WESLEYAN

Solo Solvency and Financial Condition Report for the year ended 31 December 2021

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CONTENTS

SUMMARY

This Solvency and Financial Condition Report (SFCR) has been prepared as at the reporting date of 31 December 2021 for the reporting period 1 January 2021 to 31 December 2021. This SFCR relates to Wesleyan Assurance Society (the Society) which is a 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 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 and teachers 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. In 2021 the Society's With profits fund is now offered beyond the Society's core segments via a third-party investment platform.

Complementary to these activities, the Group provides a number of other financial services, through wholly owned subsidiary undertakings, including retail banking, retail and commercial lending, unit trust management, mortgage broking, acting as a general insurance broker and providing dental patient membership plans. With-profits policyholders share in the profits and losses of these subsidiary companies. Wesleyan Bank was sold on 28 February 2022 and is no longer part of the group. Retail and commercial lending is therefore no longer offered.

Underwriting income and expenses over the reporting period

Premium income increased in the year as a result of improved new business sales rebounding from the COVID pandemic.

Claims values also increased, returning to their pre-pandemic levels.

Overall expenses increased in line with volumes as well as investment in transformation and growth including new technology, digital capability, and infrastructure.

Investment performance over the period

Investment performance in 2021 was positive with Investment funds recovering the performance ground lost during the peak of the pandemic. There were gains in all the multi-asset funds including our flagship With Profits Fund, which delivered a return of 12.7% (2020: negative 1.4%).

Total Group assets under management are now £8.5bn (2020: £7.9bn).

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.

During 2021 a new Chief Risk officer and With Profits Actuary were appointed. 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

As at the reporting date, the value of assets as reported in the Society's Solvency II balance sheet were £91m less (2020: £60m less) than that reported in the Society's statutory accounts for financial reporting purposes. This was mainly attributable to the differing valuation methodology applied for subsidiary values and intangible assets. The Society's statutory accounts recognise intangible assets and subsidiary undertakings at their fair values, whereas for Solvency II purposes, they were recognised at their net asset values and intangible assets were valued at nil.

The total liabilities at the reporting date were £177m less (2020: £164m less) on the Solvency II balance sheet than reported in the Society'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 for With Profits Policyholder, reducing technical provisions. This is in recognition of the 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.

Society Eligible Own Funds at the reporting date amounted to £565m, an increase of £22m over the reporting period.

The main drivers of this are:

- £29m increase in pension surplus.
- £14m Estate investment return.
- £15m reduction in cost of guarantees.
- Offset by the mutual bonus distribution of £25m and the £15m of charges to the Estate (primarily mutual rewards and service fee).

The Society'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 by £12m, to £185m. This is driven by an increase in equity risk from increased exposure to equity assets in the Estate.

As a result of the above, the Society’s capital coverage ratio, which is the ratio between eligible Own Funds and the SCR, has decreased from 314% to 306%. This capital coverage ratio illustrates the considerable financial strength of the Society and that the Society is able to withstand extreme events.

Furthermore, 100% of the Society’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 Society 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 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, Wesleyan Assurance Society ("the Society") has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the Society; and

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

Nathan Moss	**Mario Mazzocchi**	**Andrew Neden**
Chair	Group Chief Executive	Chair of the Audit Committee

31 March 2022

INDEPENDENT AUDITOR'S OPINION

Report of the independent external auditor to the Directors of Wesleyan Assurance Society ('the Society') 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 Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Society as at 31st December 2021**:**

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Society as at 31st December 2021**, ('the Narrative Disclosures subject to audit**'); and
- Society template S.02.01.02, S12.01.02, S.23.01.01, S.25.01.21, S.28.01.01 ('**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 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 Solvency and Financial Condition Report;
- Society template S.05.01.02 and
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement'**).

To the extent the information subject to audit in the relevant elements of the 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 Solvency and Financial Condition Report of **Wesleyan Assurance Society** as at **31st December 2021** 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including 'ISA (UK) 800 *(Revised) Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks'* and 'ISA (UK) 805 *(Revised) Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement'*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the 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

In auditing the relevant elements of the Solvency and Financial Condition Report, we have concluded that the Director's use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate. Our evaluation of the Directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- confirmed our understanding of management's going concern assessment process and obtained management's assessment which covers 12 months from the date of approval of the financial statements;

- with support from our actuarial team, challenged the key actuarial assumptions used in management's five-year Annual Operating Plan ('AOP') and determined that the models are appropriate to enable management to make an assessment on the going concern of the Society. We have observed that assumptions used in the five-year AOP form the basis for management's going concern projections;

- assessed the accuracy of management's analysis by testing the inputs and the clerical accuracy of the models used;

- evaluated the liquidity and solvency position of the Society by reviewing base case liquidity and solvency projections.

- obtained and reviewed the latest Board approved ORSA, assessed whether the stress testing included in the ORSA was reasonable and considered the solvency position under each stress scenario;

- evaluated management's forecast analysis to understand how severe the downside scenarios would have to be to result in the elimination of solvency headroom and concluded it to be remote;

- assessed the plausibility of available management actions to mitigate the impact of the key risks by comparing them to our understanding of the Society;

- performed enquiries of management and those charged with governance to identify risks or events that may impact the Society's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board and its committees, and made enquiries as to the impact of COVID-19 on the business; and

- assessed the appropriateness of the going concern disclosures by comparing the consistency with management's assessment and for compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of 12 months from when the relevant elements of the Solvency and Financial Condition Report are authorised for issue.

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

Emphasis of matter – basis of accounting and restriction on use

We draw attention to the 'Valuation for solvency purposes', 'Capital Management' and/or other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The 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. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose.

This report is made solely to the Directors of the Society 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 these matters.

Other information

The Directors are responsible for the Other Information contained within the Solvency and Financial Condition Report.

Our opinion on the relevant elements of the 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.

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 Solvency and Financial Condition Report or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the relevant elements of the Solvency and Financial Condition Report themselves. 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 Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

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

In preparing the Solvency and Financial Condition Report, the Directors are responsible for assessing the Society's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the Directors either intend to cease to operate the Society, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society's financial reporting process.

Auditor's responsibilities for the audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the 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 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 Solvency and Financial Condition Report.

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

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

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

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are the direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority (‘PRA’) and the Financial Conduct Authority (‘FCA’).

- We understood how the Group complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Society and its subsidiaries and UK regulatory bodies; reviewed minutes of the Board and Executive Risk Committee; and gained an understanding of the Group’s approach to governance, demonstrated by the Board’s approval of the Group’s governance framework and the Board’s review of the Group’s risk management framework (‘RMF’) and internal control processes.

- We assessed the susceptibility of the group and the Society’s financial statements to material misstatement, including how fraud might occur, by considering the controls that the Society and its subsidiaries have established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk, including the procedures over the actuarial assumptions noted above and testing manual journals, which were designed to provide reasonable assurance that the financial statements were free from fraud or error.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items. For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Group’s methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.

- The Group operates in the insurance and banking industries which are highly regulated environments. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1(3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are 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
2 April 2022

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

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

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

The Supervisory Authorities responsible for the financial supervision of the Society (comprising Wesleyan Assurance Society and its subsidiary companies) is 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.

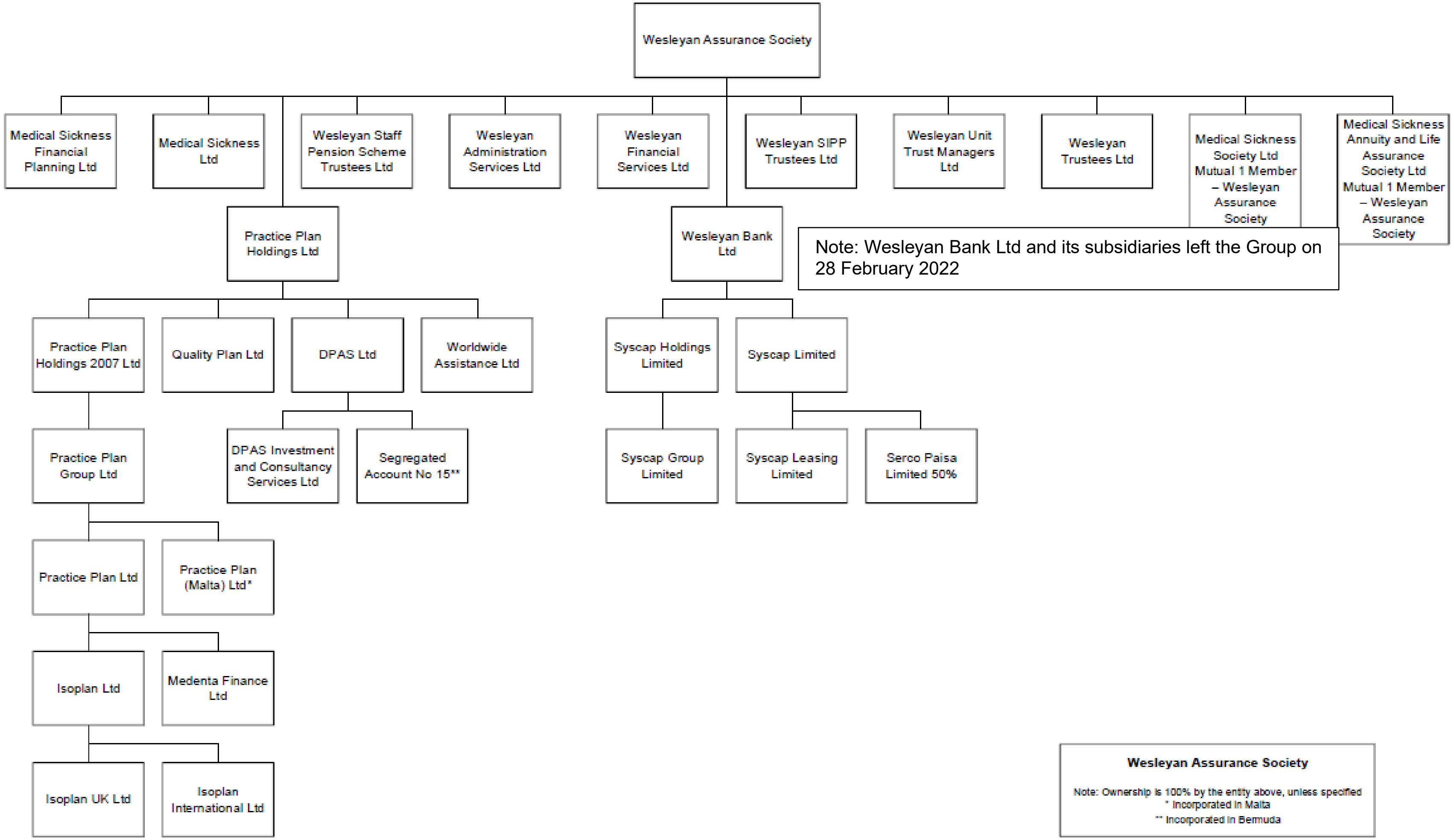
A qualifying policy is any subsisting policy issued in the ordinary life department, any policy issued after 28 April 1998 or any policy issued prior to 29 April 1998 where, on or after this date, premiums payable are increased by £25 per month or more, or additional benefits are allocated as a result 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. The Board has resolved to remove the two-year qualifying period and replace it with a requirement that any proceeds from a change in mutual status be assigned to charity within the first two years of membership. This change will be implemented during 2022.

