



WESLEYAN

we are all about you

STANDING STRONG FOR MEMBERS DURING TURBULENT TIMES

ANNUAL REPORT AND ACCOUNTS
For the year ended 31 December 2022

A BUSINESS BUILT ON PURPOSE

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CREATING BRIGHTER FINANCIAL FUTURES FOR THE PROFESSIONS WE ALL TRUST – DOCTORS, DENTISTS AND TEACHERS

Our mutuality defines who we are; we have no shareholders so we can stay true to the needs of our members.

Our members, customers and the professions we serve are front and centre of everything we do, especially in difficult times. That's why we've been working hard to provide support as the cost of living pressures impact so many people.

As a financially strong business, we can take long-term decisions that deliver the best outcomes for our members and customers. We are here to provide specialist financial advice, give peace of mind and security, help our customers make the most of their money and give them confidence in their financial futures. We compete hard to create great opportunities and service for our customers.

Our strength comes from our purpose and ongoing commitment to creating brighter financial futures for our customers. Our deeply held principles and ways of doing business mean we always put our values and the needs of our communities ahead of short term gain.

We stay true to the people who matter most - our members, customers and the professions we serve.

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



For more information,
visit wesleyan.co.uk



2022 HIGHLIGHTS

Despite the difficult trading conditions in 2022, Wesleyan demonstrated growth and made further progress with our ambition to build a stronger, more sustainable business to benefit members and customers.

With unprecedented pressures on the National Health Service putting medical and dental professions under increasing strain and schools struggling with real-terms cuts to budgets, our professional customers had much to contend with in addition to the increased cost of living. In the same way we supported them through Covid, we were proactive in assisting them - and our colleagues - through this period. You can read more about the work we undertook throughout this Report.

➔ Read more in [Our financial performance](#) on pages 16 to 18

➔ Read more in [Our operational performance](#) on pages 12 to 14

£7.2M
 ↑ Group Operating Profit/(Loss)
 (2021: £6.1M)

£493M
 ↑ Society Premium Income, the total premiums received during the year for life and pensions business
 (2021: £477M)

373%
 ↑ Solvency Ratio, a measure of our financial strength
 (2021: 306%)

£5M
 ↑ awarded by the Wesleyan Foundation since its launch in 2017, supporting our customers and communities across the UK.
 (2021: £3.9M)

£2.5M
 ↑ financial contribution to provide member discounts on personal and commercial insurance lines
 (2021: £2.1M)

£7.2BN
 ↓ total assets actively managed or administered by or on behalf of the Group
 (2021: £8.5BN)


96%
 ↓ of personal income protection claims paid compared to an industry average of 86.5%¹
 (2021: 98%)

+59
 ↑ Customer Index, reflects overall satisfaction, trust and ease of doing business with us, as well as Net Promoter Score showing how likely customers are to recommend an organisation.
 (2021: +58)

3 AWARDS
 Best Innovation in the Customer Journey²
 Responsible Investor of the Year³
 Workplace Wellbeing Bronze Award⁴

¹ Association of British Insurers 2021 (figures published in 2022)
² Financial Services Forum Awards
³ Insurance Asset Risk Awards
⁴ West Midlands Combined Authority Thrive at Work Programme

4.9/5
 ↑ Trustpilot

Wesleyan is rated Excellent
 Based on 1,350 reviews

 ★ Trustpilot

OUR BUSINESS MODEL

We are a UK-based financial services mutual offering a range of personal, professional, commercial and investments products through the Wesleyan Group of companies, including Wesleyan Financial Services and Practice Plan Group. Being a sustainable business underpins everything we do because we know that to succeed for the next 180 years we need to take action today.

1 WHO WE SERVE



DENTISTS

We understand the dental profession and support with both personal and practice related finances from investments through to estate planning. The Practice Plan Group, market leaders in providing dental membership plans, is part of the Wesleyan Group.



TEACHERS

Our expertise and experience, gained from a deep understanding of the education profession, enables us to support with everything from mortgages and investments to retirement planning and making the most of the Teachers' Pension Scheme.



DOCTORS

We have a long heritage of providing financial advice for GPs and Hospital Doctors, from student years through to retirement and beyond. We can help with complex areas of specialist planning, including maximising NHS Pension Scheme benefits, managing investments and estate planning.



INDEPENDENT FINANCIAL ADVISERS (IFAs)/DIRECT

We have made our flagship With Profits Fund available to a wider customer base including through selected IFAs and via our website. This has helped to extend our reach in a way that supports our specialist financial advice model.

2 OUR STRATEGY

Our strategy defines our ambitious plans to grow our business and make it stronger and more sustainable. We are committed to delivering a first class customer experience providing added value for members, customers and colleagues.

The core elements of our strategy are:

- ▶ To enhance the way we reach new and serve existing customers with our products and services
- ▶ To use in-depth customer insights to enhance the products and propositions we offer, including leveraging the strength of our Flagship With Profits Fund to a wider customer base
- ▶ To enhance our operating model so that it is more efficient, improving the way we serve customers and the sustainability of our business
- ▶ To maximise the strengths and opportunities of being a mutual

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



LIFELONG PARTNER

We are focused on meeting the financial needs of trusted professionals through specialist financial advice and products at all stages in life, providing choice of how and when customers do business with us.

➔ Read more about [our customers' life stages](#) below



BRILLIANT TO DO BUSINESS WITH

We are building a sustainable and resilient business so that we can offer an outstanding service in a cost-efficient way for many years to come.

➔ Read more about [operational progress](#) on pages 12 to 14



MUTUALITY WITH EDGE

As a mutual, our ethos of care is at the heart of everything we do. We work hard to get the best opportunities for customers and run a financially strong business to benefit our members.

➔ Read more about [mutuality](#) on pages 4 to 5

5

SUPPORTING OUR CUSTOMERS

Our customers trust us to look after their financial futures by providing a range of products and services - from specialist financial advice to investments, mortgages and general insurance.

Our aim is to help some of society's most trusted professionals from starting out as a student, throughout their career and into retirement and beyond.

In 2022, we supported our customers through the turbulent economic conditions and the financial challenges they faced from the rising cost of living. Whatever stage of life they were at, we were there to help.



STARTING A CAREER

- ▶ "The Next Step" - financial education programme
- ▶ Savings options

PUTTING DOWN ROOTS

- ▶ Saving for a deposit
- ▶ Mortgage advice
- ▶ Saving for the future
- ▶ Protecting your income and your home



3 WHAT WE OFFER

 **SPECIALIST FINANCIAL ADVICE**


 **SAVINGS AND INVESTMENTS**


 **PENSIONS AND RETIREMENT PLANNING**

 **LIFE ASSURANCE AND PROTECTION**

 **GENERAL AND COMMERCIAL INSURANCE**

 **MORTGAGES AND EQUITY RELEASE**

 **DENTAL MEMBERSHIP PLANS**

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

4 SUSTAINABILITY AT THE HEART

We are committed to acting in a sustainable and responsible way in all our business operations, reflecting our commitment to doing the right thing for our members, customers, colleagues and communities.

Environmental, Social and Governance (ESG) principles sit at the core of our sustainability strategy which guides our approach to investing our customers' money, the good causes we support and how we deliver a sustainable infrastructure and product offering.

The strategy is designed to ensure we meet our internal sustainability goals and links into the United Nations Sustainable Development Goals.

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



BUSINESS IMPACT

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

➔ Read more on pages 28 to 30

COMMUNITY AND CITIZENSHIP

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

➔ Read more on pages 31 to 33

SUSTAINABLE INVESTING

At Wesleyan we manage over £7bn of our customers' money. Like them, we care as much about what their investments are doing as well as how they are doing.

➔ Read more on pages 26 to 27



STARTING AND GROWING A BUSINESS

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



RETIREMENT AND LATER LIFE

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



BUILDING A SECURE FUTURE

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

MAKING MUTUALITY MATTER

MEMBERS AT THE CENTRE OF OUR BUSINESS

Our mutuality is an integral part of who we are and how we operate. We thrive by staying true to the needs of the people who matter most - our members, customers and colleagues. We take a long-term view and share our success with our members. Membership of Wesleyan comes with the following benefits:

**YOUR MUTUAL:
YOUR VOICE**

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

GIVING BACK

Since the launch of Wesleyan Foundation in 2017, we've awarded £5m to deserving causes across the UK, making a real difference to improve lives and transform communities.

SUPPORTING OTHERS

We support young people entering the medical and dental professions by running financial and wellbeing initiatives like our Next Step programme, designed to help with the transition from qualification into working life.

SUSTAINABLE INVESTING

At Wesleyan we manage over £7bn of your money. Like you, we care as much about what your investments are doing as well as how they are doing.

WELLBEING

To support your mental and physical health, as well as your financial health, members have free access to personal wellbeing app WellSpace.

To find out more, visit wesleyan.co.uk/wellspace

INSURANCE DISCOUNTS

In 2022 we made a £2.55m financial contribution to provide members with 20% off key insurance products including a price match promise on home and motor policies.

MEMBER REWARDS

More details can be found over the page.

SHARING OUR FINANCIAL STRENGTH

As a financially strong, well-managed mutual we proudly share the benefits of our success with members in the form of a discretionary Mutual Bonus where results and market conditions allow. In light of the ongoing economic uncertainty, no mutual bonus is payable in 2023.

**AVERAGE
GENERAL
INSURANCE
SAVING IN
2022***

15,542 MEMBERS
SAVED AN AVERAGE OF

£164

ON THEIR
PREMIUMS IN 2022

* Based on 20% member discount on selected premiums between 1 Jan to 31 Dec 2022

IN 2022 WE
SUPPORTED OVER

25,000

MEMBERS WITH SPECIALIST
FINANCIAL ADVICE
TAILORED TO THEIR
CAREER AND LIFESTAGE

DELIVERING ON OUR MUTUAL VALUES

MEMBER REWARDS

In 2022, following in-depth research and a successful pilot, we launched our Member Rewards programme which offers full members a selection of exclusive rewards to choose from, available via a new online customer portal. Members have the option to select an additional annual gift from retailers including Amazon, John Lewis and Marks & Spencer, subject to product holding. The programme has been well received with almost 4,000 members claiming a reward in 2022.

Throughout the course of 2023 qualifying members will be invited to choose a reward, as we strive to build a benefits package shaped around our members and their world.



96%

of customers are happy with the Reward choices offered.



“What a lovely surprise, feels good to be rewarded.”

WESLEYAN MEMBER



THE NEXT STEP

Born from our passion for giving back, the award-winning 'The Next Step' was created in 2018 as a programme to help medical and dental students within the UK transition from university into working life.

In 2022, we won an award for 'Best Innovation in the Customer Journey' at the Financial Services Forum awards for the programme. We are continuing to support young people entering the professions we serve in 2023 by investing further into the programme.

MUTUAL BENEFITS

Thanks to our mutuality, we are able to give back to our members and will be providing over £2.5m in savings by continuing to offer 20% off a range of insurance covers, with price match promise on home and car policies.

20%
Mutual Benefits
insurance savings

A Gift of Saving

Mutual Benefits

OUR CUSTOMERS

OPERATING ENVIRONMENT IN 2022 AND WHAT IT MEANT FOR OUR CUSTOMERS

By any measure, 2022 was a year full of unexpected events.

The Russian invasion of Ukraine in February derailed any nascent recovery from the pandemic. While the human consequences of the war eclipse the economic ones, there has been a very real impact on inflation, household disposable income and investor confidence.

The UK experienced political turmoil, with three prime ministers, three chancellors of the exchequer and many changes in senior ministerial positions during the year.

The government also delivered five fiscal events in 2022, which aimed to address the higher cost of living and tackle economic growth. The third, the 23 September "mini-budget" by Kwasi Kwarteng, led to the Bank of England intervening in the markets to maintain financial stability.

As a result, the key theme of the year was the so-called 'cost of living crisis', with rising inflation eroding real incomes and lowering the living standards of many households. While the government stepped in with support measures for things like energy, the reduction in disposable incomes has been exacerbated by the rise in the Bank rate, which has increased mortgage payments and other borrowing costs.

The world can be an unpredictable place. While inflation may have shaped markets in 2022, Wesleyan is able to take a long-term view on geopolitical events and economic developments, looking further ahead than many investors elsewhere in the market beyond short-term market 'noise' in order to deliver results.

Our commitment to driving a customer first agenda ensures we remain focused on improving the experience that our members and customers receive from us. Here we summarise how we demonstrated this in 2022.



COST OF LIVING HUB

Our Cost of Living hub was designed to provide helpful information for customers all in one place and ensure they have additional information to feel reassured during turbulent times. Our specialism provides the opportunity to be the financial partner that members and customers expect us to be.

The Cost of Living hub was supported with empathetic and informative communications across all communications channels to enhance member experience with over 1,000 members and customers visiting the hub since launch in October 2022.

HERE FOR YOU - TEACHERS

There was political turmoil in the education sector in 2022, with this disruption doing nothing to ease deepening school funding and teacher supply and workload pressures. It was only by the end of the year that Jeremy Hunt's November budget statement committed an additional £2 billion per year for the next two years for schools.

In July, the government granted salary increases of 5% from September 2022 to experienced teachers, with newer teachers receiving higher increases of up to 9%, on the way to delivering a government commitment of starting salaries of £30,000 for teachers in England by 2024.

However, with CPI inflation in double digits in the second half of 2022, the higher cost of living meant that many teachers were still struggling to make ends meet despite the pay rise.

The strength of feeling in the profession over pay and funding for schools led to industrial action across the four nations, with teachers' unions subsequently entering talks with the government in early 2023.



MORTGAGE SUPPORT

In addition to setting up a new bespoke online mortgage journey to drive more informed conversations with our customers, our team of mortgage specialists was on hand to help them as they faced the impact of rising interest rates and the changing mortgage market.

With access to a wide range of leading lenders and products not available on the high street, our expert team were able to help almost 1,600 customers in 2022 with advice and support tailored to their needs.



THE RETIREMENT CLUB

The Retirement Club offers medical and dental customers from age 50+ access to a retirement planning advice service including ongoing follow-up meetings. Designed to provide additional help and guidance tailored to members who are either planning for retirement, about to retire or already retired, it also features an online hub with educational information, guides and calculators.

HERE FOR YOU - DOCTORS

The pandemic stretched doctors further exacerbating existing challenges around workload, recruitment and retention, and wellbeing. The same themes continued into 2022, with NHS hospital waiting lists reaching record levels and GPs facing unprecedented demand for their services from a growing and ageing population.

Workforce issues are a key challenge in the NHS. Medical vacancies across UK hospitals are running at high levels, while in primary care, the number of GP partners is in decline. NHS Pensions data shows that the number of doctors taking early retirement has more than trebled over the past 13 years, largely due to the unintended consequences of complex NHS Pension Scheme and tax rules.

Additionally, doctors remain concerned about their pay and working conditions. A British Medical Association (BMA) survey found that 90% of consultants considered the 2022 pay award of 4.5% to be 'inadequate' or 'completely unacceptable', and 71%¹ of junior doctors are taking on extra paid work to keep up with the rising cost of living.

¹ BMA Survey conducted between 21 Nov - 4 Dec 22, 4,500 respondents.



SUPPORTING BMA RESEARCH

We are proud to be working with the BMA to support research in the profession.

A £65,000 grant from Wesleyan Foundation was awarded to a team looking into the impact of the continued and elongated use of airborne Personal Protective Equipment (PPE) on physical and mental wellbeing.

Use of PPE increased during the pandemic and it's predicted that this will be a continuing trend. The study will examine the longer term impact of how airborne PPE affects body temperature as it limits heat loss.



NHS PENSION SUPPORT

Our specialist financial advisers have a deep understanding of the intricacies of the NHS Pension Scheme, and are on hand to support our members with making informed financial decisions aligned to their individual retirement goals. To further support medical and dental professionals in 2022, we introduced a new NHS pension assessment tool, designed to give our customers a thorough overview of their current pension position, including whether they were affected by the McCloud pension remedy, and help them understand what this could mean for their future plans.

HERE FOR YOU - DENTISTS

Frustration continues to be the main feeling amongst NHS providers that the much-needed reform and funding of the current dental contract is as far away as ever. The economics of running an NHS contract have changed and many practices are looking at re-basing or even returning NHS contracts.

Associate dentists are increasingly moving from NHS to private practice. Research by the British Dental Association indicates that over half of NHS dentists state they are likely to reduce their NHS commitment, with over 40% likely to change career or seek early retirement given current pressures.

Analysis reveals growing shortages since the pandemic, with many people experiencing difficulties in accessing NHS dental treatment. Meanwhile, private dentistry is filling the gap for patients that can afford it. Dental groups continue to expand by buying practices, with corporate share of the dental market in the UK now standing at about 27% of all practices.



FOCUSED ON MENTAL HEALTH

With the medical and dental professions under increasing strain we were pleased to support Doctors in Distress, the mental health and suicide prevention charity, again in 2022. A £25,000 donation from Wesleyan Foundation enabled the charity to launch two new series of weekly support groups.

The first series focused on providing support for doctors and dentists experiencing long Covid, while the second series provided emotional and psychological support for international medical graduates (IMGs) working in the UK.



YOUHUB

YouHub is a comprehensive resource centre for dental professionals that was designed by Practice Plan to link out to useful places for each of the four key areas we know provide dental professionals with the most pain: wellbeing, cost of living, business finances, and recruitment and retention.

It's a place where over 2,000 professionals have already benefitted from the helpful advice and tips on offer from podcasts and handy downloads to thought-leadership pieces and landscape commentary.

For more information please visit: practiceplan.co.uk/youhub/

Q&A

WITH
CHAIR, NATHAN MOSS



Nathan shares his thoughts on how Wesleyan made good progress in a challenging year and how its mutual values have made a difference.

HOW DID THE EXTERNAL ENVIRONMENT IMPACT WESLEYAN IN 2022?

Few could have predicted the challenges that 2022 would bring both globally and nationally. While many were hoping for some return to calm after the pandemic, there was a sharp awakening in February with the invasion of Ukraine and the resulting global inflationary pressure. This has led to an increase in UK food and energy bills, compounding pressure on an already uncertain economy following the effects of Covid and Brexit.

With prices rising around 11% over the year, the cost of living really started to bite putting increased strain on incomes of all levels. Many people were not only saving less but having to dip into savings to cover additional costs. At times like this the value of good financial advice is key and our Specialist Financial Advisers worked closely with our professional customers to help them make the most of their hard-earned money, from maximising retirement income through to finding the right mortgage rate.

In spite of the volatile trading conditions and the fall in consumer spending, Wesleyan progressed our strategy to become a more resilient and sustainable organisation for members today and in the future. As a mutual with no shareholders to serve, we don't let short-term events sway us. This approach has served us well over the past 180 years and we believe continues to deliver the right outcomes for the people who matter most – our members, customers and colleagues.

From a financial perspective, the difficult operating environment meant we ended the year behind where we wanted to be. However, there were clear signs of progress that give us good reason for optimism for the future. Operating profit grew and we

saw positive net inflows across the Group leading to record premium income. While Assets Under Management fell as a result of declining global equity and bond markets, many of our directly managed investment funds performed well against benchmark including our main With Profits Fund. Its return over the year was -4.7% but it's worth noting its longer term performance remained strong with a cumulative return of 110%¹ over ten years.

HOW DID YOU PROGRESS YOUR STRATEGY OVER THE YEAR?

As reported in last year's Performance Report, we finalised the sale of Wesleyan Bank in February 2022 as we sought to optimise the resources available to us and manage our capital in the most effective way. The sale of the Bank is allowing us to invest further in building a strong business that will generate positive outcomes for members.

This includes progressing our ambitious transformation plans that we embarked upon in 2020. Despite the difficulties of operating through Covid and the current economic climate, we have made good progress and there is already strong evidence they are delivering results. Activity undertaken to date has enabled us to reduce our cost base and increase income. Not only has this helped us to defray some of the inflationary costs, it has also allowed us to realise substantial benefits ahead of target. This puts us in a stronger position to meet ongoing macroeconomic challenges.

In 2022, the Board agreed to a further investment in the business to support the next phase of the Society's strategy. This will focus on further improving the efficiency of the business and enhancing the experiences of our customers by streamlining and automating a number of client-facing processes, ultimately making Wesleyan more financially sustainable and

resilient. You can read more about this in the Group Chief Executive's Report on page 12.

WERE THERE ANY CHANGES FOR MEMBERS IN 2022?

Our members are the lifeblood of our organisation and we continually seek to deliver greater value for them and reward their trust in and loyalty to Wesleyan. This year, in addition to the benefits outlined on page 4, we extended our Member Rewards programme following a successful pilot. Each year members will be invited to choose from a selection of rewards including cashback options as well as retail and lifestyle vouchers. Feedback from members so far has been excellent and we hope many more will utilise this benefit in 2023.

After careful consideration the Board has decided against offering a mutual bonus to policyholders in 2023. This discretionary bonus is paid in years when we have excess capital to distribute. While we remain capably strong, 2023 is set to be another year of economic uncertainty which would further impact our business. In addition Wesleyan, like others, has seen significantly higher than expected business costs as a result of soaring inflation, which reached its highest rate in 41 years last October. This makes it all the more imperative that we continue to invest in delivering our transformation strategy to ensure we remain resilient and competitive for years to come. Taking all of this into account we felt it prudent not to make payment this year.

I hope members have confidence in the work we are doing to protect and strengthen our business and in our ability to create brighter financial futures for them.

¹ Before charges and after smoothing.

WHAT SUPPORT DID YOU OFFER THROUGH WESLEYAN FOUNDATION?

Sustainability remains high on the Board agenda as we proactively seek opportunities to be a positive force for change. As a mutual we believe we have a key role to play in society, from supporting our communities to managing our impact on the world through our approach to sustainability. You can read much throughout this Report on the work we are doing to progress our sustainability strategy and our performance over the year. With the charity sector under increasing pressure as a result of the worsening economic situation, we were pleased to donate more than £1m to over 100 good causes across the UK through our charitable Foundation in 2022. In addition to helping local grass roots organisations, we supported good causes reflecting our customers' professional interests from providing a research grant to the British Medical Association (BMA) to working with an educational charity to help children understand the importance of healthy financial habits. You can read more about the work of the Wesleyan Foundation on page 32.

DID YOU MAKE PROGRESS FROM A CULTURAL PERSPECTIVE?

Enhancing our culture is a core part of our business strategy. We are committed to having a truly inclusive, high-performance culture that puts the needs of our customers at the heart of all that we do.

From an equality and diversity perspective, we made good progress in 2022, but the Board recognises that we still have room for improvement. We were pleased to surpass our target of 35% for the number of women on our senior leadership team, ending the year at 38%. We narrowly missed our target to have 15% of the team from Black, Asian, minority ethnic (BAME) communities reaching 14%. We will continue to ensure all senior leader vacancies have a diverse shortlist and will put sharp focus on talent management and succession planning to ensure we grow our own diverse talent pipeline.

As part of our work to make Wesleyan an inclusive and attractive place to work, so that we attract and retain the best talent to serve our members, we introduced a Culture Day in 2022 where colleagues have an additional day's leave to pursue something they are passionate about. We also enhanced our maternity and paternity benefits and you can read more about this on page 15.

WHAT SUPPORT DID YOU GIVE COLLEAGUES OVER THE YEAR?

We were pleased to launch a new Employee Value Proposition over the year that better articulates our commitment to and support for our people. An example of this came as rising inflation started to translate into higher energy and food bills. We were aware that colleagues were having to make hard financial decisions each month. The Board, therefore agreed a one-off payment of £1,000 for all employees outside of the most senior roles. Approximately 97% of the workforce benefited from the payment in October helping to alleviate some of the strain. We also expanded our existing resources for colleagues with a financial wellbeing hub, discounts across a range of services and retailers, as well as ongoing support from a professional finance coaching company to help with financial planning, delivered through a partner organisation.

This is in addition to our existing resources, helping colleagues with their learning and development and both physical and mental health, an area of significant importance to all employers in the current climate.

WERE THERE ANY CHANGES TO THE BOARD?

We were delighted to welcome Rita Bajaj to the Board. She brings a deep understanding of the governance and management of investments and the embedding of sustainability principles. She also has experience of working towards greater inclusion in the industry which is so important to us. You can read more about Rita on page 51.

WHAT DO YOU THINK WILL BE THE KEY CHALLENGES IN THE YEAR AHEAD?

With no sign of an uptick in the economy we anticipate 2023 will be another difficult year for our customers. As household bills continue to rise and disposable income shrinks, this could impact demand for our services. Our ongoing focus on being a more efficient and effective business will help us to withstand further pressures on our profitability and ensure we continue to meet our customers' expectations in the months and years ahead.

2023 will see the introduction of Consumer Duty, one of the largest regulatory changes for a number of years. The Duty is aimed at increasing trust in the financial services sector and ensuring firms deliver good customer outcomes. This aligns with our ambitions and our transformation programme has been built with an enhanced customer experience in mind. However, we are not complacent; we have appointed Non Executive Director Rita Bajaj as our Consumer Duty Champion to ensure the Board has full oversight of the programme of work taking place across the Group in preparation for the new regulations that come into effect in July.

At the time of writing a private members Bill known as the Co-operatives, Mutuals and Friendly Societies Bill is going through the House of Lords. If passed it will grant HM Treasury the power to bring forward regulations to give mutuals further flexibility in determining the best strategies for their business, relating to their surplus capital. We are watching the Bill's progress with interest and believe it will support a more modern and supportive business environment that better protects members in our competitive markets.

Finally I'd like to say thank you to all of our members and customers who trust us with their financial futures and to my dedicated Wesleyan colleagues who work so hard to deliver the best outcomes for our loyal customers. I hope you can join us at the AGM on 25 May where you can have your say in some important business decisions and hear updates on progress so far in 2023.

“Members can have confidence in the future of Wesleyan and our ability to deliver greater value for them in the years ahead.”

NATHAN MOSS
Chair

30 March 2023

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KEY PERFORMANCE INDICATORS

GROUP OPERATING PROFIT / (LOSS)



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

Further information: Please refer to Our Financial Performance section on pages 16 to 18. The Group grew its operating profit in 2022 primarily due to the new incomes streams and continued growth in Practice Plan Group.

SOCIETY NEW BUSINESS (ANNUAL PREMIUM VALUE)



This is used as a measure of new business for Life and Pensions business. It is calculated by adding the total premiums to be received each year for regular premium policies and 10% of single premiums received in the year.

Further information: The increase in 2022 new business is primarily due to the new income streams added.

SOCIETY PREMIUM INCOME



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

Further information: The increase in premium income in 2022 is driven by the new income streams added.

ASSETS UNDER MANAGEMENT



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

Further information: As a result of the turbulent economic conditions, in particular rising interest rates and falls in equity and bond markets, Assets Under Management fell from £8.5bn to £7.2bn.

INVESTMENT RETURN - WITH PROFITS FUND



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

Further information: The investment return, although ahead of benchmark, was negative in 2022 as a result of the turbulent economic conditions, in particular rising interest rates and falls in equity and bond markets.

GROUP OPERATIONAL CARBON FOOTPRINT



The carbon footprint associated with the operational day to day running of Wesleyan as an organisation.

Further information: A significant (44.25%) reduction in operational carbon footprint can be seen as 2022 saw a change both in employee working practices and a change of electricity provider to only utilise electricity sourced from 100% renewable sources. Additional commentary can be found on page 37

SOLVENCY RATIO



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

Further information: The Solvency ratio has increased in 2022 due primarily to a reduction in the Standard Formula stresses used to calculate equity risk. Own funds has also decreased due to market returns but the solvency ratio has still increased.

CUSTOMER INDEX



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

Further information: Our Customer Committee ensures that improvements based on customer feedback are made continuously throughout the year. This has contributed to an improvement in the Customer Index score for 2022. We will continue our focus on improving customer experience in line with our strategic driver of being brilliant to do business with.

ENGAGEMENT SCORE



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

Further information: Employee engagement increased by 0.2 points. This is all the more positive as working through a fast-paced transformation programme can be challenging. The increased resources put in place over 2022, including a cost of living support payment and the introduction of an enhanced Employee Value Proposition (Mutuality and Me) contributed to improved engagement. In 2023, we are launching a new survey method and will refresh our approach to employee listening.

OUR OPERATIONAL PERFORMANCE



“ We are driven by our purpose to create brighter financial futures for the professions we all trust. Our transformation plans are helping us to achieve this and to drive greater value for members as we build a strong, modern mutual that is relevant to our customers for many more years to come. ”

MARIO MAZZOCCHI
Group Chief Executive

INTRODUCTION

Against the backdrop of a turbulent year, I'm pleased to report that Wesleyan maintained steady progress. We delivered increased growth and advanced our strategy of building a stronger, more sustainable business relevant to our customers now and into the future. Our ongoing transformation work protected us against the worst of the difficult trading conditions and helped us to emerge from 2022 in a stronger position.

PROGRESS IN A TURBULENT YEAR

The challenging external events of 2022 have been well documented in this Report. Any hopes we had for more settled trading conditions were soon dashed as events in Ukraine unfolded. We quickly realised this would have longer-term consequences for global markets and the UK economy. We also saw a change of monarch with the sad passing of Queen Elizabeth II after a 70 year reign and the accession of King Charles III.

We worked hard to support our customers as they found themselves facing rising food and energy bills, as well as increasing mortgage and borrowing costs. While many doctors, dentists and educators were still dealing with the fall-out from the pandemic, they were also contending with additional challenges in their professional lives from unprecedented demands on the National Health Service to schools struggling with real-term cuts to budgets, making 2022 another uncertain year for the professions we serve.

Volatility in financial markets impacted investor confidence and some steep losses led to many indexes seeing their worst performance since the financial crisis in 2008. We were not immune from this and Assets Under Management (AUM) fell by 15% to £7.2bn. Thanks to the work of our Investments team, many of our directly managed funds performed better than their benchmarks. You can read more about our investment performance on page 20.

While these factors, combined with the impact of soaring inflation on our business costs, meant we were unable to see the growth we had planned for, we were pleased to end the year with an operating profit of £7.2m. We retained a high level of capital strength which will help us to withstand a prolonged period of economic uncertainty.

Work undertaken through our transformation programme allowed us to realise over £26m of benefits during the year as we embedded new income streams, evolved more efficient ways of working and maintained a strong focus on cost control. Practice Plan Group, our dental membership arm, continued to see strong patient growth and our direct business performed ahead of expectation.

BUILDING A STRONGER, MORE SUSTAINABLE BUSINESS

I hope our performance in 2022 will give members confidence that our strategy is working and we are building a stronger, more sustainable business. However we recognise we have more to do as customer expectations, regulation and the industry continue to change at pace. We also want to be more resilient to better manage the ongoing economic challenges. We have therefore progressed onto the next stage of our change programme, identifying a series of initiatives that we will deliver over the next three years. Our main focus is on removing inefficiencies and replacing outdated systems, processes and ways of working. By the end of 2022, many of these initiatives were already in progress putting us on-track to realise our plans.

We are driven by our purpose to create brighter financial futures for the professions we all trust and a desire to drive greater value for members as we build a strong, modern mutual that is relevant for many more years to come. To follow is an update on some of the activity we delivered in 2022 to help us progress our ambitions.

LIFELONG PARTNER

We are proud to be a specialist partner to our customers in the medical, dental and education markets who are working in an increasingly challenging environment as you'll read in this Report. We aim to build lifelong relationships with our customers, supporting them through every stage of their career from student years through to retirement with products, services and propositions that are relevant to their needs.

In response to the increasing trend for early retirement, particularly in the medical and dental professions, we developed our offering to support customers at this crucial time of life with the launch of the Wesleyan Retirement Club. Building on our position as experts in the NHS Pension Scheme, the Club offers its members specialist advice and guidance before, at and after retirement. Access to the Retirement Club is initially open to doctors and dentists and will be extended in the months ahead.

We saw an increased demand last year from those wishing to use their property wealth to provide additional capital or income during retirement in response to cost of living pressures. By partnering with Hub Financial Solutions, a leading equity release provider, we can now offer customers access to a range of product options to meet their needs.

As we maintain our customer focus, we were pleased to see that our customer index score increased to +59 in 2022. This includes an industry leading net promoter score of +53¹ which indicates

how likely customers are to recommend an organisation. We are seeking to further improve on the service we offer and this is at the heart of our transformation activity. We established a customer committee in 2022, bringing together colleagues from across the business to deliver practical and workable solutions to make life better for our customers and ensure we keep them front and centre in everything we do.

BRILLIANT TO DO BUSINESS WITH

Our team of Specialist Financial Advisers provide an invaluable service, navigating their customers through complex financial planning and advising on how to make the most of their hard-earned assets. We're proud that 97% of customers rated their Wesleyan Financial Adviser as very good or excellent last year².

Over recent years we have been making progress in the digital environment, replacing legacy systems and enhancing capability so that we can build a compelling online offering. Visitors to our website increased by 29% over the year and we were pleased to see online sales exceed expectation with a 27% increase in new ISA applications as customers look for attractive investment options that are easy to access. We are further developing our digital channels and self service capabilities to offer a greater level of choice in how people interact with us.

We reached another milestone in our digital strategy last year with the launch of a new portal making it easier for customers to view their plans and policy documents, carry out simple transactions and securely message their financial adviser and other Wesleyan teams online. We are gradually migrating all customers from the old My Wesleyan site to this new portal and expect work to be completed later in 2023.

Much of our transformation activity is taking place behind the scenes as we work to future-proof our business and strengthen our infrastructure. We continued to invest in information security including cyber defences so that we are more resilient in the face of this increasing global threat. We have also developed more sophisticated plans to ensure we can keep our most important services running and minimise detriment to customers should we lose the ability to run business as usual operations for any reason.

We are continuing to strengthen our technology so that we can work faster and more efficiently. This includes introducing more automated processes, upgrading our systems and continuing our focus on risk and regulatory projects so that we can serve customers effectively, safely and securely.

MUTUALITY WITH EDGE

We are transforming Wesleyan into a mutual organisation that has resonance in today's world – a mutual with edge. The value of mutuality has become ever more apparent in recent years. Our ability to take long-term decisions has allowed us to offer a range of benefits to members and customers, including a programme of practical support during the pandemic and again last year as cost of living pressures started to bite. You can read more about our commitment to mutuality and our members on page 4.

Part of our work to build a stronger mutual has been to make our flagship With Profits Fund available through Independent Financial Advisers via a third party investment platform run by Novia, an established wealth management company. Having launched this activity in July 2021, we were pleased to see continuing progress last year with net inflows growing steadily. We believe there is further potential to grow this part of the business working with other investment partners. The additional income will allow us to further invest in our business to benefit our professional customers and members.

We continued to make progress with our sustainability strategy last year which has Environmental, Social and Governance (ESG) factors at its core. It covers key principles from how we reduce the carbon footprint of our business operations and investment portfolio through to the role we play in the lives of our colleagues and our communities. The strategy drives vital behaviours and actions to ensure we meet our sustainability commitments aimed at supporting the UN's Sustainable Development Goals. You can see case studies of this strategy in action throughout the Report.

¹ Source Institute of Customer Service's UK Customer Service Index, January 2023. Financial services Average - 30.6

² Wesleyan Sales Survey 2022 (8, 9 & 10 out of 10. Base size: 1,146)

We were pleased to support the national Black Interns Programme that seeks to create opportunities for under-represented talent.

We welcomed 16 interns across Wesleyan and were hugely impressed by the impact they made including their clear articulation of the problem of accessibility when it comes to internships. This is particularly true for those from lower socio-economic backgrounds where these experiences are crucial to personal and professional development. We wish all of the interns well in their future careers and look forward to hosting another class in 2023. You can read more about our work on Equality, Diversity and Inclusion (EDI) on page 30.



OUR OPERATIONAL PERFORMANCE CONTINUED

PEOPLE AND CULTURE

We are committed to building an inclusive and diverse culture where every colleague feels welcome. We made progress with our Equality, Diversity and Inclusion strategy in 2022 by further diversifying our senior leadership team in the year. You can read more about this on page 30. We are also seeking to add value to the next generation of Wesleyan colleagues by strengthening ties with local schools to give students a greater understanding of financial services and increase access to the profession.

As the job market remains competitive with workforce shortages across the UK, we launched an enhanced Employee Value Proposition to ensure we can attract and retain the best talent to serve our members and customers. Known as Mutuality and Me, the proposition puts significant focus on inclusivity through recognition of different cultures, life stages and personal circumstances. We made enhancements to maternity and paternity benefits and moved to more agile ways of working, giving all colleagues the opportunity to request flexible working patterns. We also launched an annual culture day for colleagues to mark a day that is significant to them for religious, cultural or personal reasons. You can read more about Mutuality and Me on page 15.

Nathan Moss detailed in his statement how we supported our people to help ease some of the strain of the difficult economic conditions. This included making a one-off payment of £1,000 to all but the most senior employees, as well as providing everyone with the option to access a professional finance coaching company.

Colleagues continue to rate Wesleyan highly as a place to work with our bi-annual Employee Opinion Survey showing a score of 7.8 (out of 10) at year end, an increase on 2021's result. This is particularly pleasing as we are working through a fast-paced transformation programme that requires change and new ways of working.

LOOKING AHEAD

Economic forecasts for the year ahead are not promising and at the time of writing there was continuing uncertainty in the education, dental and medical professions. A ray of light came with the Chancellor's decision to abolish the Lifetime Allowance and increase the Annual Allowance in his Spring budget. We have been calling for a change to these measures for some years now to reduce the risk of punitive tax charges for some of our most experienced doctors, dentists and teachers.

Ongoing economic uncertainty in 2023 makes it all the more critical that we keep laser focus on achieving our transformation plans to build a resilient, robust business able to withstand further headwinds. By streamlining and automating processes we can remove inefficiencies and reduce the cost of running the business while providing a superior offering to customers and be fit for growth when the conditions allow.

The Consumer Duty and the focus it brings to delivering good customer outcomes has been central to our thinking as we drew up this next stage of our transformation plans and we will ensure we are well placed to meet the requirements when it comes into effect in July.

A SPECIALIST APPROACH

Our understanding of our customers is supported through our Members Advisory Board, made up of experienced doctors, dentists and teachers who bring to life the challenges their professions are facing.

We also have strong affiliations with organisations such as the NASUWT, the teachers' union, and the Royal College of General Practitioners (RCGP), the professional membership body for GPs in the UK. Both have chosen Wesleyan Financial Services to be their exclusive financial advice provider to support the personal and business needs of their members. In 2022 we established a new relationship with the Royal College of Obstetricians and Gynaecologists (RCOG).

Another important project will be delivering the Pensions Dashboard, designed to give customers visibility of their pensions savings in one place. While this is an industry wide regulation, we are using it as an opportunity to transform our data systems so that we can give our customers a more comprehensive retirement proposition.

As a financially strong mutual, we will be there to support our customers and colleagues in the year ahead, continuing to build a truly customer centric culture that is fully inclusive and diverse and better represents those we serve.

I am pleased that we have maintained the same Executive Team for the past two years and believe this consistent leadership and deep understanding of our professional customers is delivering results. I would like to thank them and all my Wesleyan colleagues for their hard work in yet another challenging year. I am proud of what we have achieved together, helping to build a stronger, more sustainable business for our members and customers today and for the future.

I will update members further at the AGM on the progress we are making to build a truly modern mutual.

MARIO MAZZOCCHI

Group Chief Executive

30 March 2023



Mutuality and Me

Mutuality and Me is our new employee value proposition (EVP). It was designed by and for colleagues to bring together all of the great reasons to work at Wesleyan. This helps ensure we can retain and attract the best talent to serve our customers.

All of the photographs used for communications feature colleagues who share their own stories about why they love working at Wesleyan. This is important to us because our people are the essence of our business.

