Own Funds.

Therefore, there are no differences in the scope of the group for Solvency II purposes and those used for the Group's consolidated accounts for financial reporting purposes. [To update A1.11-13]

A2 Underwriting Income and Expenses

The Society presents below qualitative and quantitative information regarding its underwriting income and expenses by the material lines of business.

A2.1 Analysis of underwriting income and expenses during the year

The Society underwrites life business, and its insurance subsidiary underwrites non life business. The entirety of the Group's underwriting relates to business sold in the UK.

The Group's non life underwriting business is immaterial in comparison with the life business, accordingly the table below only presents the Society's life underwriting income and expenses by the Solvency II lines of business.

Underwriting income and expenses	Health	With-Profits	Unit linked	Other life	Total 2019	Total 2018
	£000s	£000s	£000s	£000s	£000s	£000s
Premiums earned						
Gross	33,300	284,836	39,227	23,389	380,751	344,606
Re-insurers' share	(8,611)	-	-	(1,454)	(10,065)	(11,507)
Net	**24,689**	**284,836**	**39,227**	**21,934**	**370,686**	**333,099**

Underwriting income and expenses	Health	With-Profits	Unit linked	Other life	Total 2019	Total 2018
Claims incurred						
Gross	(24,680)	(244,005)	(95,283)	(63,068)	(427,036)	(402,582)
Re-insurers' share	13,347	-	-	1,141	14,488	17,084
Net	**(11,333)**	**(244,005)**	**(95,283)**	**(61,927)**	**(412,548)**	**(385,498)**
Changes in technical provisions						
Gross	(8,934)	(484,807)	(102,732)	(20,611)	(617,084)	254,073
Re-insurers' share	(20,366)	(701)	-	(9)	(21,076)	(5,191)
Net	**(29,300)**	**(485,508)**	**(102,732)**	**(20,620)**	**(638,160)**	**248,882**
Expenses						
Gross	(23,373)	(42,792)	(8,990)	(5,000)	(80,155)	(79,195)
Re-insurers' share	2,941	-	-	-	2,941	2.871
Net	**(20,432)**	**(42,792)**	**(8,990)**	**(5,000)**	**(77,215)**	**(76,324)**
Other expenses					**(30,189)**	**(28,426)**
Total expenses					**(107,404)**	**(104,750)**

Table A2.1 -1

Analysis of underwriting income and expenses over the reporting period:

a) Premiums and claims by Solvency II lines of business:

Premiums earned by the Society have increased in 2019 following a 25% increase in new business premiums. Claims have increased in 2019, mainly due to increased pay-outs to customers on With Profits and Unit Linked pension products. The increase in claims is lower than the rise in premiums, reducing the size of the net outflow year on year.

b) Changes in technical provisions:

An analysis of the changes in technical provisions over the reporting period above is presented on a financial statements basis whereas the analysis in section D.2.5 is on a Solvency II basis.

c) Underwriting expenses by the Solvency II lines of business:

The main items of Society expenses incurred during 2019 were acquisition costs of £20.1m, administrative expenses of £22.7m and overhead expenses £25.5m.

Other expenses include items such the service fee paid to Wesleyan Financial Services Limited of £19.5m and impairment of computer software of £6m.

A3 Investment Performance

The Society presents below qualitative and quantitative information regarding its investment income by asset classes and overall investment management expenses.

A3.1 Investment strategy and related disclosures required under the Shareholder Rights Directive II (SRD II)

SYSC 3.4.8 R – how the main elements of the Society's equity investment strategy are consistent with the profile and duration of its liabilities and how they contribute to the medium- to long-term performance of its assets:

The overall investment strategy for each of the Society's funds is constrained by its own Statement of Investment Principles (SIPs), which defines the flexibility that fund managers have over the type and mix of assets that can be held, including any risk limits (see sections C2, C3, C4 and C7 for more details on how the SIPs are used to specifically mitigate market, credit and liquidity risks).

The permitted investment ranges in the SIPs for the Society's Unit-Linked funds and for the With Profits fund are set to be consistent with policyholder performance objectives (including time horizon) and attitude to risk assessments. For example, a fund with a higher risk reward rating will be invested more heavily in assets expected to deliver a higher medium- to long-term investment return, such as equity. The expected duration of liabilities for policies investing in these funds are also longer term. Conversely, customers who wish to invest over a shorter time scale will be advised to invest in lower risk reward funds, which will have fewer or no equity holdings and a higher proportion invested in less risky and shorter duration assets such as cash and government bonds.

The SIPs for the Society's Non Profit fund and for the Wesleyan Defined Benefit Staff Pension Scheme fund contain restrictions over the type of assets that can be held to ensure that their profile and duration is consistent with the funds' liabilities, which are largely level and index-linked deferred annuities and annuities in payment. The Non Profit fund is not permitted to invest in any equity or property assets and the Staff Pension Scheme fund can only invest up to 2.5% of the fund in equities and direct property.

Within the SIP constraints, the Society's investment strategy is described in its Investment Beliefs policy. The main elements of this policy that apply to equity investment are described below; this table also indicates where we believe these investment beliefs mainly help to ensure consistency with liabilities or are expected to contribute to overall equity asset performance:

Investment Belief	Consistency with liabilities	Contributes to performance
We are long-term investors and portfolio turnover is extremely low by industry standards. Our general 'buy and hold' approach applies across all asset classes.	✓	✓
We have a managed approach to risk, maintaining diverse portfolios both across and within asset classes.	✓	
We are generally contra-cyclical investors, looking to identify long-term value in sectors and stocks which are temporarily out of favour with other investors.		✓
We believe income is an important component of investment return and that for 'real' assets growth in income will ultimately lead to capital appreciation.		✓
The vast majority of our equity portfolios are managed in-house.	✓	
The Society's direct equity investments are primarily listed on UK, European and US exchanges. Exposures to specialist areas and other geographies are mostly gained through investment trusts, collective investment schemes and UK-listed investments.	✓	
The Society is a long-term investor. We believe increasing levels of turnover and the associated expenses tend to hold back performance and hence large-scale switching is discouraged.	✓	✓
Initial yield is an important consideration although this should be viewed in conjunction with the long-term outlook for dividend growth. If these are satisfactory then capital growth and hence total return should follow in due course.		✓

Investment Belief	Consistency with liabilities	Contributes to performance
Realised gains are subject to tax (in relation to Life business) and therefore returns should be maximised on a net of tax basis. As a result, Capital Gains Tax considerations may influence the sale of investments.		✓
The Society prefers to formulate its own policy rather than be 'one of the herd'. In general, a contra-cyclical approach is favoured. The equity portfolio may exhibit significant variation in sector weightings when compared to the appropriate indices, but these should not become structural unless there are very specific reasons.		✓
The Society is relatively risk averse and as a result does not run overly-concentrated portfolios.	✓	

3.4.9 R (1) – Where an SRD asset manager invests on behalf of a firm, whether on a discretionary client-by-client basis or through a collective investment undertaking, the firm must publicly disclose the following information regarding its arrangement with the asset manager:

As disclosed in the table above, the vast majority of the Society's equity portfolios are managed in-house. At yearend 2019, £322m of assets were invested in externally managed collective investments (Unit Trust funds), which represents c4% of total funds under management.

(a) how the arrangement with the SRD asset manager incentivises the SRD asset manager to align its investment strategy and decisions with the profile and duration of the liabilities of the firm, in particular long-term liabilities:

Not applicable – our investments in Unit Trust funds do not require individual arrangements to be in place between the Society and the external asset managers.

(b) how that arrangement incentivises the SRD asset manager to make investment decisions based on assessments of medium- to long-term financial and non-financial performance of the investee company, and to engage with investee companies in order to improve their performance in the medium- to long-term:

Not applicable – our investments in Unit Trust funds do not require individual arrangements to be in place between the Society and the external asset managers.

(c) how the method and time horizon of the evaluation of the SRD asset manager's performance and the remuneration for asset management services are in line with the profile and duration of the liabilities of the firm, in particular its long-term liabilities, taking into account its absolute long term performance:

Given the small proportion of invested assets held by the Society in Unit Trust funds, the asset manager's performance is primarily assessed by considering the net return achieved by Wesleyan from holding the units over the longer term.

As with direct equity investment, investment in Unit Trust funds is carried out in line with the Society's Investment Beliefs policy and relevant SIPs, which ensures consistency with the profile and duration of liabilities and contributes to medium- to long-term performance objectives (see table above).

When deciding whether to purchase, sell or hold an individual equity such as an Investment Trust Company share; part of the investment decision process includes consideration of costs of management, including remuneration factors. In the same way, the investment appraisal of Unit Trust funds will depend on the level and structure of fund charges and whether these are expected to enhance overall long-term performance of the investment.

(d) how the firm monitors portfolio turnover costs incurred by the SRD asset manager and how it defines and monitors a targeted portfolio turnover or turnover range:

Given the small proportion of invested assets held by the Society in Unit Trust funds, portfolio turnover costs within these funds are not actively monitored. However, when deciding whether to purchase, sell or hold units in these funds, the Society will take account of how the Unit Trust's investment strategy fits in with its investment beliefs; including the 'buy and hold' approach, which applies across all asset classes.

Any long-term investment under-performance of a Unit Trust holding (E.g. due to excessive portfolio turnover costs) would be identified as part of ongoing performance monitoring carried out by our investment team. Should this situation arise, the units would be liquidated and reinvested as appropriate.

(e) the duration of the arrangement with the SRD asset manager

Not applicable – our investments in Unit Trust funds do not require individual arrangements to be in place between the Society and the external asset managers.

A3.2 Analysis of Investment income and expenses during the year

The group's insurance subsidiary holds immaterial amounts of investment assets in comparison with the Society. Accordingly, the table below only presents the Society's investment income by material classes of assets and overall investment management expenses.

Asset category	Dividend 2019	Interest 2019	Rent 2019	Realised/ unrealised gains 2019	Total 2019	Total 2018
	£000s	£000s	£000s	£000s	£000s	£000s
Government bonds	-	31,717	-	48,196	79,913	26,446
Corporate bonds	-	29,616	-	29,615	59,231	102
Equity	134,745	-	-	448,810	583,555	(176,723)
Investment funds	14,679	-	-	46,841	61,520	(19,822)
Collateralised securities	-	85	-	944	1,029	155
Cash and deposits	-	3,107	-	(1,198)	1,909	1,238
Loans	-	-	-	-	-	-
Property	-	-	19,771	(4,218)	15,553	39,018
Derivatives	-	-	-	13,806	13,806	(4,226)
Total investment income	**149,424**	**64,525**	**19,771**	**582,796**	**816,516**	**(133,812)**

Table A3.1 -1

Expenses	2019	2018
	£000s	£000s
Investment management expenses	**7,662**	**10,590**

Table A3.1 -2

Investment management expenses have decreased largely due to lower property redevelopment expenditure incurred during the year.

Analysis of investment performance:

Our investments team performed well relative to internal benchmarks and market returns, with our flagship With Profits Fund returning a return of 15.2% (2018: -2.4%). This is 1.1% ahead of the model portfolio we use to monitor our investment performance and significantly better than the UK stock market performance overall. Total assets under management are now £8.0bn (2018: £7.2bn).

- UK equities underperformed the global markets, however the gap narrowed following the UK general election which reduced political uncertainty. Both UK and Overseas Equity provided double digit returns.
- UK Commercial Property provided low single digit returns with rental income offsetting declines in capital values.
- The OILTBF holds a spread of investments with emphasis very much on UK and Overseas Equity and UK Commercial Property. The return on this Fund was 15.2% in 2019. This was 1.1% ahead of the 'model portfolio' used to monitor the performance of our internal investment managers and we believe this will be a competitive return when compared to other with profits funds. Key contributors to this performance included strong gains made by UK and Overseas Emerging equities and good performance from our UK commercial property investments when compared to the benchmark.

There were no gains or losses recognised directly in equity during the reporting period (2018: none).

A3.3 Investment in securitisations and risk management

As at year end 2019, the Society held the following amounts of collaterised securities:

Analysis of collaterised securities	2019	2018
	£000s	£000s
Mainly exposed to credit risk	1,120	1,122
Mainly exposed to real Estate risk	3,012	2,044
Total investment in collaterised securities	**4,132**	**3,166**

Table A3.2 -1

The Society's investment in collateralised securities is governed under the risk management framework.

The collateralised securities the Society invests in are essentially conventional instruments with added securities. There are no major differences in the underlying risk exposure. Where the Society considers that there is a justifiable need to invest in the type of collateralised securities that come with significantly different risk exposures then it would seek approval from the Group Executive/Risk Committee/Society Board as appropriate.

A4 Performance of other activities

Other than insurance business, the Society holds 100% interest in financial, credit and investment subsidiaries (FCI). The Society defines income received from its FCI subsidiaries as other income.

The principal activities of the FCIs are described below.

Wesleyan Bank (sub group including Syscap)

The principal activities of the Bank are the provision of banking services, primarily deposit taking and commercial lending. The Bank is authorised under the Financial Services and Markets Act 2000 to take deposits and is regulated by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA").

The strategy for the Bank continues to be to support its parent company, Wesleyan Assurance Society ("the Society"). It provides, tailored products to meet the professional and business needs of our core market clients and asset finance products to non-core clients. The Bank's strategic and operating plan are developed in conjunction with the Society.

Wesleyan Unit Trust Managers (WUTM)

The principal activities of the Company are the marketing, administration and investment management of the Wesleyan range of unit trusts.

Wesleyan Financial Services (WFS)

The Company primarily provides financial services advice and acts as an insurance broker to members of the medical, dental, teaching and legal professions.

The income earned by the Society's FCI subsidiaries during 2019 is summarised in the following table:

Subsidiary entity	Profit/ (losses) after tax 2019	Profit/ (losses) after tax 2018
	£000s	£000s
Wesleyan Bank (Sub Group)	(1,049)	(1,350)
Wesleyan Unit Trust Managers	206	165
Wesleyan Financial Services	(16,278)	(15,151)
Total	**(17,121)**	**(16,336)**

Table A4 -1

The increased loss suffered in Wesleyan Financial Services is attributable to historical adjustments within the two periods. Operating performance has improved by £4.5m in 2019 following improved new business volumes, although this still represents a sizeable loss in the period. New systems were implemented in 2018 and the impact of embedding these has still been felt in the current year. These systems are integral for our growth strategy and a review of the future strategy for Wesleyan Financial Services is currently taking place.

The Society and its subsidiaries have no material financial and operating lease arrangements.

A5 Any other information

There is no further information to disclose regarding business and performance.

B SYSTEM OF GOVERNANCE

B1 General Information on the system of governance

B1.1 Management structure

The Society holds one insurance subsidiary, Practice Plan Insurance Limited (PPIL) that underwrites non life business. The PPIL non life business is immaterial in comparison to the life business. The Society is the participating insurance undertaking (the ultimate parent) to which supervision applies.

This section covers the management structure of the Society, providing a description of the main roles and responsibilities of key committees and functions.

B1.2 The Board

The Society's Board as a whole is collectively responsible for promoting the success of the Society by directing and supervising its affairs. The Board:

- provides entrepreneurial leadership within a framework of prudent and effective controls for risk assessment and management;
- sets the strategic aims of the Society, ensures that resources are in place for the Society to meet its objectives, and reviews management performance; and
- sets the values and standards of the Society and ensures that its obligations to policyholders and others are understood and met.

Senior management provides the Board with appropriate and timely information and is available to attend meetings and answer questions. The Chief Risk Officer and Company Secretary attend all Board meetings. There is a formal schedule of matters reserved for the Board's decision. The roles of Chair and Group Chief Executive are separated, and the Chair has primary responsibility for the effective functioning of the Board. Authority is delegated to the Group Chief Executive for implementing strategy and managing the Society.

Executive Directors

There are two Executive Directors on the Board at the reporting date, the Group Chief Executive and the Chief Financial Officer.

Non-Executive Directors

There were seven Non-Executive Directors on the Board at the reporting date, 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 2019 and expects to continue to do so. The Board remains confident that the strength of its independent Non-Executive Directors continues to be sufficient to ensure that an individual or small group cannot dominate the Board's decision-making.

The Chair and the Deputy Chair / Senior Independent Director are appointed by the Board.

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

Appointments to the Board

All appointments are subject to review by the Board, as advised by the Nominations Committee. It is anticipated that a minimum term of three years will be served with a further three-year term subject to the agreement of the Board. Annual extensions may be considered thereafter, normally up to a maximum nineyear 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.

B1.2.1 Board Committees

The Board delegates specific responsibilities to a number of Board Committees, supported by senior management. The Chair of each Board Committee provides a report to the Board after each meeting.

Audit Committee

Andrew Neden has served as Chair of the Committee from his appointment to the Board with effect from 17 November 2014.

The Committee comprises three other Non-Executive Directors, one of whom, Nigel Masters, is the Chair of the Society's Risk Committee. Other attendees include the Group Chief Executive, the Chief Financial Officer, the Chief Actuary, the Chief Risk Officer and the Head of Corporate Audit.

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 provided the opportunity for employees to contact an independent confidential advice line.

Risk Committee

The Risk Committee's principal role is to consider the risks faced by the Society and its subsidiary companies and to advise the Board. Nigel Masters was appointed Chair of the Risk Committee on 31 January 2013. The Committee comprised two other Non-Executive Directors during 2019.One of the members, Andrew Neden, is the Chair of the Society's Audit Committee. Other attendees include the Group Chief Executive, the Chief Financial Officer, the Chief Actuary, the Chief Risk Officer and the Head of Corporate Audit.

It is the Chair's practice to meet separately with the Chief Risk Officer ahead of most meetings. The Committee's main activities during 2019 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;
- assessing operational resilience and business continuity arrangements for the Society;
- gaining assurance that an appropriate culture in relation to the management of risk continues to be maintained; and
- receiving reports from the Chief Risk Officer on a wide range of issues, including potential acquisitions, new products and regulatory change.

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.

Phil Green stepped down as Chair of the committee in 2019 to be replaced by Priscilla Davies a non-Board Non-Executive Director. The Committee also includes two other Board Directors, one of whom was appointed in 2019. . In addition to the Group Chief Executive and the Chief Financial Officer, other attendees include the Chief Actuary, the Chief Risk Officer and Director of Investments. The Committee's main activities during 2019 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;

- reviewing investment performance using external benchmarks as appropriate;
- considering the investment policy on environmental, social and governance matters.
- considering and examining governance / audit and compliance issues.

Remuneration Committee

Chris Brinsmead stepped down as Chair of the Committee during 2019 and was replaced by Linda Wilding from September 2019. The Committee comprised two other Non-Executive Directors during 2019 The Group Chief Executive and the Chief People and Strategy Officer are in attendance as required.

The Committee is responsible for the terms of remuneration for Executive Directors andother members of the Executive, 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.

Nominations 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 People and Strategy Officer also in attendance as required.

The Committee's main activities during 2019 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.

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 recommends Directors 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, would not chair the Committee when it deals with the matter of succession to his role.

Diversity

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

- support the progression of women into senior roles by focusing on the executive pipeline and the mid-tier level;
- set a gender target (33% of top roles – Board, Executive and Senior Managers - to be filled by women by 2023) and a gender strategy;
- publicly report on progress to deliver against this internal target; and
- At 31 December 2019, 27% of our senior leader roles were filled by women.

With Profits Committee

The Committee covers both the Open Fund and the Medical Sickness Society (MSS) Fund, which is closed to new business. There were six independent members of the Committee, two of whom were non-Executive Directors of the Society at the end of 2019.

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.

B1.2.2 Subsidiary Company Governance

The Society's subsidiaries are set out Section A1.9. The Group is managed as far as possible as an integrated whole. Other than for Wesleyan Bank Limited, the Boards of the Society's subsidiary companies are chaired by a senior executive, with other senior executive colleagues appointed to the particular Board relevant to their role.

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

B1.2.3 Main roles and responsibilities of key functions

The Society's structure was organised and aligned to Group Chief Executive, Group Executives and Area Director accountabilities during 2019, providing clear lines of responsibility and accountability for key elements of organisational governance.

The key responsibilities of each function and Business Areas during 2019 were as follows.

Customer

- Wesleyan Financial Services (WFS) including General Insurance
  - To provide specialist financial advice and solutions to meet the personal, professional and business needs of the Society's chosen markets;
  - To deliver income and profit targets for the sales force whilst delivering a high quality of service to all customers;
  - To operate within the procedures and guidelines laid down by the regulatory authorities;
  - To deliver income and profit targets for General Insurance business whilst delivering a high quality of service to all customers;
  - To develop and implement the marketing, product, internet and online business strategies.
- Practice Plan Limited / DPAS Limited
  - To deliver income and profit targets for Practice Plan Limited / DPAS Limited;
  - To deliver high quality services to all customers;
  - To operate within procedures and guidelines laid down by the regulatory authorities in each jurisdiction in which the companies operate;
  - To develop and implement appropriate business strategies to achieve the targets set by Wesleyan group.

- Group Marketing
  - To develop and implement the Society and Business Area marketing strategy. To proactively support all of the Society's promotional activity through timely and effective communication through the press and other media;
  - To oversee the use of brands across the business;
  - To develop and implement the Society's digital strategy and on line business development.

Bank

- Wesleyan Bank / Syscap
  - To provide secured and unsecured lending products to meet the professional and business needs of Wesleyan's chosen markets and asset finance products for non-core customers.
  - To deliver income and profit targets for Wesleyan Bank and Syscap;
  - To deliver a high quality of service to all customers;
  - To operate within the procedures and guidelines laid down by the regulatory authorities;
  - To develop and implement the marketing, product, internet and online business strategies.

Operations

- Customer Operations
  - To deliver income and profit targets for operations;
  - To deliver a high quality service to all the Society's customers;
  - To develop and implement appropriate business strategies to achieve the targets set by Wesleyan group.
- IT
  - To maintain and develop IT systems and services to enable the business to achieve its strategic ambitions and ensure the day to day running of business operations.
- Transformation
  - To oversee the project management, governance and delivery of major projects and programmes (on time and to quality).
- Data Quality
  - To develop and maintain the quality of process and data across the Society.

HR and Strategy

- HR including Building and Support Services
  - Activities including recruitment, retention, remuneration and benefits policy, employment relations;
  - To maintain the office premises.
- Strategy/Strategic Planning and Delivery
  - To support the Board in setting the strategic direction for the Society;
  - To coordinate the Society's strategic and business planning activity, together with the supporting management activity.
- Talent and Culture
  - Learning & development and employee engagement
  - Delivery of engaging, informative and timely internal and external communications;

- Developing and implementing the Society's Corporate Responsibility strategy including charity fundraising activity.

Group Finance

- Finance
  - To maintain and update the financial elements of the Society's Strategic Plan;
  - To produce budgets and forecasts as required;
  - To monitor and report the Society's performance against key performance indicators;
  - To produce and validate financial models as required;
  - To collect and account for premium income, commissions and investments and to pay salaries, pensions and expenses;
  - To produce the Society's Annual Accounts, Prudential Regulation Authority and other statutory returns;
  - To help the Society and its subsidiaries meet their business plans while satisfying Financial Conduct Authority regulations regarding the selling and marketing of products;
- Investments
  - To invest the Society's resources with the aim of producing superior long term returns consistent with acceptable risk levels.
- Actuarial
  - Provide actuarial advice to the Executive, Board and wider business on all actuarial matters and ensure that actuarial considerations are allowed for in reaching key decisions on the operational and strategic development of the Society in accordance with the Society's Rules and all regulatory requirements;
  - To ensure that the Society remains technically rigorous in all actuarial matters.
  - To oversee the development and governance of the Society's protection and investments products, ensuring that customers are treated fairly;

Group Risk and Regulatory

- Risk and Regulatory
  - Provide independent objective challenge, oversight and support of risk management activity across the Society;
  - Facilitate the implementation and ongoing development of a robust and effective Risk Strategy and the Integrated Risk Management (IRM) framework, and to ensure that these are embedded within the business;
  - Support the business through effective compliance oversight, ensuring the appropriate systems and controls are in place to meet the Society's regulatory requirements.
- Operational Resilience
  - To act as lead co-ordinator and controller of the process and associated systems and to provide challenge (although each business area has a responsibility for this in their areas). The Operational Resilience Committee oversees activity.
  - To ensure systems and physical assets are secure and there are systems and procedures to control any threats to these assets, including cyber-attacks;
  - To ensure customer, employee and business data is secure and controlled and managed in line with regulatory requirements;

  - To protect against and reduce the likelihood of business disruption and in the event of disruption to ensure the business can recover effectively.

- Company Secretary
  - Arranging agendas for, and attending, Board, Subsidiary Company, and Committee meetings and preparing minutes of meetings;
  - Dealing with corporate governance matters, regulatory and statutory compliance and advising on legislation and other guidance on company secretarial and corporate governance matters and ensuring that the Rules of the Society are adhered to;
  - Provide appropriate legal input and support to the business.

Corporate Audit

- To provide independent and objective assurance on the Society's implementation of, and adherence to, internal controls and to assess the adequacy and effectiveness of these controls and recommend improvements.

B1.2.4 Authority and independence of key functions and how they report to and advise the management body

The Society has established the following assurance (control) functions:

- A Risk Management Function which has independence through its direct reporting line to the Risk Committee. The risk management function is responsible for the policies and processes that enable the Society to identify, assess, monitor and appropriately mitigate risks and/or oversee such risk mitigation activities in alignment with the Board's risk appetite, the Society's risk framework and capital management strategy.
- A Regulatory Function, which forms part of the Society's system of internal controls, advises, monitors and reports at all levels of the organisation on adherence to regulatory and other legal requirements, as well as internal policies, including oversight of documented handover procedures for designated roles under the Senior Managers Regime and succession plans in the event of such roles becoming vacant within the business.
- An Actuarial Function, responsible for contributing to the establishment of an effective system for modelling the risks underlying the Society's regulatory and business capital requirements, enabling the determination of the Society's own risk and solvency assessment and providing an opinion on the adequacy of underwriting and reinsurance arrangements.
- A With Profits Actuary Controlled Function that advises the Society on the use of discretion in its with-profits business and formally reports to both the Board and policyholders its opinion on the Society's application of discretion each year. Aspects of the operation of with-profits business that are considered include bonus rates, investment policy disclosures to customers in product descriptions, surrender value methodology, new business plans and premium rates, allocation of expenses, allocation of investment fees charged, changes to the Principles and Practices of Financial Management and communications to current and/or potential policyholders.
- An independent and objective Internal Audit Function (Corporate Audit) which monitors the Society's implementation of, and adherence to, internal controls, assesses the adequacy and effectiveness of these controls, and recommends improvements.