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

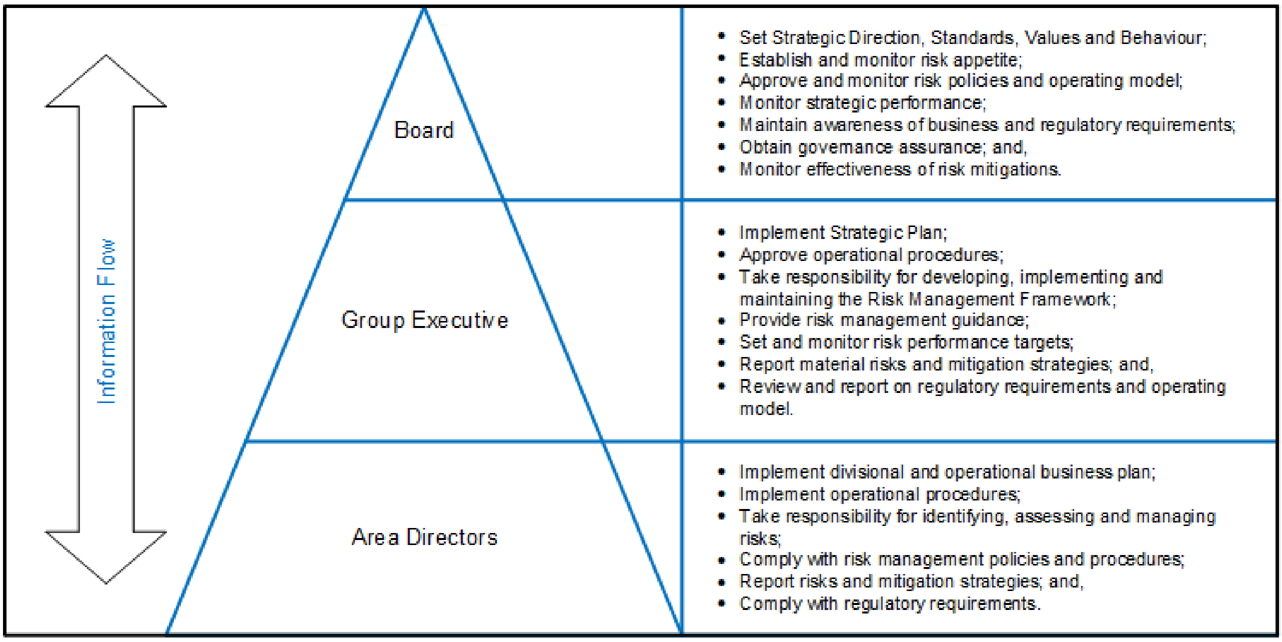
The directors may at any time confer upon any person, firm or company taking out a policy (other than a Qualifying Policy) or purchasing other products of the Society the title of "associate member" or any similar title or name determined by the directors and may, subject to the restrictions in this 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. In addition, customers purchasing with profits policies through external platforms are not members of the Society.

A1.5 Group legal structure as of 31 December 2021



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 and teachers 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. With profits products are now sold beyond the Society's core segments via a third party investment platform.

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. Wesleyan Bank left the Group on 28 February 2022 and from this point retail banking, retail and commercial lending was no longer offered.

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:

- 2021 has seen a successful roll out a COVID-19 vaccine programme which has resulted in recoveries in industrialised economies, greater stability in the financial markets and a better than expected improvement in the Society's trading performance.
- On 28 February 2022, the Society agreed the sale of Wesleyan Bank to Hampshire Trust Bank. This will result in an improvement to the Society's Solvency Ratio as Wesleyan Bank is currently deducted in full from eligible own funds (See Section E).
- In 2021, the With Profits Fund was made available via a third-party investment platform provided by leading wealth management company, Novia, to its network of independent financial advisers.
- During 2021, The Society widened access to the With Profits ISA by making it available direct through a number carefully selected aggregator sites.

A1.9 Related undertakings and branches

The directly held subsidiary undertakings of the Society at 31 December 2021 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 both secured and unsecured lending products.
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 (Malta) Limited, Practice Plan provides practice branded membership plans and support services to the UK dentistry market.
Wesleyan SIPP Trustees Limited	100%	To act as bare trustee of the Wesleyan SIPP.
Wesleyan Staff Pension Trustees Limited	100%	To act as corporate trustee of Wesleyan Staff Pension Scheme.
Medical Sickness Financial Planning Limited	100%	Dormant company
Medical Sickness Annuity and Life Assurance Society Limited	100%	Dormant company
Medical Sickness 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 2021 are shown below. These entities are subsidiaries of Wesleyan Bank Limited or Practice Plan Holdings Limited.

Company	Percentage Held Indirectly	Principal Activities
Practice Plan Holdings 2007 Limited	100%	Intermediary holding company
Practice Plan Group (Holdings) Limited	100%	Holding company
Practice Plan Group Limited	100%	Intermediary holding company
Practice Plan (Malta) Limited*(formerly Practice Plan Insurance Limited)	100%	To carry on business of insurance (ceased carrying out the business of insurance 4th December 2020)
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
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 is given in Section A4.

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.

* Incorporated in Malta
† Incorporated in Bermuda
^ left the Group on 28 February 2022

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

The Society only underwrites Life business exclusively in the UK.

The Society's underwriting income and expenses for the reporting period is presented below:

Underwriting income and expenses	Health	With-Profits	Unit linked	Other life	Total 2021	Total 2020*
	£000s	£000s	£000s	£000s	£000s	£000s
Premiums earned						
Gross	28,774	353,910	70,284	24,272	477,241	306,950
Re-insurers' share	(2,450)	-	-	(1,626)	(4,077)	(5,732)
Net	**26,323**	**353,910**	**70,284**	**22,646**	**473,164**	**301,217**
Claims incurred						
Gross	(21,878)	(323,056)	(119,662)	(55,054)	(519,649)	(386,579)
Re-insurers' share	7,210	-	-	1,031	8,241	11,354
Net	**(14,667)**	**(323,056)**	**(119,662)**	**(54,022)**	**(511,408)**	**(375,226)**
Changes in technical provisions						
Gross	10,904	(414.773)	(101,875)	61,898	(443,848)	198,966
Re-insurers' share	(5,631)	(221)	-	(150)	(6,002)	(37,035)
Net	**5,273**	**(414,994)**	**(101,875)**	**61,747**	**(449,850)**	**161,931**
Expenses						
Gross	(24,834)	(37,062)	(12,888)	(5,696)	(80,480)	(66,047)*
Re-insurers' share	1,914	-	-	314	2,228	1,737
Net	**(22,920)**	**(37,062)**	**(12,888)**	**(5,382)**	**(78,252)**	**(66,047)**
Other expenses					**(22,620)**	(24,152)
Total expenses					**(100,872)**	**(90,199)**

Table A2.1 -1

* **Gross Expenses have been restated for 2020 to exclude the amortisation charge of intangibles as these are inadmissible on the balance sheet under Pillar 1 rules.**

Analysis of underwriting income and expenses over the reporting period:

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

Premium income increased in the year by £172m from £301m in 2020 to £473m in 2021. This was the result of significantly improved new business sales across the ISA, Life and Pension products following the fall in 2020 during the pandemic.
This increase also includes a c.£70m reinvestment back into Society pension products following the closure of the SIPP (Self Invested Pension Product).

Claims values increased in the period by £136m from £375m in 2020 to £511m in 2021. As noted above, £86m of this disinvestment followed the closure of the SIPP. The remaining increase aligns claims values to pre-pandemic levels.

b) Changes in technical provisions:

The analysis of 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.

Reinsurers share of technical provisions:

The value in table A2.1 -1 is the change in the reinsurance recoverable asset. This asset relates to the reinsurers' obligation with respect to the health business shown in the technical provisions line.

The value has fallen significantly in 2021 as in 2020, the Society undertook a large reinsurance re-capture.

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

The main items of Society expenses incurred during 2021 were acquisition costs of £17.6m (2020: £17.2m), administrative expenses of £16.3m (2020: £21.9m), Investment expenses of £10.4m (2020: £8.2m) and overhead expenses of £33.0m (2020: £29.8m). £7.2m of this increase in overhead expenses is due to the revaluation loss of £5.4m on the own used element of the Society Head Office Property following the decision to move to a hybrid working model, reducing the floor space occupied.

Other expenses comprises mainly of the service fee paid to Wesleyan Financial Services Limited of £18.4m (2020: £19.7m).

A3 Investment Performance

The Society presents below some information on its investment strategy required under the Shareholder Rights Directive II (SRD II), together with 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.	✓	✓

Investment Belief	Consistency with liabilities	Contributes to performance
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.		✓
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.	✓	
We incorporate ‘sustainable investing’ considerations as part of our investment processes, including environmental, social and governance (ESG) factors.	✓	✓

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 year end 2021, £423m (2020: £75m) of assets were invested in externally managed collective investments (Unit Trust funds), which represents c6% (2020:c5%) 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 Society's investment income by material classes of assets and overall investment management expenses are presented below:

Asset category	Dividend 2021	Interest 2021	Rent 2021	Realised/ unrealised gains 2021	Total 2021	Total 2020
	£000s	£000s	£000s	£000s	£000s	£000s
Government bonds	-	32,638	-	(47,042)	**(14,403)**	108,281
Corporate bonds	-	42,274	-	(38,390)	**3,884**	53,701
Equity	93,711		-	491,994	**585,706**	(242,656)
Investment funds	6,999		-	25,643	**32,642**	45,364

Asset category	Dividend 2021	Interest 2021	Rent 2021	Realised/ unrealised gains 2021	Total 2021	Total 2020
Collaterised securities	-	55	-	(120)	**(65)**	(1,638)
Cash and deposits	-	633	-	(2,331)	**(1,698)**	2,804
Loans	-	-	-	-	**-**	-
Property	-	-	31,136	10,790	**41,927**	5,615
Derivatives	-	-	-	(35,193)	**(35,193)**	25,869
Total investment income	**100,710**	**75,601**	**31,136**	**405,351**	**612,798**	**(2,660)**

Table A3.1 -1

Expenses	2021	2020
	£000s	£000s
Investment management expenses	**10,410**	8,150

Table A3.1 -2

Analysis of investment performance:

As a direct consequence of the strategic asset allocation and by being overweight in equities where possible, Society funds recovered the performance ground lost during the pandemic. The Society saw gains in all multi-asset funds, including its flagship With Profits Fund which delivered a returned of 12.7% (2020: negative 1.4%). The low-risk funds however, which have a greater exposure to cash and bonds, struggled more.

Total assets under management are now £8.5bn (2020: £7.9bn).

There were no gains or losses recognised directly in equity during the reporting period (2020: none).

A3.3 Investment in securitisations and risk management

As at year end 2021, the Society held the following amounts of collaterised securities:

Analysis of collaterised securities	2021	2020
	£000s	£000s
Mainly exposed to credit risk	1,029	1,095
Mainly exposed to real Estate risk	-	1,328
Total investment in collaterised securities	**1,029**	**2,423**

Table A3.4 -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

The Society defines income received from its 100% subsidiaries as other income. The Society's subsidiaries and their principal activities 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 during 2021 was to provide 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 were developed in conjunction with the Society.

The strategic decision to sell the Bank was agreed by the Board in 2020 and the sale to Hampshire Trust Bank Plc was completed on 28 February 2022.

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.

Practice Plan Holdings Limited (sub group including DPAS)

Practice Plan Holdings Limited via its subsidiaries provides direct debit collection and support services to dentists and credit services for dental customers financial leasing, credit granting and dental emergency assistance to clients.