Mutuality and Me is built on four pillars:

- ▶ A Business Built on Purpose – how we live our mutual values
- ▶ Reward and Recognition – to celebrate the delivery of great customer outcomes
- ▶ Personal and Professional Growth – how colleagues can develop their skills and themselves
- ▶ Flexible and Inclusive – our approach to building a business where everyone feels welcome

As part of Mutuality and Me we introduced some new initiatives including launching an annual Culture Day for colleagues to mark a day significant to them; strengthening our approach to flexible working; enhancing our family leave policy to provide greater support for those on maternity, paternity or adoption leave and increasing our focus on menopause to improve our understanding and ability to talk about this important life stage.

Mutuality and Me is the blueprint for how we support colleagues in key areas including how we responded to increased cost of living pressures with additional financial and mental wellbeing support in 2022.

To find out more about working at Wesleyan and our employee value proposition please visit: careers.wesleyan.co.uk

OUR FINANCIAL PERFORMANCE



“ Our performance in 2022 proved our business model is resilient in the face of volatile economic and geopolitical conditions. ”

GILLIAN CASS
CHIEF FINANCIAL OFFICER

OVERVIEW

2022 was another challenging year, dominated by turbulent economic and geopolitical events. The year may have started with Covid still dominating the news but it was soon pushed off the agenda as the pace and impact of events unfolding over the following months was, at times, remarkable and quite unpredictable.

Despite this uncertain operating environment Wesleyan made steady progress. As plans delivered in 2021 to generate additional income started to show results we saw operating profit increase to £7.2m from £6.1m the previous year. The Group also delivered positive net inflows, the excess of premiums over claims, with Society premium income at a record high of £493m. Maintaining our stringent focus on cost control while growing income helped us to end the year with a growth in profit.

This is all the more pleasing given the impact of rapidly rising inflation on our operating costs. We are confident that the growth achieved in a difficult year is a strong indication that our strategy is working and we are building a stronger, more sustainable business to benefit members and customers.

Over the year we continued to build on our financial principles of prudent and effective capital management, alongside careful cost management. This allows us to grow the business without exposing policyholders to undue risk and maintain our financial strength. Our members receive value by being part of a financially strong mutual.

OPTIMISING OUR RESOURCES

We made the strategic decision to sell Wesleyan Bank to Hampshire Trust Bank Plc (HTB) in 2021 and this transaction completed on 28 February 2022, following regulatory approval. The sale of the Bank is allowing us to maximise investment in our core business to deliver greater value for our members and customers.

Having seen the successful outcomes of the first stage of our ambitious transformation project, the Board agreed to invest further in the business in 2022. We have now moved into the next phase of our plans which will be pivotal to our future success. Our

focus is on improving the customer experience while increasing efficiencies and driving down costs across the Group. This will help to ensure we stay resilient and strengthen our ability to manage external economic pressures. You can read more about this in the Group Chief Executive's report on page 12. More efficient processes and ways of working, combined with new technology and digital capability will benefit customers, colleagues and members as we improve the long-term sustainability of our business.

As part of our strategy to optimise our resources, we made progress over the year in building relationships with selected members of the Independent Financial Advisor (IFA) community who can offer their customers access to Wesleyan's With Profits Fund via a third-party investment platform. We believe there is potential for further and significant growth in this sector with opportunities to extend the reach of our Fund to other investment platforms.

GROWING INVESTMENTS

2022 was a challenging year for the financial markets and you can read more on page 20. Economic conditions were dominated by rising inflation, increases in interest rates and volatility in the equity and bond markets primarily driven by geopolitical uncertainty. These uncertain conditions were the primary driver of decreased Assets Under Management (AUM) which fell to £7.2bn (2021: £8.5bn), although the full impacts were partially offset by the new business income delivered by the Society. The largest asset falls were seen in funds that hold long dated bonds to match liabilities, such as the Wesleyan Staff Pension Scheme (WSPS). Whilst WSPS asset values fell, the Scheme remained well funded and we did not experience any liquidity problems as reported by many other pension schemes during 2022.

Our investment funds didn't deliver the returns we would have liked but we were pleased that the majority performed ahead of benchmark despite the volatility. Our main With Profits Fund returned -4.7% over the year. However as with profits investments are designed for the long-term, it's worth noting that over the past 10 years, the fund has seen a cumulative return of +110%.¹

¹ Before charges and after smoothing.

GROUP OPERATING PROFIT RECONCILIATION

	2022 £m	2021 £m
Group Operating Profit (before projects, experience adjustments and exceptional costs)	21.0	15.3
Project Costs	(13.6)	(22.4)
In Force Experience	(0.1)	14.0
Exceptional Costs	(0.1)	(0.8)
Group Operating Profit (after projects, in force experience and exceptional)	7.2	6.1
Experience Assumptions	(0.8)	3.9
Group Operating Profit (after projects, exceptional costs and experience adjustments)	6.4	10.0
Adjusting for the following items:		
Short-term Income and Cost Variances		
Investment Returns	(147.3)	73.2
Other Estate Variances	–	(1.9)
Tax	(0.5)	–
	(147.8)	71.3
Benefits to Policyholders		
Cost of providing guarantees on existing business	28.1	14.5
Mutuality, Membership and Charity	(4.8)	(4.3)
Transfer from/(to) policyholders	51.7	(80.5)
	75.0	(70.3)
Movement in Internal Available Capital	(66.4)	11.0
Statutory Accounting Adjustments	(56.5)	13.2
Transfer (from)/to the FFA	(122.9)	24.2

HOW WE MEASURE GROUP OPERATING PROFIT

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

This includes:

- ▶ Operating profit for the manufacturing new business sales, calculated as the discounted value, at the point of sale, of future profits expected to be earned over the term of each new policy and includes the costs of providing guarantees on new business which provide a benefit to customers
- ▶ Operating profit for each of the subsidiary companies:
 - Wesleyan Financial Services, including the General Insurance broking operation
 - Wesleyan Bank (part of Group until 28 February 2022)
 - Practice Plan Group
 - Wesleyan Unit Trust Managers
- ▶ Group Costs
- ▶ The (short-term) best estimate investment return on the Society's estate
- ▶ Project costs incurred by the Society
- ▶ Exceptional one-off costs, including costs to embed a new operating structure and impairment of fixed and intangible assets
- ▶ Certain items of experience on the Society's in-force book over the year, for example the impact lapses and sickness claims

Experience assumptions are long-term in nature. In 2022 the assumptions were updated for the impacts of economic changes, mainly the yield curve changes seen over the year. In 2021 they reflected the latest lapse and persistency assumptions reflecting customer behaviour observed during that time.

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

The transfers from/(to) policyholders reflect the With Profits policyholders participating in the results of the Society. Where the Society made a loss, as in 2022, the policyholders share this loss and when a profit is made, as in 2021, the profit is shared.

FUND FOR FUTURE APPROPRIATIONS

The Fund for Future Appropriations (FFA) represents the excess of assets over liabilities and is a measure of financial strength. In 2022 the FFA decreased from £589m to £466m. This was predominately due to the trading performance of the business offset by the volatile market conditions which caused both bond and equity markets to fall.

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

Short-term income and cost variances

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

OUR FINANCIAL PERFORMANCE CONTINUED

Benefits to Policyholders

- ▶ Costs of providing guarantees on existing business which provide a benefit to customers. Existing business guarantee costs relate to changes caused by market and assumption movements.
- ▶ Mutuality, membership and charity includes donations made through the Wesleyan Foundation and other charitable donations, as well as member benefits outlined on page 4.
- ▶ Transfers to policyholders reflecting the profit made in the year which is allocated to With Profits policyholders.

AROUND THE GROUP

Wesleyan Financial Services (WFS) and Direct Channel

Few people avoided the impact of rising inflation and higher interest rates that caused such pressure on household expenditure in 2022 and our customers were no exception. As many of them are key workers, these challenges came as they were still dealing with the impact of the pandemic. We worked hard to support them through these difficult times, helping them to make the most of their money and guiding them through complex financial decisions from buying a first home through to planning for retirement.

The specialist service that we offer through our financial advisers, combined with our digital capacity helped to support income and the Society new business premiums increased by 18% to £59.8m when compared to 2021.

Our General Insurance broking business, which provides a range of personal and commercial products and services, enjoyed a strong year despite ongoing regulatory change. This business saw a profit of £0.5m (2021: profit of £0.7m).

Our decision to make our With Profits ISA more widely available for customers who do not require financial advice delivered positive results. This product, now directly available on our website and through aggregator websites saw over 6,000 policies sold online.

Practice Plan Group

Practice Plan and DPAS combined are the largest providers of practice-branded dental membership plans in the UK. In 2022 the Group continued to record patient growth with over 1.1m patients now on dental plans. This trend is forecast to continue in the year ahead as we support more dental practices making the move from NHS to private practice. Patient growth led to an increase in income on 2021 but operating profit remained largely flat due to wider macro economic challenges notably high inflation. We are likely to see dental practices putting increased focus on costs over the coming year which could potentially slow our growth trajectory.

Practice Plan's subsidiary, Medenta, continued to benefit from an increased demand for cosmetic dentistry and ended the year positively. The partnership with a new lender introduced in 2021 is working well to support the demand from Medenta's customers in a sustainable way.

FINANCIAL STRENGTH

Retaining a high level of financial strength sits at the core of our strategy, ensuring we stay resilient and well-placed to support our members and customers. We remain committed to our belief that equities and property provide the best returns for policyholders over the longer-term and we manage our financial strength so that we can continue to support a higher than average exposure to these asset classes.

Our regulatory capital position is reported under the Solvency II requirements. The Society manages its capital to a higher level than the minimum requirement. This financial strength, along with

enhanced risk management, ensures we can grow the business without exposing policyholders to undue risk, particularly at times of market volatility such as those experienced over the year.

Reporting as a solo entity, our Solvency Ratio, a measure of our financial strength, was 373% at 31 December 2022, a increase from 306% in 2021. I believe the Society remains in a strong and resilient position.

OUR FOCUS FOR THE FUTURE

Our capital strength has enabled us to robustly withstand the turbulent economic and geopolitical conditions seen in 2022 and our FFA remains resilient with a healthy surplus. We are effecting ambitious plans to grow our business and starting to see the benefits of this work. We will continue making considerable investment to enable us to create and deliver improved returns for members.

This investment will be balanced between different end goals:

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

2023 is set to be another difficult year for our professional customers as they continue to deal with the cost of living challenges as well as uncertainty in their own professions. At the time of writing, the threat or reality of industrial action is impacting both teachers and doctors. This is set against a backdrop of volatility and uncertainty so we can expect to see customers having to make difficult choices in how to spend their hard-earned income. We will be there to support them through these difficult times and remain committed to creating brighter financial futures for them in every way we can.

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

GILLIAN CASS

Chief Financial Officer

30 March 2023



INVESTMENTS UPDATE



“ Our Investments team strive to achieve the best possible long-term returns for all Wesleyan’s customer funds. ”

MARTIN LAWRENCE
DIRECTOR OF INVESTMENTS

LOOKING BACK AT MARKETS IN 2022

The past few years have brought with them some astonishing events. A few years ago, nobody would have foreseen Covid. Then, in February 2022, when many of us were embracing life without lockdowns, Russia invaded Ukraine. The conflict has impacted countless lives while also putting a spanner in the world’s economic engine. Investment markets were shaken just as they had been cautiously stepping into the light beyond the pandemic tunnel.

Energy and food supply chains faced major disruptions for the remainder of the year, which led to soaring costs for businesses and consumers alike. Port and border backlogs meant that imports and exports slowly ground to a ‘halt’ too, resulting in delivery delays and supply shortages becoming the norm. As a result of this melting pot of issues, and other related factors, inflation rapidly climbed to its highest levels since the 1980s in many countries.

Central banks reacted by raising their interest rates throughout the year in a bid to bring inflation down to target levels of around 2%. Using the UK as an example, the Bank of England raised its base rate of interest from 0.25% to 3.5% in 2022, after several years of low interest rates. Similar rate-hiking actions were also taken in the US, Europe and other industrialised nations. This trend meant that borrowing costs for many households and businesses soared at a time when they were already stretched.

The tight collar of high interest rates around the globe restricted growth and led to broadly negative returns for bonds throughout the year. While UK equities recorded some of the strongest performance, equities as an asset class performed poorly overall, albeit better than bonds. Commercial and residential property values in the UK also fell towards the end of the year, largely due to fears of falling demand due to higher interest rates. However, our property portfolio achieved a positive return versus its industry benchmark.¹ While last year was a difficult period for multi-asset funds, which usually contain a mix of both bonds and equities, alongside other assets, the positive return on our property portfolio helped our multi-asset With Profits fund to achieve a return of -4.7%.

In the closing three months of the year, markets generally demonstrated a small recovery. The headlines that helped with their recovery included US inflation easing and China’s move to relax the stricter aspects of its ‘zero-Covid’ policy, which signalled that its all-important manufacturing sector would fully reopen for

business. Both events offered hope after the political and economic turbulence seen earlier in the year, including the negative market reaction to the UK’s ‘mini Budget’, which led to an unprecedented Bank of England bond-buying intervention, a new Chancellor, and a new Prime Minister.

Having worked in the investment industry for almost 30 years, what’s apparent is that the world is an increasingly unpredictable place. One way that we deal with this at Wesleyan is by following a long-term investment strategy.

THE IMPACT OF INFLATION ON CASH

Inflation in the UK is far beyond the Bank of England’s 2% target. In December 2022, it reached 10.5%. In the words of our Prime Minister Rishi Sunak: “Inflation is the enemy that makes everyone poorer”.

It’s bad news for those with cash savings, particularly if interest rates eventually fall, as they are expected to do. Investing is one way to give your savings a chance of beating inflation and its ability to reduce the ‘buying power’ of your money over time.

OUR AWARD-WINNING INVESTMENTS TEAM

Wesleyan’s in-house Fund and Property Managers, Analysts and Sustainable Investment (SI) professionals – our Investments team – bring our strategy to life. They strive to achieve the best possible long-term returns for all Wesleyan’s customer funds. To do this, they look to invest in businesses that can weather market storms with the ability to emerge in a safe harbour. The in-depth research they undertake before we invest in – or sell – a business is crucial to this approach, as is monitoring performance to ensure it remains on course. It’s a tried and tested route for us, but often requires patience.

Heading into 2022, we expected equities to outperform bonds and that UK equities would be the strongest performers among equity markets. Our team had positioned fund portfolios, where possible, for that outcome. As a result, while our multi-asset and equity-focused funds didn’t perform as we would have wanted them to at the start of the year, they were certainly cushioned from some of the worst market drops that 2022 served to investors.

¹ Source: MSCI Property Index

² For more information, please see the Fund Prices page on the website

Our lower-risk funds – which must hold a greater proportion of bonds – were less protected. This was an issue across the entire 'low-risk' investment market and not solely our funds. Pleasingly, despite headwinds, most of our directly-managed funds performed better than their benchmarks.

WHAT'S IN STORE FOR 2023?

The market outlook for the year ahead is more encouraging. Central banks should eventually lower interest rates as economies absorb high inflation. If this happens, the government bonds we held onto should recover, which would be good news for our funds with exposure to them.

Past performance is no indicator of future investment performance, but historic trends show us that when bonds are performing better – typically in a falling interest rate environment – equities can face barriers to growth, such as recessions. For that reason, expert stock picking will help our funds' equity allocations perform well. Our Analysts, who work alongside our Fund Managers, will play an integral role in this through their in-depth research – scrutinising companies' financial results and management strategies to make investment recommendations to the wider team.

All signs point towards more high-quality UK commercial property opportunities this year too, helped by the property market dip towards the end of last year. Our Fund Managers are also looking to buy more overseas assets and if sterling gains strength that will help them to secure opportunities at more competitive prices.

The year ahead will undoubtedly face a few obstacles that we will keep a close eye on. In January, the World Bank warned of a global recession in 2023; however, while a 'deep' recession would be a risk for markets, 'shallow' recessions can provide opportunities for innovation, especially for forward-looking businesses. In March, the failings of Silicon Valley Bank in the US and Credit Suisse in Europe brought back market volatility and memories of the global financial crisis, although it's worth remembering that banks have more capital and regulators more stringent standards in place than in 2008.

Persistent inflation is a risk in many markets and while requests for pay increases are a natural response at a time of rising prices, higher wages can further fuel inflation. As people have more money to spend again, goods and services become more expensive because of increased demand, making it a vicious circle. If inflation levels don't fall, central banks could have no option but to raise interest rates higher.

INVESTMENT TEAM OF THE YEAR

Our Investments team aim to outperform the markets over time to achieve strong returns to help members and customers reach their long-term financial goals.

In recognition of their work, they were named "Investment Team of the Year - Re/insurer" at the Insurance Asset Risk Awards 2023, which recognises firms across the UK and Europe. It's the second time our team has won this award.



SUSTAINABILITY

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OUR SUSTAINABILITY STRATEGY

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

2022 has seen progress in line with the overall expectations of the Society. There has been an increase in awareness of our priorities across the Group and a significant operational carbon reduction. These foundations enable a strong stance and clear direction going into 2023, with several key actions and deliverables detailed in this section of the report.

Our approach to sustainability continues to be governed by our recently updated Sustainability Strategy, which is approved by our Board of Directors.

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

 <p>ENVIRONMENTAL</p>	<p>Reducing our impact on global temperature increases, limiting Greenhouse Gas (GHG) emissions and therefore reducing our carbon footprint and pollution.</p>
 <p>SOCIAL</p>	<p>Tackling inequality both in and outside of Wesleyan, as well as helping our communities.</p>
 <p>GOVERNANCE</p>	<p>Following good governance practices and structures, including effective oversight from the Board to approve policies incorporating sustainability, and demonstrate compliance with all laws and regulations.</p>

OUR SUSTAINABILITY FRAMEWORK

To support the delivery of our goals we have an internal framework designed to focus our employees' efforts in key areas most relevant to our business: Sustainable Investing, Business Impact and Community and Citizenship. More details about each of these areas can be found on the pages that follow.

 <p>SUSTAINABLE INVESTING</p> <p>→ READ MORE ON PAGE 26</p>	 <p>BUSINESS IMPACT</p> <p>→ READ MORE ON PAGE 28</p>	 <p>COMMUNITY AND CITIZENSHIP</p> <p>→ READ MORE ON PAGE 31</p>
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OUR SUSTAINABILITY STRATEGY (CONTINUED)

WHAT WE HAVE DONE SO FAR

Against the backdrop of economic uncertainty we achieved the following key sustainability milestones:



Continued to implement the Sustainable Investing Policy, improving the sustainability of our investment portfolio ('Reducing Harm', 'Positive Impact', 'Driving Change').



Embedded the role of a Group Sustainability Manager to oversee all Group sustainability activities and the sustainability strategy.



Monitored the sustainability profile of our investments via ESG and carbon footprint benchmarks, ensuring alignment with targets set within our Sustainable Investing Policy.



Undertook customer research to understand preferences and utilised findings to update our Sustainable Investment Policy.



Became signatory members of the Financial Reporting Council (FRC) Stewardship Code.



Aligned our Community and Citizenship (C&C) activity to five United Nations (UN) Sustainable Development Goals (SDGs) most pertinent to our operations.



Aligned our carbon reduction plan with the Association of British Insurers (ABI) climate change roadmap to support the UK's net zero strategy. With this, and more scrutiny of our carbon footprint, we are on track to be operationally carbon neutral by the end of 2023.



Continued to roll out the EVolve company car scheme offering electric and low emission vehicles through salary sacrifice. This has been well received, with 118 orders placed in 2022.



Embedded sustainability throughout our new Procurement Charter and updated policies accordingly.



Reduced use of office space within our Birmingham Head Office to utilise space more efficiently, decreasing both operational carbon footprint and waste production.



WHAT'S NEXT

We have clear plans on how we will progress our sustainability strategy in 2023, embedding our ESG principles further across the business. To follow are some examples of work we plan to progress.



To meet our commitment to being totally carbon neutral by 2050 at the latest, we will set intermediate 2025 and 2030 targets for our total carbon footprint (including investments).



We will continue to rigorously challenge companies we invest in to ensure they align with our Sustainable Investing Policy.



We will keep sustainability issues front of mind for colleagues through regular updates and the delivery of sustainability and carbon literacy training.



We will introduce a 'Lived Experience Panel' to listen to the views of our communities, ensuring the work of Wesleyan Foundation supports them in the right way.



We will evolve the work of Wesleyan Foundation to further support the aims of the United Nations SDGs. In addition to supporting grass roots charities and our professions, funds will be available for projects supporting climate action and equality.



We will work closely with our Employee Network groups to develop a more collaborative and inclusive approach to recruitment and professional development. We will also collaborate with other key partners such as the Association of British Insurers (ABI).



We will continue to build a diverse senior leadership team that better represents our customers and communities.



We are working to achieve Disability Confident Leader (Level 3) status by 2024. By raising awareness and understanding of disabilities and long-term health conditions we will better support the needs of both current and future colleagues.

CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate change is a global challenge with local implications. All businesses must take responsibly for their role in making a difference and understand the implications for how they manage their activities.

In line with Government targets, the Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD) with the purpose of improving industry disclosure of climate-related risks and opportunities. Wesleyan is working towards ensuring our climate-related reporting is aligned to the TCFD framework recommendations. We plan to be fully compliant by the end of 2023, in line with regulatory requirements.

The TCFD recommendations cover four thematic areas: Governance, Strategy, Risk Management and Metrics and Targets. Our approach to managing climate change in these areas is summarised in this Report.



SUSTAINABLE INVESTING

Policymakers and regulators are holding professional investors to greater levels of account as part of international targets to help limit global warming. This is a positive development for the investment industry as it will help pave the way for a more sustainable world.

At Wesleyan, we know customers are increasingly concerned by what their investments are doing as well as how they're performing. While growth is of course a key aim for us, it's not at any cost.

We re-launched our Sustainable Investing Policy in October 2021, based on customer research and feedback. Being a mutual provides us the advantage of investing with a long-term approach, without pressure from shareholders to pursue short-term gains, which aligns with our sustainability commitment.

We firmly believe that sustainable businesses will be more profitable in the long term as they are more likely to be managed effectively in an ever-changing world - this impacts how our funds perform and the level of investment returns we can generate for everyone who invests with us.

OUR SUSTAINABLE INVESTING PRINCIPLES

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



REDUCING HARM

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



POSITIVE IMPACT

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



DRIVING CHANGE

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

Each of these principles has various rules associated with it, such as the type of businesses we can invest in and exclusions we must adhere to. We are signatories of the Principles for Responsible Investment, which is supported by the United Nations and outlines formal guidance for professional investors to align to in order to invest responsibly and sustainably. We are also signatories of the UK Stewardship Code 2020 which requires those investing money on behalf of UK savers and pensioners to meet high stewardship standards.

We invest in several social initiatives and support bodies that are dedicated to improving lives around the world, including the Access to Medicine Foundation, which tackles illness in poorer countries and Farm Animal Investment Risk and Return (FAIRR), an investor network focusing on ESG risks in the global food sector.



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

LUCAS HOWARTH
Fund Manager



Our Sustainable Investment Team

STEWARDSHIP

An important part of our sustainable investing work involves meeting management teams at the companies we invest in to delve further into their strategies, risks and performance. We are unafraid of voicing any concerns we may have or challenging decisions where appropriate and we use our voting rights accordingly. These decisions can range from Executive remuneration to environmental concerns and from safety track records to Board diversity and independence.

We firmly believe that engaging with companies is the most effective way to encourage them to make the changes we believe are needed to create value for shareholders and improve their ESG performance.



STEWARDSHIP IN ACTION



Wesleyan invests in a global manufacturer of construction machinery and equipment. Our Sustainable Investment (SI) team felt that the firm was not setting sufficiently challenging targets for carbon emission reductions or giving enough prominence to sustainability issues in its business strategy.

The manufacturer responded positively to our concerns and has since established the new leadership position of Chief Sustainability & Strategy Officer, reporting directly to the Chairman and CEO. The Board of Directors have also committed to incorporating ESG factors into the 2022 incentive plan for Executive Officers. This goes a long way to ensuring that sustainability metrics are central to the business.

The Sustainable Investing Team continues to work with their leadership to ensure further improvements are introduced.

PROGRESS SO FAR

POSITIVE IMPACT

<p>We are a top fifteen shareholder in a UK company that invests directly in infrastructure supporting the energy transition.</p>	<p>We have invested over £35m¹ into funds focused on sustainable energy production or infrastructure since the start of 2020.</p>  <p>£35m</p>	<p>We have nearly £100m¹ invested in companies contributing to social equality.</p> 	<p>We have over £400m¹ invested in companies contributing to the advancement of medical health and the fight against diseases.</p>
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¹ All figures and data as of 30 June 2022.

DRIVING CHANGE

<p>We are signatories of the Principles for Responsible Investment, Climate Action 100+, Access to Medicine Foundation, FAIRR and The Investor Forum.*</p> 	<p>We have met with the management of nearly 200 companies to encourage better business practices.</p> 	<p>In the past year, we also voted at nearly 500 company meetings, ensuring our voice as an investor was heard and encouraging sustainable behaviour.</p> 
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* More information is available on our website at www.wesleyan.co.uk/sustainable-investing

REDUCING HARM

<p>Prior to launching our Sustainable Investing Policy, we sold over £40m of investments that failed to meet our 'Reducing Harm' requirements.</p>  <p>£40m</p>	<p>Of that, £15m was sold from companies we believe weren't taking the threat of global warming seriously.</p>  <p>£15m</p>	<p>We do not have any exposure to companies that produce tobacco products.</p> 
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BUSINESS IMPACT



TRANSFORMING OUR ENVIRONMENT

Wesleyan's Property team aim to manage a sustainable, diverse, high-performing property portfolio to benefit our members and customers.

This approach has led to a redundant piece of land being transformed into a new outdoor space for the local community and office workers to enjoy, providing positive environmental benefits and creating a unique feature of one of our office development sites.

Wesleyan proactively varied the terms of the long lease of land in Ludwell Valley Park held from Exeter City Council. Having agreed consent for the 3.5 acre plot to be used for public enjoyment in 2021, we have now arranged for the management agreement to pass to Devon Wildlife Trust. They plan to create a woodland with around 1,000 new trees supplied by Wesleyan. Known as Pynes Copse, it will link to an adjacent nature reserve increasing the space available for the public to enjoy. The new woodland will also further increase the bio-diversity of the whole reserve.

“ The creation of Pynes Copse is a project which can only be positive for wildlife, the local community and our office occupiers. It is a tremendous example of re-purposing otherwise unusable land and we look forward to seeing the woodland grow. ”

PETER MILLIARD
Property Asset Manager

We are very conscious of the impact we have as a business on the wider world and include Business Impact as a core part of our Sustainability Strategy, aligning it to the United Nations Sustainable Development Goals most pertinent to us.

We seek to make a difference to our environment, our people and our communities. To follow are a selection of examples from across the Group demonstrating these goals.

ENVIRONMENTAL IMPACT

We have been managing the impact we have on the environment for many years and in 2021 crystallised our efforts by setting progressive targets to achieve carbon neutrality. We are committed to being operationally carbon neutral by the end of 2023 – and for the whole organisation, including our investments portfolio by 2050, at the latest.

We have taken steps to reduce our carbon footprint through a range of measures which you can see below and on the page opposite.

GREENER TRAVEL

Towards the end of 2021 we introduced a new salary sacrifice car scheme to support colleagues with a move to Electric (EV) or hybrid vehicles. Known as 'EVolve', our scheme went from strength to strength in 2022 as colleagues chose to reduce the impact of their personal and business miles in a tax efficient way. Based on the estimated annual mileage for those who have taken up the scheme so far, we predict around 2 million miles will now be undertaken on electric power rather than petrol or diesel over the duration of their leases.



WE PREDICT AROUND

2 MILLION MILES

WILL NOW BE UNDERTAKEN ON ELECTRIC POWER RATHER THAN PETROL OR DIESEL OVER THE DURATION OF THEIR LEASES.

We also enhanced our Cycle to Work scheme, increasing the value to £3,000 so colleagues have access to a new bike and/or equipment which they pay back through their salary in a tax efficient way. We also encourage colleagues to use public transport with additional discount schemes.

Another area where we have been able to reduce our environmental impact, while also offering greater flexibility to our customers, has been through increasing the number of online advice appointments, leading to a continued reduction in business travel. While it is important to meet our customers face-to-face, particularly when discussing key lifetime events, a level of flexibility to meet everyone's needs has continued to reap benefits.

PROTECTING OUR ENVIRONMENT

We are committed to reducing the impact our business has on the environment and monitor our activities through our Sustainability Committee and Group Operating Environment Committee. Activity already underway to meet our targets includes:

- ▶ In line with our digital first approach, we will continue to reduce use of paper and printing. We also reuse 80% of our printer toner cartridges with the remainder being recycled so none are sent to landfill or incineration.
- ▶ Ensuring sustainable practices in our offices by installing LED lighting and motion sensors to reduce lighting use and installation of instant boiling taps to reduce water usage. We replaced half of our Head Office boilers to improve their efficiency and we are also continuing to monitor environmental performance through monthly monitoring.
- ▶ Working with waste contractors to rationalise waste streams within the offices to ensure we meet our waste reduction and recycling targets.
- ▶ Our sustainability principles have been embedded into our updated procurement policies and new Procurement Charter. When choosing new suppliers, outsourcers and other business partners, we are capturing environmental performance data (including carbon footprint) on our supplier management system. We will continue to work with all suppliers as part of our long-term carbon strategy and will incorporate appropriate supplier metrics and targets more widely into our reporting in the future.
- ▶ We are proud signatories of the UK Business Group Alliance initiatives for Net Zero and for a green recovery from Covid in collaboration with the wider business community.
- ▶ To date we have donated £25,000 to fund the creation of four new sustainable woodlands across the UK, with the first being at Charlton School in Shropshire. In 2022 two further woodlands were created in Wales and Scotland, with the final one in Northern Ireland due in early 2023.

COMMUNITY IMPACT

Making a difference to our communities sits at the core of our charitable and volunteering work. An example of this is Villa Vision - a scheme delivering eye health care to children from deprived areas of Birmingham. Its programmes are designed to increase access to eye health education and care and to dispense glasses to children who need them.

£20,000 donated from the Wesleyan Foundation helped Villa Vision to evaluate the impact of its work to date which, over three years, has reached approximately 5,500 children across the West Midlands.

The research highlighted the importance of having eye health as part of the curriculum and the clear benefits of the project. Children in participating schools were shown to do better in reading efficiency tests than would otherwise be expected based on comparable schools and national averages. Teachers also reported that sight tests and provision of glasses had improved children's engagement in class and had helped them manage their anxieties.

The findings will be published in peer-reviewed journals, online and in newsletters to share knowledge gained.



SUPPORTING SUSTAINABLE ENERGY

In 2021, Wesleyan acquired South Staffordshire Green Park, a 43 acre site close to Wolverhampton dedicated to environmentally friendly businesses including a large solar farm.

Lightsource BP, a global leader in solar development projects, has the lease on the solar farm until March 2041, which aligns well with our sustainable investing approach of reducing harm, making a positive impact and driving change. There is potential for future expansion which would allow more renewable energy to be produced at the site.

Last year we began discussions with a sustainable energy provider to share renewable energy from our site across the M54 motorway to a neighbouring development with many industrial businesses.

“South Staffordshire Green Park not only aligns with our sustainable investing values but also ensures further diversification of our property portfolio. We are busy identifying other sustainable investment opportunities across the UK.”

JOE CURLETT
Head of Property

BUSINESS IMPACT CONTINUED

CULTURAL IMPACT

Enhancing our culture is a core part of our business strategy. We are committed to building a business which values equality and diversity, where colleagues can thrive in an inclusive culture. Our Equality, Diversity and Inclusion (EDI) strategy is the supporting framework to embed this throughout Wesleyan. It sets out our priorities for creating a culture that makes Wesleyan a better place for everyone to work and where all colleagues are treated with respect and dignity.

We are working to create a more inclusive senior leadership team and in 2022 aimed to ensure 35% of the team were women and 15% from a Black Asian minority ethnic (BAME) background. We were pleased to end the year with 38% of women on the team but narrowly missed our target for BAME colleagues with 14% representation. We will continue to ensure all Senior Leader vacancies have a diverse shortlist and increase our focus on talent management and succession planning so we maximise the potential to grow our own diverse talent pipeline.

In 2023 we will further embed our EDI strategy across all areas of our business and engender greater ownership and accountability at all levels.

We are targeting a wider number of inclusivity indicators, rather than a sole focus on representation, ensuring we shine a light on the areas that matter to our colleagues.

We also plan to increase our community engagement to showcase Wesleyan as an employer of choice for all of our diverse communities. This includes continuing our work with the 10,000 Black Interns Programme to provide a period of structured and paid work experience to Black students (see page 13). To develop broader stakeholder relationships and share best practice to enhance the work we are already doing, we'll continue working with our regulators, industry partners and other related groups.



TAKING EQUALITY, DIVERSITY AND INCLUSION BEYOND BOX-TICKING

Wesleyan, along with a group of like-minded businesses, played a part in championing research conducted by the Centre for Women's Enterprise, Leadership, Economy and Diversity (WE LEAD) at the University of York. The research focused on how to ensure under-represented groups are valued members of their organisations and have the same opportunity as other colleagues to advance and grow. Key insights of the report were shared at an event hosted at Wesleyan's Head Office with guest speakers including our Group Chief Executive Mario Mazzocchi and Andy Street, Mayor of the West Midlands.

EMPLOYEE NETWORKS

We encourage our colleagues to join at least one of our employee networks so we can work together to shape our culture and create change.



BEME: BLACK, ETHNIC MINORITY AND EVERYONE

Bringing us closer together by enhancing our cultural awareness of Black, Asian and minority ethnic (BAME) communities and supporting their development.



NEW: NETWORK FOR EMPLOYEE WELLBEING

Raising awareness and promoting understanding of both physical and mental health and breaking the stigma surrounding it.



GEN: GENDER

Promoting an inclusive working environment to create gender equality at all levels.



OMG! OPEN MINDS GROUP

Supporting LGBT+ colleagues and Allies so they can truly be themselves in the workplace.





COMMUNITY & CITIZENSHIP

As a mutual we have a strong ethos of care and strive to be a good corporate citizen. We aspire to make a difference for our members, our colleagues and for the communities we serve. To follow is just a snapshot of some of the support offered to our communities in 2022.

WESLEYAN FOUNDATION

The Foundation provides funding to charities, grassroots, volunteer and community-led projects that make a real difference with a focus on four key areas - health and wellbeing, education, innovation and social development. Since it was launched in 2017, the Foundation has donated over £5m and supported more than 500 different charities, positively impacting the lives of an estimated 100,000 people throughout the UK. It aims to support great causes that are important to our members and the communities in which they live and work.

Almost half of the donations in 2022 were made to smaller grass roots organisations doing invaluable work in difficult circumstances as they dealt with the continued fallout from the pandemic, compounded by cost of living pressures.

Many of these projects focused on improving health and wellbeing, including support for the Nottingham Multiple Sclerosis Therapy Centre and InterAct Stroke Support in Wales. There was funding for carers in the West Midlands, homelessness in Leeds and a social walking project in Bristol. We also supported a number of social mobility projects in Nottingham, Wales and Scotland helping people in areas of high levels of deprivation get back into work or education.

The Foundation helped communities to take on the challenge of the cost of living by funding community cooking, kitchens, and education programmes.

In October, we launched our 'Winter of Giving' Fund in recognition of the impact difficult economic conditions are having on the charitable sector. 48 charities received £2,200 each to help them with their vital work. You can read more on this project on page 33.

If you know of an organisation that would benefit from a grant from the Foundation please visit wesleyanfoundation.co.uk to find out how to apply.

You can read more about the work of the Foundation over the page.

VOLUNTEERING PROGRAMME

We actively encourage colleagues to take part in volunteering projects so they can make a real difference to causes and communities that are important to them. Everyone is offered two days paid volunteering leave each year, giving colleagues the chance to use their talents and develop new skills while making a real difference to other people's lives.

In 2022, colleagues registered a total of 2,292 volunteering hours working on a range of activities from supporting foodbanks, working in schools, providing strategic advice to charities, advising on cyber security and fundraising. You could also find them painting, gardening and knitting all in support of a good cause.

Volunteering days are often carried out in teams helping to build strong working relationships, further enhancing our culture of care.



BIRMINGHAM CITY MISSION'S TOYLINK PROJECT

Each year this charity delivers sacks of toys to families in need and relies on volunteers to carefully select and wrap gifts for children and load them into sacks ready for delivery. More than 70 Wesleyan colleagues took time out at Christmas to support the project offering around 220 volunteering hours to the charity. Wesleyan also donated £1,800 towards toys.

As one colleague said:

“It's often difficult to feel like you have made a difference over a short time frame but this was something really tangible that we could contribute to and I am delighted to have been involved in providing help to families who needed it at Christmas.”

WESLEYAN FOUNDATION: BRINGING OUR MUTUAL VALUES TO LIFE

In addition to helping community projects as shown on the previous page, the Foundation exists to support good causes that align with the work of our medical, dental and education professionals. To follow are some of the projects we supported in 2022.

INVESTING IN THE NEXT GENERATION OF DOCTORS

We were pleased to extend our partnership with Aston University over the year with a project addressing the ongoing shortage of doctors by increasing representation of students from lower socio-economic groups.

Supported by a £100,000 donation from the Foundation over the next three years, Aston University have launched the 'Wesleyan Pathway to Medicine and Pathway to Healthcare' programmes.

Designed to help young people from non-traditional backgrounds pursue careers in medicine and healthcare, the programmes will bring new talent to the sector and create a more diverse pipeline of medics and healthcare professionals.

Aston University offer support not readily available to these students earlier in their education to give them a better chance of studying healthcare disciplines at university. This includes work experience, guidance on how to make a successful university application and support to achieve the right academic qualifications.

Commenting on the partnership, Professor Aleks Subic, Vice-Chancellor and Chief Executive at Aston University, said: "Our Pathways programmes are an amazing asset, extending learning opportunities to students aged 16-18 across the West Midlands region and providing them with the skills and confidence to apply to university courses centred around medicine and healthcare professions.

“ This generous donation from the Wesleyan Foundation will make a profound difference to the lives of pupils across the region and will provide significant support to those entering the healthcare sector. Thank you Wesleyan Foundation for your generous support. ”



THE STORY OF SAVVY SAVINGS

We're committed to supporting the customers of tomorrow to understand the importance of personal finance today. That's why we were delighted to support the Little Chicks Life Lessons Education programme, a ground-breaking initiative focused on building confidence, self-belief and financial awareness in children.

Funding of almost £80,000 from the Wesleyan Foundation enabled the Little Chicks Life Lessons programme to be delivered to ten primary schools across the West Midlands. It provided 9,450 books and reached around 3,150 children.

Wesleyan also supported the publication and distribution of two new books, including one specifically created in partnership to introduce early awareness and increase children's understanding about the importance of forming healthy financial habits.

As part of the support, Wesleyan's specialist financial advisers delivered financial wellbeing workshops and webinars to every teacher within the funded schools.

Alison Delaney, founder of the programme said: "On behalf of all the children, teachers and schools that participated in the programme and benefitted from the funding provided by Wesleyan, I want to say a huge and heartfelt thank you. Your support will have a positive impact on the confidence, skills and prospects of the young children in our region and help them to develop their aspirations and dreams as they go through life."

Nadeem Bashir, Principal at Shirestone Academy, one of the participating schools added: "The Little Chicks Life Lessons programme has had a such a positive impact on our children and teachers, inspiring them to explore their dreams and aspirations in a creative and structured way, as well as developing their financial awareness at an early age.

“ We are thankful to Little Chicks Life Lessons and to Wesleyan for the dedicated resources provided to our school and the wider support for our teachers. ”



WINTER OF GIVING

The cost of living crisis is being acutely felt in the charity sector so to offer some much needed support we launched our Winter of Giving initiative in October 2022. Wesleyan members and colleagues were invited to nominate good causes that play a vital role addressing issues around health and wellbeing, education, equality and sustainability. 48 charities across the UK benefitted from the Wesleyan Winter of Giving Fund. Each organisation selected received £2,200 and this included support for healthcare, homelessness, women’s aid, veterans and children’s charities.