The Compliance Officer with responsibility for the Regulatory Function reports to the Chief Risk Officer and has access to the Audit Committee and Group Chief Executive. The Compliance Officer provides a quarterly report to the Audit Committee and reports on other matters as required. He attends the Committee to present his reports. As part of preparing the Regulatory Plan for the forthcoming year, the Compliance Officer assesses the level of resources within the Regulatory Function to ensure that they are sufficient to undertake the planned activities.

The Chief Risk Officer reports to the Group Chief Executive and has access to the Risk Committee and Society Committee Chairs. The Chief Risk Officer provides a written report and attends each Risk Committee meeting. The Chief Risk Officer is also a standing attendee at each Audit Committee, Investment

Committee and Board meeting. As part of preparing the Risk Function plan for the forthcoming year, the level of resources within the Risk Function is assessed to ensure that they are sufficient to undertake the planned activities.

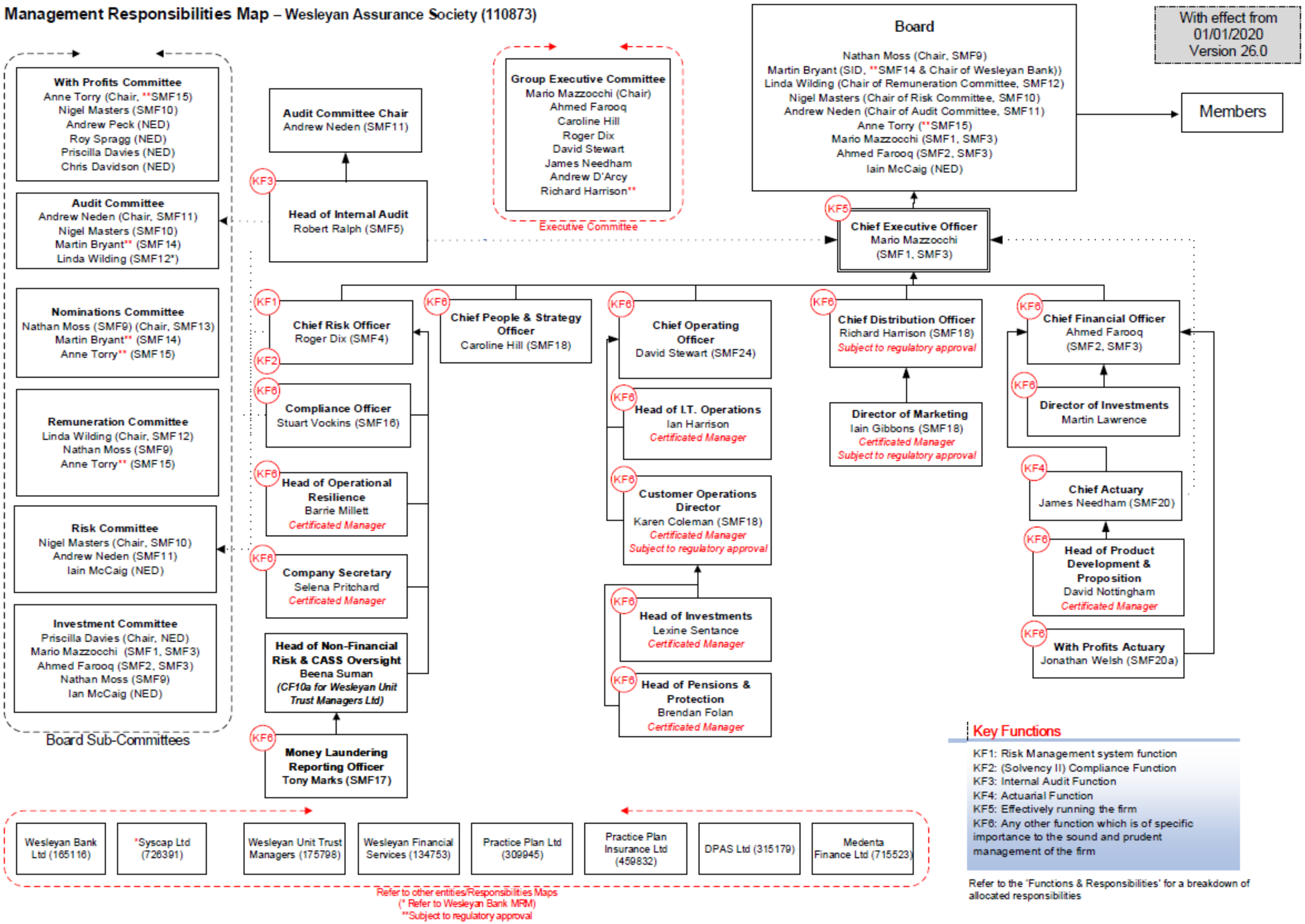
The Head of Corporate Audit with responsibility for the Internal Audit Function reports to Chair of the Audit Committee. The Head of Corporate Audit provides a quarterly report to the Audit Committee and reports on other matters as required. He is a standing attendee at each Audit Committee. As part of preparing the internal audit plan for the forthcoming year, the Head of Corporate Audit assesses the level of resources within the Internal Audit Function to ensure that they are sufficient to undertake the planned activities.

B1.2.5 Implementation of risk management, internal control systems and reporting procedures across the Group

The Group Risk and Regulatory function provides support on risk management and regulatory compliance across the Society. Reporting of risk and compliance issues is carried out centrally to ensure consistency.

Wesleyan Bank and Practice Plan Insurance Limited have separate 2nd line functions. However, the 2nd line functions of these entities meet regularly with Group Risk and Regulatory staff to ensure a consistent approach is adopted on risk management and internal control.

B1.2.6 Detailed organisational structure chart and positions of key function holders



B1.2.7 Assessment of the adequacy of the system of governance

The Society's system of governance is assessed through:

- Reviews undertaken by the Regulatory Function and Internal Audit Function;
- Reviews of Board effectiveness, including external independent reviews which are undertaken at least every 3 years.

The most recent externally facilitated evaluation of Board process, including the performance of the Chair, was carried out in the final quarter of 2018, in line with industry guidance. All members of the Board contributed to the evaluation, as did the Chief Risk Officer and the Company Secretary. The results of this review were generally positive but identified some areas for improvement which were acted upon during 2019. An internal assessment of effectiveness was carried out in the final quarter 2019 and actions have been agreed for 2020.

B1.2.8 Material changes in the governance structure

An Executive restructure took place in 2019 following the appointment of Mario Mazzocchi as Group Chief Executive. This change was designed to provide a strong foundation on which to grow the business further. As part of this process, responsibilities under the Senior Manager and Certification Regime were reassigned as appropriate.

B1.2.9 Further information on the Society's system of governance

This section contains further information on the Society's System of Governance, including reporting lines and allocation of responsibilities.

The roles and responsibilities of the Board are set out in the Society's Rules pursuant to its Act of Parliament. Where the Society's Board has delegated authority to perform any of its functions to a Board sub-committee, the roles and responsibilities of the sub-committee are documented in the respective Terms of Reference (TOR), including the reporting on its activities and performance to the Board. The Board sub-committee TOR also document the responsibility of the Board to ensure that delegated duties have been effectively fulfilled.

Upon appointment to the Board, Non Executive Directors are provided with a letter of appointment which documents the terms and conditions of the appointment in relation to their expected contribution to Board performance, and these broadly cover:

- Director's requirements in relation to time commitment, attention, ability and skills required for the performance of their duties. This also includes requirements to comply with certain external regulations and internal Fit and Proper persons and Conflicts of Interest requirements;
- Required attendance at Board meetings, induction programme (which is tailored to the needs of each individual Director) and strategy days;
- Duties and expectations of Directors in relation to their knowledge and experience, independence and objectivity of judgement to enable:
    - Constructive challenges and contribution to the development of the Society's strategy;
    - The scrutiny of the performance of management in meeting objectives, and monitoring the reporting of performance;
    - Assessment of the accuracy of financial information and that financial controls and systems of risk management are robust; and
    - Consideration and approval of recommendations of the Remuneration and Nominations Committees in respect of levels of remuneration of Executive Directors and the appointment and removal of senior management
- The requirements for the Society to provide Directors with access to Board papers and information about the Society, appropriate to the performance of their role, and to give the ability to challenge the Society's executive decisions. This includes access to external and independent advice if required.

The Board executes the performance of its duties through scheduled Board meetings and communication mechanisms, the outcomes of which are documented in the form of meeting agendas and minutes. The delivery of Board and management actions arising from these is also monitored.

B1.3 Remuneration policies and practices

B1.3.1 The principles of the remuneration policy

As a mutual, the Society's core belief is that it is here for the long-term benefit of its members and customers. Its remuneration package is designed to focus on sustaining that and so it has adopted a higher ratio of fixed to variable pay than some other organisations, reducing the risk of short-term decision making for personal gain to the detriment of the long-term interests of its members.

Salary

Base salary is reviewed annually or more frequently if there is a significant change in an individual's role or responsibilities, or if another exception arises.

Base salary is considered using benchmark data as deemed appropriate by the Remuneration Committee, at a minimum of every three years or if there is a significant change in role or responsibility. Benchmark information will consider both proprietary and mutual companies from which the Society typically recruits.

Benchmark data will also be provided for a full package benchmark, including pension. The benchmark data is provided to the Remuneration Committee as a guide of market competitive range and will be considered as one factor in determining salary.

Other factors include:

- Level of experience/rewarding performance.
- Society affordability and performance.
- Ability to attract/retain.
- Pay awards for the Society's other employees.
- Prevailing market conditions.

Variable Pay and Long Term Incentive (LTIP)

An Executive Variable Pay arrangement is in place, which was introduced in 2017 and replaced a Long Term Incentive Plan. Final payments under this Long Term Incentive Plan (LTIP) were made in early 2019 in relation to the period 2015- 2017. These LTIP amounts were adjusted up or down to reflect the performance of the ISA With Profits Fund. . The Society is introducing a new LTIP from 1 January 2020.

Individual performance evaluations for bonus are recommended by the CEO following a similar procedure to other Society employees, but based on an Individual Balanced Scorecard linked to the delivery of the Society's overall strategy. The evaluation considers the individual's contribution towards the Society's strategic aims, engendering good risk and compliance management and customer outcomes. This recommendation is discussed and concluded by the Remuneration Committee and considered in light of the expected distribution of individual performances. Performance evaluation of the CEO is recommended by the Society's Chair with input from the other Non-Executive Directors.

The overall level of bonus includes a cash payment of:

- 35% of salary if both the Society and the individual perform on target; and
- Up to 78.75% of salary if both the Society and the individual perform at stretch target.

50% of any bonus earned is deferred for up to three years. Any deferred amounts will vest to the Executive Directors in three equal tranches after one, two and three years.

The LTIP is based on a three year performance period and any award is subject to a two year holding period before it is paid.

All payments of annual bonus and LTIP awards are subject to approval by the Remuneration Committee and are non-pensionable.

All variable pay (under the Executive Variable Pay Scheme and Long Term Incentive Plan) is subject to malus and clawback provisions. Malus provisions will apply to an unvested bonus award and clawback provisions will apply to vested amounts for three years following the vesting of such awards.

B1.3.2 Performance criteria on which variable components of remuneration for the reporting period were based

Variable Pay

Performance under the Variable Pay scheme is based on a balanced scorecard approach for both Society and individual performance based on financial, customer, employee and strategic objectives. The Remuneration Committee may adjust pay-outs based on the evaluation of personal behaviours and any risk, compliance or other concerns.

The maximum annual bonus that may be payable if both the Society and individual perform at stretch target is 78.75% of salary.

Director	Base salary/ fees[(a)]	Benefits[(b)]	Bonus [(c)]		Long-term incentives[(d)]	Pension[(e)]	Sub-total-ongoing	Other[(f)]	Total Remuneration
			Cash	Deferred					
Year ended 31 December 2019, £'000									
Executive									
Mario Mazzocchi (appointed to the Board 1 August 2019 – see note below)	425	13	85	85		48	656		656
Craig Errington (left 31 December 2019 – see note below)	502	14	110	110		71	807	811	1,618
Ahmed Farooq	250	12	45	45		33	385		385
Non-Executive									
Phil Green (Senior Independent Director until 30 November 2019 when he stepped down from the Board)	80						80	40	120
Chris Brinsmead (left 31 May 2019	22						22		22
Nathan Moss	128						128		128
Martin Bryant (Senior Independent Director from 1 December 2019)	55						55		55
Nigel Masters	53						53		53
Andrew Neden	53						53		53
Ian McCaig (appointed 30 September 2019)	13						13		13
Anne Torry (appointed 1January 2019)	53						53		53
Linda Wilding (appointed 1 June 2019)	35						35		35
Total	1,669	39	240	240		152	2,340	851	3,191
Year ended 31 December 2018, £'000									
Executive									
Craig Errington	492	13			84	85	674		674
Ahmed Farooq (appointed to the Board 8 August 2018)	233	11			34	30	308		308
Non-Executive									
Phil Green	78						78		78

Chris Brinsmead	52					52		52
Nathan Moss	125					125		125
Martin Bryant	52					52		52
Nigel Masters	52					52		52
Andrew Neden	52					52		52
Total	**1,136**	**24**		**118**	**115**	**1,393**		**1,393**

The new LTIP for 2020 is designed to strengthen the link between rewards received for the performance delivered. Awards will be made in cash and will vest following assessment of a range of financial and non-financial performance measures aligned to the Society's strategy after a three year performance period and then will be subject to a further two year holding period. The maximum award under the new 2020 LTIP varies by participant and is up to 100% of base salary for the Group Chief Executive. Awards vest at 25% of the maximum award for threshold performance rising to the maximum award at stretch target.

B1.3.3 Main characteristics of the pension schemes

Executive Directors are either a member of the Society's contract-based defined contribution pension scheme or receive a cash allowance in lieu of the Society's pension contribution. The Society previously provided a defined benefit pension scheme but this was closed to new members with effect from October 2005 and closed to future accrual for remaining members of the scheme with effect from 5 April 2016.

Under the defined contribution pension scheme, the Society contributes 15% of salary for Executives based on an employee contribution of 8% (the Society will contribute 10% for Board Executives from 1 April 2020 to align contribution rates with those of the wider workforce) For Executives who were members of the defined benefit pension scheme which closed to future accrual with effect from 5 April 2016, higher Society contributions applied for a period of three years following closure.

If a cash allowance is taken then the amount paid to the individual is reduced to allow for the cost of employer's National Insurance Contributions.

B1.3.4 Material transactions with shareholders, members of the management body, or those exerting a significant influence over the Society

Not applicable. There were no material transactions with shareholders, members of the management body, or those exerting a significant influence over the Society during the reporting period.

B2 Fit & Proper Requirements

B2.1 Skills, knowledge and expertise

This section contains general information regarding the process for assessing the fitness and propriety of the persons effectively running Wesleyan and the persons responsible for key functions. The Society's Fit and Proper Policy covers the required standards we hold to ensure roles are filled by fit and proper employees. The policy is reviewed annually and signed off by the Board.

Wesleyan Assurance Society and its subsidiary companies ("the Group") is committed to ensuring that individuals are fit and proper to manage the duties and responsibilities related to the roles and functions they are appointed to.

These individuals have been chosen because they possess the qualities required to discharge their respective duty but also because they collectively have been assessed as able to provide for the sound and prudent management of the undertaking.

B2.2 Assessing fitness and propriety

The employer assesses employees for fitness and propriety against guidance issued by the regulator so that appropriate methods are used.

Assessing an individual's fitness covers:

- Qualifications relevant to the role;

- Knowledge, competence, capability and experience relative to the responsibilities of the role;
- Ensuring the individual has undergone, or is undergoing, all of the relevant training.

Assessing propriety includes:

- Considering whether the individual is of good repute and integrity;
- An assessment of their honesty;
- An assessment of their financial soundness i.e. credit checks.

B3 Risk Management System Including the ORSA

B3.1 Risk management strategies, processes and reporting procedures

Wesleyan's vision for integrated risk management underpinning its business strategy is that:

- The Society accepts risk in order to generate profits and fulfil its customer proposition by providing tailored financial products.
- The Society manages risk in order to protect its capital so that it remains a financially strong organisation consistent with its mission statement and communications to policyholders.
- The Society is prepared to accept some volatility in operational profits but must manage risk to generate profits over the longer term.
- The Society's reputation in the discrete markets in which it operates is vital and this is taken into account in setting risk appetite and managing risk.
- All of the Society's employees have a responsibility for managing risk.

Wesleyan's risk strategy, risk management framework and risk appetite framework set out the key principles, management structures, appetite limits and assignment of risk management responsibilities across all the activities of the Group. This serves to define the boundaries for risk decision-making to ensure that the preferred type and quantum of risk is maintained in the context of Wesleyan's business strategy. The following minimum standards must be met:

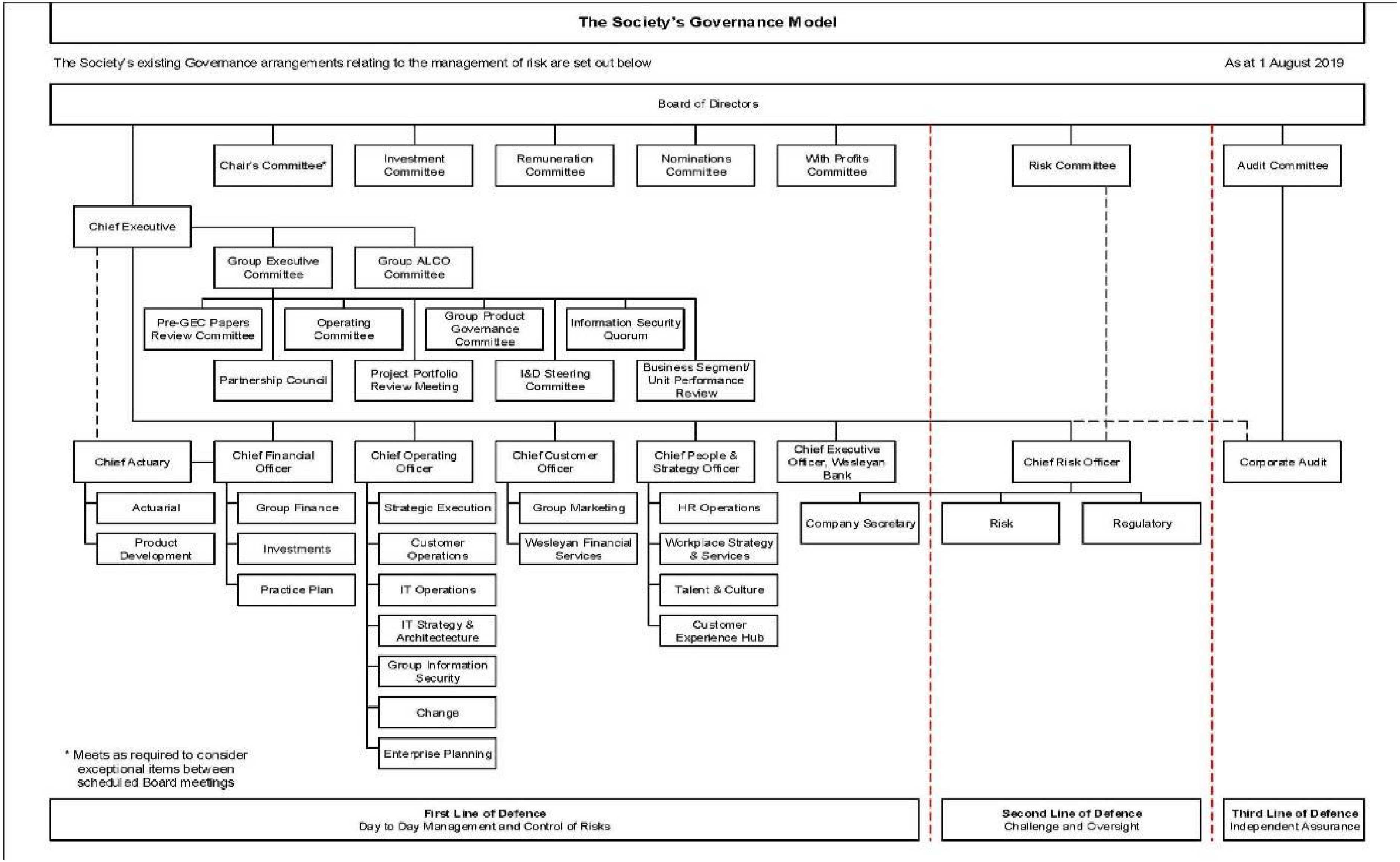
- A strategy is in place for managing risks as well as the inter-relationships between these risks.
- Risk governance structures are in place to ensure all applicable regulatory requirements and Wesleyan Integrated Risk Management standards are met.
- Risk appetite statements and limits are in place for each key risk, consistent with the risk strategy and reflecting the preference for and/or avoidance of risk.
- The resilience of the business to risk events is tested for stressed as well as for normal conditions, including developing an understanding of the severity of an event that would cause the business to breach capital requirements and/or become insolvent.
- Processes and metrics are in place to ensure risks are identified, assessed and reported on a consistent basis.
- The levels of risk are actively monitored against the capital available and the limits set, with clear accountability set for the identification, management and monitoring of risk and, where necessary, the escalation of risk-related issues.
- Risk-specific contingency and crisis plans are in place at all times with clear criteria set for when such plans are invoked.
- Processes are in place to ensure that non-compliance with these principles is identified and dealt with appropriately.
- Risk reporting supports the management of risk, meets the needs of all relevant internal and external stakeholders, and where required, the specific needs of separate legal entities.

The Society manages each risk category the same way through setting appetites and regular monitoring. The Society's Risk Appetite is reviewed annually and signed off by the Board with recommendations from the Risk Committee. The Risk Function reports the management of its risk profile against appetite on a regular basis. The Group Chief Risk Officer (CRO) report is provided to the Group Executive Committee monthly; to every Risk Committee; and a summary of the main points goes to the Board.

The risk monitoring process is carried out by the Risk Function working with the individual business representatives tracking key risks against the allocated risk appetite. The results of this periodic assessment are recorded in the monthly business area reports including any breaches (in appetite) and related management actions.

The CRO report contains summarised information from all business units' risk reports and tracks key risks across the Group against the Group risk appetite.

B3.2 Integration into the organisational structure and decision making processes



The Society's internal control accountabilities are aligned to the Three Lines of Defence model of control and assurance (see diagram above). This provides a clear allocation of responsibilities for the ownership and management of risks and controls, to avoid overlaps and/or gaps in governance. It operates as follows:

- Executive and management of the Society have primary responsibility for the day to day management and control of risks ('1st line of defence').
- The Risk Committee, supported by the Risk Function, assists the Board to formulate risk appetite, strategies and policies and limit structures for the management of risk and provides independent objective challenge, oversight and support of risk management activity across the Society. The Regulatory Functions monitor compliance with the PRA's and the FCA's handbooks and other regulations ('2nd line of defence').
- The Audit Committee, supported by Corporate Audit, provides independent and objective assurance on the effectiveness of the overall system of internal control ('3rd line of defence).

The first line of defence is any risk-taking operating unit or function. In the first line, ownership and accountability for any risks taken resides with the executive management and staff. The second line is the Risk and Regulatory Function that coaches and provides oversight, quality assurance and challenge to operations. The third line of defence includes Corporate Audit, which provides independent assurance to the Boards and their Audit and Risk Committees.

The Society's Risk Function assists its decision making process through the Own Risk and Solvency Assessment (ORSA) process. The CRO provides summarised risk reports to the Group Executive Meeting to aid the decision-making process. The Risk Function also provides the 2nd line validation of the Society's key decisions and models.

B3.3 ORSA process and integration

The Society's Own Risk and Solvency Assessment (ORSA) covers:

"… the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks a (re)insurance undertaking faces or may face and to determine the own funds necessary to ensure that the undertaking's overall solvency needs are met at all times." (CEIOPS Own Risk and Solvency Assessment Issues Paper, 27 May 2008, paragraph 9).

The ORSA is management's primary tool for assessing, documenting and reporting its Integrated Risk Profile, and aligning this with the Society's risk, capital management and business strategies to establish the internal capital requirements over a medium-term planning period, and how the Society plans to meet those needs. The production of an ORSA is a regulatory requirement.

The process enables the Society to identify and understand all significant risks, with consideration for new or emerging risks, and to understand how these risks fit within the Society's risk appetite. The process includes the following key components:

- Understanding the general risks
- Stress and scenario testing
- Understanding the capital and solvency risks
- Producing the integrated risk profile
- Producing the ORSA
- Reviewing and confirming the business strategy
- Reviewing and confirming the risk appetite
- Understanding the gaps
- Applying Governance and controls

The ORSA process generates the ORSA report. Key findings in the report are reviewed and challenged by appropriate stakeholders and executives as part of the process to ensure independence. The final ORSA report is signed off by the Board annually following recommendations from the Risk Committee.

The ORSA feeds into the Society's Strategic Planning process. The report provides an in depth overview of the Society's risk profile and risk management strategy, including any recommendations regarding key issues to be taken into account in the decision making process.