Wesleyan Administration Services (WAD)

The Company provides administration, management, financial, accounting, secretarial, information technology and other services to the Society and all of its subsidiaries. The Company is purely a service company for the Society and therefore has no material profits/ losses recognised.

The income earned by the Society's subsidiaries during 2021 is summarised in the following table:

Subsidiary entity	Profit/ (losses) after tax 2021	Profit/ (losses) after tax 2020
	£000s	£000s
Wesleyan Bank (Group)	5,968	(7,825)
Wesleyan Unit Trust Managers	25	160
Wesleyan Financial Services	(20,887)	(15,097)
Wesleyan Administration Services	-	(5)
Practice Plan Holdings Limited (Group)	2,537	2,315
Total	**(12,357)**	**(20,452)**

Table A4 -1

Wesleyan Bank profitability improved in 2021, with income boosted by the release of COVID provisions raised in 2020.

Wesleyan Financial Services statutory losses increased in 2021 despite a growth in New Business income. This was the result of a reduction in the service fee and increases in allocated Group costs to reflect the increase in activity and transformation spend across the Group in the year.

The Society has 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

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

B1.1.1 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 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. Subsidiary companies are governed as set out in B1.1.3.

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 eight 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 2021 and expects to continue to do so. The Board remains confident that the strength of its independent Non-Executive Directors continues to be sufficient to ensure that an individual or small group cannot dominate the Board's decision-making.

The 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 People, Culture and Governance Committee. It is anticipated that a minimum term of three years will be served with a further three-year term subject to the agreement of the Board. Annual extensions may be considered thereafter, normally up to a maximum nine-year term. Directors follow an induction programme on joining the Board and further training on specific subjects is undertaken as necessary. New Directors must retire and seek re-election at the first

Annual General Meeting (AGM) following appointment. All other Directors submit themselves for re-election annually.

B1.1.2 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, Philip Moore, is the Chair of the Society's Risk Committee. Other attendees include the Group Chief Executive, the Chief Financial Officer, the Chief Product Officer, the Chief Risk Officer and the Head of Corporate Audit.

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. Philip Moore was appointed Chair of the Risk Committee with effect from February 2021.The Committee comprised two other Non-Executive Directors during 2021, one being the Chair of the Society's Audit Committee. Other attendees include the Group Chief Executive, the Chief Financial Officer, the Chief Product Officer, the Chief Risk Officer and the Head of Corporate Audit.

It is the Chair's practice to meet separately with the Chief Risk Officer ahead of most meetings. The Committee's main activities during 2021 included:

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

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

Investment Committee

The Investment Committee was established as a 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.

The Committee is chaired by Linda Wilding, a Non-Executive Director who was appointed in 2021. The Committee also includes one other Board Non-Executive Director. In addition to the Group Chief Executive and the Chief Financial Officer, other attendees include the Chief Product Officer, the Chief Risk Officer and Director of Investments. The Committee's main activities during 2021 included:

- reviewing the strategy for 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; and
- considering and examining governance / audit and compliance issues.

Remuneration Committee

The Committee has been chaired by Linda Wilding since September 2019. The Committee comprised two other Non-Executive Directors during 2021. The Group Chief Executive and the HR Director are in attendance as required.

The Committee is responsible for the terms of remuneration for Executive Directors and other members of the Group 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 Group Executive. The Committee also exercises oversight over the Society's Remuneration Policy. No individual takes part in the setting of their own remuneration.

People, Culture and Governance Committee

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

The Committee's main activities during 2021 included regularly reviewing the structure, size and composition of the Board, in particular the balance of skills, knowledge and experience, and considering succession planning for Directors and other Senior Executives.

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.

In addition, the Committee has reviewed people and culture matters, including inclusivity and diversity targets and actions to achieve these, as well as sustainability plans and wider corporate governance developments.

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 (35% of top roles – Board, Executive and Senior Managers - to be filled by women by 2022, 40% by 2024) and a gender strategy;
- set a BAME target (15% of top roles - Board, Executive and Senior Managers – to be filled by BAME candidates by 2022, 20% by 2025). In 2021, the figure was 8.6%.
- publicly report on progress to deliver against this internal target; and
- At 31 December 2021, 33.8% of our senior leader roles were filled by women.

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

With Profits Committee

The Committee covers both the Open Fund and the Medical Sickness Society (MSS) Fund, which is closed to new business. There were six independent members of the Committee, two of whom were non-Executive Directors of the Society at the end of 2021.

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;
- Receiving updates on the sale of the Wesleyan Bank to ensure fairness for policyholders; and
- any other issues that the Board or the Committee considers With Profits policyholders might reasonably expect the Committee to be involved in or are required to be considered under FCA rules.

The Committee can engage external professional consultants to assist in delivering its objectives effectively.

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

B1.1.3 Subsidiary Company Governance

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

Until its sale on 28 February 2022 the Board of Wesleyan Bank Limited was chaired by Martin Bryant, an independent Non-Executive Director of the Society. The other Directors of Wesleyan Bank currently included another three independent Non-Executive Directors, who all had significant experience of the banking industry, and one Executive Director, the MD of the Bank. As part of its governance arrangements, Wesleyan Bank Limited established its own Audit Committee, Risk Committee and Nominations Committee.

The Board of Wesleyan Unit Trust Managers Limited is chaired by Ian McCaig, an independent Non-Executive Director of the Society and has one other independent Non-Executive Director.

The Board of Wesleyan Financial Services Limited is chaired by Andrew Neden, an independent Non-Executive Director of the Society and has one other independent Non-Executive Director.

B1.1.4 Main roles and responsibilities of key functions

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

The key responsibilities of each function and Business Areas are as follows as of 31 December 2021:

Distribution

- 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 adviser 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; and
  - To develop and implement the marketing, 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; and
  - To develop and implement appropriate business strategies to achieve the targets set by Wesleyan group.
- Group Customer/Marketing/Digital
  - To gather customer insights and lead improvement of customer experience
  - To develop and implement the Group marketing strategy. To proactively support all of the Society's promotional activity through timely and effective communication;
  - To oversee the use of brands across the business;
  - To develop and implement the Society's digital strategy and online business development; and
  - To develop and implement the Society's mutuality strategy.

Bank

- Wesleyan Bank
  - To provide secured and unsecured lending products to meet the professional and business needs of Wesleyan's chosen markets and asset finance products to non-core customers;
  - To deliver income and profit targets for Wesleyan Bank;
  - 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; and
  - To develop and implement appropriate business strategies to achieve the targets set by Wesleyan group.
- Building Support Services
  - To maintain the office premises.
- 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.

- Operational Resilience
    - To act as lead co-ordinator (in conjunction with Risk) 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; and
    - To protect against and reduce the likelihood of business disruption and in the event of disruption to ensure the business can recover effectively.
- 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 Talent

- HR
    - Activities including recruitment, retention, remuneration and benefits policy, employment relations and inclusion and diversity policy.
- Talent
    - Learning & development and employee engagement
    - Investments
    - To invest the Society's resources with the aim of producing superior long term returns consistent with acceptable risk levels.

Group Finance

- Finance
    - To maintain and update the financial elements of the Society's Strategic Plan, support the Board in setting the strategic direction for the Society and coordinate the Society's strategic and business planning activity together with the supporting management activity;
    - 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;
    - 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; and

- To oversee the development and governance of the Society's protection and investments products, ensuring that customers are treated fairly.

- Strategy and Communication
  - Overseeing the strategy and culture of the organisation with a focus on effective communications and employee engagement to support strategy delivery;
  - Delivery of external communications; and
  - Developing and implementing the Society's Corporate Responsibility strategy including charity fundraising activity.
- Company Secretary
  - Arranging agendas for, and attending, Board, Subsidiary Company, and Committee meetings and preparing minutes of meetings; and
  - 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.
- Legal
  - Provide appropriate legal input and support to the business.

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 ensure that these are embedded within the business;
  - Support the business through effective compliance and data protection oversight, ensuring the appropriate systems and controls are in place to meet the Society's regulatory requirements.
- 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.

B1.1.5 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 plan 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. The role of Chief Actuary sits within the second line of defence reporting to the Chief Risk Officer and responsibilities for challenge and control over the quality of actuarial output and advice to the Board are allocated to this

role. This arrangement removes the potential conflict of interest that existed with the Chief Actuary having responsibility for both product development and pricing recommendations. The various activities constituting the Actuarial Function are embedded within a number of teams and individual roles reporting to the role of Chief Product Officer.

- A With Profits Actuary Controlled Function, reporting to the Chief Risk Officer, 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 Risk Committee and Group Chief Executive. The Compliance Officer provides a quarterly report to the Risk 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 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.

B1.1.6 Implementation of risk management, internal control systems and reporting procedures across the Society

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 has a separate 2nd line function. However, the 2nd line function of the Wesleyan Bank meets regularly with Group risk and regulatory staff to ensure a consistent approach is adopted on risk management and internal control.

B1.1.7 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; and
- Reviews of Board effectiveness, including external independent reviews which are undertaken at least every three 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 of 2020 and actions agreed and implemented in 2021. An external review of effectiveness will take place over a three-year programme, commencing in the first quarter of 2022.

B1.2 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:

- Directors' 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 People, Culture and Governance 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 Remuneration Committee's aim is to ensure that remuneration and incentives adhere to the principles of good corporate governance, support good risk management practice and promote long-term sustainable Society performance.

The Remuneration Committee ensures that the Society's Remuneration Policy and out-turns are aligned to its culture and values.

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 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.
- Society affordability and performance.
- Ability to attract/retain/motivate.
- Pay awards for the wider workforce.
- Prevailing market conditions.
- Periodic external benchmark data.

Variable Pay and Long Term Incentive Plan (LTIP)

An Executive Variable Pay arrangement is in place, which was introduced in 2017. Alongside this the Society introduced a new rolling Long Term Incentive Plan (LTIP) from 1 January 2020. This scheme aimed to strengthen the link between the rewards received for the performance delivered to Members and the long term financial health and stability of the business.

Variable Pay is linked to individual performance evaluations as 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 under the Variable Pay scheme 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. Despite the environment, good performance was delivered against the non-financial element of the annual bonus scorecard in 2020, however, against the backdrop of the COVID pandemic, the Executive Directors and Group Executive Committee pledged to forgo any bonus in respect of 2020.

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. LTIP awards are subject to financial and/or non-financial measures aligned to the Society's strategy. Vesting of any LTIP award is subject to satisfactory overall risk performance. Awards will vest up to 25% of the maximum awards for threshold performance rising to full vesting at stretch target. The maximum award can be up to 100% of base salary for the Group Chief Executive.

Due to the ongoing market uncertainty the Remuneration Committee faced considerable challenge in establishing meaningful and robust performance measures and targets for the 2020 LTIP awards. The Remuneration Committee therefore determined that, for the 2020 LTIP only, three separate sets of performance conditions aligned to the Company's key priorities for each of the three years in the performance period would be set and assessed over the relevant year. No proportion of the award will vest until the end of the full three year period and the whole award will be subject to an overriding risk assessment over the three year performance period. Measures and targets for the 2021 and 2022 LTIPs have been set and these are aligned to achievement of targets in the Society's Strategic Plan..

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.

The LTIPs are designed to strengthen the link between the rewards received for the performance delivered to Members and the long term financial health and stability of the business 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 (except for the 2020 LTIP as explained above) and then will be subject to a further two year holding period. The maximum award under the 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 10% of salary for Board Executives based on an employee contribution of 8% in line with the maximum available to 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.