Whizz-Kidz, a charity aimed at reducing inequalities and building a more inclusive society for those who need mobility support was one of the recipients. The charity will use the funding to help young people to access the mobility equipment they need to live as independently as possible.

Sarah Pugh, Chief Executive at Whizz-Kidz said:

“ We know that this winter is particularly challenging for many and this is putting even more pressure on vital services. This funding from the Wesleyan Foundation will make a great difference to the young people we’re supporting. ”

MEMBERS MAKING A DIFFERENCE

We want our members to play an active role in our business and so we committed to donate £5 to Magic Breakfast for each vote made at the 2022 AGM. These votes translated into the equivalent of 150,000 healthy breakfasts for disadvantaged children and young people through a £21,000 donation from the Foundation.

At least 2.6m children are at risk of starting their day without a healthy breakfast which has a huge impact on their learning and behaviour. Magic Breakfast works with over 1,000 schools in disadvantaged areas of the UK to ensure no child is too hungry to learn They offer free, healthy breakfasts daily and provide expert support to schools.

Catherine Mackenzie, Head of Corporate Partnerships at Magic Breakfast, said: “The current cost of living crisis is really stretching family finances and this is sadly having a knock-on effect on the number of children and young people at risk of going to school hungry. When a child is hungry, they cannot learn and this impacts their education and life chances.”

“ We are incredibly grateful to Wesleyan Foundation for their generous donation which enabled us to provide free, nutritious breakfasts to more pupils across the UK, giving them the chance to reach their full potential. ”



MANAGING SUSTAINABILITY

GOVERNANCE

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

Accountability for managing climate-related risks and opportunities is embedded into individual business areas and is facilitated by various Board and Executive level committees. For more information about how our Board Committees support our work to embed sustainability see pages 53 to 57.

The **Wesleyan Financial Services Board** is responsible for overseeing the provision of high-quality financial advice to our customers to help create brighter financial futures for the professions we all trust. This includes meeting our customers' views on their ESG preferences wherever possible.

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

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

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

Other climate-related activity completed during 2022 reported through the Sustainability Committee included:

- ▶ **Horizon scanning:** considering latest market developments for sustainability activity from our customers, competitors, regulators, and any legal developments. This information helps us to assess any reputational risks and prioritise our sustainability work.
- ▶ **Sustainability communications:** reviewing sustainability messages in customer brochures and other marketing materials, analysing customer and employee engagement feedback on sustainability views and contributing to external climate-related surveys and development of corporate communications on sustainability.
- ▶ **Customer feedback:** reviewing feedback from customer surveys and assessing whether our approach to sustainability is meeting our customers' needs.

- ▶ **Carbon Footprint:** reviewing third party reports on our carbon footprint and agreeing plans to manage / reduce / offset our carbon footprint.

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

The **Group Operating Environment Committee** is responsible for managing aspects of day-to-day business operations to meet the Society's business plan. This includes delivering various elements of the Board's climate strategy such as switching our energy supply to more renewable sources, moving towards becoming a paperless office, capturing data on our suppliers' carbon footprint and accessibility to more sustainable modes of transport.

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

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

RISK MANAGEMENT

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

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

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



FLOOD RISK MITIGATION

As responsible investors in commercial property, Wesleyan aims to proactively mitigate against possible flood risk by putting due focus on factors like insurability, ongoing maintenance costs and likely impact on value. We therefore feel the management of flood risk falls within our governance strategy.

In 2022 we completed a flood risk assessment on our property portfolio – an important and progressive risk management step. Over 95% of our portfolio is located in low or very low risk areas. The small number of assets identified as medium or high risk have, to our knowledge, never flooded. We will however continue to reduce our exposure to assets in these areas.

We have identified the following climate-related risks and opportunities which may have a material financial impact on the Society, considered over short (0-5 years), medium (5-10 years) and long (10 years +) term time horizons:

CLIMATE CHANGE RISKS

TRANSITION RISKS	DESCRIPTION	TIMEFRAME	POTENTIAL IMPACT
Market	Market Risk due to the value of equities held by the Society falling, e.g. from the repricing of carbon intensive assets	Medium term	Lower policyholder returns and reduced capital strength
Credit	Credit risk on bond assets due to higher costs to tackle climate change	Medium term	Lower policyholder returns and reduced capital strength
Reputational / Business	Failure to develop sustainable products / funds or to take action to become operationally sustainable	Short term	Reduced revenue and profitability
Property	Costs of meeting minimum energy-efficient standards for property investments	Short term	Lower policyholder returns and reduced capital strength
Regulatory	Costs to comply with climate-related regulatory requirements	Short term	Reduced profitability
Operational/ Technology	Provision of sustainability information and technological advancements to manage climate risks and opportunities more effectively	Medium term	Reduced profitability

PHYSICAL RISKS	DESCRIPTION	TIMEFRAME	POTENTIAL IMPACT
Market	Economic crisis events due to food shortages, pollution, political disruption etc.	Long term	Lower policyholder returns and decreased capital strength
Insurance	Increased sickness or mortality risks due to climate effects	Long term	Lower policyholder returns and decreased capital strength
Property	Losses from physical damage (e.g. due to flooding) on direct property investments	Long term	Lower policyholder returns and decreased capital strength
Operational	Failure of material outsourcers / strategic business partners due to climate impacts	Medium term	Decreased profitability

CLIMATE CHANGE OPPORTUNITIES

OPPORTUNITIES	DESCRIPTION	TIMEFRAME	POTENTIAL IMPACT
Customer Offering/Brand	Building on our mutuality to provide sustainable advice, products, services and operations to improve customer experience, employee satisfaction and the environment	Short term	Increased revenue and reduced harm to the environment
Resilience	Flexible working, reduced travel and lower costs from being a climate resilient business	Short term	Increased profitability and reduced harm to the environment
Market	Strengthening our Sustainable Investment Principles and investing in well-governed, sustainable businesses for the long term	Long term	Higher policyholder returns and increased capital strength

Climate risk and opportunities are also embedded into our Integrated Risk Management Framework and through scenario testing. Rather than treating climate risk as a separate risk type, we manage this as part of other risk types within the Framework.

MANAGING SUSTAINABILITY CONTINUED

CLIMATE RELATED RISKS

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

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

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

The climate-related regulatory landscape is continually developing. However, our risk management function is appropriately resourced, and the processes, systems, and controls are in place within our overall Risk Management Framework to ensure that we are effective in managing any regulatory risks from climate change. Whilst not exhaustive, examples of how we are meeting a number of the most pertinent regulations can be seen below:

- ▶ **PRA SS3/19: Enhancing the approach of banks and insurers to managing the financial risks from climate change:** Ensure a comprehensive set of requirements covering all aspects of managing climate-related financial risks - including Governance, Risk Management (identification, measurement, risk appetite, assessment, limits, monitoring, reporting, mitigation), Scenario Analysis and Public Disclosure.
- ▶ **FCA PS21/24: Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers:** TCFD compliant reporting is required at both entity and individual fund level to be published before 30 June 2024.
- ▶ **FCA PS19/13: Improving shareholder engagement and increasing transparency around stewardship:** Publication of our Shareholder Engagement policy (including ESG matters) on our website, which applies to all funds under management of Wesleyan Assurance Society, including the Wesleyan Staff Pension Scheme (WSPS) and Wesleyan Unit Trust Managers (WUTM). Additional disclosures required from insurers on their fund management arrangements under the Shareholder Rights Directive II (SRD II) are published within the Society's annual Solvency and Financial Condition Report (SFCR).
- ▶ **FCA PS19/30 Independent Governance Committees: Extension of remit:** The Governance Advisory Arrangement (GAA) annual 'Value for Money' assessments of the Wesleyan Staff Group Personal Pension Scheme and the Wesleyan Workplace Personal Pension Plans are now required to incorporate our ESG factors, Non-Financial Matters and Stewardship activity.

INDUSTRY BEST PRACTICE

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

CLIMATE-RELATED STANDARDS AND ORGANISATIONS	HOW WESLEYAN IS RESPONDING
UN Principles for Responsible Investment (PRI)	As a PRI member and signatory, we are fully committed to responsible investment; our Sustainable Investing policy is aligned to the six UN Principles for Responsible Investment
Climate Action 100+	Through the PRI, we support this investor led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change
Financial Reporting Council (FRC) Stewardship Code 2020	As part of our 'Driving Change' strategy, we commit to meeting the standards of the Stewardship Code as signatory members
Greenhouse Gas (GHG) Protocol	We comply with this standard when accounting for greenhouse gas (including carbon) emissions and ensure it is used as the basis for the calculation of our carbon footprint
ISO 14001 Environmental Management Systems Standard	Working in the spirit of this standard helps us build an effective environmental management system (EMS) to improve the environmental performance of our business operations
UN Sustainable Development Goals	We target our sustainability activity towards meeting the United Nations sustainable development goals (SDGs) most appropriate to Wesleyan – see Community and Citizenship section of the report

METRICS AND TARGETS

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

KEY METRICS

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

SUSTAINABLE INVESTING	2022	2021	2020
Carbon intensity of Society assets (tCO ₂ e / £100k invested)	7.1	7.4	10.4
Number of funds with carbon intensity better than benchmark	9/10	9/10	9/10
Number of funds with ESG rating better than benchmark	10/10	10/10	10/10
% of property investments in terms of value with A or B EPC rating	34.3%	24.8%	Not available
% of property investments in terms of value with D or higher EPC rating	94.4%	86.9%	Not available
BUSINESS IMPACT			
Market based ¹ Scope 1 Carbon Footprint (Location based) ²	458tCO ₂ e (458tCO ₂ e)	739tCO ₂ e	558tCO ₂ e
Market based Scope 2 Carbon Footprint (Location based)	5tCO ₂ e (436tCO ₂ e)	584tCO ₂ e	1,051tCO ₂ e
Market based Scope 3 Carbon Footprint ³ (Location based)	539tCO ₂ e (544tCO ₂ e)	471tCO ₂ e	368tCO ₂ e
Market based Total Carbon Footprint (Location based)	1,002tCO ₂ e (1,443tCO ₂ e)	1,794tCO ₂ e	1,977tCO ₂ e
Market based Carbon Footprint per employee ⁴ (Location based)	0.7tCO ₂ e (1.0tCO ₂ e)	1.2tCO ₂ e	1.3tCO ₂ e
Waste Generated	35.8 Tonnes	28.4 Tonnes	Not available
% waste to landfill ⁵	3.3%	1.8%	Not applicable
Paper usage	1,065,625 sheets	947,790 sheets	1,065,126 sheets
Water usage	3,352m ³	4,462m ³	2,573m ³
Electricity usage	2,212,660 kWh	2,749,983 kWh	2,891,054 kWh
Gas usage	2,643,458 kWh	3,495,188 kWh	3,156,707 kWh
Total energy usage ⁶	4,856,118 kWh	6,245,171 kWh	6,048,761 kWh
% Electricity from renewable sources	100%	35%	9%
COMMUNITY AND CITIZENSHIP			
Amount of money donated via Wesleyan Foundation	£1,006,000	£960,000	£854,000
Other charitable donations	£88,000	£85,000	£17,000
Number of volunteering days	327	105	67

Notes:

Scope 1 represents our direct emissions such as use of natural gas and company car travel. Scope 2 represents indirect energy emissions, predominantly our use of purchased electricity - see below definitions of market and location-based carbon. Scope 3 represents all other indirect emissions such as homeworking, waste and water usage.

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

- ▶ There is material uncertainty relating to the estimate of the carbon footprint generated by homeworking. The carbon footprint relating to homeworking assumes the information received from employees who responded to our homeworking survey is representative of our total workforce. Surveys take place at six monthly intervals and are supported by questions from a third party consultancy to ensure appropriate questions are asked.
- ▶ Due to the sale of Wesleyan Bank on 28 February 2022, there was a reduction of scope as two of our smaller sites were removed from the portfolio. As such there were fewer buildings included in reporting from March onwards and there was a reduction in staff members. In addition homeworking has increased, meaning we have reduced our office space since the start of 2020. Both of these factors have reduced our electricity and gas usage.
- ▶ There continues to be methodology changes from the original 2020 baseline year. In particular, homeworking now includes all homeworking. In 2020 this included only those employees formally recognised as homeworkers.
- ▶ Overall, we would expect our actual carbon footprint to be within +/- 14% of the figures quoted. The total market-based carbon footprint for 2022 is broken down as approximately 0% (2021: 35%) from electricity usage as we now only utilise electricity from guaranteed renewable sources, 49% (2020: 40%) from gas usage, 29% (2020: 20%) from homeworking, with other items derived from travel and transport making up the remaining 22% (2020: 17%)
- ▶ Key items currently excluded from our carbon footprint calculations include: employee commuting; indirect carbon footprint from suppliers; emissions derived from the companies we invest in; and, carbon produced by tenants in our investment properties (including tenants in our head office). The carbon footprint of the companies we invest in is significantly higher than Wesleyan's own operational carbon footprint; we have made a commitment to be carbon zero including our investment portfolio by the end of 2050.

*Figures listed above have been rounded to the nearest whole number.

- 1 Market based carbon is defined as 'emissions derived from electricity that companies have purposefully chosen based on their source'. In this instance Wesleyan have chosen to only procure electricity from certified renewable sources.
- 2 Location based carbon is defined as 'emissions derived from the National Grid and therefore reflects the average emissions intensity of grids on which energy consumption occurs.'
- 3 Due to availability, only certain items are currently included within scope 3: Employee travel, Homeworking, Waste and Water. Excluded from scope 3 are the carbon footprint from our suppliers, staff commuting to fixed office locations and the companies we invest in.
- 4 Based on average employee numbers across the year from 01/01/2022 to 31/12/2022.
- 5 Waste to landfill figures are quoted from the recycling rate of the whole waste facility used as the waste contractor is unable to separate Wesleyan only waste from the total volume processed each calendar month.
- 6 kWh consumption taken from utilities bills issued by utilities providers which are cross referenced by third party consultant to be built into overall footprint calculation.

MANAGING SUSTAINABILITY CONTINUED

KEY TARGETS

1. We will be operationally carbon neutral by the end of 2023. We have already taken positive steps towards achieving this by changing our suppliers to renewable energy, replacing half of the boilers within Head Office to be more efficient and through the introduction of our electric vehicle scheme. Once the carbon reduction hierarchy has been applied, we may need to utilise offsetting to help achieve this objective for all carbon which cannot be mitigated. Any offsetting undertaken will also be subject to full scrutiny to ensure it meets the requirements of our overarching strategies.
2. We expect all our funds to have a carbon intensity and ESG rating better than benchmark. At year end 2022, we had one fund whose carbon intensity was worse than benchmark; action has been taken to bring the fund back above benchmark within 60 working days.
3. Work with our employees to better understand the carbon impact associated with homeworking and introduce training modules to detail how employees can be more efficient both in the office and at home.
4. To drive change through our investment property portfolio, 100% of Wesleyan property will have an EPC rating of D or higher in accordance with the Governmental 2020 target.

We will be carbon net zero across the organisation, including our investment portfolio, by the end of 2050. This may include offsetting. This aligns to the UK target to be net zero by 2050. The steps taken to support the reduction to our operational carbon footprint will support this. We will carry out further work in 2023 to develop a Carbon Strategy and robust roadmap to 2050.

OPERATIONAL CARBON FOOTPRINT REDUCTION

In 2020 we set the target to reduce our carbon footprint per employee (before offsetting) by over 50% by year end 2022. For these purposes we measure our carbon footprint using market-based measures.

On a like for like basis, we achieved this target, however the carbon footprint shown in the table on the previous page for year end 2022 is higher as we have now widened the scope of what we have included within our carbon footprint calculation. In particular, we now include all homeworking within our operational carbon footprint calculation, this includes hybrid working.



NON-FINANCIAL INFORMATION

We aim to comply with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. This table seeks to demonstrate the Group’s position in key areas. Information relating to Social and Environmental Matters can be found on pages 23 to 34.

EMPLOYEES

Policies, Guidance and Statements

- ▶ Employee Conduct Policy
- ▶ Employee Assistance Programme
- ▶ Career Break Policy
- ▶ Talent and Development Policy
- ▶ Family Leave Policy
- ▶ Flexible Working Policy
- ▶ Health and Safety Policy
- ▶ Inclusion & Diversity Policy
- ▶ Workplace Adjustments Policy

Initiatives

- ▶ Partnership Council, an enhanced employee consultative body reports to the People, Culture and Governance Committee (PCGC)/Board. It has a named Non-Executive Director representative and has a say on key issues impacting colleagues;
- ▶ Revised our pay rise approach to link increases to individual performance, rewarding colleagues for their unique contributions to the delivery of our strategy and contribution to our culture;
- ▶ Supporting colleague development through use of the apprenticeship levy;
- ▶ Embedded our Smart Working guidance to enable employees to work when, and where, is most effective for themselves, their customers and the business;
- ▶ Employee Engagement – Employee Opinion Survey undertaken on a bi-annual basis as a minimum;
- ▶ Annual employee census to encourage disclosure and ensure accuracy of our Equality, Diversity and Inclusion (ED&I) data;
- ▶ Employee Networks continue to help shape our culture and drive change;
- ▶ Recruitment charter to hold our partners to account when it comes to ED&I, ensuring more representative recruitment;
- ▶ Be Well at Wesleyan – internal wellbeing strategy to actively support the mental health and wellbeing of employees;
- ▶ Wellspace – our new employee wellbeing hub with resources, supportive guidance and wellbeing challenges; and,
- ▶ Mandatory Mental Health training for managers.

ANTI-CORRUPTION AND ANTI-BRIBERY

Policies, Guidance and Statements

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

Initiatives

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

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

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

RESPECT FOR HUMAN RIGHTS

Policies, Guidance and Statements

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

OUR RISKS

MANAGING OUR RISKS

We accept risk in order to deliver our strategic objectives for the Society, recognising the need to balance risk and reward. Our reputation and relationship with our customers is vital and we will always treat them fairly and act to deliver good customer outcomes. In order to meet the needs of our current and future customers, we will ensure that we remain financially strong and, even in extreme circumstances, able to meet our financial obligations as they fall due.

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

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

RISK MANAGEMENT FRAMEWORK

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

- ▶ The definition of Wesleyan's appetite for our key risk types;
- ▶ A governance structure that gives sufficient focus to risk issues, with clearly defined roles and responsibilities;
- ▶ Management information such as Early Warning Indicators, Key Risk Indicators and Key Performance Indicators, which report our position relative to our risk appetite;
- ▶ A review of the significant internal and external risks that may impact us and/or our customers;
- ▶ Significant new emerging risks are considered and reviewed and reported on a regular basis;
- ▶ A risk identification, categorisation and assessment methodology for operational risks;
- ▶ An Own Risk and Solvency Assessment (ORSA), which includes a forward-looking view of the risks faced by the Society and projections of our financial strength under a range of scenarios;
- ▶ An Operational Resilience Policy and Framework which requires the assessment of our ability to provide Important Business Services (IBSs) to our customers in the event of severe disruption;
- ▶ Risk identification, management and governance procedures for major change initiatives;
- ▶ Detailed review of and reporting on certain material risks, including financial risks arising from climate change;
- ▶ Comprehensive risk and regulatory training and tone from the top to encourage open discussion across the business about risk and develop an effective risk culture.

GOVERNANCE AND OVERSIGHT

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

LINES OF DEFENCE

01

Business Operations

Business operations have primary responsibility to directly own services and their associated risks, to implement an appropriate control framework, policies and systems to manage risks effectively. This includes appropriate identification, assessment (severity/likelihood) and reporting of risks.



02

Risk and Regulatory Function

The second line consists of the Risk & Regulatory team. The primary responsibility of the second line is to provide expert advice, guidance on risk appetite, governance and the Risk Management Framework. Also to, define key components of the Risk Management Framework and provide assurance that risks are being effectively managed across the Society.



03

Internal Audit

The third line consists of the Internal Audit team. The third line's primary responsibility is to provide independent assurance over the effectiveness of the systems of control, offer independent challenge to the levels of assurance provided by business operations and second line functions.

OUR RISK APPETITE

Underpinning our management of risk is Wesleyan's risk appetite, which is set by the Board and details the amount of risk we are prepared to accept in pursuit of our business objectives. Any new risk exposure, or change to any existing risk exposure, is considered in light of the risk appetite before being accepted. Our risk appetite is further broken down into the key elements of Reputation, Capital, Business, Conduct and Operational, each having their own risk appetite. Our Risk Appetite Statement and the statements for each element are shown in the table overleaf.

The Board regularly reviews and monitors our risk profile and risk limits against the approved risk appetite for each element individually and also the aggregate impact on strategic objectives. In addition to the five key elements detailed previously, the Society closely monitors its Market, Insurance, Liquidity and Credit risks against appropriate limits. The Risk Appetite Statements for each are shown on page 42.

As a business, we accept risk to deliver our strategic objectives and recognise the need to balance risk and reward. A key tool in helping to achieve this is the Own Risk and Solvency Assessment (ORSA). This process is conducted at least annually or if our risk profile undergoes a material change. We look at the years ahead and ensure that all of the risks to which we might be exposed are identified, measured, monitored, managed and reported. This also supports capital planning and strategic business planning.

Our Internal Capital requirements are analysed as part of the ORSA process. These are defined as the capital required to stay within our capital risk appetite, both now and across the three-year business planning period. We also consider longer term capital projections over ten years. We set our capital risk appetite at a higher level than the minimum regulatory requirements, in line with our strategy of maintaining financial strength.



OUR RISKS CONTINUED

RISK APPETITE STATEMENTS

Our appetite for key risks is shared in the following tables. The appetite rating is based on the following categorisation of levels of risk:

Risk Appetite	No	Minimal	Low	Moderate	High
Risk Preference	Strongly avoid wherever possible	Avoid where possible	Tend to avoid	Neutral/Tend to Seek	Actively Seek

RISK TYPE	RISK APPETITE STATEMENT
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 cause 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 deliver good outcomes for our customers.
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 1 in 2000 event, which is our Internal Capital Requirement (ICR).
Business	The Society seeks to monitor and react to external developments to ensure that it maintains/improves its low to moderate business risk profile over the longer term. This includes: <ul style="list-style-type: none"> ▶ 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: <ul style="list-style-type: none"> ▶ Customer outcomes ▶ Long term financial and operational performance
Conduct	Wesleyan has no 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 good outcome is achieved.
Operational	We have minimal appetite for regulatory or mis-selling risk. We have a low appetite for other operational risk exposures, and we will operate with an appropriate control environment based on evaluation of the costs of risk reduction.

RISK TYPE	RISK APPETITE STATEMENT
Market	Wesleyan accepts market risk on behalf of its With Profits, Unit Linked and Unit Trust policyholders. Market risk is also borne by the Estate in order to provide long term capital growth and to support the Society's mutuality benefit plans. The Market Risk Appetite for each policyholder fund is defined in terms of the policyholders' attitude to risk (ATR) levels; the current Market Risk Appetite levels for the With Profits Fund and for the Estate (i.e. our Capital) are both Moderate.
Credit	We have a low appetite for Credit risk (investment default) and will focus on investment grade corporate bonds and deposit cash with highly rated institutions, collateralise any non-cash investments with banks and reduce credit concentration risk where practicable through appropriate investment diversification. Similarly, we will target low appetite for Credit risk from reinsurer default.
Insurance	We have a low/moderate appetite for Insurance risk, with more appetite for risk types that meet customer needs and are an essential part of our customer proposition and less appetite for other types of insurance risk (lapse and expense). We predominately accept longevity and morbidity risk and we acknowledge that these risks will give rise to unexpected losses from time to time.
Liquidity	We have a low appetite for Liquidity risk, ensuring that we are able to meet our financial obligations under stressed conditions.

IDENTIFYING AND MANAGING THE IMPACT OF RISK

A reporting process is in place to monitor our risk profile and ensure we stay within our agreed risk appetite. This is reviewed monthly by the Group Executive and at each meeting of the Risk Committee before being presented to Board.

The qualitative element to cover more subjective risks such as Strategic, Reputational and Regulatory are assessed using the Integrated Risk Profile (IRP) during each ORSA process. This uses a combination of qualitative and quantitative measures and ranks them in order of significance. The IRP is agreed between the Risk function and the wider business.

For the qualitative elements, it incorporates output from the following processes:

- ▶ The Top Down and Bottom Up Reviews of Key Risks;
- ▶ Operational Key Risk Scenarios; and
- ▶ Emerging Risk Process.

A summary of the IRP is given in the table below, which shows the ten biggest risks for the Society, and includes quantitative risks i.e. modelled risks with the highest amount of allocated capital, and qualitative risks identified from the sources listed above.

REF	RISK	KEY CONTROLS	RESIDUAL RISK
1	There is a risk to Wesleyan achieving its strategic plan due to the reliance on benefits expected from transformation.	Strategic Plan; Strategic Planning Cycle; Effective Change Management Governance Framework in place; Robust business case approval process.	Medium
2	There is a risk that we are unable to grow our business, remain relevant in our core markets and achieve scale to be competitive.	Monitoring changes in our markets; Increased agility to react to competitors (as result of transformation developments); Understanding our customer needs; Increased diversification through platform sales.	Medium
3	There is a risk to policyholders' capital and an associated regulatory risk if Wesleyan Financial Services is unable to achieve a break even position.	Strategic Planning, including Distribution Strategy; Effective cost management; Stress and Scenario Testing, Continuous Review of Strategic Investments.	Medium
4	There is significant economic and political uncertainty and there is a risk that this undermines the Society's ability to achieve its Strategic Goals. In particular, this could result in lower demand for investment products and greater surrenders as savings are required to balance the cost of living.	Regular monitoring of market conditions; Diversification of market risk exposure; Diversification of income channels; Maintaining our financial strength; Scenario and Reverse Stress Testing.	Medium
5	There is an increase in people risk across the business including key person dependency, colleague fatigue when delivering business as usual and the next stage of our transformation programme, coupled with difficulty retaining talent due to a buoyant employment market.	Continued Wellbeing support to our people; Development and monitoring of our Employee Value Proposition; Resource management and planning; Assessment of capabilities including monitoring of key person dependencies.	Medium
6	There is a risk that our control environment is not sufficient to prevent a cyber-attack and / or that we do not detect and respond to such an attack appropriately, leading to loss of data or access to systems to service our customers.	Implementation of Cyber Risk Strategy; Cyber Risk Framework; Operational Resilience Framework; Robust cyber threat defensive procedures (including scenario testing); Regular employee training; Cyber Insurance.	Medium
7	There is a risk that we do not meet customer expectations in respect to Climate Change and Sustainability which leads to reputational damage.	Sustainability Strategy; Climate Change Risk Assessment; Governance through the Sustainability Committee; Sustainability KRIs; Scenario Testing; Regular customer surveys / feedback.	Low
8	Increasing Regulatory change could affect the ability of Wesleyan to deliver its strategic objectives. The PRA and FCA have introduced significant regulatory change which can be demanding and require management and Executive attention.	Horizon scanning of regulatory change requirements; Robust plan to fill gaps; Monitoring of work plans and progress.	Low
9	There is a risk a material third party does not perform as expected, leading to operational and financial loss.	Procurement and Supplier Relationship Management Policy; Monitoring of capability and performance of existing third parties; Operational Resilience Framework.	Low
10	Credit – Corporate Bonds. The risk of default or downgrading on bonds in which we are invested.	Credit Risk policy; Credit Risk Calibration; Statement of Investment Principles for relevant funds.	Low

KEY

<p>HIGH: Outside of risk appetite, significant risk to financial strength, reputation of the Society or its ability to provide good outcomes for our customers</p>	<p>MEDIUM: Approaching risk appetite tolerance, moderate risk to financial strength, reputation of the Society or its ability to provide good outcomes for our customers</p>	<p>LOW: Within risk appetite, limited risk to financial strength, reputation of the Society or its ability to provide good outcomes for our customers</p>
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VIABILITY STATEMENT

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

The Board believes there is a reasonable expectation that the Society will continue to operate successfully and meet its liabilities as they fall due over the next three years. This expectation is based on a thorough understanding and analysis of our long-term risks and our current capital strength. The associated risk management processes are set out in the Own Risk and Solvency Assessment (ORSA).

IDENTIFYING AND MANAGING THE IMPACT OF RISK

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

A reporting process is in place to monitor our risk profile and ensure we stay within our agreed risk appetite. This is reviewed monthly by the Group Executive and at each meeting of the Risk Committee and Board. The most significant risks to the Society, along with an overview of the framework in place to manage them, are set out on pages 40 to 43 of this report.

Everyone in our business has a responsibility for managing risk. On a formal level, line managers are accountable for risk management in their own business areas. They are supported and challenged by the Risk and Regulatory team, and also a number of first line risk roles that are embedded within operational areas to help promote the risk management culture. Internal Audit acts as a third line of defence assessing how effectively risk is being managed and identifying and tracking any mitigating actions.

OUR APPETITE FOR RISK

As a business, we accept risk to deliver our strategic objectives and recognise the need to balance risk and reward. A key tool in helping to achieve this is the ORSA. Our ORSA process looks at the years ahead and ensures that all of the risks to which we might be exposed are identified, measured, monitored, managed and reported. This also supports capital planning and strategic business planning.

Our Internal Capital requirements are analysed as part of the ORSA process. These are defined as the capital required to stay within our capital risk appetite, both now and across the three-year strategic planning period. To ensure we have considered potential longer-term trends, we also review capital projections over ten years.

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

APPLYING RIGOUR TO RISK MANAGEMENT

We apply rigorous stress, sensitivity and scenario testing to risks identified through the ORSA. Stress and scenario testing allow us to ensure we have enough capital on our balance sheet to withstand major events such as a stock market crash or adverse changes to our key assumptions.

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

The Strategic Report on pages 11 to 47 was approved by the Board on 30 March 2023 and signed on its behalf by

MARIO MAZZOCCHI

Group Chief Executive

30 March 2023

SECTION 172 STATEMENT

STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH SECTION 172 (1) OF THE COMPANIES ACT 2006

Section 172 of the Companies Act 2006 includes a general duty requiring directors of the Society to act in good faith to promote the success of the Society for the benefit of all members. The directors believe decision making is enhanced by taking into account the interests of the Society's members and a broader range of stakeholders, including customers, colleagues, suppliers, regulators and the wider community and environment. They consider the longer term impact of decisions on all of these groups.

Consideration of our stakeholders is embedded throughout the business with many channels of communication used to gather feedback. More details on this can be found below.

Board meetings follow an agenda, agreed in advance between the Chair, Group Chief Executive and Company

Secretary. They cover the financial performance of the Society, including updates from the Group Chief Executive, Chief Financial Officer and Chief Risk Officer; progress on strategic initiatives including sustainability, customer and product related reports, and people, culture and communication matters.

The Board receives reports from its sub-committees and reviews its performance after each meeting, as well as annually. The Risk and Audit Committees particularly pay consideration to good outcomes for customers in their discussions and pay due regard to expectations of our Regulators. The People, Governance and Culture Committee focuses on people and governance matters, including diversity and inclusion and sustainability, considering both outcomes for employees and the

wider community. The Remuneration Committee determines remuneration for Executives including agreeing long term incentives linked to successful delivery of the Society's strategy. The With Profits Committee focuses on the needs of With Profits Policyholders and seeks to independently protect their interests.

Updates on the Society's strategy to transform the business were received by the Board throughout the year, this ensured the Board was able to provide challenge and guidance on all key components of the plan including the next phases of its development.

MEMBERS/CUSTOMERS

Why they are important

The Society is a mutual organisation and is owned by its Members who are at the heart of our business. Securing their trust and loyalty is key to our future success.

The Society exists to serve its customers by providing products and services that meet their needs. Some of our customers are also Members or Associate Members.

How the Board engages

The Board uses direct means to engage, such as via the Annual General Meeting (AGM), inviting speakers to Board meetings and attendance at Members Advisory Boards. They also use indirect means, such as through the outputs of research using customer focus groups and regular customer insight updates. Views of the With Profits Committee, which independently considers the interests of With Profits Policyholders are also considered.

COLLEAGUES

Why they are important

Colleagues help to deliver products and services to customers/ Members. They are integral to the business and it is important to offer them terms and conditions that are fair and attractive to retain the right talent.

How the Board engages

The Board engages directly through a number of routes such as informal 'Meet the Board' sessions and through the Senior Independent Director who has specific responsibility to meet with the Partnership Council. The Board also receives regular updates from the Equality, Diversity and Inclusion Manager and attends events run by our Employee Network Groups.

SUPPLIERS

Why they are important

The Society seeks to work collaboratively with its suppliers as they are integral to the running of the business. The Society looks to build good long-term relationships, particularly with suppliers to whom we outsource critical activities. Suppliers will be replaced if they underperform, a better partner emerges, or they do not uphold the same standards and values as the Society such as around environmental, social and governance standards. We work to support smaller suppliers to develop in these areas, so they are not excluded from doing business with us.

How the Board engages

The Board receives information on suppliers through updates through the Risk Committee. The Board approves the Slavery and Human Trafficking Statement which is reflected in the way we agree our contractual terms with suppliers. A breach of the law on their behalf would represent a material breach of contract.

SECTION 172 STATEMENT CONTINUED

AFFILIATES

Why they are important

The Society works with affiliate organisations that are linked to its professional markets and aims to work collaboratively so that the relationships are mutually beneficial and enhance the reputation of the Society and the affiliate.

How the Board engages

The Board will engage by receiving information on the relationships through the Supplier Management oversight information and distribution updates.

COMMUNITY/ENVIRONMENT

Why they are important

The Society seeks to support the wider community by being a responsible business. This includes focusing on ESG matters as well as the work of Wesleyan Foundation, which is aligned to our professional customers and the communities in which we live and work.

How the Board engages

The Board receives updates on the work of Wesleyan Foundation which runs events within the wider community. It also receives regular updates on the work the business does with the wider community and oversees sustainability policy and actions.

REGULATORY AUTHORITIES

Why they are important

The Society understands the importance of complying with regulation and seeks to have an open and cooperative relationship with its regulators.

How the Board engages

The Board engages with the Society's main regulators through meetings and by attending events run by the regulator. The Board also receives regular information on the business's interactions with its regulators and keeps up to date with regulatory changes through the work of the Risk & Regulatory Team.

PRINCIPAL DECISIONS DURING 2022

Summary of decision	Impact	Stakeholder influences	See also
Approval was given to invest in the next phase of the Society's strategic development.	<ul style="list-style-type: none"> This phase will deliver the next stage of our transformation and will improve how we serve our customers, streamline and automate processes for our colleagues and improve efficiency so we can reduce the ongoing cost to run the business and build a strong, resilient business for the long term. 	<ul style="list-style-type: none"> The changes under this phase have been developed 'bottom-up' by our colleagues. The changes are being tested with customers to make sure they deliver a great customer experience. We are working closely with our business advisor who has considerable experience of helping businesses like ours to deliver real recurring benefits. 	2, 8-9, 12-14, 16-18
Approval was given to the 2023 Budget and 2023-2025 Strategic Plan setting out our short and medium term objectives. This brought together the outcome of strategic discussions that have taken place at the Board during 2022.	<ul style="list-style-type: none"> This plan reflected the pivotal decision to invest to transform Wesleyan over the next 3 years to strengthen our sustainability for the long-term. Benefits of this investment have been built into the plan and delivery is being closely monitored by the Board. This plan reflects our estimates of economic factors including a recessionary period. As our strategic options continue to evolve this plan will be updated to reflect the impact of decisions made. Key performance indicators form part of the plan and will help to track our transformation across a range of measures. 	<ul style="list-style-type: none"> Our budget has been built bottom-up in consultation with the business. Outer years of the plan reflect the views of the Group Executive and Board and have been built top down taking into account risks and opportunities including from the external environment. 	8-9, 12-14, 16-18
Approved a refocus of our approach to supporting students in our core professions away from income protection products to instead build on our successful 'Next Step' financial education programme.	<ul style="list-style-type: none"> This approach aligns with customer feedback on what they need to help them with their finances. 	<ul style="list-style-type: none"> We held a number of focus groups with former medical and dental students to find out what was most important to them at the student stage of their careers. This led us to launch the 'Next Step' education programme. This has proved very popular and as a result has now become our main way to support students. 	2, 4-5

Summary of decision	Impact	Stakeholder influences	See also
Approved a one-off discretionary cost of living payment for our colleagues for grades at Department Leader and below and offered colleagues access to a Finance Coach.	<ul style="list-style-type: none"> ▶ Colleagues were concerned about the impact of rising costs on their personal finances and the decisions they were having to make about how to spend their money each month. Feedback from colleagues was really positive about this additional support. 	<ul style="list-style-type: none"> ▶ Colleagues shared their concerns about the impact of the cost of living crisis. We consulted our employee Partnership Council to determine how we could best support our people. 	9, 14, 63
A strategic review of the asset allocation of the With Profits Fund in 2021 led to changes to diversify away from UK equities towards a larger holding in global equities. These changes were implemented gradually to avoid locking in market falls in 2020 reflecting the investment mix of the fund at the time. In 2022 approval was given for a further change to the asset allocation to move further toward this planned diversification.	<ul style="list-style-type: none"> ▶ These changes will help increase geographical diversification which over the long term should best enable the fund to maximise returns for the agreed level of investment risk and help increase resilience to market conditions such as those experienced in 2020. 	<ul style="list-style-type: none"> ▶ The phasing of the changes over 2021 and 2022 have been designed to minimise risk to customers of locking in 2020 market falls. The investment risk is not increased but instead protects against adverse conditions impacting the UK by spreading risk over a more global asset mix. 	20-21
The Board reviewed whether to declare a mutual bonus payable in 2023. Given economic uncertainties it was not considered appropriate to distribute surplus capital this year.	<ul style="list-style-type: none"> ▶ Due to uncertainties around capital requirements over the medium term the Board agreed with the view of the Chief Actuary. Their decision took into account the impact of difficult trading conditions in 2022 and the expected level of business profits in 2023. 	<ul style="list-style-type: none"> ▶ This decision considers the need to ensure the business remains capitally strong as this will best protect the interests of current and future With Profits Policyholders. 	8
The Financial Conduct Authority brought out new Consumer Duty regulations to make sure firms deliver good customer outcomes and that these are at the centre of our strategy and business objectives. The Board approved a Group wide plan to ensure requirements are embedded and approved the appointment of Board Director Rita Bajaj as Consumer Duty Champion.	<ul style="list-style-type: none"> ▶ This new regulation helps embed a customer outcome focused culture and further drives accountability for good outcomes into our business and strategy. ▶ The regulations come into force for new and existing products or services that are open to sale or renewal by 31 July 2023. For closed products or services the deadline is 31 July 2024. 	<ul style="list-style-type: none"> ▶ These requirements are welcomed by the Board and support us in placing our customers at the heart of everything we do. 	9, 14
The Board approved the launch of our new employee value proposition – Mutuality and Me. This has brought to life our proposition for current and future colleagues and is helping us to ensure Wesleyan remains an employer of choice.	<ul style="list-style-type: none"> ▶ We have shaped our offering for colleagues around what matters to them. This is built around four pillars – a business built on purpose, compelling rewards and recognition, personal and professional growth and flexibility and inclusivity. We have enhanced family leave and are now improving leave for lifetime events and support for working carers. 	<ul style="list-style-type: none"> ▶ The Mutuality and Me proposition has been developed with input from the Partnership Council and our Employee Networks. This will continue to evolve with ongoing feedback including through regular colleague surveys. 	15
The Board approved an Operational Resilience self-assessment.	<ul style="list-style-type: none"> ▶ Work has been undertaken to strengthen operational resilience to ensure we are well placed to protect our customers and the business in the event of a disruptive incident. This work will continue to evolve as we test our plans and focus on continuing to strengthen our controls. 	<ul style="list-style-type: none"> ▶ We worked with colleagues to identify key business services that most impacted our customers and have set maximum time periods by which a service must be recovered to avoid intolerable harm. We have worked with an expert external firm to test our plans and approach. 	40-43

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SENIOR LEADERSHIP TEAM



MARIO MAZZOCCHI
Group Chief Executive



GILLIAN CASS
Chief Financial Officer



RICHARD HARRISON
Chief Distribution Officer



MARTIN LAWRENCE
Director of Investments



JAMES NEEDHAM
Chief Product Officer



LISA PERKINS
HR Director



DAVID STEWART
Chief Operating Officer



NATHAN WALLIS
Chief of Staff



JONATHAN WELSH
Chief Risk Officer



SELENA PRITCHARD
Company Secretary

OUR BOARD OF DIRECTORS



NATHAN MOSS

Society Chair and Chair of People, Culture and Governance Committee

B D

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



ANNE TORRY

Senior Independent Director and Chair of the With Profits Committee

B D E

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



IAN MCCAIG

Non-Executive Director

C

- ▶ Ian joined the Board on 30 September 2019 and was appointed to the Society's Risk Committee. He is also Chair of Wesleyan Unit Trust Managers.
- ▶ He has worked across a number of sectors, most recently as CEO of First Utility Ltd. He led the company through several years of significant growth before its acquisition by Shell at the end of 2017. Prior to that Ian was CEO of lastminute.com
- ▶ Ian is also on the Board of Smart DCC where he is Senior Independent Director and Chair at Lumon.