Key Risk Indicators (KRIs) are periodically reviewed to ensure that key changes in the Society's risk profile are highlighted. Where required an out of cycle ORSA report is produced to inform the key stakeholders of the relevant changes in risk profile and to provide any strategic recommendations.

The ORSA policy and process is reviewed annually by the Risk Function and signed off by the Board.

B3.4 ORSA review and approval frequency

The ORSA process is performed at least annually, as well as upon certain pre-determined triggers, such as when significant changes in the Society's risk profile occur.

Updates to the ORSA policy, ORSA process and the ORSA report are reviewed, challenged and signed off through the governance process at the Group Executive Committee (GEC) and Risk Committees.

B3.5 Solvency requirements and the interaction of risk management and capital management

The ORSA process enables the Society to identify and understand all significant risks, with consideration for new or emerging risks. Where these risks are quantifiable, the capital and solvency impacts are assessed through the Wesleyan model. For non-quantifiable risks, such as reputational risk, these are considered and assessed using a qualitative approach. The most significant risks are then presented using an Integrated Risk Profile matrix, allowing all risks to be reviewed on a consistent scale using quantitative and qualitative criteria.

The results of this assessment are then detailed in the ORSA report. This is combined with a wider, forward looking review of the Society's capital and solvency requirements for the Society's business strategy in relation to the Society's risk appetite. The review and challenge process undertaken as part of the production of the ORSA report helps to identify any gaps and develop appropriate actions to address any issues raised.

B3.6 Production of group and individual ORSAs

Historically, two ORSA documents are produced for the Group; one for Practice Plan Insurance Limited (PPIL) and one for the Group as a whole. The Group and PPIL ORSA are produced separately. As PPIL's risk profile is immaterial compared to the risk profile of the Group, a separate ORSA is not produced for the Society on a standalone basis.

PPIL was closed to new business in early 2019, therefore, going forwards no separate PPIL ORSA will be required.

B3.7 Non applicable sections

The following sections are not applicable:

- Sensitivities – the Society does not use volatility or matching adjustments. There is also no material extrapolation of interest rate term structure used.
- Key data for an internal model – The Society does not use an internal model for Pillar 1 reporting.

B4 Internal Control System

B4.1 Internal control system

The Society's accountability framework is set in line with its organisational, legal and internal control structures. Organisational roles and responsibilities span the Group hierarchy which includes the Board, its subsidiary companies and its sub-committees, Executive/senior management and business operations. Each layer of accountability clarifies the respective roles of the Board and management and establishes the relationships between them.

The Society's internal control accountabilities are aligned to the Three Lines of Defence model of control and assurance. This provides a clear allocation of responsibilities for the ownership and management of risk and controls, to avoid overlaps and/or gaps in governance. It operates as follows:

- Executive and management of the Society have primary responsibility for the day to day management and control of risks ('1st line of defence').
- The Risk Committee, supported by the Risk Function, assists the Board to formulate risk appetite, strategies, policies and limit structures for the management of risk and provides independent objective challenge, oversight and support of risk management activity across the Society. The Regulatory Function monitors compliance with the FCA's handbook and other regulations ('2nd line of defence').
- The Audit Committee, supported by Corporate Audit, provides independent and objective assurance on the effectiveness of the overall system of internal control ('3rd line of defence').

The Society has developed an internal reporting system that includes information on all risks to which the Society is exposed at all levels, in an appropriate format. The internal reporting framework enables the fulfilment of Board and management accountabilities as well as enabling the monitoring of the Society's risk and capital position against its risk appetite. Internal reporting also includes reporting against strategies and policies. The Board reviews this information on a regular basis. Senior management may attend meetings of the Board or of Board committees in order to provide further information. In addition, Board members may seek direct access to management and staff.

B4.2 Regulatory Function

The Society's Regulatory Function forms part of the Society's system of internal controls. It advises, monitors and reports at all levels of the organisation on adherence to regulatory and other legal requirements, as well as internal policies. The Compliance Officer reports to the Chief Risk Officer.

The Regulatory Function's objectives are to:

- Establish and maintain effective regulatory control systems, including monitoring and reporting to manage regulatory risk within the risk appetite set by the Board;
- Provide timely advice to the Group on relevant changes to the regulatory environment; and
- Promote high standards of performance and ethical behaviours by the Group's employees to help ensure the business delivers fair customer outcomes.

These are achieved through three key activities:

- Interpreting and applying regulations.
- Monitoring adherence to regulations and approved processes.
- Identifying remedies when issues arise through complaints and breaches.

The Regulatory Function supports the Board to raise awareness of the Regulatory risk appetite and supports management by identifying, assessing and overseeing the mitigation of regulatory risks. It monitors against regulatory risk tolerance levels and reports to the Executive and the Board where the risk appetite is exceeded and where unacceptable business practices are identified.

The Regulatory Function communicates pro-actively and effectively with its stakeholders. This includes ensuring that the Regulatory Function viewpoint is heard internally through attendance at relevant meetings and through meetings with individual decision makers where necessary. Where required, the Regulatory Function co-ordinates the Group's response to regulatory consultations via industry bodies or directly to the regulator concerned.

The Regulatory Function forms part of the 2nd line of defence. The Compliance Officer is responsible for the establishment and development of an effective Regulatory Function, which promotes high standards of integrity and independence and is adequately resourced, carrying out its role, in accordance with Wesleyan's ethical code and applicable regulations.

This resource is commensurate with the level of complexity of the regulations and operations over which the function has oversight and is adequately equipped to carry out its role, with the team having appropriate qualifications and competencies. The adequacy of resource is regularly reviewed to ensure it remains sufficient and appropriate.

B5 Internal Audit Function

B5.1 Internal Audit Function (Corporate Audit)

The primary role of Corporate Audit is to help the Board, Audit Committee and Executive Management to protect the assets, reputation and sustainability of the organisation.

The diagram in Section B3.2 shows how the three lines of defence operate in the organisation and how audit (3rd line) fits into the decision-making structure.

Corporate Audit plans and executes its activities, principally the conduct of risk-based audits, to provide assurance to the Society's and Wesleyan Bank's Board, Audit Committees, and Executive Management on the adequacy of the Society's and Wesleyan Bank's internal control system and governance arrangements.

The Head of Corporate Audit reports directly to the Chair of the Audit Committee in a line management capacity. The Head of Corporate Audit also maintains regular contact with the Chair of Wesleyan Bank's Audit Committee.

Corporate Audit derives its authority from the Board, through the Audit Committee. In carrying out its duties, Corporate Audit is authorised to:

- Have right of access to all records, resources, meetings, management information and personnel to allow it to perform its duties;
- Have full and unrestricted access to the Audit Committee; and
- Obtain, where necessary, assistance of colleagues in areas of the Group where it performs audits, as well as other specialised services from within or outside the organisation.

B5.2 Independence and objectivity

Corporate Audit is impartial, unbiased and avoids conflicts of interest. Corporate Audit functions independently from the activities it audits, and its auditors are objective in performing their work. Corporate Audit, whilst consultative in approach, is free from interference in determining the scope of internal auditing, performing work and communicating results. Specifically:

- Corporate Audit is not part of, nor has any direct responsibility or authority over, any operational functions and/or activities reviewed and should not relieve others of such responsibilities;
- the Head of Corporate Audit has a direct reporting line to the Chair of the Audit Committee (for line management);
- the responsibilities of the Audit Committees (see section B1.1.2) support the independence of Corporate Audit;
- all internal auditors ultimately report to the Head of Corporate Audit;
- Corporate Audit is authorised to allocate resources, set audit frequencies and plans based on risk and/or audit cycle principles, determine audit scopes and apply audit tools and techniques, and to obtain the

necessary assistance and specialised services within or outside the Society to accomplish its objectives; and

- Corporate Audit maintains a policy of rotating staff where appropriate to ensure that independence and objectivity is maintained.

B6 Actuarial Function

B6.1 Implementation of the Actuarial Function's process

The Actuarial Function is led by the Chief Actuary, who reports to the Chief Financial Officer.

The various activities constituting the Actuarial Function are embedded within a number of teams and individual roles, with a mixture of direct and "dotted line" reporting to the Chief Actuary.

The key responsibilities of the Society's Actuarial Function are:

- To coordinate the production of the Society's internal capital reporting and produce actuarial information for the Society's external reporting.
- To ensure the appropriateness of actuarial methodology, assumptions and models.
- To ensure the Society's policy data is fit for purpose for the actuarial work being carried out.
- To deliver Capital Management support for the Wesleyan Group.
- To ensure that products sold by Wesleyan are priced appropriately; this includes providing product and profitability support to the business.

The Actuarial Function provides services to Wesleyan Assurance Society and its subsidiary companies.

B7 With Profits Actuary

B7.1 With Profits Actuary Responsibilities

The With Profits Actuary reports directly to the Chief Financial Officer and also has direct access to the Chief Executive, the Chief Actuary, the Group Executive and the Board. They report at least quarterly to the With Profits Committee.

The key responsibilities of the With Profits Actuary are to:

- Ensure the fair treatment of With Profits policyholders and equity between different groups of policyholders;.
- Ensure that this discretion is exercised in accordance with the Society's Rules, the Principles and Practices of Financial Management (PPFM) and all regulatory requirements;
- Fulfil all regulatory requirements of the With Profits Actuary function.

B8 Outsourcing

B8.1 Outsourcing Policy

The Society has an Procurement and Supplier Relationship Management Policy, its purpose is to ensure that prior to choosing a service provider to fulfil a key function, a detailed examination of the potential service provider's ability and capacity to deliver the required functions or activities satisfactorily are undertaken; and secondly that there is a continued monitoring of the service provider's capability and performance.

This Policy applies for all material outsourcing arrangements entered into by the Society.

A material outsourcing arrangement is one in which either:

- The supplier directly services customers and, therefore, influences conduct.
- An outsourced supplier carries out a service on Wesleyan's behalf that is regulated by the PRA/FCA.
- A defect or failure in its performance would
  - Materially and adversely impact the quality of the system of governance;
  - Unduly increase Operational Risk or significantly reduce control assurance (e.g. if -the service is a key mitigating control in the Operational Risk and Control Assessment Matrix)
  - Impair the ability to comply with any relevant legal or regulatory requirements or the ability of the Regulator to monitor the Society
  - Undermine the soundness or continuity of key functions (any function or activity that is essential to the operation of Wesleyan as it would be unable to deliver its services without the function or activity)

B8.2 Outsourcing of Key Functions

The Society has identified the following functions as “Key” Functions, which may be outsourced:

- Insurance Management
- Claims Handling / Loss Adjustment
- Broking / Insurance Distribution Services
- Investment Management
- Actuarial Function
- Internal Audit Function
- Any other function or activity that is essential to the operation of the Society if it would be unable to deliver its services without the function or activity.

The Society provides all of the above key services via its subsidiary, Wesleyan Administration Services Limited. The Society holds all of the share capital of this subsidiary and has full control over the activities of this subsidiary.

During 2019, the Society took the decision to outsource its IT Data Centre activity from an on-site provision to a third party, to reduce the risk of system failure and outages. The outsourcing activity is due to be completed in H1 2020.

The Society has not outsourced any of its Key Functions.

B8.3 Outsourcing Processes and Controls

The Society has processes and controls over the lifecycle of any external outsourcing arrangement to ensure that the service provider will have the ability and capacity to deliver the required service.

Such processes and controls include:

- An assessment as to the provider’s ability to successfully manage the outsourced function, including due diligence to determine whether the Outsource Provider has:
  - the ability and capacity to deliver the required functions or activities satisfactorily, taking into account the undertaking’s objectives and needs;
  - adopted all means to ensure that no explicit or potential conflicts of interest with the undertaking impair the needs of the outsourcing undertaking;
  - adequate risk management and internal control frameworks in place to ensure compliance with all applicable laws and regulations;
  - sufficient financial resources to carry out the outsourced services;

- adequate provisions in place to protect confidential information and personal data;
- competent and professional staff to perform the outsourced services; and
- adequate Disaster Recovery and Business Continuity Plans in place (including periodic testing of backup facilities where that is necessary having regard to the function, service or activity outsourced).

- A detailed outsourcing agreement that is reviewed and approved by Legal Counsel or an appointed external lawyer, including a Service Level Agreement (SLA) outlining key deliverables that must be put in place in respect of each outsourced service.
- On an annual basis, an assessment of whether the quality of service being provided is in line with the agreed service levels in accordance with the written outsourcing agreement.
- An assessment also of whether the outsourced service provider is adhering to the procedures and controls put in place to mitigate the risks associated with the outsourced function.
- At least annually, a formal evaluation of the effectiveness of the outsourced arrangement.

B8.4 Details of Material Outsourcing Arrangements

- The Outsourcing Checklist (contained within the Outsourcing Policy) is completed for all new material outsourcing arrangements.
- The following table summarises existing material outsourcing arrangements that the Society had in place as of 31 December 2019:

Outsourced Provider	Service	Rationale for Outsourcing	Executive Sponsor	Responsible Manager
Tripartum Limited (contract went live in 2018) (UK based)	Production of Statements	Cost and process efficiency	Chief Actuary	Head of Product Development & Performance

Table B8.4 - 1

- These arrangements are subject to ongoing review and governance, including:
  - regular review meetings;
  - contingency planning;
  - ongoing monitoring of performance / financial health.

B8.5 Intra-Group Outsourcing

- Where the service provider is in one of the Society's subsidiaries, some of the above processes and controls may be applied more flexibly. The examination of the service provider is not required to be as detailed provided that the Society has sufficient control over, and can influence the actions of, the subsidiary service provider.

  Nevertheless, the following criteria must still be met:
  - A risk assessment must be carried out and approved by the Risk Function to assess whether and to what extent the outsourcing arrangement can be relied on.
  - A written agreement must be in place, stipulating the duties and responsibilities of both parties.
- As a separately authorised company, Wesleyan Bank has in place an agreement with Wesleyan Assurance Society for the provision of central support services (e.g. Marketing, HR, IT). This agreement documents the services provided, accountabilities and performance monitoring approach.

B9 Adequacy of the Governance Structure

The Society reviews the effectiveness of its governance framework by carrying out annual effectiveness reviews of its Board and committees. It also carries out an external review of Board effectiveness every three years. Should any issues arise from these reviews they would be addressed at Board level. No material issues have arisen during the year and the current governance structure is considered adequate for the nature, scale and complexity of the risks inherent in the business.

B10 Any Other Information

There is no other material information regarding the system of governance.

C RISK PROFILE

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

The Society's adherence to its risk appetite is assessed through quantitative and qualitative measures. Greater emphasis is placed on the risk appetite for Reputation, Capital, Conduct and Business risks. These risks are the focus of the Society's Board level risk appetite.

Board level risk appetite

Element	Risk Appetite Statement	How we will measure this
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.	Five differing stakeholders inform our Reputation: • Regulators and statutory bodies • Customers • Our people • External Media (all forms) • External service providers we rely on (eg banks) Within each of these, we set out deliverables or targets which have the ability to influence opinion of us.
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 stressed event as defined by our Internal Capital Requirement (ICR).	A buffer either side of the limit is appropriate; otherwise, the limit becomes a minimum, the breaching of which requires action and will generally lead to an implicit higher capital risk appetite (as behaviourally the organisation will aim higher at all times). This buffer zone is for day to day management purposes only. All plans for future years are expected to demonstrate compliance with the Society's Internal capital requirement stress limit. The zones have been set with an element of pragmatism – they need to be large enough to not force regular management actions due to Business As Usual (BAU) variances, but small enough to be an appropriate control.

Element	Risk Appetite Statement	How we will measure this
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.	We will be proactive in considering the impact on customers of all activities we plan to deliver. In particular; ▶ Quality of advice is measured using a risk-based methodology. Volumes of checking are regularly reviewed to ensure they meet regulatory expectations. ▶ Customer feedback is measured and monitored through segment-based customer surveys and interviews. ▶ We measure whether we meet six Treating Customer Fairly (TCF) outcomes and wider standards as stipulated by the regulators in the development of new products. ▶ On-going product reviews are undertaken considering conduct risk including TCF risks or issues and value for money. ▶ We will assess a number of product risks or issues raised at 3rd party product provider reviews and report exceptions as appropriate. ▶ New product development and ongoing product reviews and changes are overseen by the Group Product Governance Committee, which is a sub-committee of the Group Executive Committee. ▶ Customer Outcome Reports are produced by 1st line business areas and aligned to products groups. These are overseen by 2nd line and are metrics based on desired customer outcomes throughout the customer journey. ▶ Quality of complaints handling is measured through adherence to the regulator's expectations and the number of complaints upheld by the Financial Ombudsman Service. ▶ Customer service performance including meeting SLAs and quality standards is measured and monitored through reviews of operational MI and issues will be escalated to relevant Executive committees. ▶ Adherence to regulations including monitoring and significance of Compliance breaches is reported to the Group Executive Committee. ▶ Sales Force remuneration is measured through a risk assessment approved by the Executive and the Risk Committee and monitored through regular business meetings with stakeholders including Risk and Regulatory, Sales Operations and Group Finance. ▶ We will assess the risk exposure for our With Profits Policyholders to ensure that it is in line with their expectations. The total investment in Subsidiaries owned by the With Profits Policyholders is also monitored to ensure that it is not excessive and that it delivers return commensurate with the level of risk. ▶ We oversee the activities of third party administrators to ensure they perform the outsourced activities in a way that aids us in meeting regulatory expectations and supports the delivery of fair customer outcomes.

Element	Risk Appetite Statement	How we will measure this
Business	The Society seeks to monitor and react to external developments to ensure that it maintains/improves its low to moderate 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 outcome; ► Long term financial and operational performance.	Business risks are measured in respect of the following: ► Coverage and effectiveness of the Society's strategy against its top risks and (relevant) emerging risks; ► Financial and operational resilience to external shocks – e.g. being able to withstand an "unlikely but plausible" shortfall in planned business Income and still generate profits for the benefit of our policyholders over the strategic planning period; ► Adaptability of the Society's business model to external changes – e.g. having a diverse spread of business income across various customer/product segments. The identification of business risks focuses on understanding the Society's business model in the context of the environment in which it operates, both internal and external, and the adaptability of the Society's business model to changes to both environments. On an ongoing basis, the Society identifies the environmental factors that could possibly affect its business strategy, and these are used to determine the key business risks to the Society. Any analysis would include any influences on the Society's subsidiary companies.

At a more granular level, risk appetite statements and limits are also in place for each of the Society's key risk types; Market, Credit, Operational, Insurance and Liquidity risks. These are discussed below.

The Society's risk appetite framework goes further in translating the above Board level risk appetites into granular risk appetites and limits. This allows the business to monitor its day to day activities and ensure they are consistent with the Society's overall risk appetite.

The Solvency Capital Requirement (SCR) is the minimum amount of funds that the Group needs to hold to satisfy its regulatory requirements. Details of the calculation and amount of the Group SCR, and the breakdown by risk type are given in section E.

Coronavirus (CoViD-19)

On the 31 January 2020, the World Health Organization declared the outbreak of a new coronavirus a global emergency. The virus originated in China but has now spread to many parts of the world including the UK. The situation is still evolving, and we will continue to monitor any potential impact on us and our customers, and we will follow all official advice to limit any impact. We have initiated our contingency procedures to ensure that we are able to service our existing customers throughout this period of uncertainty.

C1 Underwriting Risk

C1.1 Risk exposures

C1.1.1 Assessment and management of underwriting risk exposure

Identification and assessment of insurance risks is undertaken via both bottom up exercises through review of the risks already identified in the ORSA capital model and top down risk assessment. The ORSA capital model, experience analyses and the integrated risk profile in the ORSA report are used to determine the Society's overall exposure and solvency needs for insurance risk over the business planning period. There have been no significant changes to the above assessments during the reporting period.

C1.1.2 Description of risk exposure

Insurance risk is one of the Society's key risks. In general, the risk relates to the uncertainty of the Society's financial performance arising from insurance cover and policyholder actions. The performance could be better or worse than expected.

A split of the Solvency Capital Requirement by Risks is available in Table E2-2. Insurance Risk accounted for 25% of the Group Solvency Capital Requirement at the end of 2018 (excluding Regulated financial, credit and investment services companies).

Insurance risk is defined as the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of:

- Mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities on annuities in payment, for example.
- Disability, sickness and morbidity rates.
- Rates of persistency, terminations, renewals and surrenders.
- Expenses incurred in selling and/or servicing insurance or reinsurance contracts.
- Death rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities on term assurance policies, for example.

Taking on insurance risk through the issue of insurance policies is central to the Society's long-term strategy. Once underwritten, the insurance risk can then either be retained by the Society or passed on to third parties via reinsurance, hedging or other market solutions. The Society's approach to reinsurance is covered by the Reinsurance Strategy and Policy.

C1.2 Risk concentrations

Whilst, in theory, risk concentrations are present for underwriting risk, they are relatively immaterial for Wesleyan and hence are not actively monitored. However, the Society does review its overall diversification of total risk between insurance and other risk types, such as market and credit risks. Controls are also in place to manage the maximum insurance risk exposure underwritten from an individual policyholder.

C1.3 Risk mitigations

C1.3.1 Underwriting risk mitigation and monitoring of effectiveness

The Society uses reinsurance to protect against adverse experience in its insurance risk profile, which could jeopardise the adequacy of premium income to cover claims. This is covered in detail in the Society's Reinsurance Strategy and Policy.

The effectiveness of reinsurance arrangements is monitored regularly. We have now completed recent reviews into the effectiveness of Society reinsurance, improving the overall control around these processes. During 2019, we reviewed and renegotiated risk premium reinsurance arrangements with Swiss Re on our main income protection book. We will continue with a review of in-force reinsurance arrangements in 2020. In addition, we will review the use of KPIs for reinsurance business to ensure the risks regarding reinsurance remain well understood.

C1.4 Risk sensitivities

C1.4.1 Stress testing and sensitivity analysis for underwriting risks (methods, assumptions and outcomes)

The Society has developed a Stress and Scenario Testing Policy which sets out the Society's strategy to delivering stress testing, scenario analysis, sensitivity testing and Reverse Stress Testing (RST) in order to meet both the regulatory and the Society's decision-making requirements.

The Probability Distribution Forecast (PDF) produced by the ORSA capital model allows management to demonstrate the capital implications of stresses on the balance sheet at any confidence level for any risk or product group. The stress tests calculate the Society's Internal Capital Requirement (ICR) by taking the value that represents a stressed event from the ICR PDF for each modelled risk.

The Society undertakes sensitivity analysis around its key risks to better understand their impact. This understanding allows improved focus of our checks and controls. The sensitivity test results also help to sense check the asset and liability movements in our stresses.

Table D2-17 sets out the results of sensitivity analysis undertaken for this period. These are prior to management actions and diversification benefits and based on standard formula SCR calculations.

C1.5 Other information

In addition to Life and Pensions business, the group also carry significant insurance risk exposure from its staff pension scheme. This risk is reserved for in its internal capital (Pillar II capital) and is discussed in more detail in C7.

C2 Market Risk

Market risk is the risk that the fair value of or future cash flows from the Society's assets and liabilities fluctuate because of changes in market prices. The key components of Market risk are equity level risk, interest rate risk and currency risk.

C2.1 Risk exposures

C2.1.1 Assessment and management of market risk exposure

The control and monitoring of Market risk is carried out by the Risk Committee. At an executive level, the Group Asset and Liability Management Committee (ALCO) provides strategic and operational oversight of Market risk with support from the Group Finance and Risk functions. Investment Committee also provides investment risk oversight with a focus on investment performance. The Society's Board has the ultimate responsibility for ensuring Market risks are managed within risk appetite.

A split of the Solvency Capital Requirement by Risks is available in Table E2-2. Market Risk accounted for 33% of the Group Solvency Capital Requirement at the end of 2018 (excluding Regulated financial, credit and investment services companies).

Group Finance provides regular Management Information for the assessment and quantification of Market risk exposure. The outputs from the quarterly valuation process, run through the Society's ORSA Capital Model, are used to calculate its Market risk capital requirements.

The ORSA Capital Projection Model projects these Market risk capital requirements over the length of the Society's business planning period under a range of scenarios.

Both of these outputs provide critical input to the Society's ORSA and its strategic and business planning processes.

C2.1.2 Description of the risks

Market risk is one of the Society's key risks and is the risk to which the Society has the largest exposure as assessed by amount of Required Capital.

Risk type	Risk exposures
Markets	**Borne by Estate** ▪ Losses from investments or losses arising from a mismatch in movements of assets and liabilities borne by the Estate. ▪ Extreme losses that cannot be allocated to With Profits Policyholders due to guarantees biting. ▪ Cost of smoothing in With Profits Fund. **Borne by Policyholders (With Profits)** ▪ Losses from investments. In the case of With Profits investment assets, this may be mitigated by smoothing and any guarantees that apply. ▪ Losses on Non-Profit business

The Society's exposure to Market risk arises from:

Sub Risk Type	Definition	How the risk arises
Equity level	The risk of losses arising due to a fall in equity prices with no change to future investment returns.	A drop in equity level can reduce the value of our equity holdings and surplus.
Interest rate Shift	The risk of losses arising due to a change in the market's expectation of future interest rates. The risk is split into three separate principal components: 1. Yield curve *shift;* the risk of the yield curve changing at all durations but maintaining the same shape (principal component 1 or PC1). 2. Yield curve *tilt;* the risk of short term rates and long term rates moving in different directions (PC2). 3. Yield curve *twist*, the risk of medium term rates moving in a different direction to short and long-term rates (PC3).	Movements in interest rate will affect the value of our debt asset holdings. Movements in interest rates will also affect the value of our liabilities through discounting.
Equity Volatility	The risk of increases in the movement of equity levels making guarantees more expensive to provide.	Increase in equity volatility will increase our liabilities through the cost of the With Profits guarantees the Society provides.
Property Level	The risk of losses arising due to a fall in property prices with no change to future investment returns.	A drop in property prices can reduce the value of our property holdings and surplus.
Gilt Swap Mismatching	The risk of losses arising due to an increase in gilt yields relative to swap yields.	Discrepancies in gilt and swap values can cause our assets (gilts) and liabilities (swap yields) to move away from each other.