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

These persons 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; and
- 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; and
- 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 Society. 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:

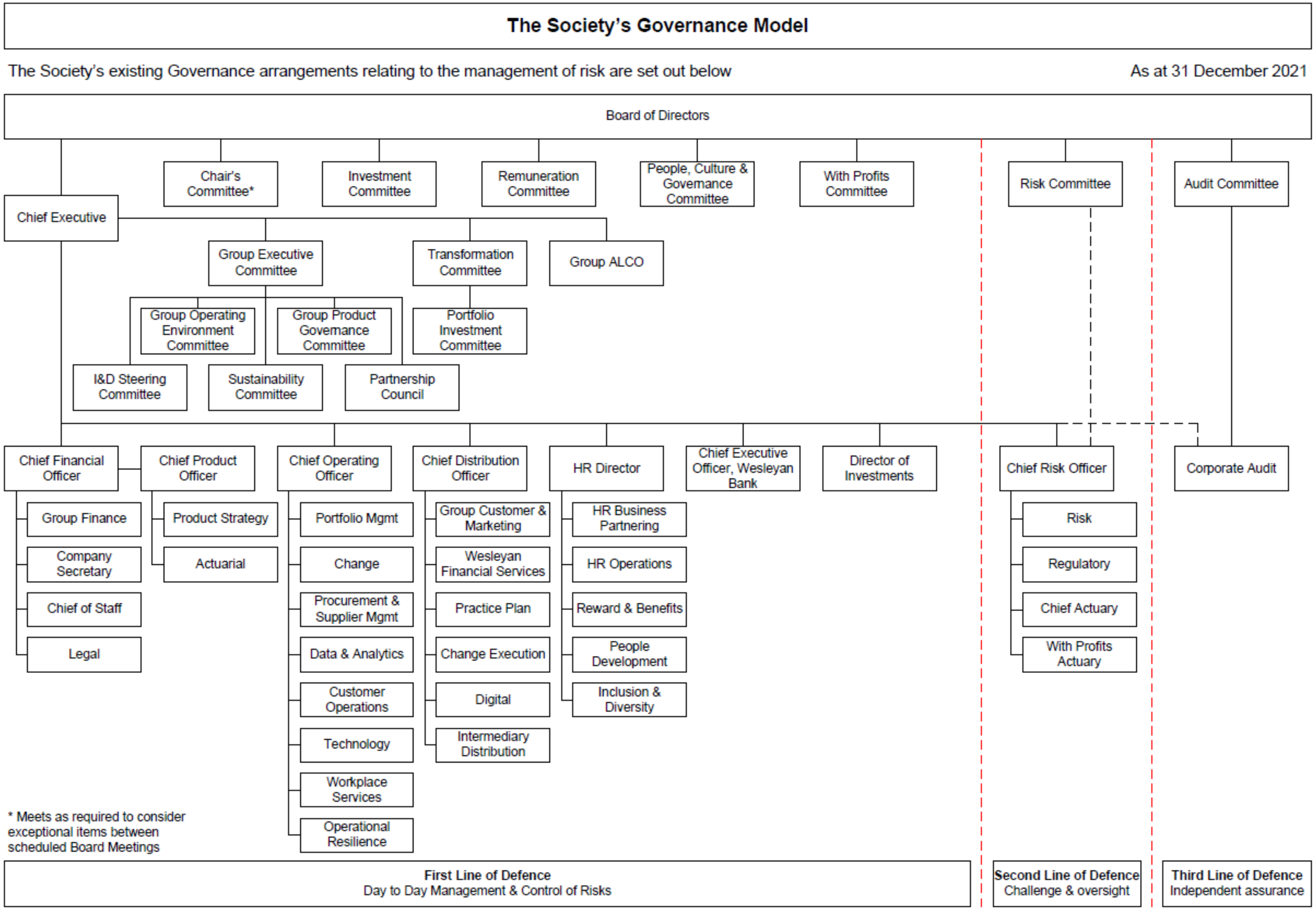
- A strategy is in place for managing risks as well as the inter-relationships between these risks.
- Risk governance structures are in place to ensure all applicable regulatory requirements and Wesleyan Integrated Risk Management standards are met.
- Risk appetite statements and limits are in place 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 Group Chief Risk Officer (CRO) with changes notified to the Risk Committee and Board. The Risk Function reports the management of its risk profile against appetite on a regular basis. The 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 areas' risk reports and tracks key risks across the Society against the Society 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 Committee 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 CRO.

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 significant changes in the Society's risk profile.

Updates to the ORSA policy are signed off by the CRO with confirmation of the changes to the Group Executive Committee and Risk Committee. Updates to 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 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 Society 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 Society on relevant changes to the regulatory environment; and
- Promote high standards of performance and ethical behaviours by the Society'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 Society'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 Head of Corporate Audit with responsibility for the Internal Audit Function reports to the 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 the 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 sufficient to undertake the planned activities.

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 governance structure.

Corporate Audit plans and executes its activities, principally the conduct of risk-based audits, to provide assurance to the Society's Board and Wesleyan Bank's Board (to the point of sale), the Audit Committee, 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, with a dotted line to the Chief Executive in a day to day line management capacity. The Head of Corporate Audit also maintained regular contact with the Chair of Wesleyan Bank's Audit Committee (to the point of sale).

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 Society Chair; and
- Obtain, where necessary, assistance of colleagues in areas of the Society 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;
- the responsibilities of the Audit Committee (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 various activities constituting the Actuarial Function are embedded within a number of teams and individual roles, reporting to the Chief Product Officer.

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 set actuarial methodology, assumptions and models;
- To ensure the Society's policy data is fit for purpose for the actuarial work being carried out;
- To set the investment strategy for the Investment Team to operate within and monitor and report on its implementation;
- To deliver Capital Management support for the Wesleyan Society; and
- 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. Challenge and control over the quality of actuarial output and advice to the Board is performed by the Chief Actuary. The Chief Actuary is part of the second line of defence and reports into the Chief Risk Officer.

B7 With Profits Actuary

B7.1 With Profits Actuary Responsibilities

The With Profits Actuary reports directly to the Chief Risk Officer. The With Profits Actuary also has direct access to the Chief Executive, the Chief Financial Officer, Chief Product Officer, 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; and
- Fulfil all regulatory requirements of the With Profits Actuary function.

B8 Outsourcing

B8.1 Outsourcing Policy

The Society has a Procurement and Supplier Management Policy (P&SM 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 suppliers to the Society and includes any material outsourcing and/or outsourcing arrangements entered into by the Society.

A Material Outsourcer and and Outsourcer are defined in the FCA Handbook. [Glossary Terms - FCA Handbook] Under the Wesleyan P&SM Policy any Material Outsourcer is classified as Strategic meaning that 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).

Under the Wesleyan P&SM Policy any Outsourcer (non-Material) may be classified as Strategic, Critical or Key meaning that the level of defect or failure has been assessed and a proportionate approach applied to the oversight and governance to ensure continuity of supply to Wesleyan and its Customers.

B8.2 Outsourcing of Key Functions

The Society has identified the following functions as “Key” Functions, which could be potentially be outsourced to a third party:

- Insurance Management
- Claims Handling / Loss Adjustment
- Broking / Insurance Distribution Services
- Investment Management
- Actuarial Function
- Internal Audit Function
- Information Technology Function
- Building Services 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 the share capital of this subsidiary and has full control over the activities of this subsidiary.

At 31 December 2021, 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 supply arrangement (including Material Outsourcers, Outsourcers and Suppliers) 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 contractual agreement that is reviewed and approved by Legal Counsel or an appointed external lawyer, including a Governance model approach and reporting to include a Service Level Agreement (SLA) outlining key deliverables that must be put in place in respect of each outsourced service.

► On a regularised 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

► Material Outsource Arrangements are overseen and governed to the most detailed level in Wesleyan with other Outsourcers and Suppliers having a proportionate approach.

► These arrangements are subject to ongoing review and governance, including:

- Regular review meetings.
- Resilience, continuity and contingency planning.
- Ongoing monitoring of performance / financial health.

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 and key stakeholders. Therefore, we have no appetite for actions which could give cause to our customers (actual and potential) to have an adverse view of us, and in turn, we also have no appetite for material adverse comments against Wesleyan in the media concerning our reputation. We will act with integrity with regards to our key stakeholders and will treat our customers fairly.	Five differing stakeholders inform our Reputation: ▶ Regulators and statutory bodies ▶ Customers ▶ Our people ▶ External Media (all forms including Social Media) ▶ External service providers we rely on (e.g. 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 objectives 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.

Conduct	Wesleyan has 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 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 new product development stages. ▶ On-going product reviews are undertaken considering conduct risk including TCF risks or issues and value for money. ▶ We 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 product 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 are 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 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. ▶ All colleagues must complete a conduct risk and rules training course which demonstrates the importance of managing conduct risk and 'doing the right thing' in the business.

Element	Risk Appetite Statement	How we will measure this
		▶ There is a Conduct Risk Management Framework that is being translated into a Conduct Risk MI dashboard. This will be used to measure the risk exposure of conduct issues across the business and highlight matters of significant importance to the executive. ▶ Any risks that are recorded through the central Risk Management System (Magique) can be flagged if they have a specific impact on conduct and can be monitored accordingly.
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 outcomes; ▶ 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 includes 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 E2.

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. The impact of CoViD-19 on Insurance Risk is discussed in C1.5.

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(i)(a). Insurance Risk accounted for 29% of the Group Solvency Capital Requirement at the end of 2021.

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.
- 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.

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 2020, we removed the reinsurance cover from the Swiss Re Risk Premium Treaty covering the Society's income protection business and recaptured the cover from the existing business covered by the treaty. This was the result of a review of the cost effectiveness of reinsurance in managing risk, as well as the likelihood of future reinsurance premium increases. This has increased the exposure to insurance risk, but this remains within risk appetite. We will continue to review in-force reinsurance arrangements as required. 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

The onset of CoViD-19 during 2020 led to an immediate increase in lapses on investment business. This proved to be a temporary effect and lapses quickly returned to expected levels. There was also an increase in short term income protection claims but the overall impact on morbidity experience was not material. The potential longer term effects of Covid introduces further uncertainty into the appropriate assumptions to set for expected, future experience. We continue to consider our experience and incorporate industry views when setting assumptions.

In addition to Life and Pensions business the group also carries 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(i)(a). Market Risk accounted for 43% of the Group Solvency Capital Requirement at the end of 2021.

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 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
Market	**Borne by Estate** ▪ Losses from investments or losses arising from a mismatch in movements of assets and liabilities within 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 Non Novia Business)** ▪ 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 **Borne by Policyholders (With Profits Novia Platform Business)** ▪ Losses from investments. In the case of With Profits investment assets, this may be mitigated by smoothing and any guarantees that apply.

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.
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.
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.
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.

Sub Risk Type	Definition	How the risk arises
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.
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 allowable 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 Society 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(i)(a). Credit Risk accounted for 23% of the Group Solvency Capital Requirement at the end of 2021.

Specifically, the Society has developed Statements of Investment Principles (SIPs). The Chief Product Officer owns the SIPs and approves any changes, which are then notified to the Investment Committee, Risk Committee and Group Executive. The SIPs 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 Wesleyan is exposed to if an investment counterparty, financial institution or reinsurer fails to perform its contractual obligations (including failure to perform them in a timely manner) including losses from credit 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 £75m 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 Society also has asset exposures to its re-insurer, Swiss Re. Finally, there are cash exposures to counterparties within the group subsidiaries.