ANDREW NEDEN

Chair of the Audit Committee

A C

- ▶ Andrew was appointed to the Board in November 2014. He joined the Board of Wesleyan Unit Trust Managers in 2019 and Board of Wesleyan Financial Services in 2021. He worked for 30 years at KPMG, the global accountancy firm, including 18 years as a partner. His roles included Head of Financial Sector Transaction Services in the UK and Global Chief Operating Officer for Financial Services.
- ▶ Andrew also chairs the Nottingham Building Society and Aetna Insurance Company Limited and as a Non-Executive Director at ABC International Bank plc. He is also a director/trustee of a number of charities.



PHILIP MOORE

Chair of the Risk Committee

A C E

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



LINDA WILDING

Chair of the Remuneration Committee and Chair of Investment Committee

A B F

- ▶ Linda joined the Board on 1 June 2019 and was appointed Chair of the Remuneration Committee later in the year. Linda became Chair of the Investment Committee in December 2021.
- ▶ She has extensive experience in the private equity investment and healthcare sectors and worked in the private equity division of Mercury Asset Management from 1989 to 2001.
- ▶ She is currently a Non-Executive Director at BMO Commercial Property Trust plc, Sherborne Investors (Guernsey) C Limited and, subject to regulatory approval, will be a Non-Executive Director at Letterone Investment Holdings SA and Letterone Holdings SA. She is also a governor/trustee of a number of other not for profit organisations.

Key

Membership of Board Committees

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



HARPREET SOOD
Non-Executive Director

● C ● D

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



MARIO MAZZOCCHI
Group Chief Executive

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



RITA BAJAJ
Non-Executive Director

● A ● F

- ▶ Rita joined the Board in May 2022 and is a member of the Audit and Investment Committees. Rita acts as the Board's Consumer Duty Champion.
- ▶ She has over 30 years' experience working in global investment markets, including leading investment teams at Royal London and Invesco Perpetual. She has also managed global and US equity vehicles for several major US investment institutions.
- ▶ Rita is a Board member at Benefact Group plc, Fidelity International Life and the London Pension Fund Authority, Non-Executive Director on Columbia Threadneedle OEIC Boards, and an Independent Governance Member for Hargreaves Lansdown's workplace SIPP Committee.



GILLIAN CASS
Chief Financial Officer

● F

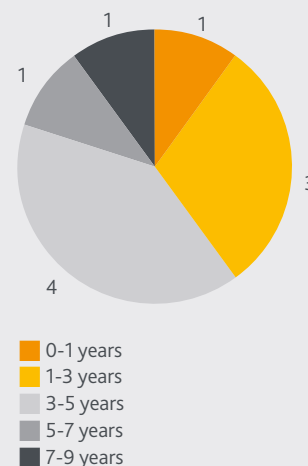
- ▶ Gillian joined Wesleyan as Chief Financial Officer (CFO) in October 2020 and has over 20 years of financial services experience.
- ▶ She is a member of the Investment Committee and an attendee of the Risk and Audit Committees.
- ▶ Gillian joined from M&G plc where she was CFO of Customer Savings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

Directors

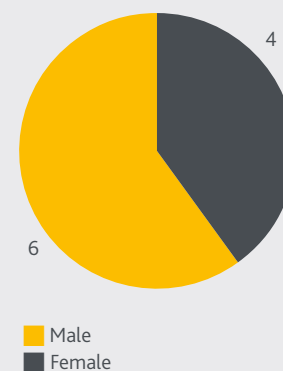
- Non-Executive Directors
- Executive directors

BOARD DIVERSITY

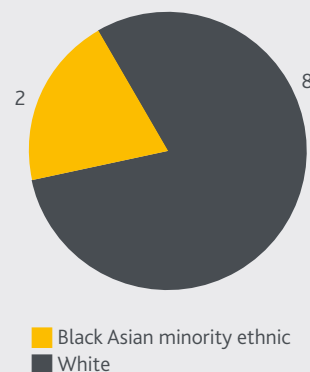
TENURE



BOARD GENDER MIX



ETHNICITY DIVERSITY



➔ Further information about [the Diversity of our Board and what we are doing about it](#) can be found on page 59

CORPORATE GOVERNANCE

The Society aims to meet the highest standards of corporate governance. The Board is responsible to the Society’s policyholders and has chosen to adopt the UK Corporate Governance Code and is a signatory to the Stewardship Code.

This report summarises the Society’s governance arrangements and continued enhancements and, in accordance with the UK Corporate Governance Code, identifies those areas of the Code where the Society does not comply, for which an explanation is given.

There was one area where we did not comply in 2022 concerning the extended tenure of Martin Bryant, a former Board director and also Chair of Wesleyan Bank. Martin served more than nine years on the Board, as consistency was required to oversee completion of the sale of the Bank.

COMPANIES ACT 2006 AND SOCIETY’S RULES

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

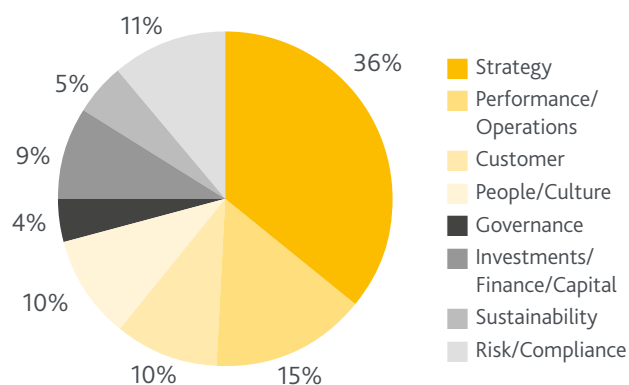
GOVERNANCE BY DIRECTORS

The Board

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

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

Board Focus



The Board and its Committees have access to the Chief Product Officer, Chief Actuary, With Profits Actuary, Chief Risk Officer and Company Secretary. They may also obtain independent professional advice, at the Society’s expense, about any matter concerning the Society relevant to their duties.

The current Board member profiles are shown on pages 50 to 51. All Directors hold policies with the Society in accordance with the Rules of the Society. The Remuneration Report on pages 62 to 76 explains the basis of remuneration of the Executive and Non-Executive Directors.

Annual Board Evaluation

In 2021, in line with the Corporate Governance Code, an externally facilitated review was commissioned from Independent Audit and it was agreed by the Board to complete this on a three year rolling cycle which would maintain focus and momentum. In 2022 a light touch approach was used utilising Board member questionnaires, with a deeper evaluation being completed in 2023 and support for a self-assessment being provided in 2024. The 2022 evaluation also covered the Committees reporting into the Board. All members of the Board contribute to the evaluations, as do the Chief Risk Officer, the Company Secretary and other members of the Group Executive. In addition, feedback is requested from Board members following each meeting.

Results and Actions resulting from the 2022 Review

Following the 2022 Board Evaluation, an action plan for completion was agreed, with progress made in the following areas:

- ▶ Greater focus is now placed on significant external trends which could impact the Society and the risks and opportunities this creates. Additional time has been created within Board agendas to consider such trends and the external perspectives.
- ▶ Greater insight is sought into the sentiments of key stakeholders, particularly customers and employees.
- ▶ Board meetings have embedded sustainability / ESG considerations into every discussion, including those related to the Society’s transformation agenda.
- ▶ Active consideration is now given to leveraging the skills and experience of the Board to maximise its overall effectiveness.
- ▶ A review of the Board was also completed as part of the Society’s transformation work, and the findings were considered in conjunction with the externally led evaluation.
- ▶ The findings from the Committee evaluations did not identify any material issues, but actions were agreed to enhance the current arrangements.

AREAS OF GOVERNANCE

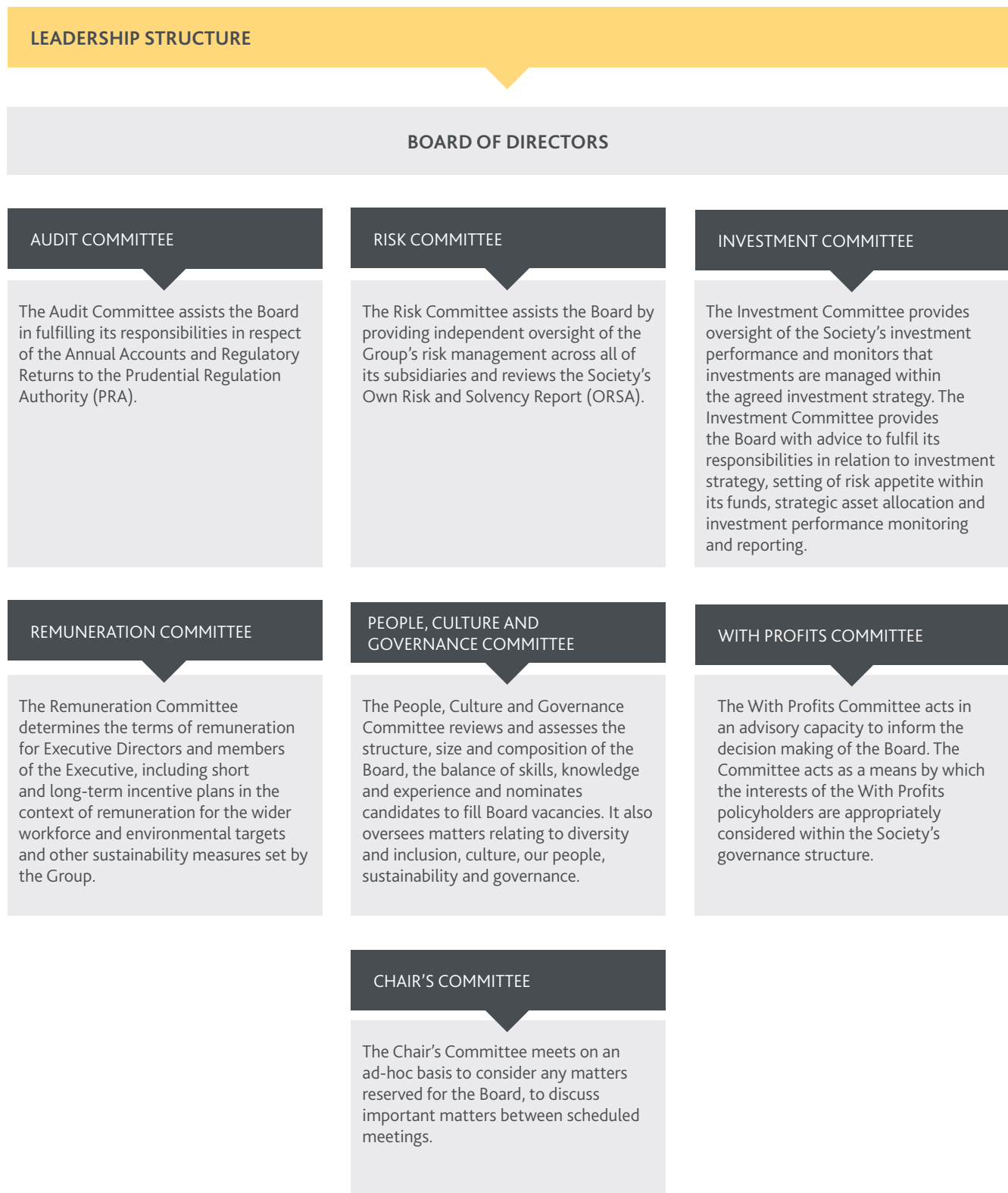
Section	Description	Further information
1 Board leadership and company purpose	Wesleyan is led by the Board whose role is to promote its long-term sustainability, generating value for members and contributing to wider society. It is supported in its role by a number of sub-committees. The Board establishes Wesleyan’s purpose, values and strategy and ensures that these and its culture are aligned.	Read more about the Directors’ skills and experience on pages 50 to 57
2 Division of responsibilities	The Board demonstrates objective judgement and promotes a culture of openness and debate. It includes an appropriate combination of executive and independent non-executive directors with a clear division of responsibilities between the leadership of the Board and the executive leadership.	Read more about the division of responsibilities on page 58
3 Composition, succession and evaluation	Appointments to the Board are subject to a formal, rigorous and transparent procedure, and an effective succession plan is in place. Board and Senior Management diversity in all its forms is promoted. The Board and its Committees have the right combination of skills, experience and knowledge.	Read more about the Board’s composition, succession and evaluation on page 59
4 Audit, risk and internal control	The Board has procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Society is willing to take in order to achieve its long-term strategic objectives.	Read more about our approach to risk management on pages 60 to 61
5 Remuneration	There is a formal and transparent process in place for setting executive remuneration and for fixing the remuneration packages of individual Directors. The Remuneration Policy aims to attract, retain and motivate by linking reward to performance.	Read more on our Remuneration policy on page 66
6 Sustainability	The Society Board has a responsibility for setting the risk appetite and strategic direction around Sustainability including climate related risks and opportunities. The Board approves the Sustainability Strategy and our annual Climate Financial Risk Assessment as part of the ORSA (Own Risk and Solvency Assessment) process, which underpins the Society’s strategic plans.	Read more about Sustainability on pages 23 to 38



CORPORATE GOVERNANCE CONTINUED

1 BOARD LEADERSHIP AND COMPANY PURPOSE

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



BOARD COMMITTEES

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

AUDIT COMMITTEE

Andrew Neden has served as Chair of this Committee from his appointment to the Board with effect from 17 November 2014. The Committee comprises three other Non-Executive Directors as listed on pages 50 to 51. Other attendees include the Group Chief Executive, the Chief Financial Officer, the Chief Product Officer, the Chief Risk Officer and the Head of Internal 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 in place an arrangement for employees to contact an independent confidential advice line.

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

RISK COMMITTEE

The Risk Committee's principal role is to consider the risks faced by the Society and its subsidiary companies and to advise the Board. Philip Moore was appointed as Chair from February 2021. The Committee comprised three other Non-Executive Directors, as listed on pages 50 to 51. Other attendees include the Group Chief Executive, the Chief Financial Officer, the Chief Product Officer, the Chief Risk Officer and the Head of Internal 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 2022 included:

- ▶ Reviewing and assessing the risk oversight provided by management in connection with current and emerging risk exposures, including in relation to operational and cyber related risks;
- ▶ Assessing the impact of management's strategic plans as well as external events on the risk profile of the Group, including the impact of the Society's transformation plans and the strategic plan for Wesleyan Financial Services;

- ▶ Gaining assurance that an appropriate culture in relation to the management of risk continues to be maintained;
- ▶ Receiving reports from the Chief Risk Officer on a wide range of issues, including, new products and regulatory change;
- ▶ Providing independent oversight of the Society's management of climate-related risks. This includes review and challenge of the Climate Financial Risk Assessment as well as the overall effectiveness of the Group's Risk function, Integrated Risk Management (IRM) framework, policies and processes in managing these risks;
- ▶ Receiving a report from the Chief Risk Officer assessing the impact of the financial risks from climate change and proposing relevant actions to address;
- ▶ Monitoring progress to produce a suitable plan to comply with the new FCA Consumer Duty requirements, prior to sign off by the Board.

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 advice to the Boards of the Society and Wesleyan Unit Trust Managers in relation to investment strategy, asset manager performance and investment governance and reporting. It also oversees the performance and operation of the Society's investments. Linda Wilding became Chair in December 2021 following her appointment to the Committee in June 2021. The Committee also comprises one other Board Non-Executive Director, Rita Bajaj, who was appointed in May 2022 and an independent, Non-Board member, Andrew Kirton from 1 March 2023. In addition, the Chief Financial Officer is a member and other attendees include the Chief Product Officer, the Chief Risk Officer, With Profits Actuary and Director of Investments. The Committee's main activities during 2022 included:

- ▶ Reviewing the strategy for all funds (including With Profits, Estate and Wesleyan Unit Trust Managers funds) in light of the Board's risk appetite and risk framework, and making recommendations to the respective Boards;

- ▶ Reviewing investment performance and ESG matters using external benchmarks as appropriate;
- ▶ Reviewing impacts of market conditions such as the impact on performance from the Russian invasion of Ukraine and what this might mean for future strategy;
- ▶ Monitoring investments to ensure they are managed in line with our Sustainable Investing Policy. This documents our three Sustainable Investing Principles ('Reducing Harm', 'Positive Impact', and 'Driving Change') and includes targets for both ESG scores and carbon footprint against benchmark for each investment fund;
- ▶ Reviewing and approving our Stewardship Code Report. This was accepted by the Financial Reporting Council (FRC) with Wesleyan becoming Signatory Members in 2022.
- ▶ Considering and examining governance / audit and compliance issues, including the further embedding of the respective roles and responsibilities of Asset Owner and Asset Manager.

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

CORPORATE GOVERNANCE CONTINUED

REMUNERATION COMMITTEE

Linda Wilding was appointed Chair of the Committee in September 2019. The Committee comprised two other Non-Executive Directors during 2022. The Group Chief Executive and the HR Director are in attendance as required. The Committee determines Remuneration policies for the Society, which includes setting appropriate environmental targets and other sustainability measures for the 'Balanced Scorecard' used in determining

performance linked pay awards for the Executive team. The Committee also exercises oversight over the Society's Remuneration Policy. No individual takes part in the setting of their own remuneration.

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

PEOPLE, CULTURE AND GOVERNANCE COMMITTEE

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

The Committee's main activities during 2022 included:

- ▶ Regularly reviewing the structure, size and composition of the Board, in particular the balance of skills, knowledge and experience, and considering succession planning for Directors and other Senior Executives. This has been considered particularly in light of the transformation agenda currently underway;
- ▶ Considering progress on developing and implementing initiatives to improve the Society's overall sustainability position;
- ▶ Considering activity to further improve inclusivity and diversity across the Society and the approach to employee wellbeing. It has also considered the Board Committee governance structure and agreed changes to improve its effectiveness;
- ▶ Regularly reviewing the culture and governance of the Society, including the views of employees, skills and capabilities across the workforce, employee value proposition and its Community and Citizenship Strategy;

- ▶ Regular updates on matters discussed at the Partnership Council and the Chair of the Council has been invited to attend to ensure a two way dialogue with the Committee;
- ▶ Considering 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;
- ▶ Considering whether Directors can be recommended for re-election at the AGM giving due regard to their performance and ability to contribute to the Board in light of the knowledge, skills and experience required to ensure the continuing balance and progressive refreshing of the Board.

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

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

WITH PROFITS COMMITTEE

The Committee covers both the Open Fund and the Medical Sickness Society (MSS) Fund, which is closed to new business. The Committee is chaired by Anne Torry and attended by another Non-Executive Director as listed on pages 50 to 51. They are joined by four independent external appointees Andrew Peck, Chris Davidson, Paul McNamara and Peter Needleman.

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;

- ▶ 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.

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

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

CHAIR'S COMMITTEE

The Chair can call an ad-hoc Committee of the Board in exceptional circumstances should approval be needed for a matter reserved for the Board in between scheduled meetings. Where possible the need for a Chair's Committee to be established and its membership, purpose and agreed delegation is agreed by the Board

in advance. Details of any actions taken by the Chair's Committee are reported to the next Board meeting, or immediately, if the Chair considers it appropriate. During 2022 meetings were held to oversee the sale of Wesleyan Bank.

ADVISORY BOARD

Wesleyan’s Advisory Board is made up from professionals across the medical, dental and teaching professions and includes individuals at various stages of their careers. The Board is very important to us as it is one of the key ways we are able to collate first-hand insight into the challenges, expectations and needs of our chosen professions. We meet with Advisory Board members on a regular basis as a group and we also work with them individually to use their unique insight as we develop new and existing propositions. As a mutual with a clear purpose to serve the professions, their insight into their lives and careers allows us to understand how we can better help them and their colleagues.

Following a consultation with Advisory Board members, we will develop the Board during 2023 to ensure it is representative of our professions across measures of diversity, career type and life-stage. A refreshed operating rhythm will focus on greater levels of engagement, aligned purpose and value exchange. The Advisory Board will have an appointed Chair from amongst its membership.

WESLEYAN FOUNDATION

For more information on the Wesleyan Foundation please see pages 31 to 33.

SUBSIDIARY COMPANY GOVERNANCE

The Society’s main subsidiaries are set out in Note 21 on pages 127 to 128 of these accounts. The Group is managed as far as possible as an integrated whole. Other than for Wesleyan Financial Services Limited and Wesleyan Unit Trust Managers Limited, the Boards of the Society’s subsidiary companies were chaired by a senior executive, with other senior executive colleagues appointed to the particular board relevant to their role.

THE MAIN AREAS DISCUSSED BY THE SOCIETY BOARD IN 2022 WERE:

Section	Description
Strategy	<ul style="list-style-type: none"> ▶ Provided oversight and challenge to strategic plans, reviewing progress and key milestones covering the Society’s continued transformation programme. This included consideration of views from the Chief Risk Officer ▶ Received updates on the Society’s Product Proposition and Distribution Strategies ▶ Received reports on Investment Performance and considered and approved the With Profits Fund strategy ▶ Received external presentations on the macroeconomic outlook and customer expectations of financial advice providers ▶ Received regular reports on progress of the Group’s approach on sustainability and carbon neutrality
Operations	<ul style="list-style-type: none"> ▶ Received updates on performance against service levels for operations and technology ▶ Monitored progress against plans to enhance operational resilience and cyber security ▶ Reviewed management of the Transformation Portfolio and monitored delivery of benefits from change projects ▶ Reviewed progress to enhance data management
Customers/ members	<ul style="list-style-type: none"> ▶ Reviewed and approved With Profits bonus rates ▶ Reviewed proposals to develop the membership and mutuality proposition, including enhancement of member benefits ▶ Considered and approved proposals for enhancing the governance of the Advisory Board
Finance	<ul style="list-style-type: none"> ▶ Received regular updates on the financial performance of the business ▶ Approved the three year Strategic Plan and 2023 budget ▶ Reviewed and approved the annual report and accounts and related documents, including its subsidiaries ▶ Received reports on the capital management of the business and considered recommendations on the distribution of excess surplus capital
People/ culture	<ul style="list-style-type: none"> ▶ Received updates from the Partnership Council on key areas of focus during the year and into the future ▶ Reviewed key People metrics including the results of the Employee Opinion Surveys undertaken during the year and the associated actions ▶ Discussed progress to meet the Group’s diversity and inclusion targets including supporting bringing targets forward ▶ Received reports on the development and embedding of the Society’s culture and the Employee Value Proposition ▶ Received an update from the Chair of the Partnership Council
Assurance	<ul style="list-style-type: none"> ▶ Received regular updates on the key risks faced by the business and mitigating actions ▶ Reviewed and approved the Solvency and Financial Condition Report ▶ Reviewed and approved the Own Risk and Solvency Assessment Report
Governance/ risk	<ul style="list-style-type: none"> ▶ Held a facilitated risk session on risks to the Strategy, including in relation to sustainability ▶ Reviewed and approved key regulatory requirements relating to Cyber Strategy, the Operational Resilience Self Assessment and the plan to comply with the new FCA Consumer Duty Requirements ▶ Received reports from the Board’s Sub Committees and subsidiaries ▶ Discussed progress with the actions from the 2022 Board Effectiveness review

CORPORATE GOVERNANCE CONTINUED

2 DIVISION OF RESPONSIBILITIES

Committee Membership and Attendance at Meetings

	Society's Board**	Audit Committee	Risk Committee	Investment Committee	Remuneration Committee	PCG Committee*	With Profits Committee	Chair's Committee
Meetings in the year	10	5	5	4	5	4	4	2
Non-Executive Directors:								
Nathan Moss	10	–	–	–	5	4	–	2
Martin Bryant	3/3	2/2	–	–	–	1/1	–	–
Andrew Neden	10	5	5	–	–	–	–	2
Anne Torry	10	–	–	–	5	4	4	2
Linda Wilding	10	5	–	4	5	–	–	1
Ian McCaig	9	–	5	3/3	–	–	–	–
Philip Moore	10	4	5	–	–	–	4	2
Harpreet Sood	10	–	4	–	–	3	–	–
Rita Bajaj	7/7	3/3	–	3/3	–	–	–	–
Executive Directors:								
Mario Mazzocchi	10	–	–	3/3	–	–	–	2
Gillian Cass	10	–	–	4	–	–	–	2

* People, Culture and Governance Committee

** The Board meetings in May, June and September were held over two consecutive days, but have been classed as one meeting for the purposes of this table. Rita Bajaj attended the Board session on 22 June, but not on 23 June 2022.

MANAGEMENT OF THE SOCIETY

In accordance with the Society's Rules, the Board has delegated authority to the Group Chief Executive for implementing strategy and managing the Society. The Group Chief Executive has formed an Executive Committee and Transformation Committee to assist him in carrying out his responsibilities. These Committees comprise the Group Chief Executive, Chief Financial Officer, Chief Distribution Officer, Chief Operating Officer, Chief Risk Officer, Chief Product Officer, Director of Investments, HR Director and Chief of Staff and is attended by the Company Secretary and Head of Internal Audit. Other members of senior management attend as appropriate. The Committees meet monthly to manage business activities and strategic transformation. Papers are prepared and presented to the Board after agreement by the Committees.

ACCOUNTABILITY AND AUDIT

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

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

3 COMPOSITION, SUCCESSION AND EVALUATION

THE CHAIR

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

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

There are currently eight Non-Executive Directors on the Board, including the Chair. Their diverse experience, skills and independent perspectives provide effective review and challenge of the Society's activities. The UK Corporate Governance Code requires that at least half of the Board should comprise Non-Executive Directors, excluding the Chair. The Society complied with this requirement at 31 December 2022 and expects to continue to do so.

The Board remains confident that the strength of its independent Non-Executive Directors continues to be sufficient to ensure that an individual or small group cannot dominate the Board's decision-making. The Board is satisfied that each Non-Executive Director is in a position to devote sufficient time to the role in order to carry out their duties effectively.

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

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

APPOINTMENTS TO THE BOARD

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

During 2022, Martin Bryant retired from the Board in March and Rita Bajaj was appointed to the Board in May.

BOARD DIVERSITY

- ▶ We believe in the benefits of having a diverse Board and see increasing diversity at Board level as important to ensure our Board delivers optimum performance. The Board is a place where challenge, support, diversity of thought and teamwork are essential, therefore a good mix of skills, experience, gender, race and personal strengths are an important driver of good decision making by creating different perspectives among our directors and breaking down a tendency towards 'group think'.
- ▶ The Board remains committed to ensuring that diversity is taken into consideration in its broadest sense. The Chair leads the Board Diversity agenda and sets measurable objectives to continuously improve in this area, including the gender and ethnic background balance.
- ▶ Wesleyan has set aspirational annual diversity targets for both gender and those from Black, Asian and minority ethnic backgrounds (BAME). Our aim is to have 42% (2022: 38%) of senior roles at Wesleyan - Board, Executive and Senior Management to be filled by women and 20% (2022: 14%) by BAME colleagues. One of the appointments to the Board in 2022 was from a BAME background. A strategy is in place to achieve these targets and these form part of the Society's Long Term Incentive Plan.
- ▶ The People, Governance and Culture Committee has assisted in encouraging a diverse range of candidates by introducing a Diversity Commitment Charter which sets our diversity requirements. We only work with external recruitment partners who are aligned to these requirements. We have also implemented improved reporting from partners on diversity metrics.
- ▶ The search briefs provided have placed emphasis on diversity of skills and background and have included searching in a wider pool to identify diverse talent.
- ▶ The Board continues to encourage development of a pipeline of high-calibre candidates by encouraging a diverse range of high performing individuals within the business to take on activities to gain Board experience. This has included opportunities to present at Board and meet with Board members.
- ▶ The Board has received presentations from and attended meetings with the Society's Employee Networks and Partnership Council during the year.

CORPORATE GOVERNANCE CONTINUED

4 AUDIT, RISK AND INTERNAL CONTROL

CONTROL ENVIRONMENT

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

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

CONTROL PROCEDURES

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

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

INFORMATION AND COMMUNICATION

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

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

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

RISK MANAGEMENT

Key risks are referred to in the Strategic Report under 'Principal Risks and Uncertainties'. Details of other risks to the Society, and its approach to risk management, are set out in Note 2 on pages 99 to 105 of the Notes to the Accounts.

INTERNAL AUDIT

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

MONITORING AND CORRECTIVE ACTION

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

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

- ▶ Reporting by the Society's Corporate Audit function on the key controls reviewed;
- ▶ The work of other independent advisers commissioned to report on specific aspects of internal control; and
- ▶ Reports provided by the Society's external auditors.

The Audit Committee monitors the status of corrective actions for the improvement of the effectiveness of the system of internal control. During 2022 the Audit and Risk Committees have received internal and externally sourced reports detailing the issues within Information Technology (IT) general controls. The Society takes the addressing of such issues extremely seriously. The Committees have and will continue to provide close oversight over enhancement of IT general controls.

STAKEHOLDER COMMUNICATIONS

The Board is committed to openness in its communications with policyholders. During the year, the Board has sought to keep relevant stakeholders informed on all major issues. At its Annual General Meeting, the members of the Board are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration. In compliance with the UK Corporate Governance Code the Society publishes the results of the valid proxy votes received at each Annual General Meeting on its website. Policyholders can gain access to the Society’s Annual Report and Accounts and further information on the website at www.wesleyan.co.uk.

GOING CONCERN

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

- ▶ Reviewed and carefully assessed the long-term prospects of the business taking into account our current position, the main risks faced and the measures in place to monitor and manage these risks.
- ▶ Considered the results of stress and scenario testing within the Own Solvency and Risk Assessment (ORSA), which covers a wide range of scenarios to thoroughly test the Society’s resilience to severe events. This testing showed the Group to be well placed to withstand these scenarios.

- ▶ The ORSA provides assurance to the Board that the going concern basis of accounting remains appropriate and the following points are highlighted as key considerations for directors when approving the going concern basis of accounting:
 - Solvency: The Society has remained solvent throughout 2022 and the Group’s Solvency Ratio was 373% as at 31 December 2022. Financial projections demonstrated the ability of the Society to withstand market shocks in a range of scenarios, including very severe ones. Specifically, the Board considered solvency projections that incorporated an estimated view of an economic downturn. The projections demonstrated that excess capital would remain in the Group in the going concern period to 31 March 2024;
 - Liquidity: Financial projections highlighted that the Society’s liquidity was adequate to meet the liabilities as they fell due in the going concern period to 31 March 2024; and,
 - Operational Resilience: The Society has procedures to ensure the resilience of the Society to adverse events including business continuity plans, disaster recovery procedures and cyber resilience controls. Operational issues and working practices are kept under constant review to ensure they remain resilient.

Having carried out this assessment, and after making appropriate enquiries, the Directors confirm that they consider that the Society has adequate resources to continue in operation for the period to 31 March 2024 and it is appropriate to prepare the financial statements on a going concern basis.



DIRECTORS' REMUNERATION REPORT



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

LINDA WILDING
Chair of the Remuneration Committee

DEAR MEMBER,

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report. The report aims to set out simply and transparently how the Remuneration Committee addressed its responsibilities during the year, to explain decisions made and to share proposals for 2023.

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

2022 BUSINESS PERFORMANCE

2022 was a challenging year with global and national events adding greater pressure on an already uncertain UK economy, still dealing with the effect of Covid and Brexit.

Investment markets reacted to the uncertain conditions with some steep losses, impacting investor confidence. Cost of living pressures started to bite as the year progressed with rising inflation leading to unexpectedly high business costs as well as impacting consumer spending.

Despite these challenging trading conditions, Wesleyan made steady progress growing operating profit to £7.2m and delivering positive net inflows with Society premium income rising to a record high of £493m.

While we didn't see the growth we had hoped for over the year, work undertaken as part of our transformation programme helped us to withstand the worst of the difficult operating environment. We started to see the benefits coming through of our new income streams, more efficient ways of working and strong focus on cost control and this helped to defray some of the inflationary costs we faced.

We are confident that the growth we achieved in a difficult year is a strong indication that our strategy is working and we are building a more sustainable business for members.

2022 REMUNERATION OUTCOMES

Salary and Fees

The Remuneration Committee determined that the 2022 base salary increase for the Executive Directors was 5% for the Group Chief Executive (CEO) and 4% for the Chief Financial Officer (CFO). This was in line with our wider workforce, the salary increases were implemented with effect from 1 April 2022.

The Non-Executive Directors' fees were increased by 10% with effect from 1 April 2022. The increase included the second tranche of the scheduled increase of 7.25% which was deferred from 2021 and an increase of 2.75% for 2022. The Chair received an increase of 17.65% for 2022; no increase was received in 2020 or 2021. These increases were to reflect the complexity and time commitment of the roles and to ensure that the fees are in line with the market rates.

Annual Bonus

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

The 2021 Directors Remuneration Report advised that the Annual Bonus scheme was being reviewed. To keep the scheme competitive in the market and to aid recruitment and retention, for 2022 the on-target percentage was increased from 35% to 50% and the maximum was increased from 78.75% to 100% for both the CEO and CFO in 2022. 80% of the bonus is assessed through the balanced scorecard and 20% is assessed through personal performance.

Members are asked to approve the increase to the bonus scheme as part of the advisory vote to approve the Remuneration Policy and the Remuneration Report at the AGM in May 2023.

The bonus amounts earned for 2022 are 35% of salary for Mario Mazzocchi and 35% of salary for Gillian Cass. Further details are set out on page 68.

LONG-TERM INCENTIVE PLANS (LTIP)

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

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

LTIP Vesting in 2022

Due to the ongoing market uncertainty during the global pandemic, and the difficulty in forecasting and setting incentive targets, the 2020 LTIP had three separate sets of performance conditions. The overall vesting for the 2020 LTIP was 73.92%.

The LTIP is subject to a further two-year holding period before payment is made in March 2025.

REMUNERATION POLICY

Application of our remuneration policy

Salary and Fees

The Remuneration Committee has determined that the 2023 base salary increase for the Executive Directors will be 4% for the Group Chief Executive and 4% for the Chief Financial Officer. The increase for the Non-Executive Directors will be 3%. These increases will be effective from 1 April 2023 and are below the 5% salary budget allocated for the wider workforce.

Annual Bonus

The on-target will remain at 50% and the maximum will remain at 100% of salary for the CEO and the CFO. The measures included in the balanced scorecard have been tailored to ensure the scorecard is simple and effective, focusing on the key areas aligned to the Society's plan. The measures have been reduced from twelve to six which are aligned to the Society's plan.

LTIP

The 2023 LTIP will be granted in line with previous years and the Remuneration Policy. The maximum will be 100% of salary for the CEO and 75% for the CFO. The measures against which the 2023 LTIP will vest have been reviewed and simplified. Further details can be found on page 74.

WIDER WORKFORCE REMUNERATION

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

Salary and Cost of Living

There has been a focus on the remuneration for the wider workforce and in particular the support provided to employees during the cost of living crisis. In October 2022 all colleagues in employment on 30 September, except those in senior leadership positions, received a one-off payment of £1,000. In addition financial coaching has been offered to all employees.

A salary budget of 5% has been approved for 2023 with a further 1% budget agreed to move employees to a minimum salary of £20,614 and increase salaries to a more competitive market position.

Annual Bonus

A one-off transformation bonus was agreed for 2022 and this will be paid out in full. To recognise employee's performance and to provide further support during the cost of living crisis, the payment for the lower grades has been increased so the employees in these grades will receive an enhanced bonus payment.

The bonus scheme for the majority of employees has been reviewed and will be enhanced for 2023 to increase the bonus potential. The scheme will be assessed through financial, customer and ESG measures which align to the strategic plan.

MEMBER ENGAGEMENT

The Directors Remuneration Report (supported by more than 95% of our members at the last AGM) will be subject to an advisory vote at our 2023 AGM.

In line with the regulations for listed organisations, the Directors' Remuneration Policy is subject to an advisory vote every three years and will be voted on at the 2023 AGM. The Directors' Remuneration Policy was supported by over 93% of those voting at the 2020 AGM. The only change to our Policy from 2020, when it was last approved by members, is the increase to the on-target bonus to 50% of salary and the maximum bonus to 100% of salary. There are no further changes proposed to the Remuneration Policy.

STRUCTURE OF THE REPORT

This report has been structured broadly in line with the remuneration disclosure requirements which apply to UK companies listed on the main market of the London Stock Exchange. As a mutual we are not governed by these same regulations; we have however chosen to follow them as we believe the disclosure provided will help members to better understand how the reward strategy supports their interests and the Society's business objectives.

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

I hope that you will support this resolution.

Yours sincerely,

LINDA WILDING

Chair of the Remuneration Committee

EXECUTIVE REMUNERATION 'AT A GLANCE'

Our Remuneration Policy, which was approved by members at the 2020 AGM, was developed based on the key principles outlined on page 66. Our Remuneration Policy continues to be applied in a measured way to ensure that we reward the right performance contribution and behaviours and support the short-term and long-term strategic goals of the Society. The table below summarises the application of the Remuneration Policy for 2022 and any changes.

There are no changes to the operation of Policy in 2023 from 2022. We will continue to monitor the effectiveness of our policies to ensure they support the Society and the long-term interests of our customers, members and other stakeholders.

	Group Chief Executive (Mario Mazzocchi)	Group Chief Financial Officer (Gillian Cass)	Changes for 2023
Base salary	£525,000 (5% increase on 1 April 2022)	£291,200 (4% increase on 1 April 2022)	4% increase for Mario to £546,000 on 1 April 2023 4% increase for Gillian to £302,848 on 1 April 2023
Benefits	Car allowance, private medical, medical assessment, group product discount, death in service		No Change
Pension	10% of salary in line with wider workforce		No Change
Annual Bonus			
Measures	Balanced scorecard based on Society and individual performance, with a risk underpin		Consumer Duty added to the underpin
Maximum opportunity	100% of salary	100% of salary	No Change
Achievement	£183,750 (35% of max)	£101,920 (35% of max)	
Structure	50% deferred for three years paid in annual tranches		No Change
Long-Term Incentive Plan ('LTIP')¹			
Measures	Based on strategic, financial, customer and employee performance measures		No Change
Award level	100% of salary	75% of salary	No Change
Achievement	£369,583 (73.92% of max) for 2020	n/a	
Structure	Three-year performance period, two year holding period with a risk underpin		No Change

¹ No LTIP was awarded to Gillian Cass in 2020 due to her start date being after the date the LTIP was granted.