Sub Risk Type	Definition	How the risk arises
Currency Level	The risk of losses arising on overseas assets due to a change in the exchange rate.	The Society holds assets in foreign currencies, while our liabilities are almost all in sterling. Currency movements can cause assets to move unfavourably against liabilities.
Inflation Level	The risk of losses arising due to a change in the market's expectation of inflation.	Movement in the inflation level can increase our liabilities through inflation linked benefit payments and through higher actual expenses in relation to fixed expense agreements.

C2.1.3 Prudent person principle and market risk

The Society has a Prudent Person Principle policy (PPP) which sets out all the relevant principles it is required to follow in the management of investment of assets within Wesleyan Assurance Society relating to insurance business.

Each individual fund has its own Statement of Investment Principles (SIPs) drawn up in line with the PPP requirements.

The Investment Committee and Group ALCO monitor our investment operations against the relevant SIPs and provide strategic direction to ensure that the requirements of the PPP are being followed.

C2.2 Risk concentrations

Market risk concentrations (e.g. the maximum percentage invested in an individual equity holding, country or currency) are documented within the Society's Risk Appetite Framework and in the SIP for each individual fund; compliance with these limits is monitored actively and reported through Group ALCO.

C2.3 Risk mitigations

C2.3.1 Market risk mitigation techniques

For the closed Medical Sickness Society (MSS) Fund, interest rate risk is mitigated by a portfolio of swaptions (interest rate derivatives).

Equity put options are held in the Society's Estate and provide capital protection from severe equity market falls.

C2.4 Risk sensitivities

C2.4.1 Stress testing and sensitivity analysis for market risks (methods, assumptions & outcomes)

The Society has developed a Stress and Scenario Testing Policy which sets out its strategy for delivering stress testing, scenario analysis, sensitivity testing and reverse stress testing in order to meet both the regulatory and the Society's decision-making requirements.

The probability distribution forecast (PDF) produced by the ORSA Capital model allows management to demonstrate the capital implications of stresses on the balance sheet at any confidence level for any risk or product. The stress tests calculate the Society's Internal Capital Requirement (ICR) by taking the value that represents a stressed event from the ICR PDF for each modelled risk.

The Society undertakes sensitivity analysis around its key risks to better understand their impact. This understanding allows improved focus for checks and controls. The sensitivity test result also helps to sense check the asset and liability movements in our market risk stresses.

Table D2-17 sets out the results of sensitivity analysis undertaken for this period. These are prior to management actions and diversification benefits and based on standard formula Solvency Capital Requirement (SCR) calculations.

The Society's capital position is most sensitive to changes in equity levels and equity volatility. This is consistent with the investment strategy of the Society. The Society has various options to reduce its equity exposure if market movements look to move in a detrimental manner. This can be done through selling equities or buying derivatives to hedge market movements. This could occur, for example, in response to a breach of an internal capital risk appetite threshold as part of the Society's Capital Breach Management Action Plan (CBMAP). In more extreme circumstances, the Equity sales plan dictates that the Society sells off its equity holdings as certain market triggers (equity level) are breached.

The capital effect of an adverse equity stress is pre-diversification and it is likely that movements in interest rates would be offset against movements in equity positions (although falling interest rates could increase the amount of capital required). The Society can reduce its interest rate exposure through derivatives or duration matching.

C2.5 Other information

In addition to Life and Pension business, the group also has significant interest rate risk exposure from its staff pension scheme. This risk is reserved for in its internal capital (Pillar II capital) and is discussed further in section C7.

C3 Credit Risk

C3.1 Risk exposures

C3.1.1 Assessment and management of credit risk exposure

The control and monitoring of credit risk is carried out by the Risk Committee. At an executive level, the Group Asset and Liability Management Committee (ALCO) provides strategic and operational oversight of credit risk with support from the Group Finance and Risk functions. Investment Committee also provides investment risk oversight with a focus on investment performance. The Society's Board has the ultimate responsibility for ensuring that credit risks are managed within risk appetite.

A split of the Solvency Capital Requirement by Risks is available in Table E2-2. Credit Risk accounted for 27 of the Group Solvency Capital Requirement at the end of 2019 (excluding Regulated financial, credit and investment services companies).

Specifically, the Society has developed Statements of Investment Principles (SIPs). The SIPs, which are reviewed by the Investment Committee and Risk Committee and approved by the Board, provide limits and tolerances at a granular level of asset type, which is a control on the credit risk levels that the Society can take on. The SIP then effectively becomes the mandate for the Investments Department who are responsible for investing within that mandate, to maximise the return in accordance with the benchmarks which are also specified in the SIPs.

As a minimum the following metrics have been adopted in relation to managing credit risks:

- Capital allocated to credit risks – from the ORSA Capital Model.
- Maximum exposure to a single counterparty.
- Risk limits in line with the approved SIP.
- Credit rating of the Society's Reinsurance Counterparties.

It should be noted that in the case of Unit Linked Funds and Unit Trusts the credit risk ultimately remains with policyholders and there are no wider strategic capital issues associated with these funds. It is imperative however that the amount of credit risk taken on remains within any limits or risk ratings communicated to policyholders.

C3.1.2 Description of credit risk

Credit risk is one of the Society's key risks, and is defined as:

> *"The risk of loss a firm is exposed to if the counterparty fails to perform its contractual obligations (including failure to perform them in a timely manner) including losses from downgrades and other adverse changes to the likelihood of counterparty failure".*

The Society sub-categorises credit risk into the following elements:

Sub risk type	Definition
Investment default or credit downgrade	The risk of a loss of funds placed with a financial institution or funds invested in bonds due to a failure of the counterparty or a credit downgrade.
Reinsurer default	The risk of a loss due to a default by a reinsurer. (The Society chooses to mitigate the potential for financial losses on its insurance risk exposure through reinsurance. This exposes the Society to the risk that the reinsurer does not fulfil their contractual obligations, leaving the costs of reinsured claims to be picked up by the Society).

C3.1.3 Prudent person principle and credit risk

Section C2.1.3 Prudent Person Principle and Market Risk details how the prudent person principle is applied in the Society.

C3.2 Risk concentrations

C3.2.1 Description of material credit risk concentrations

For the purposes of Pillar 3 Risk Concentration Reporting (using the Standard Formula SCR) a threshold of £100m is applied for identifying and reporting significant risk concentrations. Concentrations below this threshold are monitored but do not materially influence the solvency and liquidity position of the Society.

In line with the requirements of the Delegated Act, the Society has considered the following transaction types for the purpose of identifying what risk concentration should be reported (subject to materiality):

Considerations		Is this applicable to the Society?
a)	Individual counterparties	**Yes** – there are numerous large investment holdings with individual third-party counterparties. The Group also has asset exposures to its re-insurer, Swiss Re. Finally, there are cash exposures to counterparties within the group subsidiaries.
b)	Groups of individual but interconnected counterparties, for example undertakings within the same corporate group	**Yes** – there are a number of investment holdings with interconnected counterparties (e.g. RBS and the UK Government).

Considerations		Is this applicable to the Society?
c)	Specific geographical areas or industry sectors	**No** – given that concentration risk is mostly driven by the lack of diversification in issuers to which insurance or reinsurance undertakings are exposed, the market risk concentrations sub-module of the standard formula should be based on the assumption that the geographical or sector concentration of the assets held by the insurance or reinsurance undertaking is not material.
d)	Natural disasters or catastrophes	**No** – this is not deemed a material risk for a life insurance company.

In determining the reporting threshold to be applied for defining significant risk concentrations, the Society considers the following factors as set out in the Delegated Act:

- The solvency and liquidity position of the group.
- The complexity of the structure of the group.
- The importance of regulated entities from other financial sectors or non-regulated entities carrying out financial activities.
- The diversification of the group's investment portfolio.
- The diversification of the group's insurance activities, in terms of geographical areas and lines of business.

A £100m loss from a single counterparty is unlikely to be enough to cause a solvency breach in isolation (particularly if the loss is shared with WP policyholders) but would be enough for the event to be considered a “threat” to solvency. The threshold for threatening group liquidity is much higher.

C3.3 Risk mitigations

C3.3.1 Description of risk mitigation techniques for credit risk and monitoring of effectiveness

In the case of derivatives, significant counterparty exposure is mitigated by the use of collateral.

The Society also has deposit back arrangements in place with its reinsurer to provide partial protection against reinsurance default.

C3.4 Risk sensitivities

C3.4.1 Methods, assumptions and outcomes of stress testing and sensitivity analysis for material credit risks

The Society has developed a Stress and Scenario Testing Policy which sets out the Society’s strategy to delivering stress testing, scenario analysis, sensitivity testing and reverse stress testing in order to meet both the regulatory and the Society’s decision-making requirements.

The probability distribution forecast (PDF) produced by the Wesleyan model allows management to demonstrate the capital implications of stresses on the balance sheet at any confidence level for any risk or product. The Stress Tests calculate the Society’s Internal Capital Requirement (ICR) by taking the value that represents a stressed event from the ICR PDF for each modelled risk.

The Society undertakes sensitivity analysis around its key risks to better understand their impact. This understanding allows improved focus for checks and controls. The sensitivity test result also helps to sense check the asset and liability movements in our market risk stresses.

Table D2-17 sets out the results of sensitivity analysis undertaken for this period. These are prior to management actions and diversification benefits and based on standard formula SCR calculations.

C3.5 Other Information

In addition to our manufactured business, the group also has significant credit risk exposure from its staff pension scheme. This risk is reserved for in its internal capital (Pillar II capital) and is discussed in C7.

C4 Liquidity Risk

C4.1 Risk exposures

C4.1.1 Assessment and management of liquidity risk exposure

The control and monitoring of liquidity risk is carried out by the Risk Committee. At an Executive level, the Group Asset and Liability Management Committee (ALCO) provides strategic and operational oversight of liquidity risk with support from the Group Finance and Risk functions. The Investment Committee also provides investment risk oversight with a focus on investment performance. The Society's Board has the ultimate responsibility for ensuring that liquidity risks are managed within risk appetite.

The Society will measure its liquidity position by considering the cash flows that occur over 4 days, 2 weeks, and then over a 3 month period, in stressed liquidity conditions

The Society will assess liquidity coverage as follows:

The key risk indicator, which is calculated on a monthly basis, is determined as:

- The current amount of liquid assets divided by
- The amount of stressed cash outflows

The amount of 'liquid' assets in the stressed scenarios is determined by reference to the type of asset. For example;

- UK cash at a bank that is repayable immediately on demand is deemed to be 100% liquid
- UK corporate bonds with terms of less than 5 years (where the issuing company is not a bank) are assumed to be only 50% liquid, and
- UK unlisted equities are assumed to be illiquid (therefore a zero value will be applied to these assets in the stressed scenarios).
-

The BRAG status, is as follows:

Liquidity stress coverage				
4 day / 2 week period cash outflow	*>4x	3x – 4x	2x – 3x	<2x
3 month period cash outflow	>2x	1.4x – 2.0x	1.2x – 1.4x	<1.2x

* The figures in the table indicate the coverage of liquid asset holdings over the stressed cash outflow. In this case the rating blue means that the liquid asset holding is greater than 4 times the stressed cash outflow (in a 2-week period).

The tests are applied to the unit-linked and unit trust funds individually and also to the non-profit fund, with profits fund and the estate combined.

There is also a test applied to the Non-Profit Fund in isolation to check the liquidity position if non-profit assets and liabilities become mismatched. This is the same as the above tests except that asset haircuts are only applied to cash accounts and deposits.

C4.1.2 Description of liquidity risk

Liquidity is concerned with the maintenance of appropriate levels of cash and liquid assets, as required by the Society's asset and liability profile. The Society's business can involve a substantial time lag between the receipt of premium income and payment of policy benefits. However, liquidity stress conditions may also materialise primarily due to an unanticipated increase in policyholders' claims e.g. through specific market conditions or adverse publicity.

C4.1.3 Prudent Person Principle and liquidity risk

See C2.1.3 (Prudent Person Principle and Market Risk) for details on how the Prudent Person Principle is applied in the Society.

C4.2 Risk concentrations

Whilst, in theory, risk concentrations are present for liquidity risk, they are immaterial and hence are not actively monitored.

C4.3 Risk mitigations

C4.3.1 Description of risk mitigation techniques for liquidity risk and monitoring of effectiveness

Liquidity risk is monitored on a monthly basis for all of the Society's funds. A breach is defined as the Key Risk Indicator (KRI) being in the red zone. Amber is an early warning indicator for the fund manager. Should the KRI be amber, then the fund manager is informed of this status. They would then allow for this status in their proposed actions for the fund and the liquidity risk monitoring should be updated more frequently than monthly (the exact frequency is to be determined taking into account the reasons behind the amber status).

Should a breach occur, the following actions will take place:

- The fund manager will immediately be informed of the liquidity status and an instruction that actions should take place to reinstate a 'green' liquidity status within a maximum of 5 working days. The actions taken by the fund manager will reflect the market conditions at the time but in general any sales which take place should not simply be from the most liquid assets held but should be made with the overall balance of the remaining portfolio in mind. Key considerations here include the fact that the mix of remaining assets in the fund should reflect the investment objectives of the fund, any risk limits applicable and also the Society's strategic view of key asset classes.
- If there are genuine concerns that market conditions do not exist to reinstate a 'green' liquidity position within this agreed time frame then a special Investment Committee will be convened to discuss and agree appropriate actions.
- In times of extreme liquidity stress the Investment Committee may temporarily suspend Statement of Investment Principles (SIP) asset limits to ensure customers are able to access their investment.
- In times of extreme liquidity stress for Wesleyan Bank ("the Bank"), the Society is obliged to support the Bank to the level of £50m (comprising a £40m inter-group borrowing facility and a £10m overdraft). Additionally, the Society has confirmed to the PRA that, whilst noting that its legal liability is limited to the face value of its shareholding, it recognises a moral responsibility to ensure that the Bank continues at all times to meet its obligations.

C4.4 Risk sensitivities

C4.4.1 Methods, assumptions and outcome of stress testing and sensitivity analysis for material liquidity risks

Liquidity risk sensitivity analysis is not carried out in isolation due to its low impact on the Society's capital requirements. Our liquidity key risk indicators demonstrate that the Society would have more than sufficient cash or other liquid assets in a liquidity stress to meet its cash needs at the time and for a sustained period.

C4.5 Total expected profit included in future premiums

The total expected profit included in future premiums calculated is £64,187 (£000s) as at year end 2019.

Expected profit included in future premium is calculated using Solvency II standard formula assumptions. A summary of the methods used are set out in the table below:

Line of business	Notes	Justification
With Profits	No adjustment.	Best estimate liability (BEL) for With Profits business does not include any allowance for profit in future premiums as it uses an asset share plus cost of guarantees methodology. This is confirmed by the sensitivity analysis. Unitised With Profits (UWP) business represents 91% of Open Fund BEL, and accumulating Conventional With Profits (CWP) business represents 96% of the MSS Fund BEL, and is therefore representative of the general reasoning point above. It is also impractical to perform this exercise for CWP business because of the need to separately calculate paid up benefits for each policy. We are making no adjustment for the recycling of profits and losses on non profit / unit linked business into asset shares, as it is our understanding that the aim of this reporting item is to understand the full impact on technical provisions before any distribution of profit is made.
Unit Linked	Assume regular premium Lifetime Account Plus and Lifetime Account contracts are paid up. No change to servicing expenses (i.e. assume premium paying expenses continue for policies that aren't actually paid up. Paid up policies will continue to pay their paid up per policy expense).	Future premiums will reduce the Best Estimate Liability for Unit Linked Lifetime Account Plus / Lifetime Account business leading to additional profits. Premium paying pensions policies are already assumed to be paid up so no change is required. Smaller legacy classes of Unit Linked Life business are ignored on grounds of proportionality – the "negative sterling reserve" element of BEL for these products is less than £1m. The position will be monitored annually for Unit Linked Flexible Savings Plan (FSP) or Fixed term savings plan (FTSP) contracts. However, there is currently no allowance for future profits in the provisions for these contracts, where a unit reserve is simply held.

Line of business	Notes	Justification
Health	Calculate a BEL for claims in payment. Incurred but not reported (IBNR) for claims of duration less than 2 years (not in model point files). Claims in payment annuity for claims of 2 years or more duration. Assume unchanged servicing expenses. Allow for reinsurance recoverable on same basis as retained business above. Implicitly assume all healthy lives lapse.	If a healthy life ceases paying premiums, then they no longer have any contractual right to benefits – therefore this is not a paid-up benefit, it would be a lapse. An alternative interpretation of guideline 80 would be to simply take the claims and expenses element of the existing technical provision. However, this would provide a clearly misleading result, significantly overstating Expected Profits In Future Premiums (EPIFP), and therefore we do not believe this is the intention of the reporting requirement.
Index-linked	No change in provision.	

C4.6 Other information

No material information to disclose.

C5 Operational Risk

C5.1 Risk exposures

C5.1.1 Assessment and management of operational risk exposure

The Society runs an Operational Risk and Control Assessment (ORCA) to allow first line staff to attest on a continuous basis, to the standard of internal controls within their remit, as well as quantify at an inherent and residual level (i.e. before and after mitigating controls) the impact of operational risks within their area. The Society's operational risk capital requirement assumption is generated by the operational risk scenario analysis which investigates and quantifies losses from events that relate to a given probability of materialisation. Operational risks are separated out into several main categories and investigated in isolation.

To supplement this, the Society also collects information from first line managers regarding crystallised losses incurred through day-to-day operations ("Loss Events") as well as events which would have transpired but for luck or chance ("Near Misses"). In the risk review and risk challenge processes, the Risk Function, as second line, use the content of Loss Events and Near Misses to actively challenge managers on their self-assessments, and to escalate matters which cannot be resolved in accordance with the escalation process.

The ORSA Capital Projection Model projects operational risk capital requirements over the length of the Society's business planning period under a range of scenarios. This forms a critical input to the Society's strategic and business planning processes, as well as the Society's ORSA.

There has been a focus on operational resilience through 2019 and this has resulted in the formation of the Operational Resilience Committee. Initial meetings of the Committee have confirmed the key priorities including the identification of business critical systems and the development of a resilience dashboard with key metrics.

A split of the Solvency Capital Requirement by risk is available in Table E2-2. Operational Risk accounted for 15% of the Group Solvency Capital Requirement at the end of 2018 (excluding Regulated financial, credit and investment services companies).

Operational risk activities are conducted on a continuous basis throughout the Society and comprise:

- The ORCA process,
- Operational loss event and near miss reporting,
- ORCA workshops facilitated by the Risk Function,
- Key performance, key risks and control indicators used to provoke remedial activity from risk owners, or otherwise instigate the escalation process.

The Operational Risk Policy is an important part of the Society's internal control framework.

C5.1.2 Description of operational risk

Operational risk is one of the Society's key risks, and is defined as:

> *"The risk of loss arising from inadequate or failed internal processes, personnel or systems, or from our operational resilience to external events"*

The Society sub-categorises operational risk into the following elements:

Sub risk type	Examples of risk exposures
Financial Crime	Anti -Money Laundering; Know Your Customer; Control Framework Effectiveness; Cyber Security Vulnerability
Infrastructure	Business Continuity Planning; IT Systems; Roles & Responsibilities; Key Person Dependency; Supplier Contracts; Vulnerability
Catastrophe	Business Continuity Planning.
Administration	Customer Service; Process Improvement; Process Management; New Product Approval.
Regulatory	Treating Customers Fairly; Conduct Of Business; Complaint Handling; Breach Recording & Reporting, Internal Model Governance; Oversight of Outsourced Activities; Legal Risks
Mis-selling	Sales Monitoring; Sales Force Training; Remuneration Policy; Quality of Advice; Financial Promotions and Literature.
Transformation	Project Initiation, Transformation Financial Control, Business Case, RAID logs, Project Governance, Project Management, Stage Gate Approval, Benefit Tracking, Capacity Management, Key Person Dependency

C5.2 Risk concentrations

Risk concentrations are monitored actively for credit default, market and business (strategic) risks; whilst in theory they are present for other risks, they are immaterial for Operational Risk and hence are not monitored actively.

C5.3 Risk mitigations

C5.3.1 Description of risk mitigation techniques for operational risk and monitoring of effectiveness

The Society mitigates operational risk by managing it against risk appetite. Breaches of appetite are dealt with as follows:

Amber level

- The Risk function is notified by first line management, if indeed it is not the Risk function which has identified the change in status.
- The escalation process may be followed through if the Risk function feels the change in status, coupled with the trend, justifies escalation.
- The Risk function and the relevant first line executive will confirm upon request at the Group Executive Committee (GEC) the extent of their amber changes in status, associated trends, and the likelihood of rectification without action.
- Any required remedial action will be agreed at this meeting, and a first line executive made responsible for its delivery.
- The Risk Committee will only be informed of amber changes of status if tabled via the escalation process.
- Monitoring is enhanced by the first line to observe trends relating to the risk and should be supplied to the Risk function no less than monthly.

Red level

- The Risk function is notified immediately by first line management, if indeed it is not the Risk function which has identified the breach.
- The escalation process is followed through. The GEC should be notified as soon as is practicable, based on the Risk function's interpretation of the breach.
- The Risk function and the relevant first line executive will confirm to the GEC the extent of the breach, its materiality and the options for rectification.
- The remedial action will be agreed at this meeting and a first line executive made responsible for its delivery.
- The Risk Committee will be informed of the breach at its next meeting, and progress towards rectification, at each subsequent meeting until the risk profile has returned within risk appetite.
- Monitoring is put in place by the first line to observe this remedial activity and should be supplied to the Risk function as frequently as is practicable, but no less than monthly.

Wesleyan have implemented a Gold, Silver and Bronze incident management methodology. This is based on external best practice and provides a structured overarching incident response and escalation hierarchy. Gold is responsible for setting and leading the strategic direction; Silver drives the tactical response; Bronze implements and manages the implementation of operational interventions.

C5.4 Risk sensitivities

C5.4.1 Methods, assumptions and outcomes of stress testing and sensitivity analysis for material operational risks

Operational risk sensitivity analysis is not carried out in isolation as its impact is not easily quantifiable. Scenarios with severe operational failures have been assessed in combination with other risks in reverse stress testing exercises.

C5.5 Other information

No material information to disclose.

C6 Business Risk

Business (strategic) risk is one of the Society's key risks. It is the risk that external factors result in an unexpected loss and/or the Society's response to external factors is inappropriate.

C6.1 Risk exposures

C6.1.1 Assessment and management of business risk exposure

The Society seeks to monitor and react to external developments to ensure that it maintains/improves its low to moderate business risk profile over the longer term. This includes:

- Regular and effective processes for business risk identification, strategic planning and business risk management;
- Testing of resilience to risk events (what if scenarios).

The Society seeks to maintain sufficient resilience against business risk. This includes limiting negative impacts on:

- Customer outcomes;

Long term financial and operational performance.

C6.1.2 Description of business risk

Business risk is one of the Society's key risks and is defined as:

- the risk that external factors, such as a fall in demand for an organisation's products, will result in an unexpected loss now and/or reduced income/increased costs in the future
- and/or the Society's response to external factors is inappropriate or does not deliver the desired outcome.

C6.2 Risk concentrations

Risk concentrations are monitored actively for business (strategic) risk; in particular, a risk warning is triggered if more than 25% of business income is expected to arise from a single customer segment or from a single product area over the Society's planning horizon.

The Society predominately sells business through a single distribution channel (face-to-face advice to its target markets) which introduces a risk concentration. This is mitigated through exploring alternative distribution strategies as part of the strategic planning process and through projects in such areas as our digital strategy and our product offerings.

C6.3 Risk mitigations

C6.3.1 Business risk mitigation techniques

Business risk is controlled through risk monitoring and management against risk appetite.

C6.4 Risk sensitivities

C6.4.1 Stress testing and sensitivity analysis for business risks (methods, assumptions & outcomes)

Business risk sensitivity analysis is not carried out in isolation due to the fact that its impact is not easily quantifiable. Scenarios that can pose serious challenges to our business model have been assessed as part of the reverse stress testing exercise.

C6.5 Other information

For material intra-group transactions please see Section A.

Wesleyan Bank (WB) is a wholly owned subsidiary of the Society. It is subject to its own regulatory requirements under the Basel III regime. WB has access to specific parental guarantees in the form of a capped, committed loan facility.

C7 Deferred Benefit Staff Pension Scheme Risks

C7.1 Risk exposures

C7.1.1 Assessment and management of pension scheme risk exposure

This section relates solely to the risks for the Wesleyan Final Salary and the Wesleyan Career Average Revalued Earnings (CARE) Pension Scheme (WSPS). All benefits within this scheme are now deferred with no future benefits accruing.

The scheme is governed by the Trust Deed. The Trust Deed provides that the Trustee shall meet at least once every calendar year. In practice, the Trustee normally meets at least twice a year. All matters, including investment strategy decisions, are decided by a majority vote of those Trustee Directors present at the meeting. In the event of a tie, the Chair has the casting vote, regardless of whether they have previously voted on the same issue or not.

The Investment Manager, in conjunction with the Society's actuarial team reports to the Trustee on a quarterly basis. The Trustee then normally meets with the Investment Manager at each Trustee meeting to discuss the results achieved and to review the investments being made by the Investment Manager. Compliance with the Investment Policy Implementation Document (IPID) and the Statement of Investment Principles (SIP) is discussed and modifications made where appropriate.

The quarterly investment reporting covers:

- Asset allocation versus the benchmark, including the proportion of the Scheme's assets invested in quoted infrastructure, Preference Shares and non-Sterling bonds;
- The projected asset / liability cashflow comparison, in the stated 10-year term buckets, and any variances outside the + / −5% tolerance ranges; and
- Asset performance against the benchmark.