	Considerations	Is this applicable to the Society?
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).
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 £75m 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 Society 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 manufactured business, the Society 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 measures 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 key risk indicator for liquidity, 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 4 day or 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 risk 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 Middle Office Team will immediately investigate the breach. If the result of these investigations indicate that actions are required to increase the liquidity within the fund, then the Liquidity Risk Contingency Plan should be implemented.
- The fund manager or Director of Investments will be informed immediately of the liquidity status and an instruction that actions should take place to reinstate a 'green' liquidity status within a suitable time frame (usually 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 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 was obliged to support the Bank to the level of £50m (comprising a £40m inter-group borrowing facility and a £10m overdraft). Additionally, the Society had confirmed to the PRA that, whilst noting that its legal liability was limited to the face value of its shareholding, it recognised a moral responsibility to ensure that the Bank continues at all times to meet its obligations 9to the point of sale).

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 £68,204k as at year end 2021.

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 97% of Open Fund BEL, and accumulating Conventional With Profits (CWP) business represents over 99% 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) which requires 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 (see C5.1.2) 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.

A Group Operational Resilience Framework and Policy was implemented during 2021. An Operational Resilience Committee (ORC), chaired by the Wesleyan Group Chief Operating Officer, is the primary governing body for assessing and agreeing actions under this Framework and Policy in line with the regulators Operational Resilience guidance and Wesleyan adopted best practice. The purpose of the ORC is to provide oversight and governance on Operational Resilience processes and governance across the Society, ensuring it meets Wesleyan, Customer and Regulators' Operational Resilience management standards and expectations.

A split of the Solvency Capital Requirement by risk is available in Table E2(i)(a). Operational Risk accounted for 13% of the Group Solvency Capital Requirement at the end of 2021.

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

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

The Operational Risk and Strategy 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 Failure; Roles & Responsibilities; Key Person Dependency; Supplier Contracts; Cyber Security Vulnerability
Catastrophe	Business Continuity Planning; Extreme Weather Events
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; PRA Expectations on Climate Change Planning
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

C5.2 Risk concentrations

Risk concentrations 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 is 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 confirms to the GEC the extent of the breach, its materiality and the options for rectification.
- The remedial action is agreed at this meeting and a first line executive made responsible for its delivery.
- The Risk Committee is 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.

Incident Management

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; and
- 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; and
- 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 consumer demand patterns, regulatory, competitive or technological changes) 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.

The risks associated with Climate Change have been given a greater focus by regulators and society in general. The Society recognises the importance of sustainability risk management (including climate change) and we are actively developing our risk management processes in response. We also expect increasing regulatory requirements in this area and have adopted an iterative approach by continually developing how sustainability and climate risks are included in the ORSA process.

In 2021 we achieved the following key sustainability milestones:

- Implementation and embedding of a Board approved Sustainability Directional Strategy.
- Continuing enhancement of governance, with the establishment of a Board Subcommittee (the Sustainability Committee) to provide appropriate oversight and control.
- Development of a suite of sustainability metrics and associated reporting processes.
- Ensuring that all of our directly managed funds meet the requirements of our Sustainable Investing Policy. These are:
    - Reduce Harm – We will invest in companies committed to reducing the negative impact they have on people, communities and the environment.
    - Positive Impact – We will invest in companies that are actively involved in improving the environment, our society and people's lives.

  - Driving Change – We will work with other companies and like-minded investors to drive positive change within the businesses we invest in.

  The Society has already sold £40m of investments that failed to meet the 'Reducing Harm' requirement.

- Further embedded Climate Change in the ORSA process by including the results of the annual review of the Financial Risks from Climate Change and improving the related scenario testing.

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 has predominately sold business through a single distribution channel (face-to-face advice to its target markets) which introduces a risk concentration. In order to mitigate this, the With Profits ISA has been made available direct to market and the Society has made its With Profits Fund available to the IFA market.

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 ORSA scenario and reverse stress testing.

C6.5 Other information

Wesleyan Bank was a wholly owned subsidiary of the Society until its sale on 28 February 2022. It is subject to its own regulatory requirements under the Basel III regime. Wesleyan Bank had 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 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 (reported biannually);
- The projected asset / liability cashflow comparison, in the stated 10-year term buckets, and any variances outside the + / −5% tolerance ranges (reported biannually); and
- Asset performance against the benchmark (reported quarterly on a YTD basis).

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.
- No more than 5% of the fund is permitted in quoted infrastructure investments (included in the Corporate Bond and Index-Linked ranges).
- No more than 5% of the fund is permitted in Preference Shares (included in the Fixed Interest and Corporate Bond ranges).
- No more than 5% of the fund is permitted in non-Sterling denominated bonds (across both Fixed Interest and Index-Linked).
- 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 has been undertaken 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 estimates 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 aims 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 2021, WSPS risks accounted for 24% 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

The Society presents below the information regarding the 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 Society's Solvency II balance sheet and comparison with the values reported in the Society'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 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.

Asset description	Notes (see '(ii) Valuation bases, methods and main assumptions')	Solvency II basis 31.12.2021	Financial reporting basis 31.12.2021	Difference
		£000s	£000s	£000s
Intangible assets	a)	-	62,399	(62,399)[1]
Pension benefit surplus	b)	131,496	131,496	-
Property, plant and equipment held for own use	c), d)	20,809	20,809	-
Investments:				
Property (other than for own use)	d)	395,163	395,163	-
Holdings in related undertakings, including participations	e)	94,295	123,697	(29,402)[1]
Equities	f)	2,667,039	2,667,039	--
Bonds	f)	1,956,238	1,940,639	15,599[2]
Collective Investments	f)	237,293	237,293	-
Derivatives	f)	62,764	62,764	-
Deposits other than cash equivalents	g)	265,783	265,783	-
Assets held for unit-linked contracts	h)	1,304,275	1,306,342	(2,067)[2]
Other loans and mortgages	i)	-	-	-
Reinsurance recoverable:	Section D2			
Health, similar to life	Section D2	15,000	15,000	-
Life excluding unit linked	Section D2	1,293	1,293	-

Asset description	Notes (see '(ii) Valuation bases, methods and main assumptions')	Solvency II basis 31.12.2021	Financial reporting basis 31.12.2021	Difference
Insurance, intermediaries and re-insurance receivables	i)	6,806	6,806	-
Cash and cash equivalents	g)	10,770	10,770	-
Any other assets, not elsewhere shown	j)	11,696	25,228	(13,532)[2]
Total Assets		**7,180,720**	**7,272,521**	**(91,801)**

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 is lower than the Society's statutory accounts by £52,868k as the value of in-force linked non-profit business is classified as an asset in the statutory accounts but classified under technical provisions in the Solvency II Balance Sheet. To ensure comparability this 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 valuation basis for Solvency II purposes and any material differences with the valuation bases, methods and main assumptions used for financial reporting purposes in the Society's statutory accounts:

a) Intangible assets

As at the reporting date, the Society's intangible assets related to capitalised software costs.

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 capitalised software costs is in line with the requirements of FRS 102. They are initially measured at cost, and subsequently measured at cost less accumulated amortisation, and any accumulated impairment losses.

b) 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.

c) Plant and equipment held for own use

The Society 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.

d) Investment property and property held for own use

The Society distinguishes between investment properties and property held for own use. 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.

e) 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.

Solvency II purposes:	Financial reporting purposes:
All of the Society's subsidiary undertakings 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 Society applies the adjusted equity method to value its related undertakings. 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.	In accordance with FRS 102, the Society's subsidiary investments are stated at fair value at reporting date. The fair value is determined as follows: 1) Practice Plan and WUTM: applying expected present value techniques with forecasts based on the Society's Group Strategic Plan. 2) WFS: year-end regulatory surplus cash position. 3) Wesleyan Bank: Sales price less capitalised costs of sale.

f) 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. Bond values are recognised based at bid prices excluding accrued bond interest. Accrued bond interest along with other accrued income are accounted for separately, treated as other current assets.

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

The Society 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.

h) 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).

i) Insurance, intermediaries and re-insurance 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, and reinsurance 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 'D2 Technical provisions'.

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.

j) 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 Society discloses here accrued bond interest.

k) 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 Society to make 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 benefit surplus

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

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

Analysis of the pension surplus	Notes	31.12.2021	31.12.2020
		£000s	**£000s**
Fair value of the defined benefit plan assets	***Table D1-3***	564,800	559,800
Present value of defined benefit plan obligations	***Table D1-4***	(433,300)	(457,100)
Pension surplus asset		**131,500**	**102,700**

Table D1-2

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

Asset class	Notes	31.12.2021	31.12.2020
		£000s	**£000s**
Property (other than for own use)		600	700
Equities		100	100
Government bonds		324,400	316,800
Corporate bonds		237,100	238,400
Other assets		2,600	3,800
Total		**564,800**	**559,800**

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	31.12.2021	31.12.2020
		£000s	**£000s**
Opening defined benefit obligation		457,100	426,300
Interest cost		6,500	8,400
Actuarial (gains)/losses on liabilities		(13,600)	39,000
Net benefits paid out		(16,700)	(17,100)
Past service cost		-	500
Closing defined benefit obligation	***Table D1-2***	**433,300**	**457,100**

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	31.12.2021	31.12.2020
	% p.a	% p.a
RPI Inflation	3.40	3.05
CPI Inflation	2.60	2.25
Rate of general long-term increase in salaries	N/A	N/A
Pension increases in payment (LPI)	3.20	2.95
Discount rate for Scheme liabilities	1.95	1.45

Table D1-5

Post-retirement mortality

- 31 December 2021 S3PxA tables with best estimate individual scaling factors and improvements in line with the CMI 2019 (S_k = 7.0, A = 0.25) projections and a long-term rate of improvement of 1.5% for males and 1.25% for females;
- 31 December 2020 S3PxA tables with best estimate individual scaling factors and improvements in line with the CMI 2019 (S_k = 7.0, A = 0.25) projections and a long-term rate of improvement of 1.5% for males and 1.25% for females;

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

Life expectancy	2021	2020
	Years	Years
Male current pensioner	23	23
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 31.12.2021	Defined benefit obligation 31.12.2021	Pension surplus asset 31.12.2021
	£000s	£000s	£000s
As per Balance sheet 31.12.2021			
Following a 0.25% p.a decrease in the discount rate	564,800	(454,900)	109,900
Following a 0.25% p.a increase in the RPI inflation assumption	564,800	(450,800)	114,000
Following a one year increase in life expectancy	564,800	(454,000)	110,800

Table D1-7

(iv) Changes in recognition and valuation basis

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

D2 Technical provisions

D2.1 Solvency II 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.

(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. The highlighted amounts below match the totals presented on the S.02.01.02 Balance Sheet.

Technical provisions by material lines of business (gross)	Best estimate 31/12/2021	Risk Margin 31/12/2021	Technical provisions 31/12/2021
	£000s	**£000s**	**£000s**
Life, With-profits - ***Open Fund***	3,536,583	20,542	3,557,125
Life, With-profits - ***MSS Fund***	613,035	7,205	620,240
Health, Similar to life - ***Open Fund***	75,070	9,684	84,754
Health, Similar to life - ***MSS Fund***	549	-	549
Life, Other	828,877	7,129	836,006
Technical Provisions –Life (excluding Unit linked)	**5,054,115**	**44,559**	**5,098,674**
Technical Provisions – Unit linked	**1,252,171**	**1,303**	**1,253,474**
Totals	**6,306,286**	**45,862**	**6,352,148**

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.