GOVERNANCE OF REMUNERATION

ROLE OF THE REMUNERATION COMMITTEE

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

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

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

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

REMUNERATION COMMITTEE MEMBERS AND ADVISERS

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

The Remuneration Committee was supported during the year by the HR Director and the Group Chief Executive. The Society’s Chief Risk Officer provides input on the Executive Remuneration Framework design and application. The Risk Committee assesses Executive behaviours and Society performance, considers whether any inappropriate risks have been taken and makes recommendations to the Remuneration Committee accordingly. Benchmarking data has been received from Willis Towers Watson to support remuneration decisions. No individual takes part in the discussion on their own remuneration.

In performing its duties, the Remuneration Committee draws on the advice of independent external consultants. During the year, the Remuneration Committee received advice on market levels of pay and bonus, best practice and disclosure requirements from Deloitte LLP and Korn Ferry. Korn Ferry were appointed in August 2022, following the Society’s standard procurement processes and subject to the agreement of the Remuneration Committee.

The total cost of advice to the Remuneration Committee on Directors’ remuneration matters during the year was £3,500 for Deloitte and £33,928 for Korn Ferry.

STATEMENT OF VOTING ON REMUNERATION RESOLUTIONS

The following table sets out the number of votes for, against and abstentions for the advisory vote on the latest annual Directors’ Remuneration Report and Directors’ Remuneration Policy at the Society’s 2022 and 2020 AGMs respectively.

AGM	Resolution text	Votes for	Votes against	% For	Withheld
2022	To receive the Directors’ Remuneration Report	3,369	89	95.7	117
2020	To approve the Directors’ Remuneration Policy	2,942	196	93.7	82



REMUNERATION POLICY

REMUNERATION PHILOSOPHY

The overarching principles of our approach to executive remuneration are:

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

REMUNERATION POLICY TABLE

Element	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary	To attract and retain high performing individuals to lead the Society.	<p>Base salary is reviewed annually, or more frequently if there is a significant change in an individual's role or responsibilities.</p> <p>Any decision on base salary is influenced by a range of factors including but not limited to:</p> <ul style="list-style-type: none"> ▶ level of experience; ▶ Society affordability and performance; ▶ ability to attract/retain/motivate; ▶ pay awards for the wider workforce; ▶ prevailing market conditions; and, ▶ periodic external benchmark data 	<p>There is no maximum base salary.</p> <p>Increases in base salary will normally be in line with those awarded to other Society employees but higher increases may be made, for example, to reflect:</p> <ul style="list-style-type: none"> ▶ increase in scope of role or responsibility; or ▶ an Executive Director falling significantly behind the market rate for that role 	Subject to annual review of individual contribution and Society performance.
Benefits	To operate a competitive benefits structure.	<p>Benefits currently provided are:</p> <ul style="list-style-type: none"> ▶ a car allowance ▶ private medical cover for the individual and their family; ▶ medical assessment; ▶ group product discounts (available to the wider workforce and directors on the same terms); and, ▶ death in service benefit of 4x pensionable base salary (8x for employees who joined prior to 1 October 2021) 	There is no restriction on the benefits provided and other benefits may be added if considered appropriate. However, the cost of these benefits are taken into account in assessing affordability.	N/A

Element	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Pensions	To provide post-retirement benefits in a cost-effective manner.	All Executive Directors are either a member of the Society's pension scheme or if they are in excess of the Annual or Lifetime Allowance they receive a cash allowance.	<p>Pension scheme: The Society contributes up to 10% of base salary.</p> <p>If a cash allowance is paid the amount paid is reduced to allow for the cost of employer's National Insurance Contributions.</p> <p>The Society regularly reviews pension benefits for Directors taking account of tax and legislative changes.</p>	N/A
Annual bonus	To ensure that there is an appropriate incentive for Executive Directors to meet the annual objectives of the Society.	<p>Individual performance evaluations for bonus are recommended by the Group Chief Executive following a similar procedure applied to the wider workforce but based on an individual Balanced Scorecard linked to delivery of the Society's overall strategy. The evaluation considers the individual's contribution towards the Society's desired behaviours and strategic goals, engendering robust risk, conduct and compliance management and customer outcomes.</p> <p>Performance evaluation of the Group Chief Executive is recommended by the Society's Chair with input from other Non-Executive Directors.</p> <p>50% of any bonus earned is deferred. Any deferred amounts will be paid in three equal tranches after one, two and three years.</p> <p>Variable pay is subject to malus and clawback provisions.</p>	<p>Overall cash payment of:</p> <ul style="list-style-type: none"> ▶ 50% of base salary if both the Society and individual perform on target; and, ▶ a further 50% of base salary if both the Society and individual perform at stretch target <p>During the deferral period any unvested amounts may be adjusted up or down to reflect the performance of the ISA With Profits Fund (or other such fund as the Remuneration Committee deems appropriate).</p> <p>All payments of annual bonus are subject to approval by the Remuneration Committee and are non-pensionable.</p>	<p>Balanced Scorecard approach for both Society and individual performance based on financial, customer, employee and strategic metrics.</p> <p>The Remuneration Committee may increase or decrease pay-outs based on the evaluation of personal behaviours and any risk, conduct, compliance or other concerns.</p>

REMUNERATION POLICY CONTINUED

Element	Purpose and link to strategy	Operation	Opportunity	Performance metrics
LTIP	To strengthen the link between the rewards received for the performance delivered for our members and the long-term financial stability of the Society.	<p>Any payment will be made in cash, net of relevant taxes. The awards will vest following the assessment of the relevant performance conditions which will, normally, be assessed at the end of a three year performance period and then will be subject to a further holding period of two years.</p> <p>The Remuneration Committee may adjust pay-outs based on the evaluation of personal behaviours and any conduct risk, compliance or other concerns.</p> <p>LTIP awards will be subject to malus and clawback provisions up to the end of the holding period.</p>	<p>The maximum award is 100% of base salary.</p> <p>For awards granted in 2023, the maximum award for the Group Chief Executive will be 100% of salary and 75% of salary for the Chief Financial Officer.</p> <p>All LTIP payments are subject to approval by the Remuneration Committee and are non-pensionable.</p>	<p>LTIP awards will be subject to financial and non-financial measures that are aligned to the Society's strategy. Vesting of any LTIP award will be subject to satisfactory overall conduct risk and performance.</p> <p>Awards will vest at 25% of maximum for threshold performance, rising with linear progression to full vesting at stretch target.</p>

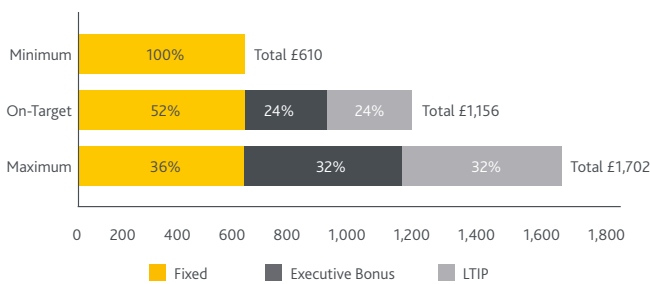
The Remuneration Committee may vary or substitute any performance targets for the annual bonus or LTIP if an event occurs which causes it to determine that it would be appropriate to do so, provided that any such variation or substitution is fair and reasonable and (in the opinion of the Remuneration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

ILLUSTRATION OF REMUNERATION POLICY FOR 2023

The charts below illustrate the amounts that Executive Directors would be paid in respect of 2023 under three different performance scenarios:

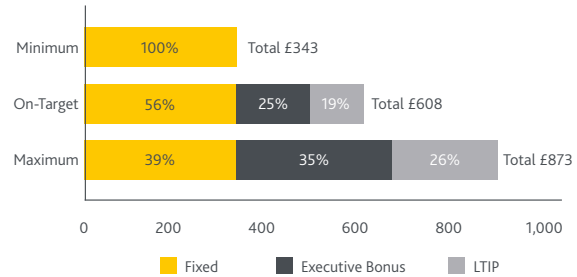
Mario Mazzocchi

Percentages/Amounts (£000's)



Gillian Cass

Percentages/Amounts (£000's)



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

REMUNERATION POLICY FOR THE CHAIR AND NON-EXECUTIVE DIRECTORS

Element	Approach of the Society
Principles	The principles adopted in determining the fees of the Chair and other Non-Executive Directors are that they should be competitive, appropriate to attract and retain Directors of the necessary calibre, and reflect the responsibilities and time involved in Society matters.
Fees	Non-Executive Directors’ remuneration comprises a base fee and additional amounts for Committee work, including a role of Chair and a specific fee for the role of Senior Independent Director.
Benefits	No bonuses, pension or other benefits are provided to Non-Executive Directors other than Group product discounts which are available to the wider workforce and Directors on the same terms and reimbursement of travel and other expenses whilst on Society business.

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

REMUNERATION POLICY FOR THE WIDER WORKFORCE

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

The LTIP participation includes employees from Senior Management roles who are not Executive Directors. The employees invited to join the LTIP are in roles which are key to achieving the Society’s Plan and the list of participants is reviewed prior to the LTIP awards being granted.

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

During 2022 we continued to enhance our reward framework to remain competitive by updating our salary ranges, agreeing to increase salaries that are lower in relation to the market and increasing our minimum salary to National Minimum Wage plus 8% for a pension contribution. These changes will be implemented from April 2023 as part of the salary review.

Throughout 2022 we have worked hard to support employees through the introduction of better family friendly policies, specifically enhancing both maternity and paternity pay. All employees are now given an additional day’s holiday in the shape of a culture day so they can celebrate the events that are important to them. We have also taken the opportunity to improve flexibility for employees and introduced better support for life events such as the menopause.

The bonus scheme for the majority of employees has also been reviewed and will be enhanced for 2023 to increase the bonus potential. The scheme will be assessed through financial, customer and ESG measures which align to the strategic plan.

REMUNERATION POLICY FOR NEW APPOINTMENTS

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

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

ANNUAL REPORT ON REMUNERATION

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

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

Element of remuneration	Policy
Notice period	Up to twelve months.
Termination payments	<p>At the discretion of the Remuneration Committee a payment in lieu of notice may be made in respect of all or part of the notice period. Any such payment would usually be limited to no more than one year's base salary plus benefits in kind.</p> <p>Benefits may also be provided in connection with termination of employment and may include, but are not limited to, statutory payments, outplacement, legal fees and payments in respect of accrued holiday.</p>
Annual bonus	<p>LEAVERS DURING THE ANNUAL BONUS PERFORMANCE YEAR Awards may ordinarily only be paid to individuals that remain an employee, however, the Remuneration Committee has the discretion to determine an appropriate bonus amount taking into consideration the circumstances of the leaver.</p> <p>No bonus award will be paid unless the leaver is determined to be a 'good leaver'. For a 'good leaver' the Remuneration Committee has the discretion to grant awards on such basis as it deems appropriate (this could include pro-rating for time and performance). Awards may be paid at the Remuneration Committees discretion in line with the deferral schedule or on cessation of employment.</p> <p>UNPAID DEFERRED BONUS PREVIOUSLY AWARDED Unless determined as a 'good leaver' unpaid deferred bonus awards will lapse upon cessation of employment. For a 'good leaver' awards will typically be paid in full on the scheduled date.</p> <p>MALUS AND CLAWBACK The Remuneration Committee may decide that elements of bonus should be paid back subject to claw back and malus provisions that include:</p> <ul style="list-style-type: none"> ▶ gross misconduct; ▶ material misstatement (including any omission) in the Society's financial statements; ▶ a material adverse event; and ▶ assessment of metrics based on an error or on inaccurate or misleading information.
LTIP	<p>LEAVERS DURING THE THREE YEAR PERFORMANCE PERIOD Unless determined as a 'good leaver' unvested LTIP awards will lapse upon cessation of employment.</p> <p>GOOD LEAVERS DURING THE THREE YEAR PERFORMANCE PERIOD In a limited number of circumstances, a leaver may be determined by the Remuneration Committee to be a 'good leaver'. Awards to 'good leavers' will normally vest to the extent determined by reference to the performance targets and the proportion of the performance period that has elapsed at cessation of employment. LTIP awards will then be paid at the end of the holding period. In exceptional circumstances the Remuneration Committee retains the discretion to waive any of the conditions for a 'good leaver'.</p> <p>LEAVERS DURING THE TWO YEAR HOLDING PERIOD If an employee ceases employment following the end of the three year performance period but before the end of the two year holding period, the vested LTIP award will be paid in line with regulation requirements and scheme rules.</p>
'Good leaver'	<p>A 'good leaver' for the purposes of the variable pay will be any employee who leaves employment for reasons of:</p> <ul style="list-style-type: none"> ▶ death; ▶ injury or disability (as determined to the satisfaction of the Remuneration Committee); ▶ retirement with agreement of the Society; ▶ the Executive Director's office or employment being with an entity which ceases to be part of the Group; or ▶ any other reason the Remuneration Committee so decides.

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

REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2022
Single Figure of Remuneration for Each Director

The remuneration of the Directors of Wesleyan Assurance Society for the year ended 31 December 2022 and the previous year is set out in the tables below.

Director	Year	Fixed remuneration (£000s)				Variable remuneration (£000s)					Total
		Base salary/fees	Benefits	Pension	Total fixed	Bonus		Long-term incentives	Total variable		
Mario Mazzocchi	2022	519	14	45	578	92	92	369	553	1,131	
	2021	500	14	44	558	137	137	-	275	833	
Gillian Cass	2022	288	12	25	325	51	51	-	102	427	
	2021	280	12	25	317	77	77	-	154	471	

Director	Year	Base fee £000s	Total £000s
Nathan Moss (<i>Chair</i>)	2022	144	144
	2021	128	128
Martin Bryant (Left 31 March 2022)	2022	17	17
	2021	84	84
Andrew Neden	2022	61	61
	2021	56	56
Anne Torry (SID from 1 January 2022)	2022	90	90
	2021	56	56
Linda Wilding	2022	61	61
	2021	56	56
Iain McCaig	2022	61	61
	2021	56	56
Philip Moore	2022	61	61
	2021	56	56
Harpreet Sood (Joined May 2021)	2022	61	61
	2021	34	34
Rita Bajaj (Joined May 2022)	2022	42	42

Notes:

Mario Mazzocchi stepped down from his Non-Executive Director role for Vita Gem in March 2022, he received no payments for this role.

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

The Non-Executive Directors' fees will be increased by 3% with effect from 1 April 2023. The SID role was inclusive of an additional fee of £28,487 per annum in 2022 and this fee will not increase for 2023.

ANNUAL REPORT ON REMUNERATION CONTINUED

2022 ANNUAL BONUS AWARD

The maximum annual bonus possible in 2022 for the Executive Directors was 100% of base salary. The bonus amount is based on the results achieved through the Balanced Scorecard (BSC) and personal performance for 2022. The targets set were aligned to the budget and support the three-year plan. Eight of the twelve targets were achieved which resulted in a bonus payment of 35% of salary for Mario Mazzocchi and 35% of salary for Gillian Cass. These results reflect the performance achieved in 2022.

Area	Measure	Weighting	Threshold	Target	Stretch
Customer	Customer numbers	30%	[Progress bar]		
	Product per customer		[Progress bar]		
	Net investment inflows		[Progress bar]		
Financials	TOM benefits	40%	[Progress bar]		
	Operating profit		[Progress bar]		
	Income		[Progress bar]		
	External platform (contribution)		[Progress bar]		
Employee	Employee engagement score	30%	[Progress bar]		
	Customer index		[Progress bar]		
	Gender diversity		[Progress bar]		
	Ethnicity		[Progress bar]		
	Carbon reduction		[Progress bar]		

	CEO	CFO
Bonus opportunity (% of salary)	100%	100%
Overall outcome (% of salary)	35%	35%
Overall outcome (£)	£183,750	£101,920

2023 ANNUAL BONUS

There are no changes planned for the annual bonus in 2023. The scheme will continue to include performance conditions based on a mixture of financial and non-financial measures assessed through a balanced scorecard approach.

Performance Measure	Weighting
Investment Performance	30%
Products per Customer	
Net Investment Inflows	
Operating Profit	40%
EOS	
Customer Index	30%

BONUS PAYMENTS DEFERRED FROM PREVIOUS YEARS

The following table sets out the amounts paid in respect of the outstanding deferred variable pay awards. 50% of the bonus is deferred and paid in equal tranches over the following three years. The value is adjusted to reflect the movements in the Society's ISA With Profits Fund. The performance of the ISA With Profits Fund was -6.14% for 2020, 10.99% for 2021 and -0.43% for 2022.

Bonus Period	Payable	Mario Mazzocchi		Gillian Cass	
		Current (£)	Original (£)	Current (£)	Original (£)
2019 Deferred 3	March 2023	29,525	28,464	n/a	n/a
2020 Deferred 2	March 2023	0	0	16,333	16,333
2020 Deferred 3	March 2024	0	0	16,333	16,333
2021 Deferred 1	March 2023	45,636	45,833	25,557	25,667
2021 Deferred 2	March 2024	45,636	45,833	25,557	25,667
2021 Deferred 3	March 2025	45,636	45,833	25,557	25,667
2022 Deferred 1	March 2024	30,625	30,625	16,987	16,987
2022 Deferred 2	March 2025	30,625	30,625	16,987	16,987
2022 Deferred 3	March 2026	30,625	30,625	16,987	16,987

Gillian Cass' deferred bonus for 2020 represents payments made to compensate for bonus forfeited from her previous employment of which 50% has been deferred over three years (payable in 2022, 2023 and 2024). The bonus is not amended by the ISA With Profits Fund performance and is subject to malus and clawback conditions.

LTIP AWARDS

2020 LTIP

The 2020 LTIP has 13 participants. In response to market uncertainties and the impact of the pandemic the Remuneration Committee decided uniquely that the 2020 LTIP had three separate sets of annual targets, rather than a continuous three-year period. This arrangement meant meaningful and robust measures and targets could be established. Based on the performance against a balanced scorecard of measures designed to deliver the Society's strategy, all three tranches of the 2020 LTIP have vested in part. The tranches will continue to be subject to a conduct risk underpin. The final tranche of the 2020 LTIP is based on 2022 performance. The outturn of the 2020 LTIP combining all three tranches is 73.92% of maximum.

2020 – Tranche 1 Result

Measure	Weighting	Threshold	Maximum
Total customers	7.5%		
Product Penetration	7.5%		
Customer Attrition	5%		
Culture	10%		
Cost Income Ratio	10%		
Return on Capital	10%		
Transformation	50%		
			CEO
LTIP opportunity (% of salary)			100%
Overall outcome (% of salary)			87.50%
Overall outcome (£)			£145,833

2021 – Tranche 2 Result

Measure	Weighting	Threshold	Maximum
Total customers	7.5%		
AUM	7.5%		
Customer Attrition	5%		
Culture	10%		
Cost Income Ratio	10%		
Return on Capital	10%		
Transformation	50%		
			CEO
LTIP opportunity (% of salary)			100%
Overall outcome (% of salary)			91.64%
Overall outcome (£)			£152,733

2022 – Tranche 3 Result

Measure	Weighting	Threshold	Maximum
Total customers	15%		
Assets Under Management	15%		
Customer Attrition	5%		
Culture	10%		
Cost Income Ratio	20%		
Return on Capital	20%		
Ethnicity	5%		
Gender	5%		
			CEO
LTIP opportunity (% of salary)			100%
Overall outcome (% of salary)			42.61%
Overall outcome (£)			£71,017

The Committee determined that the formulaic out turn of the third tranche of the 2020 LTIP of 73.92% of maximum was appropriate in the context of business performance during the performance years. All amounts vesting will be subject to a two-year holding period.

ANNUAL REPORT ON REMUNERATION CONTINUED

LTIP

A new 3-year LTIP has been introduced for 2023 in line with the Remuneration Policy. The measures included have been reviewed and simplified, reducing to 7 key measures.

Strategic Priority	2020	2021	2022	2023	2024	2025	2026	2027
2020 LTIP	Tranche 1: Vested based on 2020 performance	Tranche 2: Vested based on 2021 performance	Tranche 3: Vested based on 2022 performance	Payment will be paid at the end of the two year holding period				
2021 LTIP	2021 LTIP awards will only be payable if stretching financial and non-financial performance targets are delivered over the three year performance period starting on 1 January 2021			Payment will be paid at the end of the two year holding period				
2022 LTIP	2022 LTIP awards will only be payable if stretching financial and non-financial performance targets are delivered over the three year performance period starting on 1 January 2022			Payment will be paid at the end of the two year holding period				
2023 LTIP	2023 LTIP awards will only be payable if stretching financial and non-financial performance targets are delivered over the three year performance period starting on 1 January 2023			Payment to be paid at the end of the two year holding period				

The weighting of the elements of the performance targets for the 2021, 2022 and 2023 LTIPs are summarised in the table below. All participants of an LTIP are measured against the same targets. The weightings and performance targets have been reduced and simplified for 2023, with a focus on seven key measures.

		2021	2022	2023
Life long partner	Customer Numbers	15%	15%	15%
	Assets under Management	15%	15%	
	Surplus Capital Generation			15%
Brilliant to do business with	Customer Attrition	10%	10%	
	Culture / EOS	10%	10%	
	Culture and Inclusion Index			10%
Mutuality with edge	Cost Income Ratio	15%	15%	20%
	Return on Capital	15%	15%	20%
Diversity and Inclusion	Gender and Ethnicity	10%	10%	10%
Environmental	Sustainability	10%	10%	10%
Total		100%	100%	100%

PAYMENTS TO FORMER DIRECTORS

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

- ▶ Craig Errington received a payment of £38,123 in respect of outstanding deferred bonus awards, following his departure from the Society on 31 December 2019. This will be the final bonus payment made to Craig.
- ▶ Ahmed Farooq received a payment of £15,429 in respect of outstanding deferred bonus awards, following his departure from the Society on 31 December 2020. This will be the final bonus payment made to Ahmed. A pro rata LTIP payment of £61,906 will vest for 2020, the payment is subject to the two year holding period.

No other payments have been made to former Directors for 2022 other than retirement benefits.

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

Year	CEO salary (£'000)	CEO Single figure of remuneration (£'000)	Annual bonus pay out against maximum opportunity (%)	LTIP vesting rates against maximum opportunity (%)
2022 (Mario Mazzocchi)	519	1,131	35	73.92
2021 (Mario Mazzocchi)	500	833	70	n/a
2020 (Mario Mazzocchi)	492	549	0	n/a
2019 (Mario Mazzocchi) ¹	466	720	54	n/a
2019 (Craig Errington) ²	502	807	55	n/a
2018 (Craig Errington)	492	674	0	59
2017 (Craig Errington)	482	936	63	74
2016 (Craig Errington)	473	870	74	67
2015 (Craig Errington)	463	836	32	62
2014 (Craig Errington)	453	966	60	71
2013 (Craig Errington)	412	1,078	72	65

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

² Based on full year in role



ANNUAL REPORT ON REMUNERATION CONTINUED

PAY RATIOS

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

YEAR		WORKFORCE PERCENTILE			CEO
		25th	Median	75th	
2022	Total Remuneration Ratio	36.3:1	23.8:1	16.5:1	-
	Total Remuneration (£)	31,137	47,386	68,804	1,131,496
	Base Salary (£)	24,207	43,898	60,000	518,750
2021	Total Remuneration Ratio	29.1:1	18.1:1	11.9:1	-
2020	Total Remuneration Ratio	20.1:1	12.6:1	8.8:1	-
2019*	Total Remuneration Ratio	26.7:1	17.1:1	11.4:1	-

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

RELATIVE IMPORTANCE OF SPEND ON PAY

Pay is a significant element of Society expenditure, representing 56% (2021: 57%) of operating expenses of the group.

	2022 (£m)	2021 (£m)	Change (%)
Expenses of the Group (net operating expenses and investment expenses and charges)	174.9	183.4	(4.6)
Overall expenditure on pay	97.3	105.8	(8.1)

LINDA WILDING

Chair of the Remuneration Committee
30 March 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Society and Group financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland, FRS 103 "Insurance Contracts", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and the Group and of the profit or loss of the Group for that period.

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

- ▶ select suitable accounting policies and then apply them consistently;
- ▶ make judgements and accounting estimates that are reasonable and prudent;
- ▶ state whether applicable United Kingdom Accounting Standards, comprising FRS 102 and FRS 103 have been followed, subject to any material departures being disclosed and explained in the financial statements;
- ▶ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society and the Group will continue in business.

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

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

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

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

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

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

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

By Order of the Board,

SELENA PRITCHARD
Company Secretary

30 March 2023



DIRECTORS' REPORT

The Directors present their Annual Report and audited Consolidated Financial Statements for the year ended 31 December 2022.

STATUS

The Society is a mutual society incorporated in England (Registered Number: ZC000145) by Private Act of Parliament, with the Registered Office at Colmore Circus, Birmingham B4 6AR. It has no shareholders and its members, who have the right to vote at general meetings, are defined in Note 26 to these accounts.

PRINCIPAL ACTIVITIES

The principal activities of the Group during 2022 continued to be the transaction of long-term insurance business in the UK, namely life assurance, pensions and income protection insurance in the form of reviewable, with profits and unit-linked contracts and acting as a financial adviser. Other financial services undertaken included mortgage broking, unit trust management, acting as a general insurance broker and providing dental patient membership plans. Until the sale of Wesleyan Bank, activities also included deposit taking and commercial lending.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The Society's business is reviewed by the Chair on pages 8 to 9 and in the Strategic Report on pages 10 to 47. The year-end financial position is considered satisfactory given the ongoing underlying volatility of markets and the general outlook. As set out in those statements, the Society is projecting further growth in 2023 and beyond, based on expansion and ongoing improvements in its current method of operation.

The Key Performance Indicators, on which the Board and Management principally focus, are discussed in the Strategic Report and summarised in the Performance section on page 11. These include the Society's Operating Profit, New Business, Premium Income and investment returns. In addition, management closely monitor the financial strength of the business as mentioned in the section on management of risk.

RESULTS AND BONUS DECLARATION

The financial statements and accompanying notes on pages 91 to 133 show the results for the year ended 31 December 2022 and the financial position at that date. The financial results are presented in accordance with the Companies Act 2006 and have been reviewed by the Chief Actuary. The Directors, having taken advice from the Chief Actuary, have declared rates of bonuses which can be found on our website.

RISK MANAGEMENT

Details of the key risks to the Society and its approach to risk management are set out on pages 40 to 43 and in Note 2 to these financial statements.

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

DIRECTORS

The Directors of the Society are as set out on pages 50 to 51.

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

All Directors as at 31 December 2022 will be standing for re-election at the Society's AGM on 25 May 2023 along with Rita Bajaj who will be standing for confirmation as a Director following her appointment in 2022. None of the Directors have an interest in the shares of the Society's subsidiaries.

CORPORATE RESPONSIBILITY

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

ANTI-CORRUPTION AND ANTI-BRIBERY

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

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

RESPECT FOR HUMAN RIGHTS

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

Wesleyan recognises the importance of the Modern Slavery Act 2015 and is committed to acting ethically in all business dealings, in particular with suppliers. Our full Modern

Slavery Statement can be found on the Society's website.

EQUAL OPPORTUNITIES

The Society is fully committed to equal opportunities in its human resources practices, regardless of age, sex, ethnic origin, religion or disability. It is the Society's policy to give full consideration to suitable applications for employment by people with disabilities. Opportunities also exist for employees of the Society who become disabled to continue in their employment or to be trained for other positions in the Society's employment.

CHARITABLE DONATIONS

Charitable donations amounted to £1,094,000 (2021: £1,045,000) which included grants to over 100 projects via the Wesleyan Foundation. A number of charitable events were supported by employees where their personal contribution was matched £1 for £1 by the Society.

Charitable recipients	Donations (£000s)
Foundation	1,006
Other donations	88
Total	1,094

INDEPENDENT AUDITOR

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

SELENA PRITCHARD
Company Secretary

30 March 2023

REPORT FROM THE AUDIT COMMITTEE



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

ANDREW NEDEN
Chair of the Audit Committee

MEMBERSHIP AND ROLE OF THE COMMITTEE

Members of the Committee at 31 December 2022 were Andrew Neden (Chair), Philip Moore, Rita Bajaj and Linda Wilding. The Company Secretary acts as secretary to the Committee. The Committee meets at least five times a year and has an agenda linked to events in the Society's financial calendar.

The Board considers that all members of the Committee are independent and bring significant and relevant skills and experience to its function. All members undertake induction training and continuing professional development. Andrew Neden, formerly a partner in KPMG, and Philip Moore, formerly Finance Director at LV= and a Fellow of the Institute of Actuaries, are considered by the Board to have recent and relevant financial experience.

In order to help the Committee meet its oversight responsibilities, regular updates are provided by external auditors, Ernst & Young LLP, on significant and topical areas affecting businesses.

The terms of reference of the Audit Committee include all matters required under the UK Corporate Governance Code, Prudential Regulation Authority (PRA) Rules and follow Financial Reporting Council (FRC) guidance. The Committee plays a key role in assisting the Board with regard to financial reporting (Annual Accounts and submissions to the PRA including for subsidiary companies) and ensuring that internal controls (including financial and operational controls and risk management processes) within the Society are appropriately robust. The Committee also provides independent assurance to the Board on the effectiveness of the Society's controls over managing climate-related risks.

The Committee invites members of the Executive and their direct reports to meetings so they can answer questions and provide first-hand details of technical financial matters and/or explanations of controls in place to mitigate the Society's risks, and provide direct responses to any matters raised by internal or external audit in their reports. The external Auditor, Ernst & Young LLP, attends Committee meetings, particularly when financial reporting is considered. Private meetings are held with each of the Head of Internal Audit, Chief Financial Officer, Chief Actuary and the external Auditor at least once a year.

Summary of Key Activities During 2022:

During the year the Committee:

- ▶ Recommended to the Board the Society's Annual Report and Accounts (including statements on going concern and viability), Solvency II Reporting Policy, Solvency and Financial Condition Reports and Valuation Reports, after reviewing processes for their production and discussing assumptions underlying the models and valuations which underpin them;
- ▶ Reviewed the proposed internal audit plan for the coming year to ensure it addressed key areas of risk and that there was appropriate co-ordination with the Regulatory Monitoring Team and external Auditor;
- ▶ Monitored the Group's internal controls by considering a number of third party, external and internal audit reports (including client money matters) on key controls and risk management functions;
- ▶ Received the Head of Internal Audit's inaugural annual opinion on the overall effectiveness of the governance, risk and controls framework for the Group. This included an opinion on whether the organisation's risk appetite was being adhered to and recommendations to strengthen the control framework further;
- ▶ Ensured that significant findings and recommendations made - including findings raised by External Audit and management's proposed responses - were received, discussed and appropriately acted upon;
- ▶ Reviewed arrangements through which employees can raise concerns about possible irregularities relating to financial reporting or other matters including reviewing whistleblowing reports;
- ▶ Received updates on progress with End to End Process Mapping, Group Finance Transformation and Data Projects;
- ▶ Received reports from Internal Audit on the adequacy and effectiveness in meeting requirements of the FCA Stewardship Code Report and assurance on sustainability data utilised within the 2021 Annual Report and Accounts;
- ▶ Received reports detailing resolution of issues related to IT general computer controls; and,
- ▶ Received updates on the reforms to the audit and corporate governance environment.

REPORT FROM THE AUDIT COMMITTEE CONTINUED

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES

The Audit Committee pays particular attention to matters it considers to be important by virtue of their impact on the Group's results and remuneration of senior management, or the level of complexity, judgement or estimation involved in their application on the consolidated financial statements. The main areas of focus during the year remain broadly consistent with those identified in 2021 and are set out in the below significant issues table.

<p>AREA OF FOCUS Valuation of Assets and Liabilities and Data Quality.</p>	<p>AREA OF FOCUS The expense assumptions – both the current level of expenses incurred in maintaining a policy and the expected level of increase in expenses over the lifetime of the policies in force.</p>	<p>AREA OF FOCUS Assumptions in relation to morbidity, mortality and lapse rates.</p>
<p>Audit Committee Action The Committee reviewed the Chief Actuary's Actuarial Function Report which provided assurance on the controls in place to ensure the accuracy of the year end valuation.</p> <p>Conclusion/Outcome The Committee was satisfied with the controls over the valuation of these assets and liabilities, noting that further enhancements were planned to improve processes to produce actuarial and accounting data.</p>	<p>Audit Committee Action The Committee considered the methods used to determine the current level of expenses to maintain policies. The Committee reviewed management's analysis of how macro inflation and other factors have increased Society expenses over the year, taking account of both this experience and management's plans to generate future cost savings.</p> <p>Conclusion/Outcome The Committee concurred with the expectation of increased inflationary pressures on the Society's cost base.</p>	<p>Audit Committee Action The Committee reviewed management's analysis of actual experience and their proposed changes to assumptions, taking account of both this experience and external market information.</p> <p>In particular, the Committee reviewed reports from management proposing no change to the Covid related provision for increased income protection claims.</p> <p>Conclusion/Outcome The Committee agreed the conclusions that management used to value the insurance liabilities were appropriate and also concurred with the other proposed changes to assumptions.</p>
<p>AREA OF FOCUS MSS Fund Asset Share Reserving.</p>	<p>AREA OF FOCUS External Reporting.</p>	<p>AREA OF FOCUS Valuation of assets.</p>
<p>Audit Committee Action The Committee reviewed the process for fairly distributing assets of the fund to policyholders at the point of claim.</p> <p>Conclusion/Outcome The Committee concurred with the improved best estimate liability for future claims that removed prudence from the existing calculation and will enable the Society to enhance asset shares for remaining policies.</p>	<p>Audit Committee Action The Committee reviewed early drafts of the Annual Report and Solvency and Financial Condition Report (SFCR) and raised points with management. The Committee considered whether the reports taken as a whole were fair, balanced and understandable, providing the information necessary for stakeholders to assess the Society's performance, business model and strategy.</p> <p>Conclusion/Outcome The Committee determined that the reports did meet these criteria and could be recommended to the Board for approval. Reports obtained from management provided assurance that the SFCR met regulatory requirements.</p>	<p>Audit Committee Action The Committee reviewed the processes and practices followed in valuing assets, and ensured that these were based on or derived from externally available data, with external confirmation in those areas open to more judgement, for example property valuations.</p> <p>Conclusion/Outcome The Committee was satisfied that the valuations overall were in line with market data.</p>

INTERNAL AUDIT

Internal Audit undertakes a six-monthly planning exercise to determine which activities and controls should be subject to audit review over the following period. This is based on an assessment of the level of strategic and operational importance, the level of inherent and residual risk, and the results of any other assurance activity or process that may be relevant. Internal Audit adopts a flexible audit planning approach to allow it to quickly focus resource where needed utilising either an assurance or consultative approach. Areas subject to Internal Audit review in 2022 included but were not limited to:

- ▶ Key strategic transformation programmes including financial control in transformation;
- ▶ Operational resilience and Data Governance;
- ▶ Customer servicing and delivery processes (including Complaint Handling, Annual Statements and Pension Claims);
- ▶ Operations, sustainable investments, distribution and finance processes;
- ▶ Risk Management Framework; and,
- ▶ Key regulatory projects, including oversight over the Consumer Duty Plan.

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

Internal reviews of the effectiveness of the Internal Audit function are undertaken annually with input from Committee members and management. However, an external quality assessment of the effectiveness of the Internal Audit Function (performed by Chartered Institute of Internal Auditors) was completed in late 2021 with a final report of key findings published in early 2022. The results of this review were positive and actions to address areas for further improvement were agreed and implemented during 2022.

EXTERNAL AUDIT

The Committee:

- ▶ Reviewed and approved the external Auditor's proposed audit scope and approach for the current year as set out in its 2022 audit plan, in the light of the Group's present circumstances and changes in regulatory and other requirements;
- ▶ Discussed with the external Auditor any audit problems encountered in the normal course of audit work, including any restrictions on audit scope or access to information;
- ▶ Assessed the findings of the year end audit and discussed changes made to the audit approach. Control matters highlighted were closely examined and steps taken to ensure appropriate actions were put in place. The Auditors required Letter of Representation was thoroughly reviewed before signing by the directors; and,

- ▶ Undertook a review of the effectiveness of the external audit process with input from Committee members and members of management who had been closely involved with the audit. The review considered the technical knowledge of the audit partner and the external audit team, their level of understanding of the Society's business model, the nature and robustness of the challenges raised and the efficiency of the audit process.

The Committee has a policy on the use of external auditors for non-audit services which precludes them from being engaged for such work if their independence or objectivity as external auditors would be impaired. This policy was reviewed and updated in 2022. This policy requires prior approval of the Committee for engagements where the fee is likely to exceed £50,000, and approval by the Chief Financial Officer or Chair of the Audit Committee for lower amounts, depending on the amount. The Committee was satisfied that all non-audit services provided during the year complied with policy.

Ernst & Young LLP were appointed as external Auditors on 11 May 2017 following a tender exercise. A resolution proposing the reappointment of Ernst & Young LLP as external Auditor was put to the AGM held on 26 May 2022. 97% of votes cast were in favour and Ernst & Young LLP were duly reappointed. The current external audit partner is Ben Morphet after Andy Blackmore stepped down in 2022. The Society expects to tender for its external Auditor at least every ten years and rotate its audit partner at least every five years. After the conclusion of each audit, an assessment of the process is undertaken and management views gathered and in the last review no material issues were raised. As a consequence a resolution for the reappointment of Ernst & Young LLP as external Auditor will be put to the AGM.

COMMITTEE'S EFFECTIVENESS

The Committee reviews its own effectiveness annually with input from Committee members, management and the external Auditor. In 2022, the assessment was completed as part of the Board effectiveness review and only minor areas for improvement were identified. The Committee also reviews the effectiveness of each meeting prior to conclusion to ensure continuous improvement. As part of a wider Board exercise each member discusses their training requirements to ensure familiarity with regulatory, accounting and wider market issues.

ANDREW NEDEN

Chair of the Audit Committee

30 March 2023

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

OPINION

In our opinion:

- ▶ Wesleyan Assurance Society’s Group financial statements and Society financial statements (the “financial statements”) give a true and fair view of the state of the Group’s and of the Society’s affairs as at 31 December 2022 and of the Group’s results for the year then ended;
- ▶ the Group and Society financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Wesleyan Assurance Society (the ‘Society’) and its subsidiaries (the ‘Group’) for the year ended 31 December 2022 which comprise:

Group	Society
Consolidated balance sheet as at 31 December 2022	Balance sheet as at 31 December 2022
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 27 to the financial statements including a summary of significant accounting policies
Related notes 1 to 27 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group and Society financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and FRS 103 “Insurance contracts” (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION

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

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

CONCLUSIONS RELATING TO GOING CONCERN

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

- ▶ confirmed our understanding of management’s going concern assessment process and obtained management’s assessment which covers the period to 31 March 2024.
- ▶ with support from our actuarial specialists, reviewed and challenged management’s three-year strategic and financial plan and management’s five-year Own Risk Solvency Assessment Report (ORSA) projections, determining that the models are appropriate to enable management to make an assessment on the going concern of the Society;
- ▶ assessed the accuracy of management’s analysis by testing the inputs and the clerical accuracy of the models used;
- ▶ with support from our actuarial specialists, 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, with support from our actuarial specialists, 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 economic uncertainty on the business; and,
- ▶ assessed the appropriateness of the going concern disclosures by comparing the consistency with management’s assessment and for compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Society’s ability to continue as a going concern for the period to 31 March 2024.

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

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

OVERVIEW OF OUR AUDIT APPROACH

Audit scope	<ul style="list-style-type: none"> ▶ We performed an audit of the complete financial information of the Society and audit procedures on specific balances for a further four components. ▶ The components where we performed full or specific audit procedures accounted for 99.7% of Total assets and 99.8% of Total liabilities.
Key audit matters	<ul style="list-style-type: none"> ▶ Valuation of gross technical provisions – assumptions and modelling ▶ Valuation of assets with more complex valuation methodologies – Investment property and derivatives
Materiality	<ul style="list-style-type: none"> ▶ Overall Group materiality of £12m which represents 2.55% of Fund for Future Appropriations.