Group ALCO also monitors the level of risk in WSPS and the impact on the Society’s capital position, as described below.

C7.1.2 Description of pension scheme risk

The main risks attributable to WSPS are:

- Insurance Risk (particularly, longevity risk)
- Market Risk (mainly inflation and interest rate risk)
- Credit Risk (mainly counterparty and concentration risk).

The general nature of these risks is the same as for the Society as a whole and is described in the relevant sections above.

C7.2 Risk concentrations

There are limits to the amount of certain types of asset that the scheme may invest in. These limits are:

- No more than 2.5% of the fund may be invested in equity or property investment that behaves like debt
- An additional 5% of the fund is permitted in quoted infrastructure investments
- No more than 0.5% of the fund may consist of warrants
- Unlisted or unquoted investments should be no more than 0.5% of the fund.

These limits are stated in the Risk Appetite Framework and Statements of Investment Principles (SIP) for the WSPS Fund, which are monitored by Group ALCO.

C7.3 Risk mitigations

C7.3.1 Pension Risk Mitigation Techniques

WSPS risk is controlled through risk monitoring (via key risk indicators) and management against risk appetite.

Significant work was undertaken in 2016 to substantially de-risk the WSPS from exposure to market risks. This resulted in the equity holdings reducing significantly; inflation and interest rate risks are also now more closely matched.

Group ALCO monitors the level of risk in the WSPS and a series of key risk indicators are in place. Those in relation to risk concentration are described above, however, the fund must also demonstrate that:

- The Macaulay duration of the assets is within +/- 1 year of the Macaulay duration of the liabilities
- Only bonds rated above B are purchased.

Inflation matching is also tracked through the Society's Asset Liability Matching processes.

The breakdown of the Scheme's assets should broadly match the shape of the liability cashflows. To assess the degree of matching, the projected asset and liability cashflows will be allocated to 10-year term buckets

The Society's actuarial team will estimate the percentage split between the term buckets of the Scheme's projected liability nominal cashflows on a quarterly basis (based on the original cashflow projections produced by the Trustee's advisers) and provide this to the Investment Manager. The Investment Manager will aim to remain within + / −5% tolerance ranges for each term bucket. Tolerances are guidelines for monitoring purposes, rather than absolute limits.

C7.4 Risk sensitivities

C7.4.1 Stress testing and sensitivity analysis for business risks (methods, assumptions & outcomes)

WSPS is classed as an accounting liability under Solvency II rules, not an insurance liability. Therefore, we only need to apply the market and default stresses when calculating the Solvency Capital Requirement. This includes the impact on WSPS assets for the concentration and counterparty stresses. Insurance stresses (most notably, longevity) are, therefore, not applied to WSPS for the Solvency Capital Requirement.

The Society's Internal Capital Requirement (ICR) is calculated on the more realistic funding basis. A full set of stresses, including insurance risks, are applied to WSPS as part of this analysis. At the end of 2019, WSPS risks accounted for 26% of the ICR.

C7.5 Other information

There is no other material information.

C8 Quantitative Data for Assessing Dependencies of Risks Above

The standard formula is used for the calculation of the solvency capital requirement. The dependencies between risk modules are prescribed and no quantitative data is used.

D VALUATION FOR SOLVENCY PURPOSES

D1 Assets

Presented below is the following information regarding the Group's valuation of assets for Solvency II purposes including (for each material class of assets):

- A quantitative explanation of any material differences between the asset values for Solvency II purposes and those used for financial reporting bases.
- A description of the assets valuation bases, methods and main assumptions used for solvency purposes and those used for financial reporting in the statutory accounts.

(i) Quantitative information

For each material class of assets, the value of the assets as reported in the Group's Solvency II balance sheet and comparison with the values reported in the Group's statutory accounts for financial reporting purposes is set out in the table below.

Where items are classified differently between the Solvency II balance sheet and the statutory accounts, the balances presented in the 'Financial reporting' column have been correspondingly reclassified to follow the classification on the Solvency II balance sheet.

Asset description	Notes (see '(ii) Valuation bases, methods and main assumptions')	Group Solvency II basis 31.12.2019	Group Financial reporting basis 31.12.2019	Difference
		£000s	£000s	£000s
Goodwill	a)	-	31,961	(31,961)[1]
Intangible assets	b)	-	70,032	(70,032)[1]
Pension benefit surplus	c)	91,126	91,126	-
Property, plant and equipment held for own use	d),e)	31,847	31,847	-
Investments:	e)			
Property (other than for own use)	e)	314,127	314,127	-
Holdings in related undertakings, including participations	f)	77,915	79,123	(1,208)[1]
Equities	g)	2,368,578	2,363,916	4,662[2]
Bonds	g)	2,043,413	2,031,587	11,826[2]
Collective Investments	g)	183,692	183,692	-
Derivatives	g)	72,753	72,753	-
Deposits other than cash equivalents	h)	364,879	364,879	-
Assets held for unit-linked contracts	i)	1,277,363	1,279,693	(2,330)[2]

Asset description	Notes (see '(ii) Valuation bases, methods and main assumptions')	Group Solvency II basis 31.12.2019	Group Financial reporting basis 31.12.2019	Difference
Other loans and mortgages	j)	-	-	-
Reinsurance recoverable:	Section D2			
Health, similar to life	Section D2	57,132	57,132	-
Life excluding unit linked	Section D2	2,198	2,198	-
Insurance, intermediaries, re-insurance and other receivables	j)	12,484	12,484	-
Cash and cash equivalents	h)	16,801	16,801	-
Any other assets, not elsewhere shown	k)	16,352	30,512	(14,160)[2]
Total Assets		**6,930,660**	**7,033,863**	**(103,203)**

Table D1-1

[1] These differences are valuation adjustments between the Solvency II basis and financial reporting basis.

[2] These differences are reclassification adjustments between the Solvency II basis and financial reporting basis.

The financial reporting basis total assets reported in table D1-1 above differ from the Group's statutory accounts by £352m. This is due to Financial and Credit Institutions not being consolidated on a line by line basis within the reporting basis assets and liabilities in Section D, in line with their treatment on the Solvency II basis as a single line "holdings in related undertakings including participations" – this resulted in a reduction in assets and liabilities of £292.8m compared to the statutory accounts. In addition, the value of in-force linked non-profit business which is classified as an asset in the statutory accounts of £59.2m is classified under technical provisions in the Solvency II Balance Sheet and therefore to ensure comparability has been classified under liabilities within the financial reporting basis column in technical provisions in section D.2.3.

(ii) Valuation bases, methods and main assumptions

For each material class of assets disclosed above, the Society presents below the Solvency II valuation basis and any material differences with the valuation bases, methods and main assumptions used for financial reporting purposes in the Society's Group accounts for financial reporting purposes:

a) Goodwill

Goodwill is recognised in relation to the Society's business acquisitions made in prior years.

Solvency II purposes:	Financial reporting purposes:
As per Article 12 of the Delegated Act, all goodwill is valued at nil for Solvency II purposes.	Goodwill is capitalised on acquisition of another undertaking, when there is a positive difference between the purchase consideration paid and the fair value of the net assets acquired on the date of acquisition. Goodwill is capitalised in the balance sheet at cost and amortised through the profit and loss account on a straight-line basis over its useful economic life. Goodwill is 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.

b) Intangible assets

Recognised intangible assets related to capitalised software costs and customer listings acquired by the Society on business acquisitions.

Solvency II purposes:	Financial reporting purposes:
As per Article 12 of the Delegated Act, intangible assets are recognised only if they can be sold separately and their value can be derived from quoted market prices in active markets. Accordingly, at reporting date, the intangible assets have been valued at nil.	The recognition and valuation of intangible assets is in line with the requirements of FRS 102. Capitalised software costs are initially measured at cost, and subsequently measured at cost less accumulated amortisation, and any accumulated impairment losses. Customer listings are valued based on expected future income, discounted to their present value. They are amortised over their expected economic life.

c) Pension benefit surplus

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. The Scheme closed to future accrual with effect from 5 April 2016.

Methods and assumptions applied in calculating the pension surplus are detailed below in Section (iii) Significant judgements and sources of estimation uncertainties.

Solvency II purposes:	Financial reporting purposes:
For the Solvency II balance sheet, the Society applies the requirements of IAS 19: Employee Benefits and IFRIC 14 –The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The pension benefit surplus recognised represents the fair value of the scheme assets less the present value of the scheme liabilities. The Scheme’s liabilities are valued at the reporting date based on external qualified actuarial report. The liabilities are valued on the Projected Unit Credit Method as defined in IAS 19. The net surplus recognised is limited to the present value of any economic benefits available in the form of refunds from the scheme. The directors consider that the Society has rights to the pension surplus on wind-up and a gradual settlement basis.	Although the Society applies FRS 102 in its Financial Reporting, there are no recognition and valuation differences with the IAS 19, IFRIC 14 basis applied for Solvency II purposes.

d) Plant and equipment held for own use

The Group defines plant and equipment held for own use as tangible assets that are held for use in the production or supply of goods and services, and for administrative purposes.

Solvency II purposes:	Financial reporting purposes:
On basis of proportionality, the Society has not applied the fair value model in measuring plant and equipment held for own use. The Society considers that this has little or no impact on the nature, scale, complexity and risks inherent in the business. This is re-assessed at every reporting date in line with the Society's materiality policy. Further, the costs of fair valuing such assets would be disproportionate with respect to the total administrative expenses. Accordingly, all plant and equipment for own use is valued at cost less accumulated depreciation and accumulated impairment losses.	For financial reporting purposes, the Society applies the FRS 102 Cost model in valuing plant and equipment held for own use. There are no differences with the Solvency II basis.

e) Investment property and property held for own use

The Group distinguishes between investment properties and property held for own use as follows:

Investment property is property held to earn rentals and for capital appreciation whereas property held for own use is used in the production of goods and services, and for administrative purposes.

Solvency II purposes:	Financial reporting purposes:
All properties are initially recognised at cost, being the purchase price paid including directly attributable transaction costs. They are subsequently stated at fair value based on property valuations (net of purchase costs) carried out by an external professional qualified valuer at the reporting date. External property valuations are performed annually to confirm that the carrying values of properties do not differ materially from its fair values. On a quarterly basis, the Society applies estimates based on indexation to assess the carrying values of properties.	There are no differences in valuation methodology.

f) Holdings in related undertakings, including participations

For Solvency II purposes, the Society defines participations as the ownership, direct or by way of control, of 20% or more of the voting rights or capital of an entity.

The definition of control is not solely based on legal ownership but also includes the power to govern the financial and operating policies of an entity so as to benefit from its activities.

All of the Society's related undertakings are subsidiary investments and are 100% owned and controlled by the Society. A full list of the Society's subsidiaries as at balance sheet date is provided in Section A1.9.

Solvency II purposes:	Financial reporting purposes:
Recognition: Group Solvency is calculated using Method 1: Accounting Consolidation whereby Insurance subsidiaries and Financial, credit and investments (FCIs) subsidiaries are distinguished. All insurance and ancillary services subsidiaries within the Group are consolidated. Subsidiary investments in FCIs are disclosed as participation investments in the Group Balance Sheet. **Measurement:** The Group's FCI participations are unlisted and the Directors consider that there is no active market for these subsidiaries as defined by International Accounting Standards (IAS). In the absence of quoted market prices, the FCIs participations are valued using the adjusted equity method. Under this method, the value of the subsidiary is based on the Society's share of the subsidiary's net assets at reporting date with all goodwill and intangible assets valued at nil. The net asset values of the FCIs participations are further adjusted to eliminate intra-group financing. This allows the Group Own Funds to be stated net of all intra- group financing.	**Recognition:** The Group's statutory accounts are prepared in accordance with FRS 102. As per FRS 102, the Group's statutory balance sheet is produced by the line by line consolidation of the assets and liabilities of all of subsidiaries in the Group. Therefore in the statutory balance sheet there are no participation values.

g) Investments

This asset category includes the Society's investments in equities, bonds, collective investments and derivatives.

Solvency II purposes:	Financial reporting purposes:
All of the Society's investments are initially recognised at their fair values, being the transaction price. Listed investments are subsequently stated at fair value based on quoted market prices in an active market. An active market exists where transactions occur frequently enough to provide pricing information on an ongoing basis. The quoted market price is defined as the bid price at reporting date (or the last trading day before reporting date). Bonds values are recognised inclusive of accrued interest. The fair value of unlisted equities is determined using alternative valuation techniques as described in section D4 that maximise the use of market observable data such as recent arm's length transactions, discounted cash flow techniques and other pricing models.	For Financial Reporting, the Society values investments in its statutory accounts on the same basis. However bond values are recognised based only on bid prices excluding accrued bond interest. Accrued bond interest along with other accrued income are accounted for separately and treated as other current assets. Preference shares are classified within debt securities for statutory purposes, whereas for Solvency II they are treated as equities.

h) Deposits other than Cash equivalents, Cash and cash equivalents

The Group defines its cash and cash equivalents as cash on hand and demand deposits that are available for operational use. This includes bank overdrafts that are repayable on demand and form an integral part of the Society's operational cash management.

Deposits other than cash equivalents are demand deposits that are long term in nature and are held for investment purposes with internal restrictions on their use.

Solvency II purposes:	Financial reporting purposes:
All cash, cash equivalents and deposits are stated at their face values as at reporting dates.	There are no differences with the Solvency II recognition and valuation basis.

i) Assets held for unit linked contracts

The Society has considered the PRA's guidance on product coding and the definition of index linked products. Based on this, the Society only holds unit linked contracts.

Assets held to cover unit linked liabilities reflect the terms of the related policies.

Solvency II purposes:	Financial reporting purposes:
Listed investments held for unit linked contracts are valued at fair values based on quoted market prices in an active market. An active market exists where transactions occur frequently enough to provide pricing information on an ongoing basis. The quoted market price is defined as the bid price at reporting date (or the last trading day before reporting date). Bonds held with unit linked assets are valued inclusive of accrued bond interest. Other accrued income on unit linked assets (such as dividend and other interest) is accounted and disclosed separately as Other assets on the Solvency II balance sheet.	For Financial Reporting, the Group values assets held for unit linked contracts on a similar basis. The value of unit linked assets on the statutory balance sheet is inclusive of all accrued income (bond, dividend and other interest income).

j) Loans and Receivables

The Society discloses its current (less than 12 months) operational loans to its subsidiary undertakings and to staff as 'Other loans'. Long term loans with a maturity of more than 12 months are included within corporate bonds.

Receivables include insurance, intermediaries, reinsurance and trade receivables. All of these receivables are current with a maturity of less than 12 months.

Insurance and intermediaries receivables are current amounts past due for payment by policyholders, insurers, and others linked to insurance businesses that are not included in the cash in-flows of technical provisions.

Reinsurance receivables are amounts past due by reinsurers and linked to reinsurance businesses that are not included in reinsurance recoverable. The valuation basis for re-insurance recoverable is discussed in Section D2.4.

Solvency II purposes:	Financial reporting purposes:
Short term loans and receivables are initially recognised at fair value being the transaction price, and subsequent measurements take account of any adjustments required for bad debts. Therefore, at the reporting date, receivables are stated at fair value being amounts expected to be received. Non-current receivables are written down to their recoverable amounts using a market consistent discount rate for similar assets.	Loans and receivables are stated at transaction price on initial recognition and subsequent measurements are based on amortised cost using the effective interest method.

k) Any other assets

On the Solvency II balance sheet, 'Any other assets' comprises prepayments and accrued income (dividend income, bank interest and rental income). Accrued bond interest is not included here as it is reported as part of the bond value.

Any other assets are stated at amounts expected to be received less any bad debts.

There are no differences in the valuation of other assets for Solvency II and financial reporting basis; however for financial reporting purposes the accrued bond interest is disclosed within any other assets.

l) Finance and operating leases

At the balance sheet date, the Society held an immaterial operating lease arrangement, mainly in respect of property rented for own use.

On the basis of proportionality, the Society has not applied IFRS16 in valuing its operating leases.

The Society considers that this has little or no impact on the nature, scale, complexity and risks inherent in the business. This is re-assessed at every reporting date in line with the Society's materiality policy.

(iii) Significant judgements and sources of estimation uncertainties

The valuation of assets requires the use of judgements, estimates and assumptions that affect the reported amounts of assets. Significant judgements are those which involve the most complex or subjective assumptions and estimations as detailed below:

Pension surplus

The Society measures the pension surplus under the defined benefit plans as the net of the following:

- The fair value at the reporting date of the defined benefit plan assets;
- The present value of its obligations under defined benefit plans at the reporting date.

Analysis of the pension surplus	Notes	31.12.2019	31.12.2018
		£000s	**£000s**
Fair value of the defined benefit plan assets	***Table D1-3***	517,400	496,700
Present value of defined benefit plan obligations	***Table D1-4***	(426,300)	(385,400)
Pension surplus asset		**91,100**	**111,300**

Table D1-2

The fair value and composition of the defined benefit plan assets as at the reporting date was as follows:

Asset class	Notes	31.12.2019	31.12.2018
		£000s	**£000s**
Property (other than for own use)		900	1,000
Equities		300	400
Government bonds		288,900	273,300
Corporate bonds		224,000	215,100
Other assets		3,300	6,900
Total		**517,400**	**496,700**

Table D1-3

The present value of the defined benefit plan obligation was made up as follows:

Analysis of the defined benefit plan obligation	Notes	31.12.2019	31.12.2018
		£000s	**£000s**
Opening defined benefit obligation		385,400	437,000
Interest cost		10,900	10,600
Actuarial (gains)/losses on liabilities		47,500	(34,500)
Net benefits paid out		(17,500)	(28,900)
Past service cost		-	1,200
Closing defined benefit obligation	***Table D1-2***	**426,300**	**385,400**

Table D1-4

The defined benefit plan obligations are discounted and measured using the Projected Unit Credit which requires significant judgement and technical expertise in selecting appropriate assumptions that will influence the cost of the benefit.

A change in any of the assumptions can impact the measurement of the liability.

The main assumptions used by the independent qualified actuary to calculate the liabilities are as below:

Main assumptions	31.12.2019	31.12.2018
	% p.a	**% p.a**
RPI Inflation	3.15	3.40
CPI Inflation	2.15	2.30
Rate of general long-term increase in salaries	N/A	N/A
Pension increases in payment (LPI)	3.00	3.20
Discount rate for Scheme liabilities	2.00	2.90

Table D1-5

Post-retirement mortality

- 31 December 2019 – S3PxA tables with best estimate individual scaling factors and improvements in line with the CMI 2018 (S_k = 7.0) projections and a long-term rate of improvement of 1.5% for males and 1.25% for females;
- 31 December 2018 - S2PxA tables with best estimate individual scaling factors and improvements in line with the CMI 2017 (S_k = 7.5) 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:

Life expectancy	2019	2018
	Years	**Years**
Male current pensioner	23	22
Male future pensioner (member currently aged 45)	24	24

Table D1-6

The approximate impact on the balance sheet from a change in the key assumptions would be as follows:

Change in assumptions	Fair value of assets 31.12.2019	Defined benefit obligations 31.12.2019	Pension surplus asset 31.12.2019
	£000s	**£000s**	**£000s**
As per Balance sheet 31.12.2019	**517,400**	**(426,300)**	**91,100**
Following a 0.25% p.a decrease in the discount rate	517,400	(447,400)	70,000
Following a 0.25% p.a increase in the RPI inflation assumption	517,400	(443,500)	73,900
Following a one year increase in life expectancy	517,400	(445,200)	72,200

Table D1-7

(iv) Changes in recognition and valuation basis

There were no changes in the Solvency II recognition and valuation basis of assets during the reporting period.

(v) Group and Solo Solvency II valuation basis

With the exception of participations, the Solvency II bases, methods and assumptions applied at a Group level are the same as those applied by the insurance entities at a Solo level.

At a Solo level, the insurance entities apply the adjusted equity method to value participations, i.e. net asset values excluding goodwill.

On the Group balance sheet, participations are also valued on their net asset values; however these are further adjusted to eliminate intra-group financing. This allows the Group Own Funds to be stated net of all intra-group financing.

D2 Technical provisions

All of the insurance entities within the Group are based within the EEA and technical provisions are calculated in line with the Solvency II Directive.

D2.1 Valuation bases, methods and main assumptions

The Society presents below the information regarding the valuation of technical provisions by each material line of business for Solvency II purposes including:

- A quantitative explanation of any material differences between the technical provisions values for Solvency II purposes and those used for financial reporting bases.
- A description of the technical provisions valuation bases, methods and main assumptions used for solvency purposes and those used for financial reporting in the statutory accounts.

At a group level, the technical provisions are the sum of the Society's and Practice Plan Insurance Limited's (PPIL) best estimate liabilities and risk margin.

(i) Quantitative information

For each material line of business, the value of the technical provisions as reported in the Society's Solvency II balance sheet is set out in the table below.

Technical provisions by material lines of business (gross)	Best estimate	Risk Margin	Technical provisions
	31/12/2019	31/12/2019	31/12/2019
	£000s	£000s	£000s
Non-life:			
Health, similar to non-life	127	4	131
Life:			
Life, With-profits - ***Open Fund***	3,294,717	23,941	3,318,658
Life, With-profits - ***MSS Fund***	603,367	7,540	610,907
Health, Similar to life - ***Open Fund***	79,659	10,792	90,451
Health, Similar to life - ***MSS Fund***	1,290	-	1,290
Life, Other	858,022	7,483	865,505
Technical Provisions –Life (excluding Unit linked)	**4,837,055**	**49,755**	**4,886,810**
Technical Provisions – Unit linked	**1,218,680**	**1,775**	**1,220,455**
Totals	**6,055,862**	**51,535**	**6,107,397**

Table D2-1

(ii) Solvency II Valuation bases, methods and main assumptions

The intention underlying Solvency II is to provide a “market consistent” value of assets and liabilities, referencing reliable market prices wherever possible. The technical provisions set aside to cover the insurance liabilities are intended to be the amount that an insurer would have to pay if it immediately transferred its rights and obligations under those insurance policies to another willing third party in an arm’s length transaction.

If the cash flows of a liability (and the variability of those cash flows) can be replicated exactly by the cash flows of an asset with a reliable market price then that price could generally be used as the value for the liability.

However, the cash flows of an insurance policy liability are seldom possible to match exactly. In this case, the technical provisions for the liability are made up of two components: the best estimate liability and the risk margin.

Technical provisions are calculated using best estimate assumptions, set in accordance with Solvency II requirements. The methods used are proportionate to the nature, scale and complexity of the risks.

The risk margin is defined as the cost of holding the necessary solvency capital over the lifetime of an insurance contract.

When valuing liabilities no matching adjustment, volatility adjustment or transitional measures were used.

For each material line of business disclosed above, the Society presents a qualitative explanation of the best estimate bases, methods and main assumptions used in valuation for Solvency II purposes.

a) Best estimate valuation methodology – Life With Profits participation

The best estimate liability is defined as the present value of all future cash flows related to the contract.

The Society has two With Profits Funds, the Ordinary and Industrial Long Term Business Fund (OILTBF) and the Medical Sickness Society Fund (MSSF). The OILTBF contains all Society business other than the business in the MSSF.

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 of the with-profits policies of Medical

Sickness Society on that date and is maintained as a separate account within the Society's Long-term Business Fund.

Valuation approach

Under Solvency II, the cash-flow projection used in the calculation of the best estimate must take into account all the cash in and out-flows required to settle the insurance and reinsurance obligations over their lifetime. For With Profits business this is equivalent to:

Asset Shares plus Cost of Guarantees, Options and Smoothing

i.Asset shares – valuation methodology

The asset share is a measure of the underlying "fair value" of a With Profits policy. It is retrospectively built up from past premiums paid, less expenses and charges, at the actual rate of investment return earned on the With Profits assets.

The investment return is calculated gross of tax for pensions and ISA business and net of tax for other business. For Open Fund business, these investment returns are after allowance for the return earned on subsidiary companies, and other adjustments.

The following table summarises the methods used to calculate the asset shares for different classes of contracts, which are discussed further below:

Method	Contracts included
Open Fund Contracts	
Individual Asset Share Calculation	CWP Endowments‡ CWP Pensions
Adjusted shadow fund	UWP ISA§ UWP Life UWP Pensions
Bonus reserve valuation	CWP Whole of Life CWP IB recurring Endowments
Other	CWP Annuities In Payment
MSS Fund Contracts	
Individual Policy Calculation	CWP Endowments
Grouped Policy Calculation	CWP Pensions
Other	CWP Annuities In Payment CWP Income Protection

‡ CWP – Conventional With Profits
§ UWP - Unitised With Profits

Table D2-2

Open Fund Contracts

a) Individual Asset Share Calculation

The asset share is built up month by month as follows:

Individual Asset share calculation	
Asset share at start of month	
Plus	premiums received
Plus	investment return
Minus	claims paid
Minus	charges for expenses
Minus	charges for guarantees (if applicable)
Plus or Minus	profits from other sources

Table D2-3

All items are based on the actual experience for the year.

Where appropriate the investment return allows for tax including an estimate of the value of any unrealised capital gains tax. Tax relief on expenses is also allowed for. The return is offset by the investment expenses applying to the fund.

b) Adjusted Shadow Fund

The benefits payable under these policies are determined by reference to a shadow fund. Two separate unit accounts are maintained for each policy and every transaction that is carried out in the With Profits Fund is mirrored in the shadow fund, by purchasing or encashing shadow fund units of the same value as those purchased or encashed in the With Profits Fund. For an individual policy the value of the shadow fund holding allows for the smoothed, full investment return earned by that policy (after allowing for profits from other sources; expense profits and losses, policy charges, and tax, as appropriate).