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 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. All other business sits in the OILTBF.

Contract boundaries

As with-profits contracts contain valuable guarantees, the Society assumes all future premiums are to be paid into these contracts (net of suitable decrement assumptions) to maximise the build up of potential guaranteed benefits.

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[3] CWP Pensions
Adjusted shadow fund	UWP ISA[4] UWP Life UWP Pensions
Bonus reserve valuation	CWP Whole of Life CWP IB recurring Endowments

[3] CWP – Conventional With Profits
[4] UWP - Unitised With Profits

Method	Contracts included
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

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. The return is offset by the investment expenses applying to the fund.

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 in 2021

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 and IB expense guarantees

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.

An expense guarantee arrangement exists between the block of IB policies and the rest of the Open Fund, whereby the Open Fund has guaranteed future expense charges made to IB policies. 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 related to these contracts.

Valuation approach

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 is calculated gross of any reinsurance. Section (e) below details the valuation methodology for amounts recoverable from reinsurance contracts.

Unit-linked policies are 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 PRA 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 80%, 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.

In order to treat our customers fairly, in adverse circumstances a maximum overall charge equivalent to 1% of With Profits policy asset shares would be made in any one year in respect of non-profit business. In extreme adverse circumstances, however, this limit will be relaxed. This would be a temporary relaxation until capital has returned to an acceptable level.

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 reinsurance contracts. The projected SCRnh will be discounted at the PRA specified risk-free rate of interest and these amounts will be multiplied by the standard formula cost of capital rate.

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. Surrender assumptions were decreased in 2021 for ISA at longer durations. Pensions business is assumed to surrender according to rates which vary by policy duration and to vest at retirement dates that vary by age. Pension surrender assumptions were not changed in 2021.

	Persistency rates for health products held by newly qualified professionals are assumed according to rates which vary by age, policy duration, and profession. Persistency assumptions for individual health products generally increased in 2021 but decreased for group health products.
Morbidity	Applies to health business only. Morbidity rates are assumed to vary according to age, gender, profession, deferred period and sickness period. Morbidity assumptions decreased slightly in 2021.
Mortality	Mortality rates are assumed to vary according to profession, age, gender and broad class of policy. Mortality assumptions were not changed in 2021.
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. Per policy expense assumptions increased slightly reflecting lower policy counts.
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. GAR take-up rates assumptions were not changed in 2021.
Retirement Age	Projected retirement age is assumed to vary according to current age and broad class of policy. Projected retirement rate assumptions were not changed in 2021.

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	4.0	3.5	3.5
UWP bond	surrender	2.0	2.3	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*	4.3	4.8
CWP pension single premium	surrender	N/A*	N/A*	4.3	4.8
UWP indiv pension regular premium	PUP	7.5	7.5	7.5	5.5
UWP indiv pension regular premium	surrender	4.3	4.3	4.3	4.8
UWP indiv pension single premium	surrender	4.3	4.3	4.3	4.8
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*	16.0
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	11.0	20.9	13.3	12.1
36 - 55	7.5	12.4	10.2	8.8
55 +	12.6	28.8	14.4	13.4

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	71%	55%	68%	38%
	4/13	52%	43%	54%	57%
	13/13	77%	80%	85%	90%
	26/26	86%	96%	103%	138%
	52/52	104%	132%	132%	152%
4	4/13	52%	43%	43%	57%
	13/13	77%	80%	73%	90%
	26/26	86%	96%	88%	138%
	52/52	104%	132%	132%	152%
13	13/13	89%	80%	73%	90%
	26/26	95%	96%	88%	138%
	52/52	104%	132%	132%	152%
26	26/26	105%	144%	88%	138%
	52/52	120%	132%	132%	152%
52	52/52	109%	108%	132%	152%

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	85%	175%	85%	130%
40 - 49	140%	275%	100%	170%
50 - 54	135%	205%	145%	140%
55 - 59	130%	185%	100%	130%
60 +	75%	70%	70%	60%

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% CMI2019 model improvements (core assumption, 1.5% long-term improvements, Sk 7, A Factor 0.0%).
Females	120	PFA08 subject to 100% CMI2019 model improvements (core assumption, 1.25% long-term improvements, Sk 7, A Factor 0.0%).
Medics		
Males	95	PMA08 subject to 100% CMI2019 model improvements (core assumption, 1.5% long-term improvements, Sk 7, A Factor 0.5%).

Product	%	Table
Females	80	PFA08 subject to 100% CMI2019 model improvements (core assumption, 1.25% long-term improvements, Sk 7, A Factor 0.5%).
ASW		
Males	125	PMA08 subject to 100% CMI2019 model improvements (core assumption, 1.5% long-term improvements, Sk 7, A Factor 0.0%).
Females	140	PFA08 subject to 100% CMI2019 model improvements (core assumption, 1.25% long-term improvements, Sk 7, A Factor 0.0%).

Table D2-12

Expenses

The principal expense assumptions are set out in the table below. Provisions are held for known expenses in excess of the long term best estimate basis:

Per policy expenses (quoted gross of any tax relief)	
Description	**£**
Open Fund	
Ordinary business	
Life	101.31
ISA	101.31
Pension	106.59
Group Locum	69.65
IP	99.20
Annuities	87.59
Industrial assurance business	
Premium Paying	9.33
Paid Up	2.33
MSS Fund	
Pensions – Premium Paying	164.00
Income Protection	123.00
Life – Premium Paying, Pensions – Single Premium/Paid Up	82.00

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

Investment Expenses - % of fund	**%**
Open Fund	0.085
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 is determined on the current selected retirement age and adjusted for the extent to which policyholders tend to delay their retirement:

Age Band	Expected Retirement Age (age band average)
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	0.5	0.3
60 – 61	7.0	5.0
62 – 64	2.0	1.0
65	8.0	14.0
66	8.0	25.0
67 - 74	1.8	3.5
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 2021.

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 and 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 2021	Impact on Own Funds 2021	Impact of SCR Ratio % 2021
	%	£m	£m	%
Demographic				
Longevity improvement	20%	80.5	35.3	19%
Morbidity level (inceptions and terminations)	25.0% / (20.0%)	77.3	7.4	4%
Change to future lapses	-50%	48.4	27.3	15%
Expense (level and inflation increase)	10.0% / 1.0%	35.9	3.6	2%
Economic				
Interest rate rise (term 10 / 15/ 20)	1.0% / 1.0% / 1.0%	-185.0	29.4	16%
Credit stress - reduction in value of AA rated corporate bond (term 10 / 15 / 20)	8.5% / 11.0% / 13.5%	-37.6	50.0	27%
Equity level fall	46%	-1,445.6	55.5	30%
Property level fall	25%	-72.8	10.8	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 31.12.2021	Financial Reporting basis 31.12.2021	Difference
		£000s	**£000s**	**£000s**
Open Fund: Life – With Profits				
Best estimate	a)	3,536,583	3,672,848	(136,264)
MSS Fund: Life – With Profits				
Best estimate	b)	613,035	653,311	(40,276)
Open Fund: Health and other life				
Best estimate		902,952	902,952	0
MSS Fund: Health and other life				
Best estimate		1,545	1,545	0
Open Fund: Unit linked				
Best estimate	c)	1,252,171	1,252,171	0
Total Best estimate liability	d)	**6,306,286**	**6,482,826**	**(176,540)**
Total Risk margin		45,862	45,862	0
Total technical provisions	d)	**6,352,148**	**6,528,688**	**(176,540)**

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) In the Open Fund, 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. Additionally, when reporting as a Solo entity, capital relating to FCI subsidiaries is restricted where the subsidiary is larger than 10% of Own Funds on a Solvency II basis. 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, and reduces technical provisions by £136.3m shown in table D2-19

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	27,432,386	18,050,510	65% belongs to WP policyholders, so only this impacts liabilities
Intangibles	62,399,164	56,159,247	90% of intangible assets are owned by WP policyholders (as estate owns some of the intangibles owned by subsids)
Inadmissible FCI capital	94,307,896	62,054,596	65% belongs to WP policyholders, so only this impacts liabilities

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 £40.3m at year end 2021.

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

c) Financial Reporting Technical Provisions differ from the Society's statutory accounts by £52.9m. 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.

d) The total change of the best estimate liabilities and technical provision is £176.5m - the sum of the differences in Best Estimate Liability in the Open Fund, a), and MSS Fund, b).

D2.4 Re-insurance Recoverable

The Society has one reinsurance agreement in place for its Health Business;

- 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.

D2.5 Material changes in technical provisions

Technical provisions by material lines of business	Technical Provisions 31.12.2021	Technical Provisions 31.12.2020	Difference
	£000s	**£000s**	**£000s**
Life, With-profits - **Open Fund**	3,557,125	3,160,130	396,994
Life, With-profits - **MSS Fund**	620,240	602,461	17,779
Health, Similar to life - **Open Fund**	84,754	95,312	(10,558)
Health, Similar to life - **MSS Fund**	549	895	(346)
Life, Other	836,006	897,903	(61,898)
Technical Provisions – Life (excluding Unit linked)	**5,098,674**	**4,756,702**	**341,972**
Technical Provisions – Unit linked	**1,253,474**	**1,151,599**	**101,876**

Table D2-20

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

- 'Life, with-profits' liabilities increased in 2021 due to positive investment returns and new business.
- 'Health, similar to life' liabilities decreased due to higher yield curves reducing the value of future cashflows and updated persistency assumptions, partly offset by new business.
- 'Life, other' liabilities decreased due to higher yield curves reducing the value of future cashflows and policies going off.
- 'Technical provisions – unit linked' increased in 2021 due to positive investment returns offset by net cash outflows.

Further details on the impact of key assumptions changes are outlined in section E1 in table E1-3.

D3 Other liabilities (excluding technical provisions)

The Society presents below the information regarding the valuation of other liabilities for Solvency II purposes including (for each material class of other liabilities):

- A quantitative explanation of any material differences between the liability 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, set out below are the values of the liabilities as reported in the Society's Solvency II balance sheet and comparison with the values reported in the Society's statutory accounts for financial reporting purposes.

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.

Other liabilities description	Notes (see '(ii) Valuation bases, methods and main assumptions')	Solvency II basis 31.12.2021	Financial reporting basis 31.12.2021	Difference
		£000s	£000s	£000s
Contingent liabilities	a)	-	-	-
Deposits from reinsurer	b)	16,252	16,252	-
Deferred tax liabilities	c)	91,657	91,657	-
Payables:				
Financial liabilities other than bank debt	d)	9,822	9,822	-
Insurance and intermediaries payables	d)	30,711	30,711	-
Reinsurance payables	d)	394	394	-
Other payables	d)	6,356	6,356	-
Total other liabilities		**155,192**	**155,192**	**-**

Table D3-1

(ii) Valuation basis, methods and main assumptions

For each material class of other liabilities disclosed above, the Society presents the Solvency II valuation basis and any material differences with the valuation bases, methods and main assumption used for financial reporting purposes in the Society'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 financial guarantees provided to its subsidiaries to ensure they continue to meet their capital requirements and remain a going concern.