AN OVERVIEW OF THE SCOPE OF THE SOCIETY AND GROUP AUDITS

Tailoring the scope

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

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

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

The reporting components where we performed audit procedures accounted for 99.7% (2021: 99.8%) of the Group’s Total assets and 99.8% (2021: 98.4%) of the Group’s Total liabilities. For the current year, the full scope component contributed 98.8% (2021: 91.5%) of the Group’s Total assets and 98.9% (2021: 98.7%) of the Group’s Total liabilities. The specific scope

components contributed 0.9% (2021: 8.3%) of the Group’s Total assets and 0.9% (2021: 6.9%) of the Group’s Total liabilities. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining components that together represent 0.3% (2021: 0.2%) of the Group’s Total assets and 0.2% (2021: 1.6%) of the Group’s Total liabilities, none are individually greater than 1% of the Group’s Total assets, Total liabilities or Funds for Future Appropriations. For these components, we performed other procedures, including performing analytical review procedures, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

CHANGES FROM THE PRIOR YEAR

There are no significant changes in scoping the Group audit from prior year other than the sale of Wesleyan Bank Limited.

INVOLVEMENT WITH COMPONENT TEAMS

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

CLIMATE CHANGE

There has been increasing interest from stakeholders as to how climate change will impact the Group. Stakeholders are increasingly interested in how climate change will impact the Group. The Group has explained the most significant risks from climate change on their operations in the Managing Sustainability section of the strategic report. The Group has also explained their climate commitments on pages 34 to 38 in the Managing Sustainability section of the strategic report. All of the disclosures form part of the “Other information” rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering

whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on “Other information”.

In planning and performing our audit we assessed the potential impacts of climate change on the Group’s business and any consequential material impact on its financial statements.

As explained in the accounting policies note on page 95, the Group have assessed the impact of climate change across a number of areas, predominantly in respect of the valuation of financial instruments, insurance and investment contract liabilities and goodwill and other intangible assets. The note sets out that the Group believes that many of the effects arising from climate change will be longer-term in nature, with an inherent level of uncertainty, and have been assessed as having a limited effect on accounting judgments and estimates at the current period end date.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management’s risk assessment of the impact of their climate commitments and the resulting conclusion that there was no material impact from climate change and the adequacy of the Company’s disclosures on page 95 of the financial statements which explain the rationale.

We also challenged the Directors’ considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

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

KEY AUDIT MATTERS

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Valuation of gross technical provisions: Actuarial assumptions and modelling</p> <p>The valuation of the technical provisions as at 31 December 2022 is £6,023.9m (2021: £6,582.4m) as disclosed in note 14 to the financial statements.</p> <p>The valuation of technical provisions is inherently uncertain due to the dependency on a number of key assumptions, including morbidity, longevity, persistency and expenses. In addition, these assumptions have different sensitivities, and for some assumptions small changes will have a material impact on the Group’s reported result.</p> <p>Non-economic assumptions such as persistency, morbidity, guaranteed annuity rate take-up and mortality are set based on past experience and market experience, over-laid with the application of judgement in particular around future trends. Demographic assumptions are set based on internal and market experience, overlaid with the application of judgement, in particular, around expectations of future trends and external factors.</p> <p>Expense assumptions are set based on the anticipated costs associated with administering the business, this requires assumptions on areas including future expenses inflation along with the split between acquisition / maintenance and between different classes of business.</p>	<p>To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, using EY actuaries as part of our audit team, we performed the following procedures:</p> <ul style="list-style-type: none"> ▶ obtained an understanding and tested the design and operating effectiveness of key controls over management’s process for setting and updating actuarial assumptions; ▶ tested that the policy records data used in the process for setting and updating demographic and expense assumptions was complete and accurate; ▶ reviewed and challenged the results of management’s experience analysis, including the persistency, morbidity and guaranteed annuity rate take-ups, to assess whether these justified the adopted assumptions. This incorporated specific challenge of management’s consideration of COVID-19 in the setting of these assumptions and whether it was appropriate for management not to adjust the key long-term assumptions for the impact of COVID-19; ▶ in respect of longevity improvements, we have evaluated the use of the chosen industry standard Continuous Mortality Investigation (‘CMI’) model and the parameters used to validate that it was appropriate relative to the industry and reflects the expected longevity of the Society’s policyholders relative to those in the CMI model; ▶ reviewed the approach to setting expense assumptions against Solvency II guidance (being the basis of measurement of technical provisions within the statutory accounts) and market practice; and ▶ concluded on whether the final assumptions were within a reasonable range based on our expert judgement, management’s internal experience analysis and the results of assumptions used by peers as per our benchmarking survey. 	<p>We determined that the actuarial assumptions used by management are reasonable based on the analysis of the experience to date, industry practice and the financial and regulatory requirements.</p> <p>We consider it appropriate that long term assumptions have not been adjusted to reflect the impact of COVID-19 as the longer-term impact on morbidity and mortality in particular is not yet clear, and the position adopted by management is consistent with that taken by most companies operating in the life insurance sector.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>We consider the integrity and appropriateness of models to be critical to the overall valuation of technical provisions. We consider the technical provisions calculated outside of the core actuarial system and the model developments applied to the core actuarial modelling system to represent a particular area of risk and therefore we focus our work specifically on these areas.</p>	<p>To obtain sufficient audit evidence to conclude on core actuarial modelling systems and balances calculated outside these systems, using EY actuaries as part of our audit team we performed the following procedures:</p> <ul style="list-style-type: none"> ▶ assessed the scope and completeness of the actuarial model baselining performed by management relative to the previous exercises to ensure all material products have been baselined in an appropriate time frame; ▶ reviewed and challenged the scope, approach and results of management’s model baselining performed during the period to determine whether this is appropriate and complete, and the results are reasonable; ▶ reviewed and challenged the baselining models developed by management to ensure key policy features have been modelled appropriately; ▶ obtained an understanding of management’s process for model changes to the core actuarial system and tested the design, implementation and operating effectiveness of key controls over that process; ▶ challenged and evaluated the methodology, inputs and assumptions applied to model changes made in the core actuarial modelling systems over the year; ▶ gained an understanding of the rationale for balances calculated outside of the core actuarial system and assess the appropriateness of the applied calculation methodology, inputs and assumptions used to derive the technical provisions; and, ▶ stratified the components of the balances modelled outside the core actuarial system as at the balance sheet date and focused our testing on those that, in our professional judgement, present a higher risk of material misstatement. As part of the testing, we gained an understanding of the rationale for balances calculated outside of the core actuarial system and assessed the appropriateness of the applied calculation methodology. 	<p>We determined that the models used are appropriate, that changes to the models were implemented as intended, and that controls over management’s processes for modelling the technical provisions using the core actuarial modelling systems were operating effectively.</p> <p>We also determined that technical provisions modelled outside these core actuarial modelling systems are reasonable.</p>

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Valuation of assets with more complex valuation methodologies – Investment property and Derivatives</p> <p>The Group investment portfolio contains asset classes whose valuation is subject to significant judgement and volatility, including derivatives and investment properties which have a total value of £375.8m (2021: £457.8m) (derivatives - £10.3m (2021: £62.8m) and property – £365.5m (2021: £395.0m)) as disclosed in notes 10(D) and 10(E) to the financial statements.</p> <p>Any changes to the judgments included in the valuation of these assets could result in a material difference in the valuation.</p>	<p>We performed walkthroughs of the investment valuation processes for these asset classes This included understanding the procedures in place through which the Society gains assurance over the counterparty valuation of the derivatives and the property valuations provided by management's expert.</p> <p>Using EY derivative valuation specialists, we performed independent valuations of a sample of the derivative portfolio.</p> <p>We utilised EY property valuation specialists to independently value 24 (2021: 27) investment properties (representing 53% (2021: 49.8%) of the balance). Separately, we assessed the competence and objectivity of management's expert for the remainder of the properties.</p>	<p>We have concluded that the valuation of the derivative portfolio is reasonable.</p> <p>We have concluded that the valuation of the property portfolio is reasonable.</p>

In the prior year, our auditor's report included a key audit matter in relation to the migration of Coda General Ledger (GL) to new Dynamics GL system. In the current year, we have not considered the migration to be a key audit matter as a result of the successful migration taking place in the prior year.

OUR APPLICATION OF MATERIALITY

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

Materiality

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

We determined materiality for the Group to be £12 million (2021: £15 million), which is 2.55% (2021: 2.65%) of Funds for Future Appropriations. We believe that Funds for Future Appropriations provides us with the most appropriate basis for determining materiality as it is the equivalent of net assets in an insurance company.

We determined materiality for the Society to be £12 million (2021: £15 million), which is 2.55% (2021: 2.65%) of Funds for Future Appropriations.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% of our planning materiality, namely £9m (2021: £11.25m). We have set performance materiality at this percentage because our prior year audit experience indicates a lower risk of misstatements. Our performance materiality for taxation related balances was also £9m (2021: £7.5m).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.8m to £6m (2021: £2m to £7.5m).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.6m (2021: £0.75m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

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

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- ▶ the strategic report or the directors' report; or
- ▶ the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

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

- ▶ adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

- ▶ the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- ▶ certain disclosures of directors' remuneration specified by law are not made; or
- ▶ we have not received all the information and explanations we require for our audit

VOLUNTARY REPORTING RELATING TO THE CORPORATE GOVERNANCE STATEMENT

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Society's voluntary compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

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

- ▶ Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 61;
- ▶ Directors' explanation as to its assessment of the Society's prospects, the period this assessment covers and why the period is appropriate set out on page 44;
- ▶ Director's statement on whether it has a reasonable expectation that the Society will be able to continue in operation and meets its liabilities set out on page 44;
- ▶ Directors' statement on fair, balanced and understandable set out on page 77;
- ▶ Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 44;
- ▶ The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 40 to 43; and;
- ▶ The section describing the work of the audit committee set out on pages 79 to 81.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 77, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Our approach was as follows:

- ▶ We obtained a general understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- ▶ We understood how the Group complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Society and its subsidiaries and UK regulatory bodies; reviewed minutes of the Board and Executive Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's risk management framework ('RMF') and internal control processes.

- ▶ 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 industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- ▶ We were appointed by the Society on 29 September 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods.
- ▶ The period of total uninterrupted engagement is 6 years, covering the years ending 31 December 2017 to 31 December 2022.
- ▶ The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society and we remain independent of the Group and the Society in conducting the audit.
- ▶ The audit opinion is consistent with the additional report to the audit committee.

USE OF OUR REPORT

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

Ernst & Young LLP

BEN MORPHET (SENIOR STATUTORY AUDITOR)

for and on behalf of Ernst & Young LLP,
Statutory Auditor
Birmingham

4 April 2023



OUR FINANCIALS

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2022

	Note	2022			2021		
		Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Profit and Loss Account							
Technical Account - Long-term Business							
Earned premiums, net of reinsurance							
Gross premiums written	3(A)	440.6	-	440.6	407.0	-	407.0
Outward reinsurance premiums		(3.3)	-	(3.3)	(4.1)	-	(4.1)
		437.3	-	437.3	402.9	-	402.9
Investment income	4	257.0	4.5	261.5	324.3	24.9	349.2
Unrealised gains on investments	4	-	-	-	298.2	-	298.2
Other income	5	53.6	0.1	53.7	50.8	0.4	51.2
Total Technical Income		747.9	4.6	752.5	1,076.2	25.3	1,101.5
Claims incurred, net of reinsurance							
Claims paid - gross amount	6	(348.4)	-	(348.4)	(402.9)	-	(402.9)
- reinsurers' share		7.1	-	7.1	8.2	-	8.2
- net of reinsurance		(341.3)	-	(341.3)	(394.7)	-	(394.7)
Change in the provision for claims		(0.2)	-	(0.2)	1.8	-	1.8
		(341.5)	-	(341.5)	(392.9)	-	(392.9)
Change in other technical provisions, net of reinsurance							
Long-term business provision - gross amount	14	471.0	-	471.0	(330.0)	-	(330.0)
- reinsurers' share		(4.2)	-	(4.2)	(6.0)	-	(6.0)
		466.8	-	466.8	(336.0)	-	(336.0)
Operating expenses	7	(158.8)	(4.3)	(163.1)	(152.3)	(15.8)	(168.1)
Investment expenses and charges	4	(11.0)	(0.8)	(11.8)	(10.7)	(4.6)	(15.3)
Unrealised losses on investments	4	(781.1)	-	(781.1)	-	-	-
Allocation of net investment return to investment contracts	14	32.5	-	32.5	(169.5)	-	(169.5)
Tax attributable to the long-term business	9	24.0	0.8	24.8	(25.4)	1.1	(24.3)
Change in present value of future profits on linked non-profit business written in the With Profits Fund		(7.8)	-	(7.8)	7.3	-	7.3
Loss on Sale of discontinued operations	25	-	(50.3)	(50.3)	-	-	-
Transfers from/(to) the Fund for Future Appropriations	13	29.0	50.0	79.0	3.3	(6.0)	(2.7)
		(873.2)	(4.6)	(877.8)	(347.3)	(25.3)	(372.6)
Total Technical Charges		(747.9)	(4.6)	(752.5)	(1,076.2)	(25.3)	(1,101.5)
Balance on the Technical Account - Long-term Business							
		-	-	-	-	-	-
Other Comprehensive Income							
Actuarial (loss)/gain on pension scheme	24	(44.6)	-	(44.6)	26.9	-	26.9
Decrease/(Increase) in tax liability on pension asset	9, 24	2.6	-	2.6	-	-	-
Revaluation (loss)/gain on tangible fixed assets	12(B)	(1.9)	-	(1.9)	(5.4)	-	(5.4)
Transfers from/(to) the Fund for Future Appropriations	13	43.9	-	43.9	(21.5)	-	(21.5)
Other Comprehensive Income for the year		-	-	-	-	-	-
Total Comprehensive Income for the year		-	-	-	-	-	-

The total transfer from the Fund for Future Appropriations was £122.9m (2021: £24.2m to the Fund for Future Appropriations).

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

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

BALANCE SHEETS

AS AT 31 DECEMBER 2022

	Note	Group		Society	
		2022 £m	2021 £m	2022 £m	2021 £m
Assets					
Intangible assets					
Intangible assets	12(A)	57.3	71.4	51.9	62.4
Goodwill	12(A)	18.3	22.1	-	-
Investments					
Investment Property	10(D)	365.5	395.0	365.5	395.0
Group undertakings and participating interests	21	-	-	68.4	123.7
Other financial investments	10(A)	4,693.7	5,754.2	4,721.3	5,176.1
		5,059.2	6,149.2	5,155.2	5,694.8
Value of in-force linked non-profit business					
		45.0	52.9	45.0	52.9
Assets held to cover linked liabilities					
	10(B)	1,218.9	1,306.3	1,218.9	1,306.3
Reinsurers' share of technical provisions					
Long-term business provision	14	12.1	16.3	12.1	16.3
Claims outstanding		0.4	0.2	0.4	0.2
		12.5	16.5	12.5	16.5
Debtors					
Debtors arising out of direct insurance operations - policyholders		1.4	0.9	1.4	0.9
Debtors arising out of reinsurance operations		1.5	1.8	1.5	1.8
Other debtors	11	17.4	19.1	18.5	5.0
		20.3	21.8	21.4	7.7
Other assets					
Tangible assets	12(B)	16.9	25.0	16.7	20.9
Cash at bank and in hand		63.6	51.5	18.0	10.7
		80.5	76.5	34.7	31.6
Prepayments and accrued income					
Accrued interest and rent		25.5	18.7	25.5	18.7
Other prepayments and accrued income		12.6	13.5	5.7	5.6
		38.1	32.2	31.2	24.3
Total Assets (excluding pension asset)					
		6,550.1	7,748.9	6,570.8	7,196.5
Pension Asset					
	24	89.9	131.5	89.9	131.5
Total Assets (including pension asset)					
		6,640.0	7,880.4	6,660.7	7,328.0

The notes on pages 94 to 133 form an integral part of these financial statements.

BALANCE SHEETS

CONTINUED
AS AT 31 DECEMBER 2022

	Note	Group		Society	
		2022 £m	2021 £m	2022 £m	2021 £m
Liabilities					
Non-current liabilities:					
Fund for Future Appropriations	13	466.2	589.1	480.7	588.7
Technical Provisions					
Long-term business provision	14	4,805.0	5,276.0	4,834.0	5,275.2
Claims outstanding		18.8	18.6	18.8	18.6
		4,823.8	5,294.6	4,852.8	5,293.8
Technical provisions for linked liabilities	14	1,218.9	1,306.3	1,218.9	1,306.3
Provisions for other Risks	15	66.8	93.5	65.2	91.7
Deposits received from Reinsurers	16	-	16.3	-	16.3
Deposits from banks		-	98.5	-	-
Derivative Liabilities	10(E)	14.8	2.5	14.8	2.5
Current liabilities:					
Creditors					
Creditors arising out of direct insurance operations		4.6	6.6	4.6	6.6
Creditors arising out of reinsurance operations		-	0.4	-	0.4
Other creditors	18	15.8	25.3	17.8	15.4
Customer bank accounts		-	412.1	-	-
		20.4	444.4	22.4	22.4
Accruals and Deferred Income		29.1	35.2	5.9	6.3
Total Liabilities		6,640.0	7,880.4	6,660.7	7,328.0

The notes on pages 94 to 133 form an integral part of these financial statements.

The financial statements on pages 91 to 93 were approved by the Board of Directors on 30 March 2023 and signed on its behalf by:



NATHAN MOSS
Chair



MARIO MAZZOCCHI
Group Chief Executive



GILLIAN CASS
Chief Financial Officer

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1. ACCOUNTING POLICIES

Basis of presentation

The Group financial statements have been prepared under the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance groups, and have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance contracts", and the Companies Act 2006, under the provision of SI 2008/410.

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

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

Going Concern

Under the UK Accounting Standards, the Directors are required to state whether the business is a going concern for the 12 months from the signing date. In considering this requirement, the Directors have taken into account financial projections which demonstrate the ability of the Group to withstand market shocks in a range of scenarios, including very severe scenarios and climate change scenarios. Specifically, the Board considered solvency projections that incorporated an estimated view of an economic downturn. The projections demonstrated that excess capital would remain in the Group under both scenarios, in the going concern period to 31 March 2024, and that liquidity was adequate to meet liabilities as they fell due.

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

Basis of Consolidation

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

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

The results of subsidiary undertakings acquired or sold during the year are included in the consolidated results from the date of acquisition or up to the date of disposal. On acquisition of a subsidiary undertaking, all of its assets and liabilities at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Accounting judgements and estimation uncertainty

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

Technical provisions involve a higher degree of judgement and complexity with significant assumptions and estimates involved in the calculation, including discount rates, longevity, persistency and morbidity. These judgements and estimates have been disclosed in Note 14. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The pension asset recognised in the balance sheet is the value of the scheme's assets less the present value of the scheme's liabilities and the Society has the rights to the asset upon wind up of the scheme. A pension valuation is carried out every three years, with the most recent valuation of the scheme as at 31 December 2021. These judgements and estimates have been disclosed in Note 24. The valuation used the projected unit method and was carried out by a qualified Actuary employed by Aon Hewitt. The results of the latest funding valuation at 31 December 2021 have been adjusted to the balance sheet date taking account of experience over the period since 31 December 2021, changes in market conditions and differences in the financial and demographic assumptions.

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

Derivative financial instruments are measured at fair value, which is obtained using valuation techniques performed by third parties, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

Investments in Group Undertakings (subsidiaries) are valued using discounted cash flow or discounted dividend valuation models. The forecasts are based on profit projections and discounted using an appropriate discount rate.

1. ACCOUNTING POLICIES CONTINUED

Impact of climate risk on accounting judgments and estimates

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

Classification of contracts

The Society classifies its products for accounting purposes as insurance, investment or investment with discretionary participation features. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. Contracts that do not transfer significant insurance risk are investment contracts. As a general guideline, the Society defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

A discretionary participation feature is a contractual right held by a policyholder to receive additional payments as a supplement to guaranteed benefits. Such contracts are more commonly known as 'with profits' or 'participating' contracts and are accounted for as insurance contracts.

Hybrid contracts are those where the policyholder can invest in and switch between both unit-linked (non-participating) and unitised with profits (participating) investment mediums. Hybrid policies that include both discretionary participation features and unit-linked components have been unbundled and the two components have been accounted for separately. For practical reasons certain hybrid contract types are treated as if they were investment contracts with discretionary participation features when accounting for premiums, claims and other revenue.

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

(i) Insurance contracts and investment contracts with discretionary participating features (DPF)

Premiums

Long-term business premium income is accounted for when due for payment or, in the case of linked business, when the liability is established.

Reinsurance

Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses and are accounted for as insurance contracts. The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies.

Claims

Claims payable on death are accounted for on the basis of notifications received. Disability claims are accounted for on the basis of individual claim assessments. Maturities and annuity payments are accounted for when the claim becomes due for payment. Surrenders are recognised either when paid or if earlier, the date on which following notification, the policy ceases to be included within the long-term business provision and/or the liabilities on investment contracts. Claims include bonuses payable on with profits or participating contracts. Claims payable include all related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

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

Liabilities

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

(ii) Investment contracts

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

Investments

(i) Investment properties

Investment properties are held at fair value, measured annually with changes in fair value recognised in the statement of comprehensive income. The basis of valuation used is open market value net of cost of purchase, with no changes to the valuation technique during the year.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

1. ACCOUNTING POLICIES CONTINUED

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

(ii) Investments in Group undertakings and participating interests

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

(iii) Other financial investments

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

The Society classifies its other financial investments into the following categories:

- ▶ Shares and other variable-yield securities and units in unit trusts – at fair value through profit and loss;
- ▶ Debt securities and other fixed-income securities – at fair value through profit and loss;
- ▶ Deposits with credit institutions – at fair value through profit and loss; and
- ▶ Derivatives – at fair value through profit and loss.

Shares and other variable-yield securities and units in unit trusts, debt securities and other fixed income securities and deposits with credit institutions - are classified as at fair value through profit and loss at inception because they form part of an investment portfolio that is managed and whose performance is evaluated by the Society's key management personnel on a fair value basis.

The fair values of listed investments are based on the current bid price on the balance sheet date or the last trading day before this date. The fair values of other unlisted investments, for which no active market exists, are established by the Directors using valuation techniques. These include use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other pricing models.

Net gains or losses arising from changes in the fair value of financial assets are presented in the statement of comprehensive income within 'Unrealised gains on investments' or 'Unrealised losses on investments' in the period in which they arise.

Unrealised gains and losses represent the difference between the fair value of financial assets at the balance sheet date and the original cost, or if they have been previously valued, that valuation at the balance sheet date. The movement in unrealised gains and losses recognised through the statement of comprehensive income in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Other financial assets are recognised at amortised cost.

(iv) Investment income and expenses

Dividends are recorded on the date on which the shares are quoted ex-dividend. Other investment income and expenses are included on an accruals basis.

Investment income from Wesleyan Bank (prior to disposal) comprised of interest receivable from loans, finance leases and similar agreements such as hire purchase, and operating lease rental income receivable as lessor.

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

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

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

(v) Investment gains and losses

Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost/carrying value.

Other Income

(i) Advice and Commission Income

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

(ii) Dental Membership and Administration Fee income

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

1. ACCOUNTING POLICIES CONTINUED

(iii) Unit Trust Management Fee Income

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value are recognised immediately in the statement of comprehensive income.

Assets held to cover linked liabilities

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

Impairment charge

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

Pension costs

The Group operates a defined benefit pension scheme, which was closed to new members with effect from 1 October 2009 and closed to future accrual from 5 April 2016.

The pension cost for the scheme is analysed between past service cost and net return on pension assets. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvements to, retirement benefits are recognised in the statement of comprehensive income on a straight-line basis over the period in which the increased benefits vest.

Net expected return on the pension assets comprises the expected return on the pension scheme assets less interest on scheme liabilities.

The actuarial gains and losses which arise from updating the latest actuarial valuation to reflect conditions at the balance sheet date are included as a separate line in the statement of comprehensive income.

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

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

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

Reinsurers' share of technical provisions

The reinsurers' share of technical provisions is calculated on a basis consistent with the calculation of the corresponding liabilities.

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

Goodwill

Goodwill is capitalised in the balance sheet at cost and amortised through the statement of comprehensive income on a straight-line basis over its useful economic life of between 10 and 15 years. Goodwill is reviewed annually for indicators of impairment. The gain or loss on subsequent disposal of a subsidiary or associated undertaking will include any attributable unamortised goodwill.

Intangible Assets

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

Computer software is valued at cost less amortisation, with assets being amortised on a straight-line basis over a four to ten year period. Assets in course of construction relate to software being developed and are not amortised.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

1. ACCOUNTING POLICIES CONTINUED

Tangible fixed assets

Tangible assets, except for freehold buildings, are stated at valuation or at cost less depreciation, where the cost of tangible assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible assets on a straight-line basis over the expected useful economic lives of the assets concerned, having regard to expected residual values.

The periods generally applicable are:

- ▶ Freehold buildings – 30 to 50 years;
- ▶ Computer hardware – 3 to 10 years;
- ▶ Furniture and fittings – 10 to 20 years;
- ▶ Motor vehicles – 3 to 4 years;
- ▶ Equipment for hire – term of hire agreement.

Freehold buildings (which includes the owner occupied section of the Head Office property) are revalued annually with changes in fair value recognised in the statement of comprehensive income. The basis of valuation used is open market value net of cost of purchase.

Tangible fixed assets are reviewed annually for indicators of impairment. Where, in the opinion of the Directors, there has been impairment in the value of fixed assets to below their net book value, additional depreciation is charged to reduce the carrying value of the assets to their fair value less costs to sell.

Fund for Future Appropriations (FFA)

The FFA is the excess of assets over the aggregate of policy and other liabilities. It is the Society's capital. Transfers to and from the FFA reflect the excess or deficiency of income over claims, expenses, tax and changes in the technical provisions in each accounting period.

Long-term business provision

The long-term business provision is determined by the Directors, having taken advice from the Chief Product Officer following his annual valuation of long-term insurance business.

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

Insurance contracts and participating investment contracts

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

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

With profits (participating) contracts

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

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

Some with profits policies also contain options and guarantees that can increase the benefits payable to the policyholder. The potential liability for these options and guarantees is determined using a stochastic model, which simulates future investment returns, asset mix and bonuses. The most significant options and guarantees are:

- ▶ The sum assured and declared reversionary bonuses on with profits policies;
- ▶ With profits deferred annuity policies where the annuity is at a guaranteed rate;
- ▶ With profits policies with minimum surrender values; and
- ▶ Unitised with profits policies containing guarantees that market value reductions will not be applied at specified times.

Non-participating insurance contracts

For conventional non-profit liabilities, a gross premium valuation method is used, which brings into account the full premiums receivable under contracts written by the Society, estimated renewal and maintenance costs and contractually guaranteed benefits.

The estimation techniques and assumptions are periodically reviewed with any changes in estimates reflected in the statement of comprehensive income as they occur.

Technical provisions for linked liabilities

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

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

1. ACCOUNTING POLICIES CONTINUED

Deferred taxation

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

Deferred tax on changes in the fair value of investments is recognised in the statement of comprehensive income. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred taxes relate to the same fiscal authority.

Provisions

A provision is recognised in the balance sheet when there is a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and that the obligation can be reliably measured. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. No provision is established where a reliable estimate of the obligation cannot be made.

Leases

Finance leasing agreements transfer to the Group substantially all the benefits and risks of ownership of an asset. Accordingly they are treated as if the asset had been purchased outright and are depreciated over either the shorter of the useful economic life of the asset or the length of the lease term. Assets are reviewed annually for indicators of impairment. Payments in respect of operating leases are charged to the statement of comprehensive income in the period to which they relate. Appropriate provisions are held when operating leases are considered to be onerous contracts (as defined under section 20 of FRS 102).

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. Pounds sterling is the functional currency of all Group entities. The consolidated financial statements are presented in millions of pounds sterling, which is the Group's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income for the period.

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

2. RISK MANAGEMENT

General

In addition to the components detailed in the Risk Management Section on pages 40 to 43, the Board is responsible for maintaining a sound system of Risk Management and Internal Controls.

Wesleyan's Risk Management Framework incorporates the following:

- ▶ The market, credit, insurance and operational risks it faces and the amount of capital that it is appropriate to hold taking account of these risks based on a prescribed risk appetite measure (its risk-based capital). This is affected through calculation of the Solvency Capital Requirements (SCR) and internal capital risk appetite measures, as part of the Solvency II directive.
- ▶ A Capital Plan focusing on the quantification of market, credit and insurance risk with the application of detailed modelling to assess the sensitivity of the Society's position to economic and business scenarios over a ten-year period.
- ▶ Risks arising from weaknesses in internal controls over operations. The Society monitors operational performance and the associated risks to our customers, reputation, and financial strength.
- ▶ A Board approved Operational Resilience Policy. The policy governs how the Society monitors and strengthens its ability to provide the most Importance Business Services (IBSs) to our customers including in the event of severe operational disruption.
- ▶ The Medical Sickness Society Fund (MSSF) is operated in accordance with the Scheme Merger documentation and is only exposed to risks arising from policies in MSSF itself.
- ▶ The Ordinary and Industrial Long-Term Business Fund (OILTBF) is exposed to the business risks of subsidiary companies as well as the business risks arising from the operation of long-term insurance itself. The Board decides whether to undertake each business risk and has the responsibility for reviewing and setting a limit on the scale of such risks, advised by the With Profits Committee. Where appropriate, limits will be set for individual risks.

The Risk Committee is tasked by the Board with providing independent oversight of the risk management framework.

The employment contract of each member of the Executive includes a clause placing a duty on the individual to identify, assess and report to the Board in a timely manner on all significant risks in their area of responsibility, whether strategic or operational, and when appropriate to implement a risk mitigation plan to resolve any weakness.

The Society's adherence to its risk appetite is assessed through both quantitative and qualitative measures. Whilst there are several component parts within the Risk Appetite Framework, Wesleyan places particular focus on the control of Business, Conduct, Capital, Operational and Reputation Risks; as well as the overall risk profile for the Society and its With Profits policyholders.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

2. RISK MANAGEMENT CONTINUED

Business Risk

Business risk is defined as the risk that external factors (such as consumer demand patterns, regulatory, competitive or technological changes) will result in an unexpected loss now and/or reduced income/increased costs in the future; and as the risk that the Society's response to external factors is inappropriate or does not deliver the desired outcome over the longer term. The Society recognises the importance of maintaining business risk within the pre-established risk appetite limits for the prudent management of its business and to conform to relevant regulation on business risk in a risk-based and proportionate manner.

Business Risk arises through internal and external events. External events include the impact of market and/or economic conditions on sales, tax and regulatory impacts such as capital gains tax changes and other regulatory initiatives, the actions of competitors or new entrants to the market. Recent examples of these events are the economic uncertainties created by the Ukraine-Russian conflict, high inflation and increased cost of living. Internal events include the quality and range of products and services offered, the strategic decisions made by the Society and the Society's ability to adapt its strategy to respond to change.

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

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

The principal business risks that the Society faces are highlighted in the section headed Wesleyan's Key Risks on pages 40 to 43.

Conduct Risk

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

We are proactive in our approach to identifying issues that could be of concern and result in poor outcomes. Our approaches are being reviewed and enhanced under a programme of activity to implement the FCA's rules and guidance on Consumer Duty. Our Consumer Duty implementation plan will also review governance, culture and types of information we have in order to provide assurance that our Company Purpose is aligned with our obligations under the Duty and that we have the right data to assess and foresee harms before they impact consumers. The scope of this work is significant and includes considerations for products and services, price and value and consumer support, understanding and outcomes. This risk is currently monitored through a number of conduct risk indicators including: advice quality, monitoring of complaints, delivery of good customer outcomes (including value for money assessments), and sales force remuneration.

Capital Risk

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

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

Operational Risk

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

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

- ▶ Financial Crime, which incorporates fraud and money laundering;
- ▶ Infrastructure, which includes IT architecture and supplier management;
- ▶ Catastrophe, which incorporates Business Continuity;
- ▶ Administration, which includes customer service and process management;
- ▶ Regulatory, which includes adherence to relevant regulations for example GDPR;
- ▶ Mis-selling, which covers the quality of advice given to customers; and,
- ▶ Transformation, which covers the delivery of major projects to stated objective, outcomes and benefits.

2. RISK MANAGEMENT CONTINUED

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

Post the Covid pandemic the Society and Group continue to operate hybrid working arrangements for colleagues, with a significant amount of work performed remotely from a Head Office environment. The Society continues to monitor and manage risks associated with remote working to ensure customer service levels and standards are maintained.

Reputation Risk

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

Key Risks

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

- ▶ Financial Market risk
- ▶ Insurance risk
- ▶ Liquidity risk
- ▶ Credit risk

Financial Market Risk

(i) Overview

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

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

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

Separate investment strategies are maintained for the assets backing policyholder asset shares and for the rest of the assets in the With Profits Pool, some of which back other liabilities such as guarantees and options.

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

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

(ii) Equity price risk

The Society is exposed to equity price risk as a result of its holdings in equity investments, classified as financial assets at fair value. Exposures to individual companies and to equity securities in aggregate are monitored in order to ensure compliance with the relevant risk limits for solvency purposes.

Investments held are primarily listed and traded on the UK and other recognised Stock Exchanges (primarily in Europe and North America). The Society has a defined investment policy which sets limits on its exposure to equities both in aggregate terms and by geography and counterparty. Diversification is used to manage the Society's price risk arising from its investments in equity securities.

Sensitivity analysis for equity risk is undertaken to illustrate how changes in the fair value of equity securities will fluctuate because of changes to market prices, whether those changes are caused by factors specific to the individual equity issuer or factors affecting all similar equity securities traded in the market. Further information is provided within Note 13.

(iii) Property risk

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

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

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

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

2. RISK MANAGEMENT CONTINUED

(iv) Interest rate risk

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

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

The Society's exposure to interest rate risk principally arises from the outflows required to meet guaranteed policy payments which are fixed. One method that could be used to mitigate this risk would be to back these guaranteed cash outflows as closely as possible with fixed interest assets giving equivalent cash inflows. This method is used for certain product types, especially annuities in payment. However, backing all policy guarantees with fixed interest assets would restrict the Society's investment choices and prevent it from investing in other asset classes, which may be expected to provide higher investment returns over the longer term. Therefore, for some product types, including all with profits contracts, the Society seeks to only partially match the guaranteed payments with fixed interest assets. The remaining outflow is backed by other assets, principally equities.

(v) Currency risk

Currency risk is defined as the risk that the value of an asset or liability will change as a result of a change in foreign exchange rates. As the Society operates in the UK, its liabilities are denominated in sterling. However, for invested assets, the Society's investment management policies and procedures allow for an exposure to overseas markets, via equities, fixed interest securities and foreign currency. The resulting currency risk is managed by use of exposure limits, authorisation controls and the use of derivatives to hedge currency exposure, operated within the risk management framework outlined above.

Of the £950.6m (2021: £914.8m) non-linked assets held in other currencies, £539.6m (2021: £505.9m) is held in US-denominated assets, £266.5m (2021: £258.9m) is held in euro-denominated assets, and £144.6m (2021: 150.0m) in assets denominated in other currencies.

Insurance Risk

(i) Overview

Insurance risk refers to the fluctuations in the timing, frequency and severity of insured events, and the expense of maintaining the in-force business, relative to the expectations of the Society at the time of underwriting. The exposure of the Society depends to a significant extent on the value of claims to be paid in the future, relative to the assets accumulated to the date of claim. The amount of such future obligations is assessed by reference to assumptions for future mortality and/or morbidity rates, persistency rates, expenses, investment returns, interest rates and tax rates. Sensitivity to the main assumptions underlying insurance risk can be seen in Note 13.

The Board, having taken advice from the Chief Actuary, may set limits on business volumes, including the maximum volumes of specific products with particular risks based on its risk appetite. These risks are monitored by the Risk function.

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

The level of insurance and financial risk taken on by the Society varies with the type of business written. Additional risks also arise from the financial options and guarantees within contracts. The main insurance and investment contract types and an overview of the financial options and guarantees are set out below.

With profits insurance and investment contracts

Key terms and conditions

With profits endowment assurance and deferred annuity contracts (including both conventional and unitised with profits policies) may contain a guaranteed benefit on maturity, death or surrender at certain specified dates.

This guaranteed benefit may be increased by the addition of annual bonuses; a final bonus may also be applied when the policy becomes a claim. The Society can vary the future bonuses paid, including reducing future bonus additions to zero, although it has guaranteed that the maturity value for some mortgage endowment policies will not be less than the original mortgage amount. The Society also has contractual discretion to vary the amount payable on early surrender of the contract. The setting of bonus rates and surrender terms are subject to the Society's PPFM. All discretionary actions must be consistent with the overriding principle that customers be treated fairly.

Key risk factors

- ▶ **Mortality:** The guaranteed payments on death generally exceed the value of the assets held to back the policy, giving rise to mortality risk. Assumptions for the rate of mortality are taken account of when determining the bonus payments to be added to with profits contracts. The level of these bonus additions can be varied to mitigate differences between expected and actual mortality experience. With profits deferred annuity contracts are also subject to longevity risk (see the section 'Non-participating insurance contracts – Non-profit annuities' for an explanation of this risk).
- ▶ **Guarantees:** With profits contracts are subject to the risk that the market value of assets held to back the liabilities is depressed at the time that the guaranteed payments specified in the contract fall due to be paid. The Society's contractual right to vary future bonus additions can mitigate this risk. This is considered further under '(iii) Financial options and guarantees within insurance contracts'.
- ▶ **Persistency and expenses:** The costs associated with writing insurance contracts are those incurred to acquire the policy and those to maintain the policy. These expenses are recovered over the policy's lifetime. If the policy is terminated early, the expense deductions or charges made to the point of termination may be less than the costs incurred. For some product types, this risk is mitigated by the Society's contractual ability to vary the amount payable on surrender. We also control expenses on an ongoing basis, and the Society's right to vary future bonus additions can be used to further mitigate this risk.

2. RISK MANAGEMENT CONTINUED

Non-participating insurance contracts – Protection contracts

Key terms and conditions

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

Key risk factors

- ▶ **Mortality and morbidity:** The Society has partially mitigated these risks through varying the premium rates charged under the policy conditions and by using reinsurance to transfer part of the mortality and morbidity risk to third-party reinsurers.
- ▶ **Persistency and expenses:** The Society mitigates these risks by charging premium rates it believes are enough to meet expenses while remaining competitive for the protection provided.

Non-participating insurance contracts – Non-profit annuities

Key terms and conditions

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

Key risk factors

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

Non-participating investment contracts – Unit-linked policies

Key terms and conditions

For unit-linked investment business most of the risks (particularly market and credit risk) are borne by the policyholders. The principal benefit payable is the value of the underlying assets and therefore the Society generally has limited ability to apply penalties on early surrender or early cessation of regular premiums. The ability to increase charges or apply penalties may be constrained by regulatory or market pressures and by the obligation to treat customers fairly.

Key risk factors

- ▶ **Persistency and expenses:** Acquisition and maintenance costs are recovered by management charges deducted over the policy's lifetime. If the policy is terminated early, the expense deductions made to the point of termination may be less than the costs incurred. Expenses may also exceed expense deductions for continuing policies. These risks are mitigated by the Society's ability to increase charges or in some instances to apply penalties on early surrender. The Society also controls its maintenance expenses on an ongoing basis.