The asset share of each policy is calculated as the shadow fund value multiplied by a fund level adjustment factor to allow for any required market value adjustments. The fund level adjustment factor is the ratio of the shadow fund price calculated using the unsmoothed investment return to the actual shadow fund price used to determine policy benefits.

c) Asset Share – Bonus Reserve Valuation

The Society calculates a prospective bonus reserve that includes a provision for final bonus to the death benefits payable on these policies. The supportable level of final bonus rate is determined based upon a projection of endowment asset shares on PRA prescribed assumptions used for policy illustrations. The discount rate used is equal to the PRA prescribed projection rate.

d) Other

This includes With Profits annuities in payment. These liabilities were calculated on a best estimate basis determined as the present value of future benefits payable to policyholders plus the present value of future expenses. Investment expenses are captured implicitly by reducing the interest rates used to discount these cash flows.

MSS Fund

a) Individual Asset Share Calculation

The asset share at the valuation date is built up month by month from policy inception as follows:

Individual Asset share calculations	
Asset Share at start of month	
Plus	premiums received
Plus	investment return
Minus	claims paid
Minus	charges for expenses
Plus or minus:	past adjustments

Table D2-4

All items are based on the actual experience for the year. Where appropriate the investment return allows for tax including an estimate of the value of any unrealised capital gains tax. Tax relief on expenses is also allowed for where appropriate.

Expenses have been charged on a basis specified in an expense guarantee arrangement between the MSS Fund and the Open Fund.

b) MSS Fund Asset Share – Grouped Policy Calculation

The asset share is calculated as described in a) above for a comprehensive range of sample policies. The calculated asset share for these sample model points is expressed as a ratio of the accumulated value of guaranteed benefits. These ratios are then applied to the individual policies.

c) Other

This includes with-profits annuities in payment and the accrued annual bonus on With Profits income protection policies. The liabilities were calculated on a best estimate basis determined as the present value of future benefits payable to policyholders plus the present value of future expenses. Investment expenses are captured implicitly by reducing the interest rates used to discount these cash flows.

ii.Options and guarantees of each product class

The Society has issued policies that include various options and guarantees, the most material of which relate to With Profits pensions business.

iii.Valuation methodology for the costs of options and guarantees

The costs of options and guarantees are determined from a stochastic market consistent projection of future returns on assets held by the Society. The key drivers of the cost of options and guarantees are:

- Risk free yields
- Volatility of future returns

5,000 projections of assets and liabilities were carried out.

iv.Allowance for Tax

For Life business, the investment return and expenses payable are determined net of tax. This is captured explicitly in the cash flow projections.

v.Allowance for MSS Fund expense guarantee

An expense guarantee arrangement exists between the MSS Fund and the Open Fund, whereby the Open Fund has guaranteed future expense charges made in the MSS Fund.

Under this arrangement, a best estimate liability for future costs in excess of the guaranteed charges is calculated.

vi.Simplifications used in valuing the with-profits cost of guarantees

The significant valuation simplifications used in calculating the best estimate liabilities have been discussed in the previous sections.

b) Best estimate valuation methodology – Health, other life and unit-linked

The best estimate liability is defined as the present value of all future cash flows associated with these contracts.

<u>Valuation approach</u>

i.Methodology

A deterministic valuation approach is adopted using best estimate assumptions as there are no financial options or guarantees contained within the non profit or unit-linked policies requiring a stochastic valuation methodology. The best estimate liability will be calculated gross of any reinsurance. Section (e) below details the valuation methodology for amounts recoverable from reinsurance contracts.

Unit-linked policies have been initially valued at the face value of the units, using unit prices derived from the valuation of the underlying assets. The unit price for life contracts allows for tax including an estimate of the value of any unrealised capital gains tax.

The unit-linked liability also includes the discounted present value of non-unit cash flows under these investment contracts net of charges received, using best estimates of mortality, persistency and future expenses, including explicit investment expenses. The investment return earned by unit linked policies (net of tax for Life business) is the same as the interest rate used for discounting.

For Health and Other Life business, liabilities were calculated on a best estimate 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. Investment expenses are captured implicitly by reducing the interest rates used to discount these cash flows.

ii.Yield curve

The best estimate cash flows will be discounted using the EIOPA supplied risk free yield curve (net of tax for life business).

iii.Allowance for tax

For Life business, the investment return and expenses payable are determined net of tax.

iv.Simplifications used

There are no significant simplifications used in the valuation of Health, Unit-Linked and Other Life Business.

c) Risk Margin

The risk margin is calculated by projecting the Solvency Capital Requirement (SCR) for non-hedgeable risks (SCRnh) over the remaining lifetime of the insurance liabilities and applying an annual percentage cost of capital equal to 6% per annum.

i.Allowance for management actions

The main management action is to assume losses on non-profit and unit-linked business can be charged to with-profits policyholders, which is set out in the PPFM as follows:

- All profits or losses in respect of non profit annuity/deferred annuity business.

- All profits or losses in respect of unit-linked products sold by the Society.
- A share of profits or losses from non profit and unit-linked Income Protection after premium reviews, as outlined below (approximately three quarters, with the balance going to the Estate).
- A share of profits from non profit (excluding annuities) and unit-linked products sold by Medical Sickness Society prior to merging with the Society. This is a very small business category.

Another management action is to increase premium rates on reviewable Income Protection policies to recover future losses on this line of business.

ii.Calculation approach

The Solvency II rules allow a simplified approach to be adopted for projecting forwards the SCRnh, where proportionate to do so. The Society has adopted a simplified approach, which projects the SCRnh in future years by assuming it will run off in line with best estimate liabilities net of the amounts recoverable from reassurance contracts. The projected SCRnh will be discounted at the EIOPA specified risk-free rate of interest and these amounts will be multiplied by a 6% cost of capital factor.

d) Technical provisions assumptions

i.Overview of key assumptions

The key assumptions in determining the Society's technical provisions are as follows:

Persistency	Persistency rates are assumed to vary according to policy duration for life business and age for health business, by broad class of policy. Pensions business is assumed to surrender according to rates which vary by policy duration and to vest at retirement dates that vary by age.. Persistency rates for health products held by newly qualified professionals are assumed according to rates which vary by age, policy duration, and profession.
Morbidity	Applies to health business only. Morbidity rates are assumed to vary according to age, gender, profession, deferred period and sickness period.
Mortality	Mortality rates are assumed to vary according to profession, age, gender and broad class of policy. For annuitant mortality, an allowance is also made for future rates of improvement using analysis provided by the CMI.
Expenses	Expenses are split between new business, servicing, investment, claim management and broad classes of policy and assumed to increase over time according to an expense inflation curve.
Guaranteed annuity rates (GAR) Take-up	GAR take-up rates are assumed to vary according to prevailing interest rate and by broad class of policy.
Retirement Age	Projected retirement age is assumed to vary according to current age and broad class of policy.

Table D2-5

These assumptions are intended to represent a best estimate of future experience. Investigations are undertaken on a regular basis to assess the experience of the business.

Methodology for setting the best estimate (excluding expenses)

The deterministic best estimate assumption will usually be derived from an analysis of historical experience, and will take into account the level of uncertainty by ensuring that sufficient historical experience is taken into account from which a credible best estimate can be derived.

Methodology for setting the best estimate expenses

The Society's best estimate of future expenses is designed to ensure that all of the following types of expense incurred in servicing its insurance obligations are included:

- Administrative expenses
- Investment management expenses,
- Claims management expenses,

The Society's best estimate of future expense inflation takes into account:

- Future expected operational costs.
- Market expectations of future inflation.

ii.Value of key assumptions

The principal assumptions made were as follows:

Persistency

Persistency rates are assumed to vary by broad class of policy ("homogeneous risk group"), according to policy duration for life business, both policy duration and age for health business. A flat average across the policy bands is used where the rates vary.

Product		Average surrender/paid up rate for the policy years (%)			
		1-5	6-10	11-15	16-20
Open Fund Contracts					
CWP savings endowment	surrender	N/A*	1.0	1.0	1.0
UWP savings endowment / ISA	surrender	3.5	4.2	3.5	3.5
UWP bond	surrender	1.7	2.1	2.3	2.3
CWP pension regular premium	PUP*	N/A*	N/A*	11.1	6.5
CWP pension regular premium	surrender	N/A*	N/A*	3.5	3.5
CWP pension single premium	surrender	N/A*	N/A*	3.5	3.5
UWP indiv pension regular premium	PUP	7.5	7.5	7.5	5.5
UWP indiv pension regular premium	surrender	3.5	3.5	3.5	3.5
UWP indiv pension single premium	surrender	3.5	3.5	3.5	3.5
MSS Fund Contracts					
CWP savings endowment	surrender	N/A*	N/A*	N/A*	2.5
CWP pension regular premium	PUP	N/A*	N/A*	N/A*	6.5
CWP pension regular premium	surrender	N/A*	N/A*	N/A*	0.3
CWP pension single premium	surrender	N/A*	N/A*	N/A*	0.3

Table D2-6

**No policies exist at these durations*

Age Band	Average lapse rate for age last birthday (%)			
Open Fund Contracts	Individual health insurance	Group health insurance	Medical newly qualified	Dental newly qualified
19 - 35	11.9	20.8	14.1	13.0
36 - 55	5.0	15.2	8.0	6.4
56 +	11.3	34.5	13.3	12.1

Table D2-7

Morbidity

The following bases have been used for active lives reserves on income protection policies (“health business”).

Short-term sickness assumptions:

Deferred Period (weeks)	Sickness Period (weeks)	Professional Group (% of CMIR7)			
		Male Doctors	Female Doctors	Male Dentists	Female Dentists
0	0 /4	84%	67%	71%	40%
	4/13	66%	42%	52%	51%
	13/13	77%	74%	81%	71%
	26/26	83%	80%	97%	128%
	52/52	99%	118%	129%	145%
4	4/13	53%	42%	42%	39%
	13/13	77%	74%	70%	71%
	26/26	83%	80%	88%	128%
	52/52	99%	118%	129%	145%
13	13/13	98%	74%	70%	71%
	26/26	102%	120%	88%	128%
	52/52	109%	118%	129%	145%
26	26/26	102%	120%	88%	128%
	52/52	109%	118%	129%	145%
52	52/52	115%	99%	129%	145%

Table D2-8

Age adjustments to rates shown in table above:

Age Band	Professional group			
	Male Doctors	Female Doctors	Male Dentists	Female Dentists
18 - 39	105%	195%	65%	115%
40 - 49	150%	280%	100%	185%
50 - 54	145%	225%	140%	185%

Age Band	Professional group			
	Male Doctors	Female Doctors	Male Dentists	Female Dentists
55 - 59	125%	205%	110%	160%
60 +	75%	115%	70%	100%

Table D2-9

Long term claim inception rates

% of weekly 52/52 sickness rate:

Professional group	Inception rate
Male Doctors	95%
Female Doctors	93%
Male Dentists	95%
Female Dentists	95%

Table D2-10

Termination rates

The following rates of termination have been used, where appropriate, for disabled lives reserves on income protection policies.

	Doctors	Dentists
Rates of termination during the 104/All sickness period	Proportion of CMIR12	
- Deaths	40%	40%
-Recoveries	30%	30%

Table D2-11

Annuitant Mortality

The principal annuitant and deferred annuitant mortality assumptions for with-profits and other life contracts are set out in the table below:

Product	%	Table
Society		
Males	130	PMA08 subject to 100% CMI2018 model improvements (core assumption, 1.5% long-term improvements, S_k 7, A Factor 0.25%).
Females	130	PFA08 subject to 100% CMI2018 model improvements (core assumption, 1.25% long-term improvements, S_k 7, A Factor 0.25%).
Medics		
Males	90	PMA08 subject to 100% CMI2018 model improvements (core assumption, 1.5% long-term improvements, S_k 7, A Factor 0.75%).
Females	80	PFA08 subject to 100% CMI2018 model improvements (core assumption, 1.25% long-term improvements, S_k 7, A Factor 0.75%).
ASW		

Product	%	Table
Males	125	PMA08 subject to 100% CMI2018 model improvements (core assumption, 1.5% long-term improvements, S_k 7, A Factor 0.25%).
Females	140	PFA08 subject to 100% CMI2018 model improvements (core assumption, 1.25% long-term improvements, Sk 7, A Factor 0.25%).

Table D2-12

Expenses

The principal expense assumptions are set out in the table below:

Per policy expenses (quoted gross of any tax relief)	
Description	**£**
Open Fund	
Ordinary business	
Life	94.99
ISA	94.99
Pension	99.78
Group Locum	63.69
IP	91.15
Annuities	79.28
Industrial assurance business	
Premium Paying	8.64
Paid Up	2.16
MSS Fund	
Pensions – Premium Paying	151.96
Income Protection	113.97
Life – Premium Paying, Pensions – Single Premium/Paid Up	75.98

% of Premium Expenses	%
Open Fund	
Industrial assurance business	
Premium Paying/Premium Loan	22.00%

Investment Expenses - % of fund	
Open Fund	0.083%
MSS Fund	0.080%

Table D2-13

GAR Take-Up

The table below sets out the assumed percentage of eligible, maturing policyholders accepting the guaranteed annuity rate option on pension policies written by the Society. For MSS Fund pension policies, this assumption varied by the projected risk-free rate at time of retirement, as shown in the following table:

	Retirement Age Band	
	MSS Fund	Open Fund
Risk-free rate		
i> 4.5%	35%	60%
4.5% >= i> 4.0%	40%	60%
4.0% >= i> 3.5%	40%	60%
3.5% >= i> 3.0%	45%	60%
3.0% >= i> 2.5%	45%	60%
2.5% >i	45%	60%

Table D2-14

Retirement Age

The table below sets out the assumed retirement age for MSS Fund pension policyholders, which varies by current age:

Age Band	Expected Retirement Age
18 - 56	65
57 - 60	67
61 - 65	70
66 - 70	72
71 - 74	75
75+	Current age plus 1 year

Table D2-15

Open Fund contracts use expected retirement probability, which is determined according to branding and age, as set out in the table below. A flat average across the age bands is used where the rates vary.

	Open Fund Contracts Average Expected Retirement Probability (%)	
Age Band	**MSS Branded**	**Wesleyan Branded**
18 – 54	0.0	0.0
55 – 59	0.9	0.5
60 – 61	5.0	4.5
62 – 64	1.0	1.0
65	9.5	6.0
66	18.0	6.0

67-69	1.0	2.0
70-74	1.9	0.8
75	100.0	100.0

Table D2-16

There are no other significant policyholder actions assumed in the Solvency II balance sheet.

D2.2 Level of uncertainty within the Technical Provisions

The table at the end of this section shows sensitivities to movements in the assumptions used at 31 December 2019.

The sensitivities are shown separately for:

- Own Funds; and
- Technical Provisions

The impact on technical provisions is more significant than the changes in Own Funds. This is because a large proportion of the emerging losses from unit-linked, health and other life business in the stressed conditions would be charged to with-profits policyholders and hence would reduce the ultimate impact on Own Funds.

(i) Demographic

Annuitant mortality

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 technical provisions, 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. In addition, the rate at which long-term sickness claimants recover or die is assumed to reduce from best estimate levels.

Persistency

Proportionate decrease in lapse rates

This sensitivity reflects a single, downward movement in lapse rates. This means that fewer policies are being surrendered or terminated early, with the result that more policies are assumed to remain in-force. For unit-linked, other life and health business a decrease in lapse rates will tend to reduce technical provisions. However, for with-profits business, a decrease in lapse rates will increase technical provisions as more policies are assumed to remain in-force to exercise guarantees and options.

(ii) 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 the liabilities for non-participating business.

(iii) Economic

Interest rates

An increase in interest rates

This sensitivity is designed to show the impact of a sudden shift in the risk-free yield curve. An increase in interest rates decreases the current market value of fixed interest assets but increases future reinvestment rates.

The value of technical provisions is also decreased when the interest rates rise as the discount rate used in the calculation will be higher. A decrease in rates will have the opposite effect. The sensitivity test for interest rates is market-related and this can give rise to non-symmetrical movements in technical provisions and Own Funds.

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.

Equity capital values and property capital values

Decrease in equity at the valuation date, without a corresponding fall or rise in dividend yield.

Decrease in property capital values, without a corresponding fall or rise in dividend 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. The decrease will be less than the fall in asset values. Consequently, the available capital will be reduced by a fall in asset values.

Increase / (reduction) in value due to change in variable, sensitivities are equal to the equivalent SCR stress:

	Stress Assumption Used	Impact on Technical Provisions 2019	Impact on Own Funds 2019	Impact of SCR Ratio % 2019
	%	£m	£m	%
Demographic				
Longevity improvement	20%	79.8	32.9	22%
Morbidity level (inceptions and terminations)	25.0% / (20.0%)	84.4	7.7	5%
Change to future lapses	-50%	42.2	28.7	19%
Expense (level and inflation increase)	10.0% / 1.0%	39.1	4.0	3%
Economic				
Interest rate rise (term 10 / 15/ 20)	1.0% / 1.0% / 1.0%	-196.1	21.9	14%
Credit stress - reduction in value of AA rated corporate bond (term 10 / 15 / 20)	8.5% / 11.0% / 13.5%	-41.5	47.8	32%
Equity level fall	39%	-1,108.0	41.8	28%
Property level fall	25%	-59.7	8.6	6%

Table D2-17 (Unaudited)

D2.3 Financial Reporting Valuation bases, methods and main assumptions

A comparison of the financial reporting and Solvency II valuation bases is provided in the table and accompanying commentary below.

Where items are classified differently between the Solvency II balance sheet and the Society's statutory accounts, the balances presented in the 'Financial reporting' column have been correspondingly reclassified to follow the classification on the Solvency II balance sheet.

Technical provisions by material lines of business	Notes	Solvency II basis 31/12/2019	Financial Reporting basis 31/12/2019	Difference
		£000s	£000s	£000s
Open Fund: Life – With Profits				
Best estimate	a)	3,294,717	3,376,353	-81,637
MSS Fund: Life – With Profits				
Best estimate	b)	603,367	675,473	-72,106
Open Fund: Health and other life				
Best estimate		936,775	936,775	0
MSS Fund: Health and other life				
Best estimate		2,196	2,196	0
Open Fund: Unit linked				
Best estimate		1,218,680	1,218,680	0
PPIL: Health similar to non-life				
Best estimate		127	127	0
Total Best estimate liability		**6,055,862**	**6,209,605**	**-153,743**
Total Risk margin		51,535	51,535	0
Total technical provisions		**6,107,397**	**6,261,140**	**-153,743**

Table D2-18

Notes:

The main differences in the valuation of technical provisions on a Solvency II basis and financial reporting basis are as follows:

a) There are differences in the valuation of subsidiary undertakings and intangible assets on a Solvency II basis and the financial reporting basis. On a Solvency II basis, subsidiary undertakings are recognised at their net asset values excluding goodwill, and intangible assets are valued at nil. On the financial reporting basis, subsidiaries are valued on a fair value basis. This variance in approach for subsidiary undertakings and intangible assets results in a deduction to assets held for With Profits Policyholders, reducing technical provisions by £81.6m.

Under the financial reporting basis, as subsidiary undertakings and intangible assets are stated at their fair values, no adjustment to technical provisions is required.

	Assets	Liabilities	Reason
	£000s	£000s	£000s
Subsidiaries	41,977,544	27,622,715	66% belongs to WP policyholders, so only this impacts liabilities
Intangibles	60,015,482	54,013,934	90% of intangible assets are owned by WP policyholders (as estate owns some of the intangibles owned by subsids)

Table D2-19

b) The MSS Fund technical provisions in the financial reporting basis are set equal to the assets of the MSS Fund, to recognise that all of these assets will be distributed to current policyholders.

   Under Pillar 1 of Solvency II, amounts set aside but not yet allocated to policyholders are not included in the technical provisions. This amount stands at £72.1m at year end 2019.

   There are no other differences in the calculation of technical provisions for each material line of business.

c) Technical Provisions differ from the Society's statutory accounts by £59.2m. This represents the value of in-force linked non-profit business which is classified as an asset in the statutory accounts but classified under technical provisions in the Solvency II Balance Sheet and therefore to ensure comparability has been classified under liabilities within the financial reporting basis column in technical provisions. Non- Life Technical Provisions remain unchanged between the Society's statutory accounts and Financial Reporting basis.

D2.4 Re-insurance Recoverable

The Society has material reinsurance agreements in place for its Health Business. These include:

- A treaty with Swiss Re which provides quota share cover on an original terms basis under all non-property linked permanent health policies issued prior to 1 January 1997. The quota share reinsured is 90% for with-profits health business and 75% for non-profit health business, after allowing for any other reinsurance arrangements.
- Another treaty with Swiss Re, which provides cover on a risk premium basis under all individual permanent health policies issues after 1 January 1997. The reinsurance provides cover for amounts payable above £300 per week and after a claim period of at least 26 weeks.

D2.5 Material changes in technical provisions

Technical provisions by material lines of business	Technical Provisions 31/12/2019	Technical Provisions 31/12/2018	Difference
	£000s	£000s	£000s
Non-life:			
Health, similar to non-life	131	1,287	-1,155
Life:			
Life, With-profits - ***Open Fund***	3,318,658	2,855,912	462,746
Life, With-profits - ***MSS Fund***	610,907	588,846	22,061
Health, Similar to life - ***Open Fund***	90,451	81,058	9,392
Health, Similar to life - ***MSS Fund***	1,290	1,749	-458
Life, Other	865,505	844,894	20,611
Technical Provisions –Life (excluding Unit linked)	**4,886,810**	**4,372,458**	**514,352**
Technical Provisions – Unit linked	**1,220,455**	**1,117,723**	**102,732**
Total	**6,107,397**	**5,491,468**	**615,929**

Table D2-20

The main reasons for the changes in technical provisions are as follows:

- 'Life, with-profits' liabilities increased in 2019 due to positive investment returns and net inflows.
- 'Health, similar to life' liabilities increased due to premium reductions and higher yield curves, offset by assumed lower future claims for income protection business.
- 'Life, other' liabilities increased due to a decrease in annuitant mortality rates, increasing the average period annuity payments are made.

- ‘Technical provisions – unit linked’ increased in 2019 due to positive investment returns.

Further details on the impact of key assumptions changes are outlined in section E2 in table E2-3.

D2.6 Group and Solo Solvency II valuation basis

There are no differences in the Solvency II bases, methods and assumptions applied at Group level and those applied by the insurance entities at a Solo level.

D3 Other liabilities (excluding technical provisions)

Presented below is the following information for each material class of other liabilities:

- A quantitative explanation of any material differences between the liabilities values for Solvency II purposes and those used for financial reporting bases.
- A description of the other liabilities valuation bases, methods and main assumptions used for solvency purposes and those used for financial reporting in the statutory accounts.

(i) Quantitative information

For each material class of liabilities, the value of the liability as reported in the Group’s Solvency II balance sheet and comparison with the values reported in the Group’s statutory accounts for financial reporting purposes.

Where items are classified differently between the Solvency II balance sheet and the statutory accounts, the balances presented in the 'Financial reporting' column have been correspondingly reclassified to follow the classification on the Solvency II balance sheet.

Other liabilities description	Notes (see ‘(ii) Valuation bases, methods and main assumptions’)	Solvency II basis 31.12.2019	Financial reporting basis 31.12.2019	Difference
		£000s	**£000s**	**£000s**
Contingent liabilities	a)	-	-	-
Provisions other than technical provisions	a)	(887)	(887)	-
Deposits from reinsurer	b)	(27,110)	(27,110)	-
Deferred tax liabilities	c)	(85,469)	(85,469)	-
Payables:				
Financial liabilities other than bank debt	d)	(14,408)	(14,408)	-
Insurance and intermediaries payables	d)	(21,103)	(21,103)	-
Reinsurance payables	d)	(273)	(273)	-
Other trade payables	d)	(1,725)	(1,725)	-
Any other liabilities	d)	(23,483)	(23,483)	-
Total other liabilities		**(174,458)**	**(174,458)**	**-**

Table D3-1

* The financial reporting basis total other liabilities differ from the Group’s statutory accounts by £292.8m. This is due to Financial and Credit Institutions not being consolidated on a line by line basis within the reporting basis assets and liabilities in Section D, in line with their treatment on the Solvency II basis as a single line “holdings in related undertakings including participations”.

(ii) Valuation basis, methods and main assumptions

Presented below is the valuation basis applied for Solvency II purposes and material differences with the valuation bases, methods and main assumptions used for financial reporting purposes in the Group's statutory accounts:

a) Contingent liabilities and provisions

The treatment of contingent liabilities for Solvency II purposes is governed by Article 11 of the Delegated Acts under which contingent liabilities that are material are recognised on the Solvency II balance sheet as liabilities.

As at the reporting date, the Society mainly had exposure in relation to guarantees provided to customers of the Wesleyan Bank, a 100% subsidiary of the Society.

Based on past experience and the Society's 5 year strategic business plans and projections, the Directors have assessed that the expected costs of these guarantees is immaterial.

Accordingly, in line with the Society's materiality framework, these guarantees are not considered to be material and therefore they have not been recognised on the Solvency II balance sheet.

Solvency II purposes:	Financial reporting purposes:
Contingent liabilities are regarded as material where information about the current or potential size or nature of those liabilities could influence the decision-making or judgement of the intended user of that information, including the supervisory authorities. They are measured at the expected present value of future cash flows required to settle the contingent liability over the lifetime of that contingent liability, using the basic risk-free interest rate term structure as defined by EIOPA.	The Society applies the requirements of FRS 102 in its statutory accounts. - On a FRS 102 basis, Contingent liabilities are distinguished from Provisions. Provisions only that are probable and can be reliably measured are recognised as liabilities on the statutory balance sheet. - Contingent liabilities are not recognised on the balance sheet and only disclosure items within financial reporting.

b) Deposits from re-insurer

The Society holds a deposit received from its re-insurer Swiss Re. The deposit is an advance payment from the reinsurer 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.