Based on past experience and the Society's strategic business plans and projections, the Directors have assessed that the expected cost 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 defined by EIOPA.	The Society applies the requirements of FRS 102 in its statutory accounts. ▶ On an FRS 102 basis, Contingent liabilities are distinguished from Provisions. Provisions 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 are only disclosed 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 by the Society in its statutory accounts.

c) Current and deferred tax liabilities

The make-up of the deferred tax liability as at the reporting date is provided in '(iv) 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 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. The Society recognises deferred tax liabilities on taxable temporary differences on the fair value movement of investments (primarily equity and property investments). Deferred tax assets arise on temporary differences mainly in relation to deferred acquisition costs. 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 by the Society in its financial reporting.

d) Payables

Payables include financial liabilities other than bank debt, insurance and intermediaries payables and re-insurance 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.
- Any other liabilities are by nature accruals and mainly comprise 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 Society 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	31.12.2021
		£000s
Timing differences in respect of investment values		86,605
Deferred tax on pension surplus asset		8,343
Deferred acquisition costs		(1,764)
Deferred tax on current year losses		(2,149)
Other timing differences		622
Total	***Table D3-1***	**91,657**

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 a deferred tax asset of £2,149k. This relates primarily to excess expenses over income in 2021 and are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probably.

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

D4 Alternative methods for valuations

(i) Valuation hierarchy

When valuing assets and liabilities for the Solvency II balance sheet, the Society defines the following valuation hierarchy, 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 Society 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 31.12.2021	Alternative valuation method used
	£000s	
Investment property and property held for own use	410,028	The Society applies the income approach to value all properties. Most of the 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. Property appraisal techniques are inherently subjective and actual values can only be determined in a sales transaction. Recent property disposals have primarily resulted in realised gains/losses close to estimated marketed values.
Plant and equipment held for own use	5,944	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 'D1 Assets', 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	94,295	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 investments. As noted, the Solvency II basis of valuation does not include goodwill.

Asset description	Solvency II value 31.12.2021	Alternative valuation method used
Unlisted investments (including within assets held for unit linked contracts)	75	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.
Loans to participations	30,000	The Society holds £30.0m of long term loans with one of its subsidiaries. These have been valued at face value at the balance sheet date. A fair value calculation discounting future cash flows has no material variance from the face value of the loans.

Additionally, within other liabilities, deposits from reinsurers of £16,252k are valued using discounted cash flow techniques.

D5 Any other information

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

E CAPITAL MANAGEMENT

This section provides information regarding the Society's capital management approach, including its objectives and processes for managing Own Funds, the structure and quality of the eligible Own Funds and the calculation of the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR).

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

E1 Own Funds

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

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; and
- 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; and
- 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 Own Funds

The amount of the Society's Own Funds is set out in the table below:

Own Funds	References	31.12.2021	31.12.2020
		£000s	**£000s**
Excess of assets over liabilities	*a)*	673,380	656,799
Restricted Own Funds of the ring fenced fund	*b)*	(10,674)	(25,711)
Available Own Funds before deductions		**662,706**	**631,088**
Deductions for the GI Fund	*c)*	(3,126)	(3,338)
Deductions for participations in financial and credit institutions	*d)*	(94,308)	(84,340)
Eligible Own Funds		**565,272**	**543,411**

Table E1-1

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	31.12.2021	31.12.2020
		£000s	**£000s**
MSSF Assets		663,050	661,208
MSSF Liabilities		622,774	(605,101)
Excess of assets over liabilities		40,276	56,107
Notional SCR		(29,602)	(30,396)
Restricted Own Funds		**10,674**	**25,711**

Table E1-2

c) Deductions from Own Funds – GI Fund

In its Solo Pillar 3 reporting, the Society reports as a non-composite entity underwriting life business only.

However, the Society has exposure in respect of Industrial disease claims arising on the book of general insurance policies sold to General Accident in 1995.

In line with the Solvency II Directive effective from 1 January 2016, the Society holds the GBP equivalent of EUR 3.7m which is the absolute floor of the minimum capital requirement (MCR) for non-life insurance business. This MCR floor equates to £3.1m at the reporting date and is deducted from the Society's eligible Own Funds.

The remaining amount of the Society's Own Funds are eligible Own Funds available to meet the SCR and the MCR.

d) Deduction from Own Funds - Participations in Financial and Credit Institutions (FCIs)

The Society holds participations in Financial and Credit Institutions that are considered strategic equity investments.

In line with Article 68 of the Solvency II Delegated Regulation, the Society assesses whether the value of these participations are individually, or in aggregate, greater than 10% of total available own funds to determine any required deductions.

Accordingly, as at 31 December2021, the value of the Society's holding in its participation Wesleyan Bank has been deducted from available own funds.

Following the sale of Wesleyan Bank on 28 February 2022 there will no longer be a deduction to own funds in relation to FCIs.

(iii) Analysis of movements in eligible own funds

The table below provides an analysis of the significant changes to the Society's eligible own funds for the reporting period:

Analysis of movements in eligible own funds	OILTBF	MSSF	Total
	£000s	£000s	£000s
Balance at 1 January 2021	**513,015**	**30,396**	**543,411**
Modelling improvements	(7,576)	(12,902)	(20,479)
Effect of investment variations	33,239	5,665	38,903
Effect of experience variations	737	(13,770)	(13,033)
Effect of assumption changes	637	18	655

Analysis of movements in eligible own funds	OILTBF	MSSF	Total
New Business	(2,084)	-	(2,084)
Effect of pension surplus	28,826	-	28,826
Effect of expense variances	(15,422)	-	(15,422)
Increase in risk margin	8,541	-	8,541
Excess Surplus Distribution	(25,000)	-	(25,000)
Other factors	4,166	5,159	9,325
Bank FCI adjustment	(3,409)	-	(3,409)
Restricted MSSF own funds	-	15,037	15,037
Balance at 31 December 2021	**535,670**	**29,602**	**565,272**

Table E1-3

Assets over liabilities have decreased for OILTBF Eligible Own Funds. The most significant factors reducing OILTBF are negative investment performance, Estate costs (WFS service fee and mutual rewards payments) and reduction in subsidiary valuation over the year.

(iv) 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 Fund for Future Appropriations (FFA) in the Society's statutory accounts.

The Society considers that the 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 Society FFA ('surplus funds') and the available Own Funds before deductions as set out in the following table:

Main elements of the reconciliation reserve	References	31.12.2021	31.12.2020
		£000s	**£000s**
Excess of assets over liabilities		673,380	656,799
Restricted Own Funds of the ring fenced fund		(10,674)	(25,711)
Available Own Funds before deductions		**662,706**	**631,088**
Surplus funds (FFA)		(588,650)	(552,045)
Reconciliation reserve		**74,056**	**79,043**

Table E1-4

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

Excess of assets over liabilities - attribution of valuation differences	References	31.12.2021	31.12.2020
		£000s	£000s
Financial reporting – FFA		**588,650**	**552,045**
Differences in the valuation of assets		(91,801)	(59,699)
Differences in the valuation of technical provisions		176,531	164,454
Excess of assets over liabilities		**673,380**	**656,799**

Table E1-5

(v) Eligible Own Funds to cover the SCR and MCR

The table below analyses the Society's eligible Own Funds by Tier:

Eligible Own Funds	References	31.12.2021	31.12.2020
		£000s	£000s
Tier 1 - Surplus funds		588,650	552,045
Tier 1 – Reconciliation reserve		74,056	79,044
Own Funds before deductions		**662,706**	**631,089**
Deductions for the General Insurance Fund		(3,126)	(3,338)
Deductions for participations in financial and credit institutions		(94,308)	(84,340)
Total eligible Own Funds to meet the SCR (Tier 1 – Unrestricted)	***a)***	**565,272**	**543,411**
Total eligible Own Funds to meet the MCR (Tier 1 – Unrestricted)		**565,272**	**543,411**

Table E1-6

a) Quality of Own Funds

The entirety of the Society's Own Funds is the excess of assets over liabilities on both a statutory basis (surplus funds) and Solvency II basis (reconciliation reserve). In line with Article 69 of the Solvency II Delegated Regulation, the Society's surplus funds and the reconciliation reserve are classed as Tier 1 Own Funds 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-fund 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 Society's eligible Own Funds are Tier 1, there are no quantitative limits applied.

In line with the 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.

E2 SCR and MCR

(i) Amount of the SCR and MCR

The SCR represents the Society's solvency capital to cover a 1 in 200 year event or a 99.5% probability of being solvent in a year's time. The Society calculates the SCR using the Standard Formula which is subject to supervisory assessment.

In addition to the SCR capital, a Minimum Capital Requirement (MCR) must be calculated which represents the threshold below which the regulator would intervene.

Amount of the SCR and MCR	Reference	31.12.2021	31.12.2020
		£000s	£000s
SCR	***a)***	184,517	172,986
MCR	***b)***	46,129	43,247
Solvency ratios:			
Eligible Own Funds to meet the SCR and MCR		565,271	543,411
Ratio of eligible Own Funds to the SCR		**306%**	**314%**
Ratio of eligible Own Funds to the MCR		**1,225%**	**1,257%**

Table E2-1

a) SCR calculation by risk modules

The amount of the Society's SCR by each risk module is shown in the following table:

SCR by risk modules	References	31.12.2021	31.12.2020
		£000s	£000s
Market risk		210,446	184,092
Life underwriting risk		54,365	64,298
Health underwriting risk		11,191	11,631
Counterparty default risk		4,030	4,405
Diversification		(35,374)	(42,340)

SCR by risk modules	References	31.12.2021	31.12.2020
Basic Solvency Capital Requirement (net of loss absorbing capacity of technical provisions)		**244,658**	**222,086**
Operational risk		23,500	21,920
Loss- absorbing capacity of deferred taxes*		(83,641)	(71,020)
Net Solvency Capital Requirement using Standard formula		**184,517**	**172,986**

Table E2-2

*The loss-absorbing capacity of deferred taxes totals £83.6m, relating to the reduction in unrealised capital gains tax provisions held for equity and property assets under SCR conditions. There is no allowance for future taxable profits or carry back losses in this figure.

b) Calculation of the MCR

The MCR is intended to correspond to an 85% probability of adequacy over a one year period.

The MCR 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 Society's MCR is set equal to the minimum permitted value: 25% of the SCR.

Overall MCR calculation	Reference	31.12.2021	31.12.2020
		£000s	£000s
Linear MCR		(102,434)	(77,878)
MCR cap (45% of SCR)		83,033	77,844
MCR floor (25% of SCR)		46,129	43,247
Absolute floor of the MCR		3,126	3,338
Reported Minimum Capital Requirement		**46,129**	**43,247**

Table E2-3

c) Calculation approach and simplifications applied

The Society has adopted a proportionate approach to determining the SCR but has not adopted any of the simplified SCR calculations outlined in the Solvency II rules.

The following risk modules are excluded from the Society's SCR calculation, as the Society does not have any material exposure to these types of risk:

- Non life underwriting risk.
- Intangible asset risk.

The Society's SCR calculations will be reviewed regularly for ongoing appropriateness.

(ii) Material changes to the SCR and MCR over the reporting period

The SCR increased materially over the reporting period due to:

- Equity risk, which has increased due to higher exposure to equity assets and a stronger prescribed SCR equity stress

Offset by

- Life underwriting risk has reduced due to lower lapse risk, as positive investment returns over the year mean policyholder guarantees are less likely to lead to a cost to Society

E3 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.

E4 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.

E5 Non compliance with the SCR and MCR and plans to maintain compliance

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

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

E6 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 a 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 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 2021
Currency used for reporting	GBP
Accounting standards	The undertaking is using local GAAP (other than IFRS)
Method of Calculation of the SCR	Standard formula
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.12.01.02 Life and Health SLT Technical provisions	Specifying information on the Society's life and health technical provisions for each line of business as defined in Annex 1 of Delegated Regulation (EU) 2015/35.
S.23.01.01 Own Funds	Specifying information on the Society's own funds as at the reporting date.
S.25.01.21 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.28.01.01 Minimum Capital Requirement – Only life or only non life insurance or reinsurance activity	Specifying the Society's Minimum Capital Requirement as at the reporting date for its life business.