(iii) Financial options and guarantees within insurance contracts

Contracts issued by the Society have three principal types of financial option and guarantee:

- ▶ **Guaranteed lump-sum payments due on specified dates**
 - These mainly comprise the sum assured together with annual bonuses added to with profits contracts, the option to surrender certain unitised with profits bonds on specified dates without a market value reduction (MVR) applying, and the guarantee that an MVR will not be applied at the planned retirement date under some unitised with profits pension policies. Although the Society invests in a broad spread of asset types, there is still a risk that assets held to back any individual policy may be depressed at the time that the guaranteed payment at maturity falls due to be paid. The potential cost of honouring these guarantees is quantified as part of the liability for with profits contracts.
- ▶ **Guaranteed annuities**

These primarily arise in connection with pension business and occur in one of two forms:

- a guaranteed income specified in the contract.
- guaranteed terms for converting lump-sum maturity benefits into an income at maturity.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

2. RISK MANAGEMENT CONTINUED

These guarantees expose the Society to both insurance risk (longevity) and financial risk (cash flow interest rate). An increase in life expectancy will increase the liability arising under the guarantees as it extends the period over which the guaranteed rate must be paid. A reduction in market interest rates (or an increase in the volatility of interest rates) also increases the liability as it results in an increase in the gap (or the risk of a gap) between the future expected cash inflows from the Society's assets and the outflows from the guarantees, which remain fixed. For the closed Medical Sickness Society Fund (MSSF) the financial risk is mitigated by the portfolio of swaps and swaptions (interest rate derivatives).

► Guaranteed investment return

Some pension policies in the MSSF provide a minimum investment return, and there is a risk that assets held to back any individual policy may be insufficient to meet this guarantee at the time that the maturity payment falls due to be paid.

The costs of financial options and guarantees are measured using a market-consistent stochastic model, and the management of the risks associated with these forms part of the Group's overall Capital Management strategy as set out in Note 13.

(iv) Concentrations of insurance risk

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

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

Liquidity Risk

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

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

For our insurance business, the contractual terms of the Society's unit-linked and with profits investment contracts provide that the policyholders could request repayment of the contracts on demand at any time. In practice, the Directors consider that the contractual terms do not fairly represent the liquidity risk to the business because it is extremely unlikely that all policyholders would choose to surrender their policies at the same time and the Society has invested significantly in liquid assets. The Society has a Liquidity Policy in place, and regular monitoring takes place to ensure adherence to it, with appropriate allowance made for stress conditions within the monitoring.

In excess of £6.0bn (2021: 6.6bn) of the Group's assets are either highly liquid or readily realisable and therefore available to support the Group's liabilities at limited notice.

Financial Instruments – Fair value

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

FRS 102 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (e.g. London Stock Exchange, Frankfurt Stock Exchange and New York Stock Exchange) and exchange traded derivatives such as futures and options.
- Level 2 – The price of a recent transaction for an identical asset or liability provides evidence of fair value as long as there has not been a significant change in economic circumstances or significant lapse of time since the transaction took place.
- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs) with fair value estimated by using a valuation technique.

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

2. RISK MANAGEMENT CONTINUED**Financial Assets at fair value through statement of comprehensive income - Group**

	At 31 December 2022				At 31 December 2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities	3,719.0	–	–	3,719.0	3,908.8	–	–	3,908.8
Debt and other fixed income securities	1,789.8	–	8.7	1,798.5	2,074.4	–	–	2,074.4
Deposits with credit institutions	370.1	–	–	370.1	526.0	–	–	526.0
Swaps	–	–	–	–	–	–	48.4	48.4
Swaptions	–	–	7.2	7.2	–	–	0.4	0.4
Equity Put Option	–	–	7.9	7.9	–	–	16.5	16.5
FX Forward	–	–	10.0	10.0	–	–	–	–
Total Assets	5,878.9	–	33.8	5,912.7	6,509.2	–	65.3	6,574.5

Credit Risk

Wesleyan accepts credit risk by investing in Corporate Bonds on behalf of its With Profits, Unit Linked and Unit Trust policyholders. Credit risk is also borne by the Estate in order to provide additional return relative to the return achievable from UK Government bonds.

Finally, there is a higher credit risk for default of larger counterparties where our exposure is most concentrated, including reinsurers and investment banks with whom we hold material derivative contracts. This risk may be partly mitigated through collateralised arrangements, although these create additional counterparty default risks with the clearing banks who manage the collateral accounts for us.

The Society monitors its credit risk exposure to reinsurers with reports to the Board as required. Where possible, new reinsurance is diversified to avoid over-concentration on a single reinsurer.

Other than risk of failure of a reinsurer, the Society's exposure to credit risk arises principally from its investment portfolio and from its holdings in bonds and cash in particular. The investment policies and procedures stipulate approved counterparties, permitted investments and exchanges as well as detailing specific counterparty ratings and exposure limits. For derivatives, the policy also details legal, collateral and valuation requirements. Significant counterparty exposure, in the case of derivatives, is mitigated by the use of collateral and at 31 December 2022 the Society's custodians held collateral represented by UK Government Bonds, valued at £13.6m (2021: £57.3m) and £2.2m (2021: £5.3m) in cash.

Other areas where the Society is exposed to credit risk include amounts due from intermediaries and insurance contract holders. An analysis of the risk profile of the Group's credit assets is provided in the table on page 112.

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

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

3(A). EARNED PREMIUMS

	2022			2021		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Earned Premiums						
Premiums written						
Life ordinary business						
Non-linked regular	11.7	(1.0)	10.7	11.9	(1.6)	10.3
Non-linked single	62.1	–	62.1	55.0	–	55.0
	73.8	(1.0)	72.8	66.9	(1.6)	65.3
Pension business						
Non-linked regular	28.8	(0.4)	28.4	32.7	–	32.7
Non-linked single	154.3	–	154.3	156.2	–	156.2
	183.1	(0.4)	182.7	188.9	–	188.9
Income protection insurance						
Non-linked regular	30.1	(1.9)	28.2	28.8	(2.5)	26.3
With profits ISA						
Regular	36.1	–	36.1	34.3	–	34.3
Single	117.5	–	117.5	88.1	–	88.1
	153.6	–	153.6	122.4	–	122.4
	440.6	(3.3)	437.3	407.0	(4.1)	402.9

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

	2022 £m	2021 £m
Life - regular	6.4	6.0
Life - single	4.8	9.7
Pension - regular	20.8	22.9
Pension - single	18.6	30.0
Income protection - regular	1.7	1.6
	52.3	70.2

3(B). NEW BUSINESS PREMIUMS

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

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

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

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

	2022 £m	2021 £m
Regular premiums	25.5	24.8
Single premiums	32.8	24.6
	58.3	49.4
Split by:-		
Life ordinary business	9.8	9.5
Pension business	19.4	17.7
Income protection insurance	3.7	3.5
ISAs	25.4	18.7
	58.3	49.4
Annuities*	1.5	1.4
	59.8	50.8

* The annuities amount represents the pension funds retained by the Society on the vesting of pensions during the year.

As set out in Note 3(a), the Society does not account for the amount received as premiums in relation to investment contracts as premium income in the consolidated statement of comprehensive income. These amounts are accounted for as deposits received and added to the investment contract liabilities in the balance sheet. The amounts included above in respect of investment contract new business are as follows:

	2022 £m	2021 £m
Regular	2.4	3.3
Single	6.8	6.4
	9.2	9.7
Life ordinary business	1.0	1.8
Pension business	8.2	7.9
	9.2	9.7

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

4. NET INVESTMENT RETURN

	2022			2021		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Investment income:						
Income from land and buildings	27.1	–	27.1	31.2	–	31.2
Income from other investments	186.9	4.5	191.4	173.3	24.9	198.2
Net gains on the realisation of investments	40.4	–	40.4	118.3	–	118.3
Net return on pension schemes (Note 24)	2.6	–	2.6	1.5	–	1.5
	257.0	4.5	261.5	324.3	24.9	349.2
Investment expenses and charges	(11.0)	(0.8)	(11.8)	(10.7)	(4.6)	(15.3)
Net unrealised (losses)/gains on investments	(781.1)	–	(781.1)	298.2	–	298.2
Net Investment return	(535.1)	3.7	(531.4)	611.8	20.3	632.1

5. OTHER INCOME

	2022			2021		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Fee income in respect of investment contracts (Note 14)	10.4	–	10.4	10.7	–	10.7
Advice and Commission income	21.4	–	21.4	20.3	–	20.3
Dental Membership and Administration Fee Income	18.2	–	18.2	16.9	–	16.9
Unit Trust Management Fee income	3.1	–	3.1	2.9	–	2.9
Other Income	0.5	0.1	0.6	–	0.4	0.4
	53.6	0.1	53.7	50.8	0.4	51.2

6. CLAIMS INCURRED

	2022			2021		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Claims paid	347.4	(7.1)	340.3	401.8	(8.2)	393.6
Claims handling expenses	1.0	–	1.0	1.1	–	1.1
	348.4	(7.1)	341.3	402.9	(8.2)	394.7
Change in provision for claims	0.2	–	0.2	(1.8)	–	(1.8)
	348.6	(7.1)	341.5	401.1	(8.2)	392.9
Analysed by type of benefit:						
Death claims			29.1			34.8
Maturities			48.6			47.8
Surrenders			198.2			243.9
Annuities			47.4			49.2
Income protection claims			18.2			17.2
			341.5			392.9

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

	2022 £m	2021 £m
Death claims	4.2	5.5
Maturities	30.8	38.4
Surrenders	61.8	75.9
	96.8	119.8

7. NET OPERATING EXPENSES – GROUP

	2022			2021		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Staff Costs (Note 8)	95.8	1.5	97.3	97.7	8.1	105.8
Regulatory, Professional and Administration Fees	19.9	0.6	20.5	14.8	5.0	19.8
Information Systems, Maintenance and Rent	15.1	0.3	15.4	13.8	1.3	15.1
Amortisation and Impairment of Intangibles (inc. Goodwill)	16.6	–	16.6	18.4	–	18.4
Depreciation and Impairment of Tangible Fixed Assets	2.0	0.2	2.2	2.0	3.1	5.1
Loss on disposal of Intangible Assets	2.0	–	2.0	–	–	–
Impairment charge/(write back) for Credit Losses	–	1.7	1.7	–	(1.7)	(1.7)
Other Operating Expenses	8.1	–	8.1	7.8	–	7.8
Reinsurance Profit Share/Commission	(0.7)	–	(0.7)	(2.2)	–	(2.2)
Net Operating Expenses	158.8	4.3	163.1	152.3	15.8	168.1

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

	2022 £'000	2021 £'000
Auditors' remuneration (including expenses) excluding VAT amounted to:		
Fees payable to the Society's auditor for the audit of the parent company and consolidated financial statements	509	451
Fees payable to the Society's auditor for other services:		
The audit of the Society's subsidiaries	131	280
The audit of the Society's pension scheme	33	28
Audit-related assurance services	223	200

8. STAFF COSTS – GROUP

	2022			2021		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Salaries and wages	82.2	1.3	83.5	83.1	6.9	90.0
Social security costs	8.4	0.1	8.5	8.9	0.7	9.6
Pension cost	5.2	0.1	5.3	5.7	0.5	6.2
	95.8	1.5	97.3	97.7	8.1	105.8

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

	2022 Number	2021 Number
Wesleyan Financial Services Sales Advisers	250	298
General	1,172	1,229
	1,422	1,527

Note: Details of Directors' Remuneration are given in the Directors' Remuneration Report, Directors' Remuneration Policy and the Annual Report on Remuneration, on pages 62 to 76.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

9. TAXATION

	Group					
	2022			2021		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Analysis of tax in the year:						
Current tax:						
UK corporation tax (charge) on income and gains	(2.5)	(0.1)	(2.6)	(0.6)	(1.3)	(1.9)
Foreign tax	(1.5)	–	(1.5)	(3.0)	–	(3.0)
Adjustments in respect of prior periods	2.0	0.1	2.1	0.1	0.8	0.9
Total current tax (charge)	(2.0)	–	(2.0)	(3.5)	(0.5)	(4.0)
Deferred tax:						
Origination and reversal of timing differences	26.0	0.8	26.8	(21.9)	1.6	(20.3)
Total deferred tax credit/(charge)	26.0	0.8	26.8	(21.9)	1.6	(20.3)
Total tax credit/(charge) through Profit & Loss Account	24.0	0.8	24.8	(25.4)	1.1	(24.3)

	Group					
	2022			2021		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Deferred tax:						
Tax liability on pension asset	2.6	–	2.6	–	–	–
Total tax credit/(charge) through Other Comprehensive Income	2.6	–	2.6	–	–	–

	Society	
	2022 £m	2021 £m
	Analysis of tax in the year:	
Current tax:		
UK corporation tax credit/(charge) on income and gains	–	–
Foreign tax	(1.5)	(3.0)
Adjustments in respect of prior periods	–	–
Total current tax charge	(1.5)	(3.0)
Deferred tax:		
Origination and reversal of timing differences	23.9	(21.9)
Total deferred tax credit/(charge)	23.9	(21.9)
Total tax credit/(charge) through Profit and Loss Account	22.4	(24.9)

	Society	
	2022 £m	2021 £m
	Deferred tax:	
Tax liability on pension asset	2.6	–
Total deferred tax credit/(charge) through Other Comprehensive Income	2.6	–

9. TAXATION CONTINUED

In 2022 deferred tax relating to unit-linked assets of £8.1m is included in the Balance Sheet line item Provisions for Other Risks - Deferred Tax (Note 15). Previously the Group and Society netted this liability as a deduction to unit linked assets (Note 10, 2021 comparative value £6.3m). 2021 has not been restated for this change in presentation. The effect on the 2022 tax charge as a result of this change was £8.1m charge to deferred tax, offset by an equal credit to 'Allocation of net investment return to investment contracts', meaning that there was no change to Total Technical Charges through profit and loss in the current year other than for presentation.

The tax charge for the Society which pays BLAGAB tax is provided at a rate of 20% (2021: 20%) computed in accordance with the rates applicable to life assurance companies whereby no tax is charged on pension business profits or permanent health insurance business profits.

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

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

Tax losses of £103.1m (2021: £85.4m) relating to subsidiaries of the Wesleyan Group have not been recognised owing to uncertainty around their recovery.

The maximum potential reduction to the pension scheme asset receivable after taxation is 35%. In line with industry standard practice, the Group and Society has chosen to tax the BLAGAB element of the pension scheme asset at a rate of 20% consistent with the treatment of other timing differences chargeable to tax, and present the pension asset and tax liability separately, rather than as a net asset.

10(A). OTHER FINANCIAL INVESTMENTS

Note	Group		Society	
	2022 £m	2021 £m	2022 £m	2021 £m
Financial assets at fair value:				
Shares and other variable yield securities	2,791.6	2,904.3	2,791.6	2,904.3
Debt and other fixed income securities	1,643.3	1,910.7	1,673.3	1,940.7
Derivative financial instruments	25.1	65.3	25.1	65.3
Deposits with credit institutions	233.7	387.9	231.3	265.8
Financial assets at amortised cost:				
Other loans*	–	486.0	–	–
	4,693.7	5,754.2	4,721.3	5,176.1

* In 2021 Other Loans represented Wesleyan Bank assets including unsecured retail loans of £26.2m and commercial loans and leases of £459.8m which are net of an impairment loss provision of £9.3m. This is a nil balance for 2022 following the sale of the Bank.

The value of unlisted investments included in shares and other variable yield securities and debt and other fixed income securities for the Group amounted to £9.3m (2021: £0.1m). The value of unlisted investments included in shares and other variable yield securities and debt and other fixed income securities for the Society amounted to £39.3m (2021: £30.1m). This relates primarily to loans issued to fellow Group companies

10(B). ASSETS HELD TO COVER LINKED LIABILITIES

	Group		Society	
	2022 £m	2021 £m	2022 £m	2021 (Restated) £m
Financial assets at fair value:				
Shares and other variable yield securities	927.3	1,004.5	927.3	1,004.5
Debt and other fixed income securities	155.2	163.7	155.2	163.7
Deposits with credit institutions	136.4	138.1	136.4	138.1
	1,218.9	1,306.3	1,218.9	1,306.3

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

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

10(C). ASSETS SUBJECT TO CREDIT RISK

	Society	
	2022 £m	2021 £m
AAA	106.4	113.6
AA	1,042.6	1,351.8
A	287.0	254.4
BBB	593.0	682.3
Below BBB or not rated	192.3	171.5
Total assets bearing credit risk	2,221.3	2,573.6
Derivative financial instruments	25.1	65.3
Sovereign Debt securities	1,001.9	1,210.4
Other Debt securities	826.6	894.0
Deposits with credit institutions*	367.7	403.9
Total assets bearing credit risk	2,221.3	2,573.6

* The Group Balance Sheet includes additional amounts within of £2.4m (2021: £2.7m) holding within Wesleyan Unit Trust Managers Limited's (WUTM) unit trusts funds and the prior year 2021 balance included amounts within Wesleyan Bank for deposits with credit institutions of £119.4m.

	2022 £m	2021 £m
Analysis of sovereign debt securities is as follows:		
UK	933.4	1,136.4
USA	40.8	48.8
Germany	1.5	1.7
France	2.0	2.4
European Investment Bank	24.2	21.1
	1,001.9	1,210.4

	2022 £m	2021 £m
Analysis of maturity of sovereign and other debt securities:		
Less than 1 year	153.3	114.7
1-5 years	576.8	606.9
More than 5 years	1,098.4	1,382.8
	1,828.5	2,104.4

10(D). INVESTMENT PROPERTY

	Group and Society		
	Total £m	Other freehold properties £m	Long leasehold properties £m
A reconciliation of investment property is shown below:			
Current Value:			
At 1 January 2022	395.0	379.5	15.5
Additions	23.7	23.6	0.1
(Loss) Gain on fair value adjustments	(20.3)	(18.2)	(2.1)
Disposals	(32.9)	(32.9)	–
At 31 December 2022	365.5	352.0	13.5
Cost:			
At 1 January 2022	362.4	352.4	10.0
Additions	23.8	23.7	0.1
Disposals	(16.5)	(16.5)	–
At 31 December 2022	369.7	359.6	10.1

10(E). DERIVATIVE FINANCIAL INSTRUMENTS

	2022			2021		
	Contract/ Notional Amount £m	Fair Value Asset £m	Fair Value Liability £m	Contract/ Notional Amount £m	Fair Value Asset £m	Fair Value Liability £m
	Swaps	234.1	–	(14.8)	184.9	48.4
Swaptions	186.9	7.2	–	144.4	0.4	–
Equity Put Option	126.7	7.9	–	126.7	16.5	–
FX Forward	15.3	10.0	–	2.8	–	(2.5)
Total	563.0	25.1	(14.8)	458.8	65.3	(2.5)

Swap rates were in the range -2.5% to -4.5% (2021: +0.5% to +1.1%).

11. OTHER DEBTORS

	Group		Society	
	2022 £m	2021 £m	2022 £m	2021 £m
Amounts due from subsidiary undertakings	–	–	12.4	1.1
Income receivable	6.1	6.3	–	–
Other debtors	7.7	5.7	6.1	3.9
Deferred tax asset	3.6	7.1	–	–
	17.4	19.1	18.5	5.0

	Group		Society	
	2022 £m	2021 £m	2022 £m	2021 £m
Movement in the deferred tax asset				
At 1 January 2022	7.1	5.5	–	–
Credited during the year	2.9	1.6	–	–
Disposed of with subsidiary	(6.4)	–	–	–
At 31 December 2022	3.6	7.1	–	–

Deferred tax assets included in Other Debtors consist of losses and other timing differences which relate to subsidiary undertakings.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

12(A). INTANGIBLE ASSETS AND GOODWILL

	Group				
	Total £m	Computer Software £m	Assets in course of construction* £m	Customer Lists £m	Goodwill £m
Cost:					
At 1 January 2022	187.3	106.4	10.5	16.8	53.6
Additions	6.5	0.2	6.3	–	–
Disposals	(8.6)	(4.6)	(4.0)	–	–
Transfers	–	9.3	(9.3)	–	–
At 31 December 2022	185.2	111.3	3.5	16.8	53.6
Accumulated Amortisation:					
At 1 January 2022	93.8	52.1	–	10.2	31.5
Charge during the year	16.6	11.2	–	1.6	3.8
Disposals	(0.8)	(0.8)	–	–	–
At 31 December 2022	109.6	62.5	–	11.8	35.3
Net Book Amount					
At 31 December 2022	75.6	48.8	3.5	5.0	18.3
At 31 December 2021	93.5	54.3	10.5	6.6	22.1
	Society				
	Total £m	Computer Software £m	Assets in course of construction* £m	Customer Lists £m	Goodwill £m
Cost:					
At 1 January 2022	113.1	102.6	10.5	–	–
Additions	6.3	–	6.3	–	–
Disposals	(5.9)	(1.9)	(4.0)	–	–
Transfers	–	9.3	(9.3)	–	–
At 31 December 2022	113.5	110.0	3.5	–	–
Accumulated Amortisation:					
At 1 January 2022	50.7	50.7	–	–	–
Charge during the year	10.9	10.9	–	–	–
At 31 December 2022	61.6	61.6	–	–	–
Net Book Amount					
At 31 December 2022	51.9	48.4	3.5	–	–
At 31 December 2021	62.4	51.9	10.5	–	–

* Assets in course of construction relate to computer software development projects, as explained under the accounting policy for Intangible Fixed Assets.

12(B). TANGIBLE FIXED ASSETS

	Group					
	Total £m	Freehold buildings and Leasehold property* £m	Furniture and Fittings £m	Computer Hardware £m	Equipment for Hire*** £m	Motor Vehicles** £m
Cost or Valuation:						
At 1 January 2022	38.9	15.0	8.3	6.4	6.2	3.0
Additions	–	–	–	–	–	–
Disposals	(7.8)	–	(0.4)	–	(6.2)	(1.2)
Revaluations	(2.7)	(2.7)	–	–	–	–
At 31 December 2022	28.4	12.3	7.9	6.4	–	1.8
Accumulated Depreciation:						
At 1 January 2022	13.9	–	4.3	5.6	2.6	1.4
Charge during the year	2.2	0.8	0.6	0.3	–	0.5
Disposals	(3.8)	–	(0.3)	–	(2.6)	(0.9)
Revaluations	(0.8)	(0.8)	–	–	–	–
At 31 December 2022	11.5	–	4.6	5.9	–	1.0
Net Book Amount						
At 31 December 2022	16.9	12.3	3.3	0.5	–	0.8
At 31 December 2021	25.0	15.0	4.0	0.8	3.6	1.6

	Society					
	Total £m	Freehold buildings and Leasehold property* £m	Furniture and Fittings £m	Computer Hardware £m	Equipment for Hire*** £m	Motor Vehicles** £m
Cost or Valuation:						
At 1 January 2022	30.7	15.0	7.2	5.5	–	3.0
Additions	–	–	–	–	–	–
Disposals	(1.2)	–	–	–	–	(1.2)
Revaluations	(2.7)	(2.7)	–	–	–	–
At 31 December 2022	26.8	12.3	7.2	5.5	–	1.8
Accumulated Depreciation:						
At 1 January 2022	9.8	–	3.3	5.1	–	1.4
Charge during the year	2.0	0.8	0.5	0.2	–	0.5
Disposals	(0.9)	–	–	–	–	(0.9)
Revaluations	(0.8)	(0.8)	–	–	–	–
At 31 December 2022	10.1	–	3.8	5.3	–	1.0
Net Book Amount						
At 31 December 2022	16.7	12.3	3.4	0.2	–	0.8
At 31 December 2021	20.9	15.0	3.9	0.4	–	1.6

* Freehold buildings include the owner occupied section of the Head Office property. The property was revalued on 1 December 2022 by independent qualified surveyors. The basis of valuation used is open market value net of cost of purchase.

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

*** Equipment for hire in the Group balance sheet related to assets leased to customers by Wesleyan Bank and its subsidiary undertakings, disposed on sale of the Bank.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

Fund for Future Appropriations

	Group		Society	
	2022 £m	2021 £m	2022 £m	2021 £m
At 1 January 2022	589.1	564.9	588.7	552.0
Transfer (from)/to Profit and Loss Account	(79.0)	2.7	(64.1)	15.2
Transfer (from)/to Other Comprehensive Income	(43.9)	21.5	(43.9)	21.5
At 31 December 2022	466.2	589.1	480.7	588.7

Capital Management

(i) Regulatory environment

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

(ii) Capital management policies and objectives

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

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

(iii) Methodology for determining required capital resources

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

Pillar 1:

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

Pillar 2:

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

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

(iv) Methodology for determining available capital resources

The Society has two With Profits Funds, the Ordinary and Industrial Long Term Business Fund (OILTBF) and the Medical Sickness Society Fund (MSSF), which are shown separately in the capital position statement and in the table below. The MSSF was set up under the terms of the Scheme for the merger with Medical Sickness Annuity and Life Assurance Society Limited on 1 July 1997. It contains all with profits policies of Medical Sickness Society on that date and is maintained as a separate account within the Society's Long-term Business Fund. The OILTBF contains all of the business of the Society other than the business in the MSSF.

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

Available capital resources are calculated in accordance with the Solvency II, Pillar I requirements, and can be broadly described as placing a market value on the net assets including the value of future profits on all acquired in-force long-term business as well as on non-participating business issued by the Society. These are shown in the table below.

Available capital resources

	OILTBF 2022 £m	MSSF 2022 £m	Total 2022 £m	OILTBF 2021 £m	MSSF 2021 £m	Total 2021 £m
Fund for Future Appropriations	466.2	–	466.2	589.1	–	589.1
Adjustments to assets	(118.7)	–	(118.7)	(93.1)	–	(93.1)
Adjustments to liabilities	105.5	43.6	149.1	137.1	40.3	177.4
Total available capital resources	453.0	43.6	496.6	633.1	40.3	673.4
Other adjustments	(3.1)	(18.1)	(21.2)	(97.4)	(10.7)	(108.1)
Eligible Own Funds to meet SCR	449.9	25.5	475.4	535.7	29.6	565.3
Solvency Capital Requirement	101.9	25.5	127.4	154.9	29.6	184.5
Cover for Solvency Capital Requirement	441%	100%	373%	346%	100%	306%

Under the merger Scheme, the whole of the surplus in the MSSF is progressively and equitably distributed to the policies in that fund. This means that for the purpose of the available capital resources statement there are no excess assets in the fund. However, some surplus is being held back in the fund to provide regulatory capital that may be required under stressed financial conditions.

(v) Solvency II Own Funds and Surplus Capital

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

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

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

- ▶ risk free yields rise;
- ▶ equity and property markets fall;
- ▶ longevity increases, increasing annuity liabilities; and
- ▶ credit risk increases as per the regulations.

Credit risk is allowed for by assuming an immediate and permanent widening in yield spreads on corporate bonds over risk free rates, calculated on a stock-by-stock basis. A list of the most material stress assumptions and their impact is shown in the sensitivity analysis section.

(vi) Movements in available capital resources in period

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

	2022 £m	2021 £m
Total value of investment assets	6,484.0	7,166.4
Value of reinsurance	12.5	16.5
Total Assets	6,496.5	7,182.9
With profits technical provisions		
– With profits benefit reserve	3,940.6	4,030.5
– Options & Guarantees	15.6	146.8
Linked technical provisions	1,173.9	1,253.5
Other Life technical provisions	672.4	836.0
Health technical provisions	70.8	85.3
Other liabilities	126.6	157.4
Total Liabilities	5,999.9	6,509.5
Total Available Capital Resources	496.6	673.4
Solvency Capital Requirement	127.4	184.5
Total Surplus Capital	369.2	488.9

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

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

	OILTFB £m	MSSF £m	Total business £m
Balance at 1 January 2022	535.7	29.6	565.3
Modelling improvements	(7.2)	–	(7.2)
Effect of method changes	–	(4.4)	(4.4)
Effect of investment variations	(50.0)	5.3	(44.7)
Effect of experience variations	11.8	0.4	12.2
Effect of assumption changes	0.9	(0.5)	0.4
New business	(0.2)	–	(0.2)
Effect of pension surplus	(41.6)	–	(41.6)
Effect of expense variances	(22.2)	–	(22.2)
Increase in risk margin	16.3	–	16.3
Excess surplus distribution	–	–	–
Other factors	6.4	2.5	8.9
Restricted MSSF own funds	–	(7.4)	(7.4)
Balance at 31 December 2022	449.9	25.5	475.4

The table above shows key elements of the movements in Own Funds in 2022. Eligible Own Funds in the Open Fund reduced by £86m, mainly due to negative investment returns reducing Own Funds by £50m and the Wesleyan Staff Pension Scheme surplus of £42m. Eligible Own Funds in the MSSF Fund reduced by £4m.

The impact from changes to insurance assumptions is also shown, including those relating to persistency, morbidity and expense assumption changes. These affect Own Funds as the assumptions have an impact on costs of guarantees, options and smoothing, the value of in-force business and the with profits benefit reserve. There were no changes in management policy assumed for determining the cost of guarantees, options and smoothing, and no significant changes in regulation.

Sensitivity of capital

The capital position of the Society is sensitive to changes in economic conditions and financial markets, both through the impact on asset values and also the effect that changes in interest rates and investment returns may have on liability valuations. The liabilities are also sensitive to the other assumptions that have been used in their calculation, such as mortality and persistency. The Society's approach to managing these risks is detailed in Note 2.

(i) Economic conditions and financial markets

The liability valuation will include assumptions about future interest rates and investment returns. An adverse change in either variable will increase liabilities and hence reduce the available capital, depending upon the extent to which assets with similar anticipated cash flows match the liabilities.

To the extent that it cannot be reflected in reductions in payments to policyholders because of the presence of guarantees and options in the underlying contracts, an adverse change in the markets for the Society's investment assets will reduce the Own Funds.

(ii) Other assumptions

The Society monitors actual experience in mortality, morbidity and persistency rates against the assumptions used, and applies that outcome to refine its long-term assumptions. Amounts paid will inevitably differ from estimates, particularly when the expected payments do not occur until well into the future. Liabilities are fully evaluated quarterly with estimates given monthly, or more frequently during periods of market downturn or uncertainty, allowing for changes in the assumptions used as well as for the actual claims experience. If actual claims experience is less favourable than the underlying assumptions, or if it is necessary to increase provisions in anticipation of a higher rate of future claims, then available capital will be reduced.

(iii) Main sensitivities

The most significant potential causes of a worsening of the Society's capital position arise from the following four risks:

- ▶ Market risk in relation to with profits business, which would arise if adverse changes in the value of the assets supporting this business could not be fully reflected in payments to policyholders because of the effect of guarantees and options, particularly guaranteed annuity options.
- ▶ Credit risk in relation to corporate bonds held by the Society. Widening credit spreads would reduce asset values across a range of funds, whilst liability values would remain unchanged, reducing Own Funds.
- ▶ Longevity risk in relation to annuity business, which would arise if the mortality of annuitants improved more rapidly than the assumptions used for reserving.
- ▶ Future lapse risk in relation to With Profits business, which would arise if policyholders lapsed less and thus more maturity guarantees were used in adverse market conditions.

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

The timing of any impact on capital would depend on the interaction of past experience and assumptions about future experience. In general, if experience had deteriorated or was expected to deteriorate and management actions were not expected to reduce the future impact, then assumptions relating to future experience would be changed to reflect it. In this way, liabilities would be increased to anticipate the future impact of the worse experience with immediate impact on the capital position. Examples of possible management actions include changes to with profits bonus rates and changes to discretionary surrender terms.

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

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

The separate investment strategy for the assets backing policy asset shares described in the Market Risk Overview on page 101 enables a low market risk strategy to be adopted for capital without impacting on the long-term investment returns for with profits policyholders. This means that the capital position of the Society is less sensitive to changes in economic conditions and financial markets, and this leads to a lower SCR than would be the case if equity investment was at similar levels across all funds.

(iv) Sensitivity analysis

SCR stresses and impacts

Risk	Stress assumption used	Impact on available capital	
		2022 £m	2021 £m
Demographic			
Longevity improvement	20.0%	18.4	35.3
Morbidity level (inceptions and terminations)	25.0% / (20.0%)	5.4	7.4
Change to future lapses	(50.0%)	9.9	27.3
Expense (level and inflation increase)	10.0% / 1.0%	3.2	3.6
Economic			
Equity level fall	36.1%	39.7	55.5
Credit stress - reduction in value of AA rated corporate bond (term 10 / 15 / 20)	8.5% / 11.0% / 13.5%	33.1	50.0
Interest rate rise (term 10 / 15 / 20)	1.6% / 1.2% / 1.0%	35.5	29.4
Property level fall	25.0%	10.7	10.8
Counterparty (credit quality 1-5+)	0.01% / 0.1% / 0.2% / 1.2% / 4.2%	1.8	4.0

The table above shows sensitivities to movements in the assumptions used at 31 December 2022 on Pillar I Own Funds, after transfer of losses to With Profits asset shares.

The impacts of the value of non-profit business are more significant than the net changes in Own Funds. This is because much of the emerging losses from non-profit and unit-linked business in the stressed conditions would be charged to with profits policyholders and hence would reduce the Society's liabilities.

Sensitivities shown reflect the equivalent SCR stresses on the balance sheet for relevant economic, demographic and insurance assumptions. These are less onerous this year as rising interest rates have reduced the value of the Society's assets and liabilities.

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

(1) Demographic

Annuitant longevity

Decrease in base mortality rates.

This sensitivity demonstrates the effect of a decrease in the rate of deaths. For annuity business and policies that contain a guaranteed annuity option a decrease in mortality rates will increase the liability, as the average period over which annuity payments must 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.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

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

Persistence

Reduction in lapse rates

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

(2) Expenses

Increase in maintenance expenses, the ongoing cost of administering contracts.

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

(3) Economic

This sensitivity is designed to show the effect of an adverse movement in interest rates used to discount liabilities and implicit in asset valuations. At the end of 2022 this relates to an upward movement in yields on the Pillar 1 balance sheet.

The value of liabilities is increased when the interest rates fall as the discount rate used in the calculation will be reduced. An increase in rates will have the opposite effect. The sensitivity test for interest rates is market-related and this can give rise to non-symmetrical increases and decreases.

Equity capital values and property capital values

Decrease in equity capital values at the valuation date, without a corresponding rise in dividend yield.

Decrease in property capital values without a corresponding rise in rental yield.

These sensitivities show the impact of a sudden change in the market value of assets. The value of liabilities will decrease when asset values fall but, other than for unit-linked business, the decrease will be less than the fall in asset values as a result of minimum guaranteed payout levels on these contracts. Consequently, the available capital will be reduced by a fall in asset values.

Credit stresses

Increase in yield of commercial fixed interest security over government debt.

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

Counterparty

Probability of counterparty default.

This sensitivity shows the impact of counterparty default in relation to the Society's holdings of short-term deposits, reinsurance, and derivatives. In the event of a default these assets will reduce in value, potentially to nil.

Interest rates

Stress to yield curve, as shown in table below:

Term (years)	5	10	15	20	25
Interest rate before stress (% per annum)	4.06	3.71	3.62	3.54	3.45
Interest rate after stress (% per annum)	6.30	5.27	4.81	4.54	4.45
Change	2.24	1.56	1.19	1.00	1.00

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

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

Technical Provisions summary

Shown in the tables below are the total technical provisions of the Group at the end of 2022. The change since last year is then shown, broken down into the change in the long-term business provision for with profits and non profits business and the change in linked liabilities. The effect of reinsurance on the changes is also shown in the table. The Technical provisions for the Society explained below are £29.1m higher (2021: £0.8m lower) than the Group technical provisions, resulting from valuing subsidiaries at fair value within the Society.

Liability Analysis

	OILTBF 2022 £m	MSSF 2022 £m	Total business 2022 £m	OILTBF 2021 £m	MSSF 2021 £m	Total business 2021 £m
With profits liabilities						
Options and guarantees	54.3	83.8	138.1	98.1	165.5	263.5
Other policyholder obligations	3,499.2	424.5	3,923.7	3,596.2	495.1	4,091.2
Total with profits liabilities	3,553.5	508.3	4,061.8	3,694.2	660.5	4,354.7
Non-profit life assurance	742.1	1.1	743.2	919.8	1.5	921.3
Total long-term business provision	4,295.6	509.4	4,805.0	4,614.0	662.1	5,276.0
Linked provisions	1,218.9	–	1,218.9	1,306.3	–	1,306.3
Technical provisions in balance sheet	5,514.5	509.4	6,023.9	5,920.3	662.1	6,582.4

	Long-term Business Provision					Total Liability £m
	Insurance Contracts £m	Investment Contracts with DPF £m	Total long term business provision £m	Provision for Linked Liability £m		
Gross provision						
At 1 January 2022		4,436.7	839.3	5,276.0	1,306.3	6,582.3
Change in technical provisions		(501.0)	30.0	(471.0)	(87.4)	(558.4)
At 31 December 2022		3,935.7	869.3	4,805.0	1,218.9	6,023.9
Reinsurers' share						
At 1 January 2022		16.3	–	16.3	–	16.3
Amount received in the period		–	–	–	–	–
Change in technical provisions		(4.2)	–	(4.2)	–	(4.2)
At 31 December 2022		12.1	–	12.1	–	12.1
Net provision						
At 1 January 2022		4,420.4	839.3	5,259.7	1,306.3	6,566.0
Change in technical provisions		(496.8)	30.0	(466.8)	(87.4)	(554.2)
At 31 December 2022		3,923.6	869.3	4,792.9	1,218.9	6,011.8

Change in technical provision for linked liabilities

	2022 £m	2021 £m
The change in liabilities on investment contracts comprises:		
Premiums received (Note 3(A))	52.3	70.2
Claims paid (Note 6)	(96.8)	(119.8)
Fee income deducted (Note 5)	(10.4)	(10.7)
	(54.9)	(60.3)
Allocation of net investment return	(32.5)	169.5
Change in technical provision for linked liabilities	(87.4)	109.2

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

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

Change in long-term business provision

	2022			2021		
	Insurance contracts £m	Investment contracts with DPF £m	Total long term business provision £m	Insurance contracts £m	Investment contracts with DPF £m	Total long term business provision £m
Gross Provisions						
Change in liabilities comprises:						
Assumption and method changes	(129.5)	(21.7)	(151.2)	(2.4)	(3.2)	(5.6)
Net investment return on technical provisions	(364.9)	(30.6)	(395.5)	321.1	76.7	397.8
Other	(6.6)	82.3	75.7	(87.7)	25.5	(62.2)
Increase in long-term business provision	(501.0)	30.0	(471.0)	231.0	99.0	330.0
Reinsurers' Share						
Change in liabilities comprises:						
Assumption and method changes	(0.9)	–	(0.9)	–	–	–
Net investment return on technical provisions	(2.1)	–	(2.1)	(0.2)	–	(0.2)
Other	(1.2)	–	(1.2)	(5.8)	–	(5.8)
Increase in long-term business provision	(4.2)	–	(4.2)	(6.0)	–	(6.0)

Key changes in liability during 2022 result from:

- ▶ Higher interest rates, which was the most significant assumption and method change, reducing liabilities by £89m. Other assumption changes included persistency, morbidity and expenses.
- ▶ Negative investment returns, which resulted in a £396m reduction in liabilities (as shown in 'net investment return on technical provisions').
- ▶ 'Other' factors, which included premiums, claims and modelling changes.

Valuation basis

(i) With Profits and unit-linked insurance business

As described in Note 2, some of the Society's policies contain options and guarantees that can increase the benefits payable to the policyholder.

Unit-linked policies have been valued taking into account future expected payouts, including expenses. This takes account of future expense profit expected on these products, and thus is lower than the unit value at the valuation date.

The tables below show the principal expense assumptions used in determining the cost of options and guarantees in the long-term business provision in respect of with profits business. As well as with profits business, these expense assumptions also apply to all unit linked and non profit business.

Other significant assumptions impacting the cost of options and guarantees are equity volatility and correlation. Expected returns on assets and volatilities have been calibrated to ensure consistency with market values at an appropriate term for our anticipated liability profile. The cost of guarantees will be higher with higher investment volatility. The correlation of investment returns assumed has been based on management's view of historic equity and gilt returns.

In calculating liabilities, allowance has been made for the impact of future management actions consistent with those set out in the PPFM. The most significant of these management actions are those that result in changes to assumed levels of bonus depending on market conditions. Management reserve the right to change the investment strategy in extreme conditions but this has not been reflected in these calculations.