Solvency II purposes:	Financial reporting purposes:
For Solvency II purposes, the fair value of the deposit amount (after reducing claim recoveries) will be discounted at a market consistent rate for deposits of similar size. Subsequent measurements do not take into account changes in the credit standing of the Society.	The same approach is applied in the Group statutory accounts.

c) Current and deferred tax liabilities

The make up of the deferred tax liability as at the reporting date is provided in '(iii)Significant judgements and sources of estimation uncertainties' below.

Solvency II purposes:	Financial reporting purposes:
Current tax is stated at the reporting date at the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the reporting date together with adjustments to tax payable in respect of previous years. Deferred tax is recognised based on temporary differences in the valuation of assets and liabilities in the Solvency II balance sheet and its tax base. Deferred tax liabilities are recognised on taxable temporary differences on the fair value movement of investments (primarily equity and property investments). Deferred tax assets arise on temporary differences relating to acquisition costs and any excess expenses carried forward from prior periods. Deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is not discounted.	There is no difference in the recognition and valuation basis applied in the Group's financial reporting.

d) Payables

Payables include financial liabilities other than bank debt, insurance and intermediaries payables, re-insurance payables and other trade payables.

- Financial liabilities other than bank debt includes current payables that are not insurance related.
- Insurance and intermediaries payable are current amounts past due to policyholders, insurers and other business linked to insurance, but that are not included in the cash out-flows of technical provisions.
- Reinsurance payables are current amounts payable to reinsurer other than deposits linked to reinsurance businesses that are not included in the cash out-flows of the reinsurance deposit.
- Trade payables are other non-insurance related payables.
- Any other liabilities are by nature accruals and mainly comprise of deferred rental income on properties.

Solvency II purposes:	Financial reporting purposes:
On initial recognition, payables are measured at fair value being the transaction price. Subsequent measurements are adjusted only for any losses due to non service from the supplier. Therefore, liabilities are reported at fair value being amounts expected to be paid. Subsequent measurements do not take into account changes in the credit standing of the Society.	For financial reporting purposes, subsequent measurements of financial liabilities are based on amortised cost using the effective interest rate method.

(iii) Significant judgements and sources of estimation uncertainties

The valuation of other liabilities requires the Group to make judgements, estimates and assumptions that affect the reported amounts of liabilities. Significant judgements are those which involve the most complex or subjective assumptions and estimations as detailed below:

a) Deferred tax

The sources and amount of the net deferred tax liability is disclosed below:

Components of deferred tax	Notes	31.12.2019
		£000s
Timing differences in respect of investment values		80,928
Deferred tax on pension surplus asset		6,035
Deferred acquisition costs		(2,449)
Other timing differences		955
Total	**Table D3-1**	**85,469**

Table D3-2

Deferred tax liabilities mainly arise due to timing differences on investment values, dependant on market movements. As such, there is no explicit expiry date for the reversal of such timing differences.

The Society holds an immaterial amount of deferred tax asset arising on deferred acquisition costs. In line with the relevant tax standards, acquisition expenses are spread across a 7 year period with the resulting deferred tax asset expected be recovered evenly over this period.

(iv) Changes in recognition and valuation basis

There were no changes in the recognition and valuation basis of other liabilities during the reporting period.

(v) Group and Solo Solvency II valuation basis

There are no differences in the Solvency II bases, methods and assumptions applied at Group level and those applied by the insurance entities at a Solo level.

D4 Alternative methods for valuations

(i) Valuation hierarchy

For Solvency II purposes, the following valuation hierarchy is applied taking into account the characteristics (i.e. condition, location and restrictions) of the item which market participants would take into account when pricing:

Level 1 - As the default valuation method, assets and liabilities are valued using quoted market prices in active markets for the same assets or liabilities.

Level 2 - Where the use of quoted market prices in active markets for the same assets or liabilities is not possible, quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences such as the condition, location and the level of activity on the market for which inputs are observed.

Level 3 - Where there is no active market, the Group applies alternative valuation methods which rely as little as possible on undertaking-specific inputs and make maximum use of relevant market corroborated inputs.

(ii) Alternative valuation methods

When applying alternative valuation methods, the following approaches are adopted. This includes all assets and liabilities valued using adjusted equity method which is applied to the valuation of participations:

Market approach, including matrix pricing, which uses prices and other relevant information generated by market transactions involving identical items.

Income approach, including present value techniques, option pricing models and multi-period excess earnings method, which converts future amounts, such as cash flows or income or expenses, to a single current amount. The fair value shall reflect current market expectations about those future amounts.

Cost approach or current replacement cost approach reflects the amount that would be required currently to replace the service capacity of an asset.

(iii) Assets and other liabilities valued using alternative valuation methods

Alternative valuation methods are applied to the following assets:

Asset description	Solvency II value 31.12.2019	Alternative valuation method used
	£000s	
Investment property and property held for own use	336,339	The Society applies the income approach to value all properties. The majority of the Society's property is occupied and earns rental income. Therefore, it is valued by an external property valuer based on a market consistent rental yield basis. A market consistent yield (adjusted for location and condition) provides a reliable measure of the properties' fair value at the balance sheet date. However, property appraisal techniques are inherently subjective and actual values can only be determined in a sales transaction. Recent property disposals have resulted in realised gains close to estimated marketed values.
Plant and equipment held for own use	9,635	Plant and equipment held for own use has been measured using the Cost Model (as per IAS) which systematically reduces an asset over its useful life to its residual value. The residual value is the price that the asset would achieve at disposal adjusted for its condition and location, which the Directors consider is a reasonable approximation of the fair values of plant and equipment. As disclosed in Section D1, the Society has not applied the fair value model in measuring plant and equipment. The Directors consider that the costs involved in obtaining fair values for these assets would be disproportionate to any impact to its balance sheet from adopting a fair value model.
Holdings in related undertakings, including participations	79,123	The Society considers that there is no active market for the Society's investment in subsidiaries. Therefore, it is not possible to value the subsidiaries based on a quoted market price. Accordingly, the Society applies the Adjusted Equity Method to value its subsidiary investments. As noted, the Solvency II basis of valuation does not include goodwill.

Asset description	Solvency II value 31.12.2019	Alternative valuation method used
Unlisted investments (including within assets held for unit linked contracts)	137	As at the balance sheet date, the Society had £0.1m of unlisted equities (including within unit linked assets) which represents less than 1% of its total investments as at reporting date. Unlisted investments for which no quoted market prices exist have been valued on the basis of a mark to market model. Such a model makes use of relevant publicly available information and recent market transactions for similar assets. All investments including unlisted investments are valued on a monthly basis. The frequency of the valuations ensures that the availability of market inputs is regularly assessed and compared against experience. In the absence of any observable market inputs, the Directors would consider impairment of the unlisted investments.

Additionally, within other liabilities, deposits from reinsurers of £27,110k are valued using discounted cash flow techniques.

D5 Any other information

There is no other material information regarding the Solvency II valuation of assets and liabilities.

E CAPITAL MANAGEMENT

This section provides information regarding the Group's capital management including its objectives and processes for managing Own Funds, the amount and quality of Own Funds and the calculation of the Group Solvency Capital Requirement (SCR) and the Minimum Consolidated SCR (SCR Floor).

It also provides details of any significant changes in the Group's capital management over the reporting period.

E1 Calculation of Group solvency

The Society owns 100% of all of the subsidiaries in the Group, including intermediate holding companies; it exercises, through centralised coordination, a dominant influence over the decisions (including financial decisions) on all of the undertakings that are part of the Group. A list of all the subsidiaries in the Group is included in Section A1.9.

At the reporting date, the Society held one insurance subsidiary, Practice Plan Insurance Limited (PPIL). PPIL is held via the Practice Plan Holding companies, which are treated as intermediate insurance holding companies of the Society. PPIL underwrites non life business and is engaged in the provision of dental insurance plans in the United Kingdom.

The Society is therefore the participating insurance undertaking (ultimate parent) to which Group supervision applies.

The Society calculates Group solvency using Method 1 - Accounting Consolidation Method, which is defined by Article 230 of the Solvency II Directive.

Under this method, Group solvency is calculated as the difference between the following:

- The Own Funds eligible to cover the SCR calculated on the basis of consolidated data;
- The SCR at Group level calculated on the basis of consolidated data.

For Group solvency purposes, consolidated data as defined above includes all of the Group entities as detailed in Section A1.9, which are broadly categorised as:

a) An insurance subsidiary, including intermediate insurance holding companies;

b) Ancillary services companies;

c) Regulated financial, credit and investment services companies (FCIs).

E2 Group Own Funds

(i) Policy, objectives and processes for managing Own Funds

The Society as the ultimate parent company sets out the capital management approach and strategy for the Group.

a) Policy

The Capital Management Strategy and Policy ("the Policy") sets out the Society's capital management approach including its objectives and principles, ensuring that these are aligned with the Board's risk management approach and satisfy all regulatory supervisors' requirements.

The Policy also sets out the Society's strategy in respect of managing its solvency requirements and the quality and amount of Own Funds available to cover those requirements.

b) Objectives

The objectives of the Policy are to ensure that:

- Sufficient capital resources are available to enable the Society to achieve its business objectives;
- The capital base is aligned to the Society's risk appetite in an efficient and effective manner.

c) Processes

A Capital Plan report is produced at least annually, to include a plan for managing capital over the coming 12 months.

The Capital Plan is part of an approved Capital Planning Process which is used to ensure ongoing compliance with the policy. This capital planning process provides:

- A plan for maintaining sufficient Own Funds over time, including how this will be monitored;
- Measures that could be taken in the event Own Funds falls below targeted levels, including details of the Society's Recovery & Resolution Plans;
- Measures to ensure that the Society is in continuous compliance with regulatory and internal capital requirements.

This ongoing capital management activity is managed by the Society's Group Asset and Liability Committee, which normally meets monthly and is chaired by the Chief Financial Officer.

Any material deviation from the Policy needs to be reviewed and approved by the Society's Risk Committee on behalf of the Board.

d) Material changes in capital management

There have been no material changes in the Society's capital management strategy over the reporting period.

(ii) Amount and structure of Group Own Funds

Total group Own Funds at the reporting date amounted to £606.4m, as analysed in the table and accompanying notes below:

Group Own Funds	References	31.12.2019	31.12.2018
		£000s	**£000s**
Excess of assets over liabilities	*a)*	648,805	671,439
Restricted Own Funds of the ring fenced fund	*b)*	(42,824)	(17,639)
Available Own Funds		**605,981**	**653,800**
Deductions for FCI participation values	*c)*	(77,915)	(67,315)
Available Own Funds excluding FCIs	*c)*	**528,066**	**586,485**
Add: FCIs regulatory Own Funds (Unaudited)	*d)*	**78,324**	**68,337**
Total Group Own Funds	*e)*	**606,390**	**654,822**

Table E2-1

a) Excess of assets over liabilities

The Society's Own Funds are defined as the excess of assets over liabilities. Such assets and liabilities are measured in accordance with Article 75 of the Solvency II Directive. The Society has no other source of Own Funds.

The excess of assets over liabilities includes the amount that corresponds to the expected profit included in future premiums.

The Society does not expect to receive supplementary contributions from its members; accordingly it has no ancillary Own Funds at the reporting date.

The Society and its subsidiaries also do not hold any subordinated liabilities at the reporting date.

There are no items of basic Own Funds that are under transitional provisions.

b) Restricted Own Funds of the ring fenced fund

The Society's principal activity is 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.

As discussed in Section D, the Society has two With Profits Funds - the OILTBF and the MSSF. The Society's MSSF was set up under the terms of the merger scheme with Medical Sickness Annuity and Life Assurance Society Limited on 1 July 1997.

Under the merger scheme, the whole of the surplus in the MSSF will be progressively and equitably distributed to the policies in that fund. Therefore, the MSSF Own Funds have a reduced capacity to fully absorb losses on a going concern basis due to their lack of transferability within the Society.

Accordingly, the Society considers the MSSF to be a ring fenced fund. The assets of the Society's OILTBF are not ring-fenced as they are required to support the MSSF in extremis.

In line with the Society's materiality policy, the assets and liabilities of the MSSF are material and accordingly it calculates a notional solvency capital requirement (SCR) for the MSSF.

The MSSF Own Funds that are in excess of its notional SCR and therefore restricted from the Society's Own Funds are disclosed in the table below:

Restricted Own Funds of the MSSF	References	31.12.2019	31.12.2018
		£000s	**£000s**
MSSF Assets		686,421	635,648
MSSF Liabilities		(614,315)	(591,745)
Excess of assets over liabilities		72,106	43,903
Notional SCR		(29,283)	(26,265)
Restricted Own Funds		**42,823**	**17,638**

Table E2-2

c) Available Own Funds excluding FCIs

The process to calculate group Own Funds requires adjustments for the Society's holdings in regulated financial, credit and investment services companies (FCIs), namely: Wesleyan Financial Services Limited (WFS), Wesleyan Unit Trust Managers (WUTM) and Wesleyan Bank Limited ("the Bank").

These adjustments are:

1. Deductions for FCI's participation values: £77.9m is deducted from available Own Funds to give "available Own Funds excluding FCIs" of £528.0m. The available Own Funds excluding FCIs represents the Own Funds of the Society, its insurance subsidiary, intermediate insurance holding companies and ancillary services companies only;

2. The FCI's participation values, which have been deducted, are then replaced with the £78.3m value of FCI's regulatory defined Own Funds as discussed in part (d) below to give Group Own Funds of £606.4m.

d) FCI's regulatory Own Funds

For group solvency purposes, the regulatory Own Funds of WFS and WUTM are defined as the excess of assets over liabilities. The Bank's regulatory Own Funds are defined by the Capital Requirements Directive IV (CRD IV) and the Bank and its subsidiaries are included on the basis of this.

e) Adjustments to Group Own Funds for intra group financing

All Group Own Funds included in the Group solvency calculations are stated net of intra group financing.

As the Society applies Method 1 to calculate Group solvency, intra group financing is eliminated as part of the consolidation process for the Group Solvency II balance sheet as follows:

- For the insurance and ancillary services entities of the Group that are fully consolidated, intra group financing is eliminated by normal accounting consolidation and elimination adjustments;
- The FCI's participation values are not consolidated on the Group balance sheet and continue to be recognised at their net asset values. The FCIs net asset values reported on the Group balance sheet are adjusted to reverse any intra group financing.

When adding in the FCI's regulatory Own Funds, these are also adjusted to eliminate intra group financing hence ensuring there is no double use of eligible Own Funds.

(iii) Analysis of movements in excess of assets over liabilities

The table below provides an analysis of the significant changes to the Society's excess of assets over liabilities for the reporting period:

Analysis of movements in excess of assets over liabilities	OILTBF	MSSF	Total
	£000s	£000s	£000s
Balance at 1 January 2019	**627,536**	**43,904**	**671,439**
Modelling improvements	(1,347)	1,099	(248)
Effect of method changes	6,314		6,314
Effect of investment variations	26,116	20,592	46,708
Effect of experience variations	(1,075)	(5,273)	(6,349)

Analysis of movements in excess of assets over liabilities	OILTBF	MSSF	Total
Effect of assumption changes	710	8,100	8,810
New Business	(213)	-	(213)
Effect of pension surplus	(20,144)	-	(20,144)
Effect of expense variances	(7,246)	-	(7,246)
Increase in risk margin	(9,331)	-	(9,331)
Other factors	(8,997)	3,685	(5,311)
Balance at 31 December 2019 before Mutual Rewards	**612,322**	**72,106**	**684,429**
Mutual Benefits Scheme	(35,623)	-	(35,623)
Excess of assets over liabilities as at 31 December 2019	**576,699**	**72,106**	**648,805**

Table E2-3

Assets over liabilities have decreased for OILTBF and increased for MSSF. The most significant factor affecting OILTBF is the enhancements to the Mutual Benefits Scheme, which will distribute c.£33m to policyholders in 2020. In addition, the Wesleyan Staff Pension Scheme surplus has decreased by £20m as a result of lower interest rates. This is partially offset by strong investment returns increasing assets over liabilities by £26m over the year. In the MSS Fund, reductions to guaranteed annuity rate take-up assumptions have increased assets over liabilities, along with strong investment return.

Reconciliation to financial reporting excess of assets over liabilities

Being a mutual, the Society does not hold any other capital items in its statutory accounts other than the excess of assets over liabilities measured in accordance with the accounting rules. It is disclosed as the Group Fund for Future Appropriations (FFA) in the Society's statutory accounts.

The Society considers that the Group FFA meets the definition of 'surplus funds' as per Article 91 of the Solvency II Directive:

> *'Surplus funds that are deemed to be accumulated profits which have not been made available for distribution to policyholders and beneficiaries'*

The reconciliation reserve is the difference between the Group FFA ('surplus funds') and available Own Funds and is set out in the following table:

Main elements of the reconciliation reserve	References	31.12.2019	31.12.2018
		£000s	**£000s**
Excess of assets over liabilities		648,805	671,439
Restricted Own Funds of the ring fenced fund		(42,823)	(17,638)
Available Own Funds		**605,982**	**653,801**
Surplus funds (Group FFA)		598,263	650,559
Reconciliation reserve		**7,719**	**3,242**

Table E2-4

The table below summarises the asset and liability valuation differences between the financial reporting and Solvency II bases. Further details on these differences are provided in section D.

Excess of assets over liabilities - attribution of valuation differences	Reference	31.12.2019	31.12.2018
		£000s	**£000s**
Group FFA		598,263	650,559
Differences in the valuation of assets		(103,201)	(114,374)
Differences in the valuation of technical provisions		153,743	135,254
Differences in the valuation of other liabilities		-	-
Excess of assets over liabilities		**648,805**	**671,439**

Table E2-5

(iv) Eligible Group Own Funds to meet the Group SCR and SCR Floor

Other than the restricted Own Funds of the MSSF, the Society consider that all of the Group Own Funds are eligible Own Funds.

In making this assessment, the Society has considered the fungibility and transferability of the Own Funds items to meet the Group SCR.

It has also considered whether the own fund items are subject to any legal or regulatory requirements that restrict their availability to absorb losses in the Group and whether those Own Funds would be available for covering the SCR within a maximum of 9 months.

As set out in Article 331 of the Delegated Act, the tiering of Group Own Funds will follow the same classification as applied at the Solo level (see also note a) below).

The table below analyses eligible Group Own Funds by Tier:

Eligible Own Funds	References	Tier 1 – unrestricted	Tier 2	Total 31.12.2019	Total 31.12.2018
		£000s	**£000s**	**£000s**	**£000s**
Tier 1 - Surplus funds		598,263	-	598,263	650,559
Tier 1 – Reconciliation reserve		7,718	-	7,718	3,241
Deductions for FCIs participation values		(77,915)	-	(77,915)	(67,315)
Eligible Own Funds to meet the consolidated Group SCR (excluding FCIs regulatory Own Funds)	*a)*	**528,066**	**-**	**528,066**	**586,485**
Eligible Own Funds to meet the minimum consolidated Group SCR (excluding FCIs regulatory Own Funds)	*Table E2-7*	**528,066**	**-**	**528,066**	**586,485**
FCIs regulatory Own Funds (Unaudited)	***b)***	**77,850**	**474**	78,324	**68,337**

Eligible Own Funds	References	Tier 1 – unrestricted	Tier 2	Total 31.12.2019	Total 31.12.2018
Eligible Own Funds to meet the consolidated Group SCR		**605,916**	**474**	**606,390**	**654,822**

Table E2-6

A breakdown of the eligible Own Funds to meet the minimum consolidated SCR of the Group's life and non-life business is set out in the table below:

Eligible own funds	References	Life 31.12.2019	Non life 31.12.2019	Total 31.12.2019	Total 31.12.2018
		£000s	**£000s**	**£000s**	**£000s**
Eligible Own Funds to meet the minimum consolidated Group SCR (excluding FCIs regulatory Own Funds)		**522,293**	**5,773**	**528,066**	**586,485**

Table E2-7

a) Quality of eligible Own Funds excluding FCI's

The entirety of the Group Own Funds excluding the FCI's regulatory Own Funds are made up of surplus funds and the reconciliation reserve, which are classed as Tier 1 Own Funds under Article 69 of the Solvency II Directive as they have the following characteristics and features:

- **Characteristics:**

  Permanent availability: The item is available, or can be called up on demand, to fully absorb losses on a going-concern basis, as well as in the case of winding-up.

  Subordination: In the case of winding-up, the total amount of the item is available to absorb losses and the repayment of the item is refused to its holder until all other obligations, including insurance and reinsurance obligations towards policyholders and beneficiaries of insurance and reinsurance contracts, have been met.

- **Features:**

  Sufficient Duration: Due consideration shall be given to the duration of the item, in particular whether the item is dated or not. Where an Own Funds item is dated, the relative duration of the item as compared to the duration of the insurance and reinsurance obligations of the undertaking shall be considered.

  Absence of incentives to redeem: Whether the item is free from requirements or incentives to redeem the nominal sum.

  Absence of mandatory servicing cost: Whether the item is free from mandatory fixed charges.

  Absence of encumbrances: Whether the item is clear of encumbrances.

Quantitative limits applied to eligible Own Funds

As the entirety of the Group's eligible Own Funds (excluding FCI's regulatory Own Funds) are Tier 1, there are no quantitative limits applied.

In line with the Society's Capital Management Strategy and Policy, as far as compliance with the SCR and MCR is concerned:

- The eligible amounts of Tier 1 Own Funds must be at least 50% of the SCR.
- Only Tier 1 and Tier 2 Own Funds can be used to cover the MCR.
- At least 80% of the MCR must be met by eligible Tier 1 Own Funds.

b) Eligible FCI's regulatory Own Funds

The tiering of FCI's Own Funds are governed by the relevant sectoral rules. The Own Funds of WFS and WUTM are all considered to be Tier 1 Own Funds.

The Bank's Own Funds are the sum of its Tier 1 and Tier 2 capital classified as per the Capital Requirements Directive IV (CRD IV).

E3 Group SCR

As per the requirements of Method 1, the Group SCR is calculated as the sum of:

- The SCR of the insurance group - calculated on the basis of the consolidated data of the Society, its insurance subsidiary, intermediate insurance holding companies and ancillary services companies;
- The capital requirements for FCIs participation values calculated according to the relevant sectoral rules.

(i) Amount of the Group SCR and SCR Floor

Amount of the Group SCR	Reference	31.12.2019	31.12.2018
		£000s	**£000s**
Consolidated Group SCR (excluding FCIs regulatory capital)	*a)*	152,641	140,877
FCIs regulatory capital (unaudited)	*b)*	47,089	33,117
Group SCR		**199,730**	**173,994**
Minimum consolidated SCR (SCR Floor)	***Table E2-10***	**44,229**	**41,079**
Solvency ratios:			
Eligible Group Own Funds to meet the Group SCR		**606,390**	**654,822**
Ratio of eligible Group Own Funds to the Group SCR		**304%**	**376%**

Table E3-1

a) Consolidated Group SCR excluding FCIs

The Society and its insurance subsidiary (PPIL) calculate the SCR using the standard formula approach which is subject to supervisory assessment. The SCR represents the solvency capital to cover a 1 in 200 year event or a 99.5% probability of being solvent in 1 year's time.

The amount of the Group SCR (excluding FCIs) by each risk module is shown below:

SCR calculation by risk module	Reference	31.12.2019	31.12.2018
		£000s	**£000s**
Market risk		170,900	147,458
Counterparty default risk		5,017	4,076
Life underwriting risk		54,276	42,037
Health (Life) underwriting risk		11,716	12,407
Health (Non life) underwriting risk*		64	699
Diversification		(38,438)	(30,518)
Basic Solvency Capital Requirement (net of loss absorbing capacity of technical provisions)		**203,535**	**176,159**
Operational risk		22,607	20,498
Loss- absorbing capacity of deferred taxes		(73,500)	(55,780)
Consolidated Group SCR (excluding FCIs regulatory capital)		**152,642**	**140,877**

Table E3-2

*The non life underwriting risk is attributable to PPIL, which including other minor risks has a total SCR of £787k. Due to the immateriality of PPIL, the Society applies a proportionate approach in calculating the SCR of the Group's non life business (see (c) below).

b) FCIs Regulatory capital

The regulatory capital requirements of the FCIs participation values are determined as follows:

- Wesleyan Bank Limited ("the Bank") – the Bank is regulated under the Capital Requirements Directives (CRD IV) and its Own Funds and leverage position are calculated in accordance with this legislation.
- Wesleyan Financial Services Limited (WFS) – WFS is classed as a Personal Investment Firm that provides financial advice to retail consumers on investment products. Its capital requirements are calculated in accordance with the rules set out in the Interim Prudential Sourcebook for Investment Business (IPRU(INV)).
- Wesleyan Unit Trust Managers Limited (WUTM) – WUTM is defined as a Collective portfolio management investment firm and it is required to maintain a base Own Funds requirement under IPRU-INV.

The increase in regulatory capital requirements of the FCIs participation values is the result of changes to the loan portfolio of Wesleyan Bank and growth in assets.

c) Calculation approach and simplifications applied

Due to the immateriality of the Practice Plan Group (insurance subsidiary (PPIL) and the intermediate insurance holding companies) in comparison with the Society, the Group SCR calculations assume no additional risk or diversification specifically arises at group level.

The Society will continue to monitor the materiality of PPIL and reassess this assumption.

The Group has not adopted any of the simplified SCR calculations outlined in the Solvency II rules.

(ii) Minimum consolidated SCR (SCR Floor)

As defined under Method 1, the SCR Floor is calculated as the sum of the Minimum Capital Requirement (MCR) for its life and non-life business.

Minimum consolidated SCR (SCR Floor)	References	Life 31.12.2019	Non life 31.12.2019	Total 31.12.2019	Total 31.12.2018
		£000s	**£000s**	**£000s**	**£000s**
Minimum capital requirement		**38,914**	**5,315**	**44,229**	**41,079**

Table E3-3

MCR of the life business

The MCR for the Group's life business is determined from a formula ("linear MCR") which is restricted to have a value no less than 25% of the SCR and no higher than 45% of the SCR.