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.

Registered Office: Colmore Circus, Birmingham, B4 6AR. Telephone: 0345 351 2352. Fax: 0121 200 2971.

S.02.01.02
Balance Sheet

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	131,496
Property, plant & equipment held for own use	R0060	20,809
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	5,678,575
Property (other than for own use)	R0080	395,163
Holdings in related undertakings, including participations	R0090	94,295
Equities	R0100	2,667,039
Equities - listed	R0110	2,667,012
Equities - unlisted	R0120	27
Bonds	R0130	1,956,239
Government Bonds	R0140	1,119,974
Corporate Bonds	R0150	835,235
Structured notes	R0160	-
Collateralised securities	R0170	1,029
Collective Investments Undertakings	R0180	237,293
Derivatives	R0190	62,764
Deposits other than cash equivalents	R0200	265,783
Other investments	R0210	-
Assets held for index-linked and unit-linked contracts	R0220	1,304,275
Loans and mortgages	R0230	-
Loans on policies	R0240	-
Loans and mortgages to individuals	R0250	-
Other loans and mortgages	R0260	-
Reinsurance recoverables from:	R0270	16,293
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	16,293
Health similar to life	R0320	15,000
Life excluding health and index-linked and unit-linked	R0330	1,293
Life index-linked and unit linked	R0340	-
Deposits to cedants	R0350	-
Insurance and intermediaries recievables	R0360	4,815
Reinsurance receivables	R0370	1,991
Receivables (trade, not insurance)	R0380	-
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	10,770
Any other assets, not elsewhere shown	R0420	11,696
Total assets	**R0500**	7,180,720
Liabilities		
Technical provisions - non-life	R0510	-
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	-
Technical provisions calculated as a whole	R0570	-
Best Estimate	R0580	-
Risk margin	R0590	-
Technical provisions - life (excluding index-linked and unit linked)	R0600	5,098,674
Technical provisions - health (similar to life)	R0610	85,304
Technical provisions calculated as a whole	R0620	-
Best Estimate	R0630	75,620
Risk margin	R0640	9,684
Technical provisions - life (excluding health and index-linked and unit linked)	R0650	5,013,370
Technical provisions calculated as a whole	R0660	-
Best Estimate	R0670	4,978,495
Risk margin	R0680	34,875
Technical provisions - index-linked and unit-linked	R0690	1,253,474
Technical provisions calculated as a whole	R0700	-
Best Estimate	R0710	1,252,171
Risk margin	R0720	1,303
Other technical provisions	R0730	
Contingent liabilities	R0740	-
Provisions other than technical provisions	R0750	-
Pension benefit obligations	R0760	-
Deposits from reinsurers	R0770	16,252
Deferred tax liabilities	R0780	91,657
Derivatives	R0790	-
Debts owed to credit institutions	R0800	-
Financial liabilities other than debts owed to credit institutions	R0810	9,822
Insurance & intermediaries payables	R0820	30,711
Reinsurance payables	R0830	394
Payables (trade, not insurance)	R0840	-
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	6,356
Total liabilities	**R0900**	6,507,341
Excess of assets over liabilities	**R1000**	673,380

S.12.01.02 - Quarterly submission
Life and Health SLT Technical Provisions - Total Society

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
R0010	**Technical provisions calculated as a whole**	0	0			0			0	0	0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0	0			0			0	0	0
	Technical provisions calculated as a sum of BE and RM										
	Best estimate										
R0030	**Gross Best Estimate**	4,149,618		0	1,252,171		0	828,877	0	0	6,230,666
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	948		0	0		0	345	0	0	1,293
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	4,148,670		0	1,252,171		0	828,532	0	0	6,229,373
R0100	**Risk margin**	27,747	1,303			7,129			0	0	36,179
	Amount of the transitional on Technical Provisions										
R0110	Technical Provisions calculated as a whole	0	0			0			0	0	0
R0120	Best estimate	0	0	0	0	0	0	0	0	0	0
R0130	Risk margin	0	0			0			0	0	0
									0	0	
R0200	**Technical provisions - total**	4,177,365	1,253,474			836,006			0	0	6,266,844

		Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
			Contracts without options and guarantees	Contracts with options or guarantees			
		C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**	0			0	0	0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0			0	0	0
	Technical provisions calculated as a sum of BE and RM						
	Best estimate						
R0030	**Gross Best Estimate**		0	75,620	0	0	75,620
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		0	15,000	0	0	15,000
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re		0	60,620	0	0	60,620
R0100	**Risk margin**	9,684			0	0	9,684
	Amount of the transitional on Technical Provisions						
R0110	Technical Provisions calculated as a whole	0			0	0	0
R0120	Best estimate	0	0	0	0	0	0
R0130	Risk margin	0			0	0	0
					0	0	
R0200	**Technical provisions - total**	85,304			0	0	85,304

S.23.01.01
Own funds

S.23.01.01.01
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 as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	-	-		-	
Share premium account related to ordinary share capital	R0030	-	-		-	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	-	-		-	
Subordinated mutual member accounts	R0050	-		-	-	
Surplus funds	R0070	588,650	588,650			
Preference shares	R0090	-		-	-	-
Share premium account related to preference shares	R0110	-		-	-	-
Reconciliation reserve	R0130	74,055	74,055			
Subordinated liabilities	R0140	-		-	-	-
An amount equal to the value of net deferred tax assets	R0160	-				-
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	-	-	-	-	-
Own funds from the financial statements that should not be represented 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 represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	3,126				
Deductions						
Deductions for participations in financial and credit institutions	R0230	94,308	94,308	-	-	-
Total basic own funds after deductions	R0290	565,271	565,271	-	-	-
Ancillary 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					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	565,271	565,271	-	-	-
Total available own funds to meet the MCR	R0510	565,271	565,271	-	-	
Total eligible own funds to meet the SCR	R0540	565,271	565,271	-	-	-
Total eligible own funds to meet the MCR	R0550	565,271	565,271	-	-	
SCR	R0580	184,517				
MCR	R0600	46,129				
Ratio of Eligible own funds to SCR	R0620	306%				
Ratio of Eligible own funds to MCR	R0640	1225%				

S.23.01.01.02
Reconciliation reserve

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	673,380
Own shares (held directly and indirectly)	R0710	-
Foreseeable dividends, distributions and charges	R0720	-
Other basic own fund items	R0730	588,650
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	10,674
Reconciliation reserve	R0760	74,055
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	68,204
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	-
Total Expected profits included in future premiums (EPIFP)	R0790	68,204

S.25.01.21
Solvency Capital Requirement - for undertakings on Standard Formula

S.25.01.21.01
Basic Solvency Capital Requirement

		Gross solvency capital requirement	Simplifications
		C0110	C0120
Market risk	R0010	1,600,795	0
Counterparty default risk	R0020	22,569	
Life underwriting risk	R0030	354,774	0
Health underwriting risk	R0040	83,241	0
Non-life underwriting risk	R0050	0	0
Diversification	R0060	-302,616	
Intangible asset risk	R0070	0	
Basic Solvency Capital Requirement	R0100	1,758,763	

S.25.01.21.02
Calculation of Solvency Capital Requirement

		Value
		C0100
Operational risk	R0130	23,500
Loss-absorbing capacity of technical provisions	R0140	-1,514,105
Loss-absorbing capacity of deferred taxes	R0150	-83,641
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	184,517
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	184,517
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	154,915
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	29,602
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

S.25.01.21.03
Basic Solvency Capital Requirement (USP)

		USP
		C0090
Life underwriting risk	R0030	None
Health underwriting risk	R0040	None
Non-life underwriting risk	R0050	None

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	0

	£'000	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	α	β	α.B + β.C
		C0020	C0030			
R0020	Medical expense insurance and proportional reinsurance			4.7%	4.7%	0
R0030	Income protection insurance and proportional reinsurance			13.1%	8.5%	0
R0040	Workers' compensation insurance and proportional reinsurance			10.7%	7.5%	0
R0050	Motor vehicle liability insurance and proportional reinsurance			8.5%	9.4%	0
R0060	Other motor insurance and proportional reinsurance			7.5%	7.5%	0
R0070	Marine, aviation and transport insurance and proportional reinsurance			10.3%	14.0%	0
R0080	Fire and other damage to property insurance and proportional reinsurance			9.4%	7.5%	0
R0090	General liability insurance and proportional reinsurance			10.3%	13.1%	0
R0100	Credit and suretyship insurance and proportional reinsurance			17.7%	11.3%	0
R0110	Legal expenses insurance and proportional reinsurance			11.3%	6.6%	0
R0120	Assistance and proportional reinsurance			18.6%	8.5%	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance			18.6%	12.2%	0
R0140	Non-proportional health reinsurance			18.6%	15.9%	0
R0150	Non-proportional casualty reinsurance			18.6%	15.9%	0
R0160	Non-proportional marine, aviation and transport reinsurance			18.6%	15.9%	0
R0170	Non-proportional property reinsurance			18.6%	15.9%	0
				TS MCR.12		0

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	-102,434

	£'000	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk		
		C0050	C0060		
R0210	Obligations with profit participation - guaranteed benefits	961,541		3.70%	35,577
R0220	Obligations with profit participation - future discretionary benefits	3,187,129		-5.20%	-165,731
R0230	Index-linked and unit-linked insurance obligations	1,252,171		0.70%	8,765
R0240	Other life (re)insurance and health (re)insurance obligations	889,151		2.10%	18,672
R0250	Total capital at risk for all life (re)insurance obligations		402,646	0.07%	282
				TS MCR.13	-102,434

	Overall MCR calculation	C0070
R0300	Linear MCR	-102,434
R0310	SCR	184,517
R0320	MCR cap	83,033
R0330	MCR floor	46,129
R0340	Combined MCR	46,129
R0350	Absolute floor of the MCR	3,126
R0400	**Minimum Capital Requirement**	46,129

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*	28,774	353,910	70,284	24,272	0	0	0	0	477,241
R1420	*Reinsurers' share*	2,451	0	0	1,626	0	0	0	0	4,077
R1500	*Net*	26,323	353,910	70,284	22,646	0	0	0	0	473,164
	Premiums earned									
R1510	*Gross*	28,774	353,910	70,284	24,272	0	0	0	0	477,241
R1520	*Reinsurers' share*	2,451	0	0	1,626	0	0	0	0	4,077
R1600	*Net*	26,323	353,910	70,284	22,646	0	0	0	0	473,164
	Claims incurred									
R1610	*Gross*	21,878	323,056	119,662	55,054	0	0	0	0	519,650
R1620	*Reinsurers' share*	7,210	0	0	1,032	0	0	0	0	8,242
R1700	*Net*	14,668	323,056	119,662	54,022	0	0	0	0	511,408
	Changes in other technical provisions									
R1710	*Gross*	10,904	-414,773	-101,876	61,898	0	0	0	0	-443,848
R1720	*Reinsurers' share*	5,631	221	0	150	0	0	0	0	6,002
R1800	*Net*	5,273	-414,994	-101,876	61,747	0	0	0	0	-449,850
R1900	**Expenses incurred**	22,920	37,062	12,889	5,382	0	0	0	0	78,253
R2500	**Other expenses**									22,621
R2600	**Total expenses**									100,873