Guarantee costs arise as a result of providing benefits at a level equal to the guaranteed sum assured and any accrued annual bonus under a contract, where this exceeds the policy asset share, whether on death, maturity, regular income withdrawal or guaranteed surrender.

Providing benefits in accordance with formula-based surrender scales which take into account sums assured and accrued bonuses may also give rise to guarantee costs where the resulting surrender value exceeds the policy asset share.

Unitised with profits business has low initial guarantees and almost all policies support a terminal bonus at 31 December 2022. No market value reductions (MVRs) applied on early surrender or transfer at that date, and no MVRs were applied during 2022.

Option costs arise from the cost of providing guaranteed annuity options at retirement for pension contracts where the annuity provided is on more favourable terms than those implied by market interest rates. Guaranteed annuity options are generally considerably in the money but apply to relatively few policies, except in the MSS Fund where derivative assets are held to hedge the interest rate risk. This liability reduced over 2022 as higher interest rates reduced the value of the guarantee.

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

Smoothing represents costs (which may be positive or negative) associated with smoothing with profits payouts such that benefits payable, after applying agreed bonus scales, differ from the with profits benefit reserve for the contract.

All options and guarantees were measured at fair value using a market-consistent stochastic model.

Expenses are assumed to inflate in line with RPI inflation over the long term. This rate is based on the implied price inflation curve from UK Government long dated index-linked and conventional gilts. In addition, a reserve is being held to allow for anticipated higher project costs over the short term.

Assumptions for future mortality, morbidity and persistency are intended to represent a best estimate of future experience. Investigations are undertaken on a regular basis to assess the experience of the business. Long term best estimate assumptions have not been adjusted for Covid impacts, as this is still highly uncertain. However, the Society is holding short term provisions to reflect the potential for higher morbidity that may result.

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

Persistency rates are assumed to vary according to either policy duration or age, and by broad class of policy. The rates experienced were smoothed, after considering the significance of the data. In particular, smoothing is required where there are only a few policies and lapse experience is limited.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

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

(ii) Non-participating insurance business (other than contracts attached to unit-linked business)

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

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

The mortality rate assumptions used are the Society's assessment of best estimate levels of current mortality and, for annuities, the future rate of improvement. For income protection policies, the assumed level of morbidity is similarly a reflection of the Society's own recent experience.

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

For non-participating business which is written in the OILTBF, the long-term insurance liabilities were calculated on a prospective basis determined as the present value of future benefits payable to policyholders plus the present value of future expenses less the present value of future premiums.

The principal assumptions made for Society business were as follows:

Expenses	2022	2021
Per policy expenses (quoted gross of any tax relief)	£	£
Open Fund		
<i>Ordinary business</i>		
Life – Premium Paying	132.00	101.31
Life – Single Premium/Paid Up	132.00	101.31
Pensions – Premium Paying	139.00	106.59
Pensions – Single Premium/Paid Up	139.00	106.59
Group Locum	88.00	69.65
Income Protection	129.00	99.20
Life and Pensions – Annuities	114.00	87.59
<i>Industrial assurance business</i>		
Premium Paying	11.20	9.33
Paid Up	2.80	2.33
MSS Fund		
Pensions – Premium Paying	185.20	164.00
Income Protection	138.90	123.00
Life – Premium Paying, Pensions – Single Premium/Paid Up	92.60	82.00
	2022	2021
	%	%
% of Premium Expenses		
Open Fund		
<i>Industrial assurance business</i>		
Premium Paying/Premium Loan	22.00%	22.00%
Investment Expenses – % of fund		
Open Fund	0.090%	0.085%
MSS Fund	0.080%	0.080%

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

	2022 %	2021 %
Mortality		
<i>Ordinary business</i>		
Life assurances	60%/70% AMC/AFC00 U	60%/70% AMC/AFC00 U
Pensions in Payment - Wesleyan	None in deferment 130%/120% PMA/PFA08	None in deferment 130%/120% PMA/PFA08
Pensions in Payment - ASW	85% AM/AF92 U in deferment: 125%/140% PMA/ PFA08	85% AM/AF92 U in deferment: 125%/140% PMA/PFA08
Pension term assurance	90%/80% AMC/AFC00	90%/80% AMC/AFC00
Pension in Payment - Medics	95%/80% PMA/PFA08	95%/80% PMA/PFA08
<i>Industrial assurance business</i>		
Life assurances	11% ELT14M-4	11% ELT14M-4

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

Rates of return are set according to a best estimate assumption of the future returns available from the investments backing the Fund. Mortality assumptions are set by reference to publicly available tables, adjusted and validated against actual experience. Future expenses are based on recent expense experience, adjusted for expected future inflation.

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

Swap yield curve at key terms:

Term (years)	5	10	15	20	25
Interest rate (% per annum)	4.1	3.7	3.6	3.5	3.4

Bonuses

Bonuses allocated to in-force with profits policies increase the liabilities for with profits insurance and investment contracts and represent an allocation of surplus. The total bonus attributable to the year consisted of the following amounts:

Society	2022 £m	2021 £m
Bonuses paid as claims (including terminal bonus)	100.2	91.4
Bonuses allocated to policies in-force at 31 December	4.1	3.4
Total	104.3	94.8

15. PROVISIONS FOR OTHER RISKS

Group	Net Deferred		Total £m
	Tax £m	Other £m	
At 1 January 2022	91.7	1.8	93.5
Credited during the year	(26.5)	(0.2)	(26.7)
At 31 December 2022	65.2	1.6	66.8

Society	Net Deferred		Total £m
	Tax £m	Other £m	
At 1 January 2022	91.7	-	91.7
Credited during the year	(26.5)	-	(26.5)
At 31 December 2022	65.2	-	65.2

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

15. PROVISIONS FOR OTHER RISKS CONTINUED

Net Deferred tax provided in the financial statements in respect of the total net liability is as follows:

Society	2022	2021
	£m	£m
Timing differences in respect of investment values	79.7	86.6
Deferred tax on pension asset	5.8	8.3
Deferred acquisition costs	(1.4)	(1.7)
Deferred tax on current year losses	(19.7)	(2.1)
Other timing differences	0.8	0.6
	65.2	91.7

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred taxes relate to the same fiscal authority.

There are overall deferred tax liabilities in both years, and within these liabilities deferred tax assets have been offset where they meet the criteria above.

Deferred tax assets arising from certain capital losses, excess management expenses, surplus trading losses and capital allowances are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

As explained in Note 9, in 2022 deferred tax relating to unit-linked assets of £8.1m is included in the Balance Sheet line item Provisions for Other Risks - Net Deferred Tax. Previously the Group and Society netted this liability as a deduction to unit linked assets (Note 10, 2021 comparative value £6.3m). 2021 has not been restated for this change in presentation.

Deferred tax assets of £3.6m (2021: £7.1m) are included in Other Debtors (see Note 11). These deferred tax assets consist of losses and other timing differences which relate to subsidiary undertakings, with a £2.9m credit (2021: £1.6m credit) recognised in through the Group Technical Account - Long-term Business.

The total deferred tax credit recognised in Profit and Loss on the Group Technical Account - Long-term Business is £26.8m (2021: charge of £20.3m), with £2.6m credit (2021: nil charge) recognised through Other Comprehensive Income. (see Note 9).

Tax losses of £103.1m (2021: £85.4m) within subsidiaries of the Wesleyan Group have not been recognised owing to uncertainty around their recovery.

16. DEPOSITS RECEIVED FROM REINSURERS

During 2011, the Society undertook a financing transaction by restructuring its existing Income Protection reinsurance arrangement.

An advance payment of £82.9m was received on 16 December 2011 in return for a commitment to pay a series of future claim rebates, which will be offset against future reinsurance claim recoveries in the period to 2034. At 31 December 2022, the amount was repaid in full resulting in a nil balance as at 31 December 2022 (2021: £16.3m).

17. REINSURANCE

The gains recognised in the Statement of Comprehensive Income at 31 December 2022 relating to reinsurance amounted to £1.4m (2021: £0.4m).

18. OTHER CREDITORS

	Group		Society	
	2022	2021	2022	2021
	£m	£m	£m	£m
Trade creditors	2.6	8.4	–	–
Investment contract creditors	5.2	5.5	5.2	5.5
Contract purchase agreements	0.7	1.6	0.7	1.6
Amounts payable to subsidiary undertakings	–	–	7.9	3.1
Other creditors	3.2	4.0	2.6	2.5
Taxation and social security	4.1	5.8	1.4	2.7
	15.8	25.3	17.8	15.4

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

	Group		Society	
	2022	2021	2022	2021
	£m	£m	£m	£m
Under one year	0.4	0.9	0.4	0.9
In the second to fifth years inclusive	0.3	0.7	0.3	0.7
	0.7	1.6	0.7	1.6

19. CAPITAL COMMITMENTS

Commitments authorised or contracted for but for which no provision had been made at the balance sheet date totalled £1.2m (2021: £1.1m) and predominantly relate to business transformation projects.

20. FINANCIAL COMMITMENTS

At 31 December 2022, the Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2022 £m	2021 £m
Payments due		
Not later than one year	0.5	0.8
Later than one year and not later than five years	–	0.6
	0.5	1.4

21. INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

	2022 £m	2021 £m
At 1 January	123.7	95.2
Fair value adjustment	(12.3)	28.5
Disposal at Fair Value (Note 25)	(43.0)	–
At 31 December	68.4	123.7

All subsidiaries have been valued using either present value techniques with forecasts based on the financial projections of the Group, or based on their surplus capital. The valuations based on financial projections are sensitive to changes in short term profits and discount rates used, so can fluctuate significantly from one year to the next.

A discount rate of 8.8% (2021: 8.5%) has been used for Practice Plan Holdings Limited (and all associated subsidiaries) and a discount rate of 14.8% (2021: 13.8%) has been used for Wesleyan Unit Trust Managers Limited.

The directly held subsidiary undertakings of the Society at 31 December 2022 are shown below.

Company	Percentage		Principal Activities	Registered Address
	Held			
Wesleyan Trustees Limited	100%		To provide nominee services to the Trustee of the Wesleyan Staff Pension Scheme.	Colmore Circus, Birmingham, B4 6AR
Wesleyan Unit Trust Managers Limited	100%		To act as the operator of the Wesleyan range of unit trusts.	Colmore Circus, Birmingham, B4 6AR
Wesleyan Administration Services Limited	100%		To provide administrative services to members of the Group.	Colmore Circus, Birmingham, B4 6AR
Wesleyan Financial Services Limited	100%		To act as the distribution arm of the Group's insurance and investment activities.	Colmore Circus, Birmingham, B4 6AR
Practice Plan Holdings Limited	100%		Through its trading companies Practice Plan Limited and Practice Plan Insurance Limited, Practice Plan provides practice branded membership plans and support services to the UK dentistry market.	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Wesleyan SIPP Trustees Limited	100%		To act as bare trustee of the Wesleyan SIPP.	Colmore Circus, Birmingham, B4 6AR
Wesleyan Staff Pension Trustees Limited	100%		To act as corporate trustee of Wesleyan Staff Pension Scheme.	Colmore Circus, Birmingham, B4 6AR
Wesleyan Financial Investments Limited	100%		Dormant company	Colmore Circus, Birmingham, B4 6AR
Medical Sickness Financial Planning Limited	100%		Dormant company	Colmore Circus, Birmingham, B4 6AR
Medical Sickness Annuity and Life Assurance Society Limited	100%		Dormant company	Colmore Circus, Birmingham, B4 6AR
Medical Sickness Society Limited	100%		Dormant company	Colmore Circus, Birmingham, B4 6AR
Medical Sickness Limited	100%		Dormant company	Colmore Circus, Birmingham, B4 6AR

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

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

21. INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS CONTINUED

The indirectly held subsidiary undertakings of the Society as at 31 December 2022 are shown below. These entities are subsidiaries of Practice Plan Holdings Limited.

Company	Percentage Held Indirectly	Principal Activities	Registered Address
Practice Plan Holdings 2007 Limited	100%	Intermediary holding company	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Practice Plan Group (Holdings) Limited	100%	Holding company	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Practice Plan Group Limited	100%	Intermediary holding company	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Practice Plan (Malta) Limited ¹	100%	To carry on business of insurance	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Practice Plan Limited	100%	To provide a direct debit collection and administration service for dental practice patient membership schemes	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Isoplan Limited	100%	Holding company	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ.
Medenta Finance Limited	100%	To provide credit broking services	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ.
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	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Isoplan UK Limited	100%	Dormant company	50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ.
Isoplan International Limited	100%	Dormant company	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
DPAS Limited	100%	To act on behalf of dental practices and patient customers to provide and administer private dental plans	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
DPAS Investment and Consultancy Services Limited	100%	To carry out consultancy and research activities	Cambrian Works, Gobowen Road, Oswestry, Shropshire, SY11 1HS.
Quality Plan Limited	100%	Dental insurance	Units 84-85 Enterprise House Balloo Avenue, Bangor, County Down, BT19 7QT
Segregated Account 15 ²	100%	Dental insurance	Chubb Building, 17 Woodbourne Avenue, Hamilton HM08, Bermuda

¹ Incorporated in Malta

² Incorporated in Bermuda

The entities listed below are taking advantage of exemption from audit under section 479a of the Companies Act 2006 on the basis that the Society irrevocably guarantees the debts and liabilities that these subsidiaries have entered into during the 2022 financial year.

Companies exempt from audit

Wesleyan Administration Services Limited	(Registered Number: 05188850)
Practice Plan Holdings Limited	(Registered Number: 06772074)
Practice Plan Holdings 2007 Limited	(Registered Number: 06023648)
Practice Plan Group (Holdings) Limited	(Registered Number: 05467316)
Practice Plan Group Limited	(Registered Number: 04807010)
Isoplan Limited	(Registered Number: SC210901)
Isoplan International Limited	(Registered Number: 03858678)
Isoplan UK Limited	(Registered Number: SC126957)
Medenta Finance Limited	(Registered Number: SC276679)
Quality Plan Limited	(Registered Number: NI067553)
Worldwide Assistance Limited	(Registered Number: 10907861)
DPAS Investment and Consultancy Services Limited	(Registered Number: 07606856)

22. CONTINGENT LIABILITIES

The Society has absolutely, irrevocably and unconditionally agreed to provide sufficient capital resources to Wesleyan Unit Trust Managers Limited, Wesleyan Financial Services Limited, Wesleyan Administration Services Limited and Wesleyan SIPP Trustees Limited, as well as companies listed in Note 21 as exempt from audit, to enable them to meet their individual liabilities in order to protect and enhance its investments in these subsidiary companies.

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

23. GENERAL BUSINESS

The Society has retained the risk in respect of any industrial disease claims arising on the book of general insurance policies sold to General Accident (now part of Aviva plc) in 1995. To date, claims received have been negligible and management consider the possibility of future claims to be remote.

In order to comply with the EC Directive 2009/138/EC and PRA GENPRU 2.1.30 the Society holds capital to meet the absolute floor of the minimum capital requirement of €3.7m (2021: €3.7m).

24. PENSION SCHEMES

The Society operates a defined benefit pension scheme – Wesleyan Staff Pension Scheme (“the Scheme”), which since 1 October 2009 has been closed to new entrants, with new members of the Society from 1 October 2009 eligible to join the Society’s defined contribution scheme. The Scheme is fully funded with the assets of the scheme held in a separate fund administered by the Corporate Trustee. The Scheme closed to future accrual of benefits on 5 April 2016.

The most recent valuation of the Scheme was as at 31 December 2021. The valuation used the projected unit method and was carried out by a qualified Actuary employed by Aon Hewitt.

The results of the latest funding valuation at 31 December 2021 have been adjusted to the balance sheet date taking account of experience over the period since 31 December 2021, changes in market conditions and differences in the financial and demographic assumptions.

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

Reconciliation of accounting basis to balance sheet

	2022 £m	2021 £m	2020 £m
Total market value of assets	367.0	564.8	559.8
Present value of funded defined benefit obligations	(271.7)	(426.2)	(450.1)
Present value of unfunded defined benefit obligations	(5.4)	(7.1)	(7.0)
Surplus in Scheme	89.9	131.5	102.7
Related deferred tax liability	(5.7)	(8.3)	(6.5)
Net pension asset recognised on balance sheet	84.2	123.2	96.2

Analysis of surplus

	2022 £m	2021 £m
Surplus in Scheme at beginning of year	131.5	102.7
Past service cost	–	–
Contributions	0.4	0.4
Other finance income	2.6	1.5
Actuarial (loss)/gain recognised in other comprehensive income	(44.6)	26.9
Surplus in Scheme at end of year	89.9	131.5

Analysis of statement of comprehensive income credit/(charge)

	2022 £m	2021 £m
Past service cost	–	–
Interest on net defined benefit asset	2.6	1.5
Total credit recognised in statement of comprehensive income	2.6	1.5

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

24. PENSION SCHEMES CONTINUED

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

	2022 £m	2021 £m
Opening defined benefit obligation (funded and unfunded)	433.3	457.1
Interest cost	8.3	6.5
Actuarial (gains)/losses on liabilities	(149.2)	(13.6)
Net benefits paid out	(15.3)	(16.7)
Past service cost	–	–
Closing defined benefit obligation (funded and unfunded)	277.1	433.3

Changes to the fair value of Scheme assets during the year

	2022 £m	2021 £m
Opening fair value of assets	564.8	559.8
Interest income on Scheme assets	10.9	8.0
(Losses)/gains on assets	(193.8)	13.3
Contributions by the employer	0.4	0.4
Net benefits paid out	(15.3)	(16.7)
Closing fair value of assets	367.0	564.8

Actual return on assets

	2022 £m	2021 £m
Expected return on assets	10.9	8.0
Remeasurement (loss)/gain on assets	(193.8)	13.3
Actual return on assets	(182.9)	21.3

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

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Fair value of assets	367.0	564.8	559.8	517.4	496.7
Defined benefit obligation	(277.1)	(433.3)	(457.1)	(426.3)	(385.4)
Surplus	89.9	131.5	102.7	91.1	111.3

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

	2022 (% p.a.)	2021 (% p.a.)	2020 (% p.a.)
RPI Inflation	3.45	3.40	3.05
CPI Inflation	2.65	2.60	2.25
Rate of general long-term increase in salaries	N/A	N/A	N/A
Pension increases in payment (LPI)	3.15	3.20	2.95
Discount rate for Scheme liabilities	4.70	1.95	1.45

24. PENSION SCHEMES CONTINUED

Scheme asset allocation

	2022 £m	2021 £m	2020 £m
Equities	0.1	0.1	0.1
Property	0.5	0.6	0.7
Government Bonds	202.5	324.4	316.8
Corporate Bonds	160.7	237.1	238.4
Other	3.2	2.6	3.8
Total	367.0	564.8	559.8

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

Post-retirement mortality:

- ▶ 31 December 2022 - S3PxA tables with best estimate individual scaling factors and improvements in line with the CMI 2019 (Sk = 7.0, A = 0.25) projections and a long-term rate of improvement of 1.5% for males and 1.25% for females;
- ▶ 31 December 2021 - S3PxA tables with best estimate individual scaling factors and improvements in line with the CMI 2019 (Sk = 7.0, A = 0.25) projections and a long-term rate of improvement of 1.5% for males and 1.25% for females.

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

	2022 Years	2021 Years
Male current pensioner	22.7	22.6
Male future pensioner (member currently aged 45)	23.9	23.7
Female current pensioner	23.7	23.6
Female future pensioner (member currently aged 45)	25.5	25.4

Approximate impact on balance sheet and statement of comprehensive income charge for the coming year of changing the key assumptions

	Approximate effect on estimated Statement of Comprehensive Income for year ending 31 December 2023 £m				Approximate effect on Balance Sheet at 31 December 2023 £m		
	Service cost	Expenses	Net interest cost on defined benefit liability	Total pension cost	Assets (excluding any restriction)	Defined benefit obligation	Surplus
Current figures	–	–	(4.2)	(4.2)	367.0	(277.1)	89.9
Following a 0.25% p.a. decrease in the discount rate ¹	–	–	(3.5)	(3.5)	367.0	(287.9)	79.1
Following a 0.25% p.a. increase in the RPI inflation assumption ²	–	–	(3.9)	(3.9)	367.0	(284.4)	82.6
Following a one year increase in life expectancy ³	–	–	(3.8)	(3.8)	367.0	(286.4)	80.6

¹ Assuming a 0.25% p.a. decrease in the discount rate used for the calculation of liabilities, but no effect on the asset value.

² Assuming a 0.25% p.a. increase in the inflation assumption used for the calculation of liabilities, but no effect on the asset value.

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

NOTES TO THE ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

25. DISCONTINUED OPERATIONS

On 28 February 2022 the Group completed the sale of Wesleyan Bank Limited ("the Bank") and its subsidiaries to Hampshire Trust Bank Plc. The net asset value of the Bank at the date of disposal, including 2022 profit after tax, was £94.6m.

The total consideration received (less costs of disposal) was £44.3m resulting in a net loss on disposal for the Group of £50.3m.

As at 31 December 2021 the Society Fair Value of the Bank was £43.0m which resulted in a net profit on disposal for the Society of £1.3m.

The Bank's profit after tax for 2022, up until the date of disposal, was £0.3m (2021: £6.0m). This has been included in the Group Consolidated Statement of Comprehensive Income, under Discontinued operations.

26. MEMBERSHIP OF 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. A detailed definition of membership is provided in the Society Rules which can be found on the Society website. In summary, each of the following will be a member of the Society (in the case of an individual whether a minor or of full age) and will continue to be a member of the Society as long as they continue to meet one of the relevant membership criteria below:

- ▶ Any person to whom a Qualifying Policy¹ or Qualifying Product² is issued.
- ▶ Any person who becomes the policyholder of any Qualifying Policy or an investor in a Qualifying Product whether by assignment, transfer or other devolution of title.
- ▶ Any person who is an employee of the Society and makes additional voluntary contributions on or after the first day of May 2006 for pension entitlements under the Wesleyan Assurance Society Group AVC policy.

If there is more than one policyholder in a Qualifying Policy or investor in a Qualifying Product each policyholder or investor is a member.

If a member is under 15 years of age the privileges and responsibilities of membership will be vested in the first named parent or guardian on their Qualifying Policy or Qualifying Product until they reach 15 years of age.

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 Board resolved to remove the two-year qualifying period previously included in the rules and replaced it with a requirement that any proceeds from a change in mutual status be assigned to charity within the first two years of membership.

Each of the following will **not** be a member of the Society (unless they also meet one of the criteria above) and therefore will not be entitled to receive notice of, attend, or have any rights to vote at any annual or other general meeting of the Society:

- ▶ Trustees of the Wesleyan Assurance Society Group AVC Policy.
- ▶ The trustee of a Qualifying Policy or Qualifying Product, unless the terms and conditions of either state otherwise. A policyholder of a Qualifying Policy or investor in a Qualifying Product may appoint the trustee of either as a proxy (enabling the trustee to exercise all or any of their rights to attend, speak and vote at a meeting of the Society).
- ▶ Associate members.
- ▶ Non-Qualifying Policyholders.
- ▶ Holders of Industrial Assurance policies.
- ▶ Holders of policies which have been transferred to the Society under Schedule 2C of the Insurance Companies Act 1982.

Any policy issued to the Trustees of an occupational pension scheme, for annuity business effected within the Society, to secure all or part of the accrued rights of 100 or more members in a single transaction will not confer any membership rights and nor shall any policy issued subsequently to individual members of that scheme under that arrangement.

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".

The Society also reserves the right to introduce new products which invest in the With Profits Policyholder Fund but are distributed through third parties. Such products would not be Qualifying Products, conferring Membership rights, nor would they create eligibility to become associate members.

¹ "Qualifying Policy" means:

- ▶ any subsisting policy of insurance issued by the Society prior to the Qualifying Date in the ordinary insurance department.
- ▶ any subsisting policy of insurance issued by the Society prior to the Qualifying Date in any department other than the ordinary life insurance department where premiums payable are increased on or after the Qualifying Date by an amount of £25 per month or more.
- ▶ any subsisting policy of insurance issued by the Society prior to the Qualifying Date in any department other than the ordinary life insurance department where an additional single premium (other than a single premium received by the Department of Social Security or any successor department) results in additional benefits being allocated to such policy with an allocation date on or after the Qualifying Date; or,
- ▶ any policy of insurance issued by the Society on or after the Qualifying Date, other than a Non-Qualifying Policy, provided that any policy which has lapsed and is incapable of being revived by the policyholder and has no value shall not be a Qualifying Policy.

² "Qualifying Product" means an investment product operated by the Investment Firm (unless the terms and conditions for the expressly state it is not a "Qualifying Product").

27. RELATED PARTY TRANSACTIONS

The Directors of the Society and its subsidiaries are related parties of the Society. Total premium income received from Directors for the year ended 31 December 2022 was £189,100 (2021: £75,250). Claims of £18,100 were paid in 2022 (2021: nil). All such transactions are on terms which are no better than those available to all employees of the Group.

Wesleyan Staff Pension Scheme is also a related party. The total contributions by the Society to the scheme during the year were £0.4m (2021: £0.4m).

The Society operates a defined contribution scheme which is included as part of the total assets and liabilities of the Society. As at 31 December 2022 the total assets of the scheme were £122.9m (2021: £124.6m), of which contributions and transfers into the scheme within premium income in the year totalled £10.5m (2021: £11.7m).

Key management personnel are also part of the defined contribution scheme, with the total value of assets in the scheme relating to key management personnel being £1,210,531 as at 31 December 2022 (2021: £1,289,977).

The total employee benefits payable to key management personnel for the year ended 31 December 2022 was £7,949,887 (2021: £7,089,532).

Included within the balance sheet of Wesleyan Unit Trust Managers Limited (a wholly owned subsidiary of the Society) are investments held in Wesleyan Unit Trust Managers Limited's (WUTM) unit trusts funds. WUTM holds a £2.4m (2021: £2.7m) investment in these unit trusts, representing 1.0% (2021: 1.1%) of the total balance.

Additionally the Society directly holds a £17.1m (2021: £19.0m) investment in these funds. The remaining investments in these unit trusts are not consolidated in the Group's results, being ring-fenced funds owned by independent unitholders not held for the Society's own purpose.

Amounts owed to Group undertakings from the Society relate to Wesleyan Administration Services (£7.9m).

Amounts owed to Group undertakings from the Society relate to Wesleyan Financial Services (£12.4m).

GLOSSARY

Acquisition costs: The costs of acquiring and processing new business, including a share of overheads.

Adviser: Someone authorised by the FCA, who is qualified by experience and examination to provide financial advice. See also independent financial adviser in glossary.

Alternative performance measures (APM): A financial measure of performance not defined or specified by accounting standards.

Annual Bonus (With Profits): Bonuses which are added each year to conventional with profits policies to increase the guaranteed amount payable.

Annual General Meeting (AGM): The AGM provides an important opportunity to give members a brief overview of the Society's financial and business performance, and includes the re-appointment of auditors and re-election of directors.

Annual Premium Value (APV): Used as a measure of Life and Pensions new business volumes. It is calculated by adding total premiums to be received each year for new regular premium policies and 10% of single premiums received in the year.

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

Asset Shares: Asset shares reflect the amount of money paid into with profits policies by way of premiums and investment returns, less the costs of administering those policies.

Assets Under Management (AUM): Total assets actively managed or administered by, or on behalf of, the Group.

Association of British Insurers (ABI): The ABI represents the collective interests of the UK's insurance industry.

BAME: Black, Asian and minority ethnic.

Best Estimate Liabilities: The expected value in today's money of all future cash flows in respect of in-force business.

BLAGAB: Basic life assurance and general annuity business is a term used to distinguish between two types of long-term business for tax purposes.

Capital Markets: Markets in which institutions and individuals trade financial securities such as long-term debt and equity securities. These markets are also used by both the private and public sectors to raise funding from investors, typically for the longer term.

Closed Fund: A fund that has stopped taking on new business.

Consumer Price Index (CPI): A measure of changes in the price level of a basket of consumer goods and services purchased by households.

Deferred Acquisition Costs (DAC): The method of accounting whereby certain acquisition costs on long-term business are deferred and therefore appear as an asset. This leads to a smoothed recognition of acquisition costs instead of recognising the full amount in the year of acquisition.

Deferred Fee Income: The method of accounting whereby up-front policy changes are deferred and therefore appear as a liability. This leads to a smoothed recognition of these charges instead of recognising the full amount in the year of acquisition.

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.

Discounting: The process of expressing a future cash transaction in terms of its present value using a discount rate that reflects the time value of money.

Discretionary Participation Features (DPF): Is a contractual right held by a policyholder to receive additional payments as a supplement to guaranteed benefits. Such contracts are more commonly known as 'with profits' or 'participating' contracts and are accounted for as insurance contracts.

Drawdown: A flexible way of using your savings. With a defined contribution scheme once you reach age 55, you can draw down some or all of your savings at any time as cash lump sums, income or a combination of both.

Economic Assumptions: Assumptions of future interest rates, investment returns, inflation and tax rates. The impact of variances in these assumptions is treated as non-operating profit or loss under UK GAAP.

Employee Engagement Index: A widely used measure of employee satisfaction.

Employers Network for Equality & Inclusion (ENEI): The ENEI is the UK's leading employer network covering all aspects of equality and inclusion in the workplace.

Environmental, Social and Governance (ESG): Financially material environmental, social and governance risks and opportunities being embedded into Society investment decisions.

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.

EIOPA: European Insurance and Occupational Pensions Authority.

Fair Value: The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's-length transaction.

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.

Financial Reporting Council (FRC): The FRC is the UK's independent regulator responsible for promoting high-quality corporate governance and reporting to foster investment.

Fund for Future Appropriations (FFA): The excess of assets over the aggregate of policy and other liabilities. It is a measure of the Society's capital. Transfers to and from the FFA reflect the excess or deficiency of income over claims, expenses, tax and changes in the technical provisions.

Group: Wesleyan Assurance Society and all of its subsidiary companies.

Group Operating Profit: A measure of profitability used to provide a better understanding of the operating performance of the Group. More information on how it is calculated is set out in the Results and Performance section of this report.

Guarantee: The minimum level of benefit which the insurer will pay if the insured event occurs on a guaranteed date.

Income Protection: Insurance typically covering loss of up to 75% of income due to illness or injury. Generally payment is in the form of regular income payments, after a deferred period, while the member remains unable to work. Payments may continue until the end of the policy term or cease after a set period.

Independent Financial Adviser (IFA): Someone authorised by the FCA, qualified by experience and examination to provide financial advice, who is not working for any single product provider company.

Individual Savings Account (ISA): A tax free investment contract, allowing investment into cash, stocks and shares and in certain other assets.

Industrial Business (IB): Life assurance business sold under the Industrial Assurance Acts 1923 to 1958 under which the premiums were originally contracted to be collected door to door.

In-force Policy: Long-term business written and not terminated before the period end.

Internal Available Capital: An internal measure of the Society's financial strength. This is calculated as the excess of assets over its liabilities as defined by the Society.

Key Performance Indicator (KPI): An indicator used by a business to measure its development, performance or position.

LGBT+: Lesbian, gay, bisexual, trans and plus, which represents other sexual and gender identities.

Maintenance Expenses: Expenses relating to the servicing of the in-force book of business.

Merger Scheme: A Court-approved Scheme, which sets out how the Open Fund and the MSS Fund should be managed.

MSS Fund (MSSF): A closed fund set up under the terms of the Merger Scheme. It contains all the with profit policies of Medical Sickness Society in-force on that date and is maintained as a separate account within the Wesleyan's Long-Term Business Fund.

Mutual: A business that is owned by its members rather than by shareholders.

MVR: Market value reduction. A reduction to the value of the units attaching to a Unitised With Profits policy on payment of a claim in circumstances where the policy's fair share of the fund is below the value of the units.

Net Promoter Score: An index used to measure the willingness of customers to recommend a company's products or services to others.

OILTBF: The Ordinary and Industrial Long-Term Business Fund.

Operating Assumptions: Assumptions in relation to future levels of mortality, morbidity, persistency and expenses. The impact of variances in these assumptions is included within the operating profits under UK GAAP.

Operating Experience Variances: The impact of actual mortality, morbidity, persistency and expense experience being different to that expected at the start of the period.

Own Funds: Regulatory capital under Solvency II. Broadly it is the excess of assets over liabilities (plus subordinated debt and less the ring-fenced fund restriction), as measured by the PRA's regulatory reporting requirements under Solvency II.

Own Risk and Solvency Assessment (ORSA): The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the risks the Group faces or may face over the business planning period, and to determine the own funds necessary to ensure that its overall solvency needs are met at all times over that period.

Participating: Contracts that are with-profits in type.

Pension: A means of providing income in retirement for an individual and possibly their dependants. Our pension products include Personal and Group Pensions, shareholder pensions and income drawdown.

Personal Pension: A pension plan for an individual policyholder.

Present Value of Future Profits (PVFP): The present value of the projected future profits after tax.

Present Value of In-force Business (PVIF): The present value of the projected future profits after tax arising from the business in-force at the valuation date.

Principles and Practices of Financial Management (PPFM): A document detailing how we manage our with-profits funds. We have a separate PPFM for each with-profits fund.

ProfitShare: Is an allocation of part of the Group's operating profits by means of a discretionary enhancement to asset shares and unit fund values of eligible policies.

Protection: A policy providing a cash sum or income on the death or critical illness of the life assured.

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.

Rating Agencies: A rating (also called a credit rating agency) is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely interest payments and indicate the likelihood of default.

Regular Premium: A series of payments for an insurance contract, typically monthly or annually.

Regular Supervisory Report (RSR): A report required under the Solvency II directive. This is a private report to the PRA and is not disclosed publicly. Life Insurers in the UK are required to submit this report to the PRA in full at least every three years and in summary every year. The RSR includes both qualitative and quantitative information.

Responsible Investment: To continuously embed advanced environmental, social and governance capabilities into our investment activities and support the Society to influence positive corporate changes.

Retail Price Index (RPI): 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-free Rate: The theoretical rate of return of an investment with no risk of financial loss.

S172: Section 172 of the Companies Act 2006. This sets out the matters that a director of a company must consider when fulfilling their duty to promote the success of the company for the benefit of its members.

Single Premium: A single payment for an insurance contract.

GLOSSARY CONTINUED

Solvency II: A European Union directive that became fully applicable to European insurers and reinsurers on 1 January 2016. It covers three main areas related to capital requirements, risk management and supervisory rules.

Solvency and Financial Condition Report (SFCR): A report required under Pillar III of the Solvency II directive. Life insurers in the UK are required to disclose this report publicly and to report to the PRA on an annual basis. The SFCR includes both qualitative and quantitative information.

Solvency Capital Requirement (SCR): The amount of capital that the PRA requires UK Life Insurers to hold, which is calculated using the European Union Solvency requirements, also known as Solvency II. The SCR is calculated using our Partial Internal Model.

Standard Formula: A prescribed method for calculating the Solvency Capital Requirement that aims under Solvency II to capture the material quantifiable risks that a Life Insurer is exposed to. If the Standard Formula is not appropriate for the risk profile of the business, a capital add-on may also be applied after agreement with the PRA.

Subordinated Debt: In the event of bankruptcy, dissolution or winding-up, the payments arising from this debt rank after the claims of other creditors.

Surplus: The excess of Own Funds over the Solvency Capital Requirement.

Three Lines of Defence Model: The three lines of defence model can be used as the primary means to demonstrate and structure roles, responsibilities and accountability for decision-making, risk and control to achieve effective governance, risk management and assurance.

UK Corporate Governance Code (the Code): This sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

UK Generally Accepted Accounting Practice (UK GAAP): The framework under which the Society and Group prepare the Financial Statements.

UK Stewardship Code (Code): Financial Reporting Council's draft UK Stewardship Code. The Stewardship Code focuses on sustainable and responsible investment and stewardship, and sets standards for asset owners and asset managers.

Unit-linked Policy: A policy for which the premiums buy units in a chosen investment fund.

Unit Trust: A collective investment which invests in a range of assets such as equities, fixed interest investments and cash. A unit trust might be a general fund or specialise in a particular type of asset, for example property, or in a particular geographical area, for example South East Asia.

United Nations Principles for

Responsible Investment: A set of six principles that provide a global standard for responsible investing as it relates to environmental, social and corporate governance (ESG) factors.

United Nations Sustainable

Development Goals (SDGs): A set of 17 Sustainable Development Goals, otherwise known as the Global Goals, are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

Unitised With Profits Policy: A policy for which the premiums buy units in a with profits fund.

Value of In-force Business (VIF): See definition of 'Present value of In-force business (PVIF)'.

With Profits Policyholder: A policy that participates in the profits of a with profits fund. This participation may be in the form of one or more of a cash bonus, an annual bonus or a bonus paid on the exit of the policy.

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting (AGM) of Wesleyan Assurance Society will be held at 2.00pm on Thursday 25 May 2023 remotely via use of an online platform. For more details and to get the latest information please visit wesleyan.co.uk/AGM.

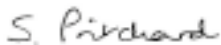
The AGM is to be held for the following purposes:

ORDINARY BUSINESS

1. To formally receive the Accounts of the Society for the year ended 31 December 2022 and the Directors' and Auditors' Reports thereon.
2. To confirm the appointment as a Director:
 - a. Rita Bajaj
3. To re-elect as Directors:
 - a. Nathan Moss
 - b. Ian McCaig
 - c. Philip Moore
 - d. Andrew Neden
 - e. Harpreet Sood
 - f. Anne Torry
 - g. Linda Wilding
 - h. Mario Mazzocchi
 - i. Gillian Cass
4. To reappoint Ernst & Young LLP as Auditors and to authorise the Directors to fix their remuneration.
5. To approve the Directors' Remuneration Policy.
6. To approve the Annual Report on Remuneration for the year ended 31 December 2022.

You are asked to approve the Directors' Remuneration Policy and Annual Report on Remuneration by way of an advisory vote. This is not a legal requirement, and its outcome is not binding on the Directors. However, your Board considers it best practice to allow members to express a view on this issue.

BY ORDER OF THE BOARD



SELENA PRITCHARD

Company Secretary

30 March 2023

These resolutions are supported by the Board.

Notes:

- 1 A copy of the Annual Report and Accounts will be available on Wesleyan's website www.wesleyan.co.uk from 25 April 2023 or may be obtained by a member on written request to the Company Secretary at Wesleyan, Colmore Circus, Birmingham, B4 6AR.
- 2 A member is entitled to attend via an online platform and vote at this meeting or may appoint the Chair or any other person as their proxy to attend and, on a poll, to vote in their stead.

Directors standing for Election (recommended by the Board)

Each year all Directors are put forward for re-election. Details about their backgrounds are set out on pages 50 to 51. Following a performance evaluation, the Board is satisfied that each of the Directors continues to perform effectively and with commitment to their role. Further information on the work going on within the Society to deliver value for members and policyholders is given in the Chair's Statement and Strategic Report.

PROFESSIONAL ADVISERS

Solicitors

The Wilkes Partnership LLP
41 Church Street
Birmingham
B3 2RT

Independent Auditor

Ernst & Young LLP
No. 1 Colmore Square
Birmingham
B4 6HQ

Bankers

Lloyds Banking Group Plc
25 Gresham Street
London
EC2V 7HN

Wesleyan Group offers Financial Advice: Retirement Planning • Investing • Funding • Insurance

For more information visit [Wesleyan.co.uk/ourcompanies](https://www.wesleyan.co.uk/ourcompanies)

Wesleyan Assurance Society

'WESLEYAN' is a trading name of the Wesleyan Group of companies. Wesleyan Assurance Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Incorporated in England and Wales by Private Act of Parliament (No. ZC145). Registered Office: Colmore Circus, Birmingham, B4 6AR.

Telephone: 0345 351 2352. Website: [Wesleyan.co.uk](https://www.wesleyan.co.uk). Calls may be recorded to help us provide, monitor and improve our services to you.