The linear MCR calculation includes a negative adjustment for discretionary benefits on with-profits business. As with-profits business makes up a significant proportion of the Society's technical provisions, this negative adjustment offsets the contribution from the Society's other technical provisions (guaranteed benefits, index-linked and unit-linked obligations, other life and health insurance obligations), resulting in an artificially small MCR.

As a consequence, the MCR for the Group's life business is set equal to the minimum permitted value: 25% of the SCR.

Overall MCR calculation	Reference	31.12.2019	31.12.2018
		£000s	£000s
Linear MCR		(68,348)	(60,267)
MCR cap (45% of SCR)		70,046	63,996
MCR floor (25% of SCR)		38,914	35,553
Absolute floor of the MCR		3,187	3,288
Reported Minimum Capital Requirement		**38,914**	**35,553**

Table E3-4

MCR of the non life business

For the Group's non life business, the MCR is set at the absolute floor required for general insurance business (as referred to in Article 129 of the Solvency II Directive).

(iii) Material changes to the SCR over the reporting period

The following elements of the SCR reduced materially over the reporting period:

- Equity risk, due to a stronger stress at year-end following market rises,
- Lapse risk, due to longer expected policy duration for pension business due to updated lapse and retirement assumptions.

E4 Use of the duration-based equity risk sub-module

This section is not applicable, as the Society does not apply the duration-based equity risk sub-module in the calculation of the SCR.

E5 Differences between the standard formula and internal model

This section is not applicable, as the Society has received approval to calculate the SCR using the standard formula approach.

E6 Non compliance with the SCR and plans to maintain compliance

There were no instances of non compliance with the Group SCR over the reporting period.

The Society's Capital Management Strategy and Policy includes the Society's plans to maintain adequacy of capital resources.

E7 Any other information

There is no other material information regarding capital management.

GLOSSARY

Annual Bonus (With Profits):

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

Annuity Policy:

An insurance policy that provides a regular income in exchange for a lump sum payment.

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.

AVC:

Additional Voluntary Contributions – additional contributions paid by members of a company pension scheme to boost their retirement income.

Best Estimate Liabilities:

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

Business Continuity Plan:

A set of documents, instructions and procedures to enable a business to respond to accidents, disasters, emergencies and/or threats.

Capital Investment Bond:

The With Profits bond offered by the Society.

Closed Fund:

A fund that has stopped taking on new business.

Collaterised Securities:

Securities whose value and payments are derived from a portfolio of underlying assets and are pooled for exposure to a particular risk.

Contributions Agency:

A former executive agency of the Department of Social Security which was set up to administer National Insurance, including the payment of contributions to personal pension arrangements used to opt out of the State Earnings Related Pension Scheme.

CWP:

Conventional With Profits.

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.

DR:

Disaster Recovery

Duration Matching:

A de-risking technique used so that changes in interest rates will influence asset and liability risk at the same rate, hence, keeping the surplus constant.

EPIFP:

Expected profits included in future premiums.

Equity Put Option:

This is a type of asset that gives an investor the right, but not the obligation, to sell equities on a specified future date for a specified price.

Estate:

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

European Insurance and Occupational Pensions Authority (EIOPA):

EIOPA is part of a recently established European supervisory framework that comprises three European Supervisory Authorities, one for the banking sector, one for the securities sector and one for the insurance and occupational pensions sector.

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.

FRS 102:

Financial reporting standards applicable in the UK and the Republic of Ireland. The Society applies FRS 102 in its Annual Report and Accounts.

FTSE:

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

Fund for Future Appropriations (FFA):

The excess of assets over the aggregate of policy and other liabilities. It is 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. The Society considers working capital to be more appropriate measure to monitor its financial strength.

Group:

Wesleyan Assurance Society and all of its subsidiary companies.

Group Operating Profit:

A measure of profitability used to provide a better understanding of the operating performance of the Group.

Guarantee:

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

IAS 19:

International Accounting Standard 19 on Employee Benefits issued by the International Accounting Standard Body (IASB). The standard is applied by the Society in its Pillar 3 reporting for recognition and measurement of the Wesleyan Staff Pension Scheme.

IFRIC 19:

Further guidance on IAS 19 issued by the International Financial Reporting Interpretations Committee (IFRIC) on the Limits on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. Applied by the Society in its Pillar 3 reporting for recognition and measurement of the surplus on the Wesleyan Staff Pension Scheme.

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 waiting period, while the member remains unable to work. Payments may continue until the end of the policy term or cease after a set period.

Individual Savings Account (ISA):

A tax-free investment contract, allowing investment into cash and stocks and shares.

Industrial Business (IB):

Life assurance business sold under the Industrial Assurance Acts 1923 to 1958 under which the premiums were originally contracted to be collected door-to-door.

Integrated Risk Management Framework (IRMF):

The Integrated Risk Management Framework (IRMF) is a framework which defines and documents Wesleyan Society's approach to risk management. The key objective of the IRM framework is to deliver an capability across the business that links strategy, risk and capital.

In-Force Policy:

Long-term business written before the period end which has not terminated before the period end.

Internal Capital Requirement (ICR):

Internal measurement of the capital requirement for all material risks sufficient to maintain solvency within Wesleyan's risk appetite.

Limited Price Indexations (LPI):

Limited Price Indexation or LPI is the Retail Prices Index (RPI) capped at 5% and floored at 0%.

Linked:

In relation to unit linked contracts.

Long Term Incentive Plan (LTIP):

Variable pay arrangement provided to Executives.

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.

Minimum Capital Requirement (MCR):

The Minimum Capital Requirement is the minimum level of security below which the amount of financial resources should not fall.

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.

Non-Linked:

In relation to contracts that are not unit linked.

OILTBF:

The Ordinary and Industrial Long-Term Business Fund.

Open Fund:

The Wesleyan Long Term Business Fund excluding the MSS Fund.

Option:

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

Participating/With-Profits Contracts:

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

Principles and Practices of Financial Management (PPFM):

A document explaining how we manage our With Profits Fund.

Prudential Regulation Authority (PRA):

Part of the Bank of England that is responsible for the authorisation, regulation and day-to-day supervision of all insurance firms that are subject to prudential regulation.

PVFP/PVIF:

Present value of future profits/Present value of in force: a measure of the profits expected to be earned over the lifetime of in-force business.

RBS:

Realistic Balance Sheet. This provides a measure of solvency.

Regular Premium:

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

Retail Distribution Review (RDR):

A fundamental review by the FCA designed to help address insufficient trust and confidence in financial services products and services, which was implemented with effect from 1 January 2013.

Retail Price Index (RPI):

In the United Kingdom, the Retail Price Index (RPI) is a measure of inflation published monthly by the Office for National Statistics. It measures the change in the cost of a representative sample of retail goods and services.

Risk Appetite:

The amount of risk that a business is prepared to take when carrying out its everyday activities.

Risk Capital Margin (RCM):

The additional capital a firm would need to hold to cover the effects of a number of 'What if?' scenarios that have been prescribed by the PRA.

SCR:

The Solvency Capital Requirement (SCR) is the amount of money set aside by the Society to cover a one in 200 risk event over a one year period.

Shadow Fund:

A measure used as a guide to a unitised with-profits policy's fair share of the fund. More details are provided in the PPFM.

Single Premium:

A single payment for an insurance contract.

Smoothing:

Smoothing is an important and fundamental aspect of with-profits policies, allowing policyholders to benefit from investment in the stock market, but with the short-term highs and lows evened out. More details of how smoothing works are provided in the PPFM.

Solvency II:

EU-wide legislation that provides a comprehensive framework for insurance supervision and regulation.

Sum Assured:

The guaranteed amount at the start of a conventional with-profits policy.

Surrender:

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

Swaption:

A type of derivative used to mitigate risk from changes in interest rates.

TCF:

All firms regulated by the FCA have to support the FCA Sourcebook's principle that a firm 'must pay due regard to the interests of its customers and treat them fairly'. The TCF (treating customers fairly) principle aims to raise standards in the way firms carry on their business by introducing changes that will benefit consumers and increase their confidence in the financial services industry.

TWPPF:

Treating With Profits policyholders fairly – Principles as defined in FCA rule book COBS 20.2

UK Corporate Governance Code:

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

Undertakings for Collective Investment in Transferable Services (UCITS):

UCITS provides a single European regulatory framework for in investment vehicle which means it is possible to market the vehicle across the WU without worrying which country it is domiciled in. Designed to enhance the single market while maintaining high levels of investor protection.

Unit Linked Business Principles and Practice Manual (ULBPPM):

This manual provides details of the principles and practices that Wesleyan Assurance Society (the Society) applies in the operations of all its internal unit-linked funds. One of the key aims of this manual is to demonstrate our commitment to treating our unit-linked customers fairly.

Unit-Linked Policy:

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

Unitised With-Profits Policy (UWP):

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

Unit Trusts:

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

With Profits Bond:

A unitised with-profits ‘whole of life’ policy or conventional with-profits fixed term policy sold on a single premium basis.

With-Profits Fund:

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

Working Capital:

A measure of the Society’s financial strength. This is calculated as the excess of the Society’s assets over its liabilities using an approach specified by the Prudential Regulation Authority.

WSPS:

Wesleyan Staff Pension Scheme.

QUANTITATIVE REPORTING TEMPLATES (‘QRTS’)

General Information:

	Wesleyan Assurance Society
Group identification code	213800KDQAJRJL2A3X94
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	31 December 2019
Currency used for reporting	GBP
Accounting standards	The group is using local GAAP (other than IFRS)
Method of Calculation of the group SCR	Standard formula
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

The Society presents below the following applicable quantitative reporting templates:

Audited:

QRT ref	Description
S.02.01.02 Balance Sheet	Specifying the Society's balance sheet information as at the reporting date using the valuation rules in accordance with Article 75 of Directive 2009/138/EC.
S.23.01.22 Own Funds	Specifying information on the Society's own funds as at the reporting date.
S.25.01.22 Solvency Capital Requirement - for undertakings on Standard Formula	Specifying information as at the reporting date on the Society's Solvency Capital Requirement calculated using the standard formula.
S.32.01.22 Undertakings in the scope of the group.	Specifying information on the participating insurance undertaking and subsidiaries included in the Group Solvency calculation.

Unaudited:

QRT ref	Description
S.05.01.02 Premiums, claims and expenses by lines of business, Life	Specifying information for the Society's Life business – premiums, claims and expenses over the reporting period.
S.05.01.02 Premiums, claims and expenses by lines of business. Non life	Specifying information for the Society's Non-Life business – premiums, claims and expenses over the reporting period.

S.02.01.02.01
Balance Sheet

£'000		Solvency II value C0010
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	-
Deferred tax assets	R0040	-
Pension benefit surplus	R0050	91,126
Property, plant & equipment held for own use	R0060	31,847
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	5,425,357
Property (other than for own use)	R0080	314,127
Holdings in related undertakings, including participations	R0090	77,915
Equities	R0100	2,368,578
Equities - listed	R0110	2,368,490
Equities - unlisted	R0120	88
Bonds	R0130	2,043,413
Government Bonds	R0140	1,371,557
Corporate Bonds	R0150	668,712
Structured notes	R0160	-
Collateralised securities	R0170	3,144
Collective Investments Undertakings	R0180	183,692
Derivatives	R0190	72,753
Deposits other than cash equivalents	R0200	364,879
Other investments	R0210	-
Assets held for index-linked and unit-linked contracts	R0220	1,277,363
Loans and mortgages	R0230	-
Loans on policies	R0240	-
Loans and mortgages to individuals	R0250	-
Other loans and mortgages	R0260	-
Reinsurance recoverable from:	R0270	59,330
Non-life and health similar to non-life	R0280	-
Non-life excluding health	R0290	-
Health similar to non-life	R0300	-
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	59,330
Health similar to life	R0320	57,132
Life excluding health and index-linked and unit-linked	R0330	2,198
Life index-linked and unit linked	R0340	-
Deposits to cedants	R0350	-
Insurance and intermediaries receivables	R0360	3,716
Reinsurance receivables	R0370	3,265
Receivables (trade, not insurance)	R0380	5,503
Own shares (held directly)	R0390	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	-
Cash and cash equivalents	R0410	16,801
Any other assets, not elsewhere shown	R0420	16,352
Total assets	**R0500**	**6,930,661**
Liabilities		
Technical provisions - non-life	R0510	131
Technical provisions - non-life (excluding health)	R0520	-
Technical provisions calculated as a whole	R0530	-
Best Estimate	R0540	-
Risk margin	R0550	-
Technical provisions - health (similar to non-life)	R0560	131
Technical provisions calculated as a whole	R0570	-
Best Estimate	R0580	127
Risk margin	R0590	4
Technical provisions - life (excluding index-linked and unit linked)	R0600	4,886,810
Technical provisions - health (similar to life)	R0610	91,741
Technical provisions calculated as a whole	R0620	-
Best Estimate	R0630	80,950
Risk margin	R0640	10,792
Technical provisions - life (excluding health and index-linked and unit linked)	R0650	4,795,069
Technical provisions calculated as a whole	R0660	-
Best Estimate	R0670	4,756,106
Risk margin	R0680	38,964
Technical provisions - index-linked and unit-linked	R0690	1,220,455
Technical provisions calculated as a whole	R0700	-
Best Estimate	R0710	1,218,680
Risk margin	R0720	1,775
Other technical provisions	R0730	
Contingent liabilities	R0740	-
Provisions other than technical provisions	R0750	887
Pension benefit obligations	R0760	-
Deposits from reinsurers	R0770	27,110
Deferred tax liabilities	R0780	85,469
Derivatives	R0790	-
Debts owed to credit institutions	R0800	-
Financial liabilities other than debts owed to credit institutions	R0810	14,408
Insurance & intermediaries payables	R0820	21,103
Reinsurance payables	R0830	273
Payables (trade, not insurance)	R0840	1,725
Subordinated liabilities	R0850	-
Subordinated liabilities not in Basic Own Funds	R0860	-
Subordinated liabilities in Basic Own Funds	R0870	-
Any other liabilities, not elsewhere shown	R0880	23,483
Total liabilities	**R0900**	**6,281,855**
Excess of assets over liabilities	**R1000**	**648,805**

S.23.01.22.01
Own Funds

£'000		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector						
Ordinary share capital (gross of own shares)	R0010					
Non-available called but not paid in ordinary share capital at group level	R0020					
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions of the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Non-available subordinated mutual member accounts at group level	R0060					
Surplus funds	R0070	598,263	598,263			
Non-available surplus funds at group level	R0080					
Preference shares	R0090					
Non-available preference shares at group level	R0100					
Share premium account related to preference shares	R0110					
Non-available share premium account related to preference shares at group level	R0120					
Reconciliation reserve	R0130	7,718	7,718			
Subordinated liabilities	R0140					
Non-available subordinated liabilities at group level	R0150					
An amount equal to the value of net deferred tax assets not available at the group level	R0160					
The amount equal to the value of net deferred tax assets not available at the group level	R0170					
Other items approved by supervisory authority as basic own funds not specified above	R0180					
Non available own funds related to other own funds items approved by supervisory authority	R0190					
Minority interests (if not reported as part of a specific own fund item)	R0200					
Non-available minority interests at group level	R0210					
Own funds from the financial statements that should not be respresented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be respresented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	R0230	77,915	77,915			
Whereof deducted according to art 228 of the Directive 2009/138/EC	R0240					
Deductions for participations where there is non-availability of information (Article 229)	R0250					
Deduction for participations included by using D&A when a combination of methods is used	R0260					
Total of non-available own fund items	R0270					
Total deductions	R0280	77,915	77,915			
Total basic own funds after deductions	R0290	528,067	528,067			
Anciliary Own Funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Non available anciliary own funds at group level	R0380					
Other anciliary own funds	R0390					
Total anciliary own funds	R0400					
Own funds of other financial sectors						
Credit Institutions, investment firms, financial instituations, alternative investment fund manager, financial institutions	R0410	78,324	77,850		474	
Institutions for occupational retirement provision	R0420					
Non regulated entities carrying out financial activities	R0430					
Total own funds of other financial sectors	R0440	78,324	77,850		474	
Own funds when using the D&A, exclusively or in combination of method 1						
Own funds aggregated when using the D&A and combination of method	R0450					
Own funds aggregated when using the D&A and combination of method net of IGT	R0460					
Total availabile own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings including via D&A)	R0520	528,067	528,067			
Total available own funds to meet the minimum consolidated group SCR	R0530	528,067	528,067			
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0560	528,067	528,067			
Total eligible own funds to meet the minimum consolidated group SCR	R0570	528,067	528,067			
Minimum consolidated Group SCR	R0610	44,229				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	R0650	1193.95%				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	R0660	606,391	605,917		474	
Group SCR	R0680	199,730				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	R0690	303.60%				

S.23.01.22.01
Reconciliation reserve

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	648,805
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	598,263
Adjustment for restricted own fund items in respect of making adjustments	R0740	42,824
Other non available own funds	R0750	
Reconciliation reserve	R0760	7,718
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	64,187
Expected profits included in future premiums (EPIFP) - Non-Life Business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	64,187

S.25.01.22
Solvency Capital Requirement - for groups on Standard Formula

S.25.01.22.01
Basic Solvency Capital Requirement

£'000		Gross Solvency Capital Requirement	Simplifications
		C0110	C0120
Market Risk	R0010	1,220,490	0
Counterparty default risk	R0020	24,844	
Life underwriting risk	R0030	341,172	0
Health underwriting risk	R0040	87,289	0
Non-life underwriting risk	R0050	0	0
Diversification	R0060	-288,061	
Intangible asset risk	R0070	0	
Basic Solvency Capital Requirement	R0100	1,385,735	

S.25.01.22.02
Calcuation of Solvency Capital Requirement

		Value
		C0100
Operational Risk	R0130	22,607
Loss-absorbing capacity of technical provisions	R0140	-1,182,200
Loss-absorbing capacity of deferred taxes	R0150	-73,500
Capital requirement for business operated in accordance with Art 4 of Directive 2003/41/EC	R0160	0
Solvency Capital Requirement excluding capital add-on	R0200	152,641
Capital add-ons already set	R0210	0
Solvency Capital Requirement for undertakings under consolidated method	R0220	199,730
Other Information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	123,358
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	29,283
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCF aggregation for article 304	R0440	0
Minimum consolidated group solvency capital requirement	R0470	44,229
Informaiton on Other Entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	47,089
Capital requirement for other financial sectors (Non-insurance capital requirements) - credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	R0510	47,089
Capital requirement for other financial sectors (Non-insurance capital requirements) - institutions for occupational retirement provisions	R0520	0
Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement	R0530	0
Capital requirement for non-controlled participation requirements	R0540	0
Capital requirement for residual undertakings	R0550	0
Overall SCR		
SCR for undertakings included via D&A	R0560	0
Solvency Capital Requirement	R0570	199,730

S.25.01.22.03
Basic Solvency Capital Requirement (USP)

		USP
		C0090
Life Underwriting Risk	R0030	None
Health Underwriting Risk	R0040	None
Non-Life Underwriting Risk	R0050	None

S.32.01.22
Undertakings in the scope of the group

S.32.01.22.01
Undertakings in the scope of the group

							Criteria of Influence						Inclusion in the scope of Group supervision		Group solvency calculation
Identification code and type of code of the undertaking	Country	Legal Name of the Undertaking	Type of Undertaking	Legal Form	Category (mutual/non-mutual)	Supervisory Authority	% Capital Share	% Used for the establishment of consolidated accounts	% Voting Rights	Other Criteria	Level of Influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0020	C0010	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
213800KDQAJRJL2A3X94	GB	Wesleyan Assurance Society	Life insurance undertaking	Society registered under the Industrial and Provident Societies Acts	Mutual	Prudential Regulation Authority and Financial Conduct Authority							Included in the scope		Method 1: Full consolidation
213800AFTJBKQUSZTH45	MT	Practice Plan Insurance Limited	Non life insurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	Malta Financial Services Authority	100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Full consolidation
213800KDQAJRJL2A3X94GB00100	GB	Practice Plan Holdings Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Full consolidation
213800KDQAJRJL2A3X94GB00101	GB	Practice Plan Holdings 2007 Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Full consolidation
213800KDQAJRJL2A3X94GB00102	GB	Practice Plan Group Holdings Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Full consolidation
213800KDQAJRJL2A3X94GB00103	GB	Practice Plan Group Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Full consolidation
213800KDQAJRJL2A3X94GB00104	GB	Practice Plan Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Full consolidation
213800KDQAJRJL2A3X94GB00105	GB	Medenta Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Full consolidation
213800EUCUZ9L2MGRC05	GB	Wesleyan Bank Limited	Credit institution, investment firm and financial institution	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority and Financial Conduct Authority	100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Sectoral rules
213800KDQAJRJL2A3X94GB00107	GB	Syscap Holdings Limited	Credit institution, investment firm and financial institution	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Sectoral rules
213800KDQAJRJL2A3X94GB00108	GB	Syscap Group Limited	Credit institution, investment firm and financial institution	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Sectoral rules
213800KDQAJRJL2A3X94GB00109	GB	Syscap Leasing Limited	Credit institution, investment firm and financial institution	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Sectoral rules
213800KDQAJRJL2A3X94GB00110	GB	Syscap Limited	Credit institution, investment firm and financial institution	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Sectoral rules
134753	GB	Wesleyan Financial Services Limited	Credit institution, investment firm and financial institution	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Sectoral rules
213800RR26GGHC7EBQ41	GB	Wesleyan Unit Trust Manager Limited	Credit institution, investment firm and financial institution	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Sectoral rules
213800KDQAJRJL2A3X94GB00111	GB	Wesleyan Administration Services Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Full consolidation
213800KDQAJRJL2A3X94GB00113	GB	DPAS Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Full consolidation
213800KDQAJRJL2A3X94GB00114	GB	DPAS Investment and Consultancy Services Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Full consolidation
213800KDQAJRJL2A3X94GB00115	GB	Quality Plan Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Full consolidation
213800KDQAJRJL2A3X94GB00116	GB	Worldwide Assistance Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual		100%	100%	100%	Centralised risk management	Dominant	100%	Included in the scope		Method 1: Full consolidation

S.05.01.02
Premiums, Claims and Expenses by Line of Business, Life (unaudited)

	Life	Line of Business for: Life Insurance Obligations						Life Reinsurance Obligations		Total
	£'000	Health Insurance	Insurance with Profit Participation	Index-Linked and Unit-Linked Insurance	Other Life Insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health Reinsurance	Life Reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	*Gross*	33,300	284,836	39,227	23,389	0	0	0	0	380,751
R1420	*Reinsurers' share*	8,611	0	0	1,454	0	0	0	0	10,065
R1500	*Net*	24,689	284,836	39,227	21,934	0	0	0	0	370,686
	Premiums earned									
R1510	*Gross*	33,300	284,836	39,227	23,389	0	0	0	0	380,751
R1520	*Reinsurers' share*	8,611	0	0	1,454	0	0	0	0	10,065
R1600	*Net*	24,689	284,836	39,227	21,934	0	0	0	0	370,686
	Claims incurred									
R1610	*Gross*	24,680	244,005	95,283	63,068	0	0	0	0	427,036
R1620	*Reinsurers' share*	13,347	0	0	1,141	0	0	0	0	14,488
R1700	*Net*	11,333	244,005	95,283	61,927	0	0	0	0	412,548
	Changes in other technical provisions									
R1710	*Gross*	-8,934	-484,807	-102,732	-20,611	0	0	0	0	-617,084
R1720	*Reinsurers' share*	20,366	701	0	9	0	0	0	0	21,076
R1800	*Net*	-29,300	-485,508	-102,732	-20,620	0	0	0	0	-638,160
R1900	**Expenses incurred**	24,224	39,548	9,259	5,029	0	0	0	0	78,061
R2500	**Other expenses**									29,344
R2600	**Total expenses**									107,404

S.05.01.02
Premiums, Claims and Expenses by Line of Business, Non-Life (unaudited)

Non-Life		Line of Business for: Non-Life Insurance and Reinsurance Obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
£'000		Medical Expense Insurance	Income Protection Insurance	Workers' Compensation Insurance	Motor Vehicle Liability Insurance	Other Motor Insurance	Marine, Aviation and Transport Insurance	Fire and Other Damage to Property Insurance	General Liability Insurance	Credit and Suretyship Insurance	Legal Expenses Insurance	Assistance	Miscellaneous Financial Loss	Health	Casualty	Marine, Aviation and Transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	*Gross - Direct Business*	304																304
R0120	*Gross - Proportional reinsurance accepted*																	0
R0130	*Gross - Non-proportional reinsurance accepted*																	0
R0140	*Reinsurers' share*																	0
R0200	*Net*	304	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	304
	Premiums earned																	
R0210	*Gross - Direct Business*	348																348
R0220	*Gross - Proportional reinsurance accepted*																	0
R0230	*Gross - Non-proportional reinsurance accepted*																	0
R0240	*Reinsurers' share*																	0
R0300	*Net*	348	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	348
	Claims incurred																	
R0310	*Gross - Direct Business*	521																521
R0320	*Gross - Proportional reinsurance accepted*																	0
R0330	*Gross - Non-proportional reinsurance accepted*																	0
R0340	*Reinsurers' share*																	0
R0400	*Net*	521	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	521
	Changes in other technical provisions																	
R0410	*Gross - Direct Business*	-861																-861
R0420	*Gross - Proportional reinsurance accepted*																	0
R0430	*Gross - Non-proportional reinsurance accepted*																	0
R0440	*Reinsurers' share*																	0
R0500	*Net*	-861	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-861
R0550	**Expenses incurred**	405																405
R1200	**Other expenses**	0																0
R1300	**Total expenses**	405																405