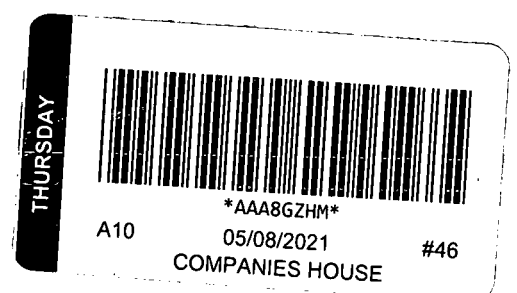


Wesleyan Bank Limited

Annual report and financial statements
for the year ended 31 December 2020
Registered number 2839202



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Strategic report

The directors present their Strategic report of Wesleyan Bank Limited ("the Bank") for the year ended 31 December 2020.

Principal activities

The principal activities of the Bank continue to be the provision of banking services, primarily personal deposit taking, commercial and personal lending. The Bank is authorised under Part 4A of the Financial Services and Markets Act 2000 to take deposits and is regulated by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA").

The strategy for the Bank is to primarily provide medium-term asset finance and long-term loan finance to the SME market, also supporting its parent company, Wesleyan Assurance Society ("the Society", "the Group"), by providing banking products, tailored whenever possible to meet the personal, professional and business needs of its core and adjacent market clients throughout their lifetime. The Bank's strategic and operating plan are developed in conjunction with the Society.

Strategic business review and Covid-19 impact

The Bank's strategy is to provide a range of secured and unsecured commercial lending products and some retail lending products to the Bank's chosen SME markets, funded primarily by whole of market retail deposits. Distribution of these banking products is through a combination of direct and indirect channels (including brokers and intermediaries) supported by integrated marketing. Where appropriate the Bank will seek to buy or build product and market specific manufacturing and distribution capability. The latest five-year plan increases the focus of the business in funding longer term loans to grow the balance sheet and provide valuable diversification to its lending exposures. This will increase the level of sustainable income streams, reducing earnings volatility and reducing risk.

In 2020, the Society, the Bank and its customers faced a new reality as the impacts of the coronavirus pandemic began to emerge, affecting all aspects of life and business. As a result of this, the Board and Executive Management team took the opportunity to consider the impacts on customers and employees' personal and business lives and how, as a business we would need to evolve to respond to these impacts. In doing this, we will look to transform our business, being more digitally supportive of our customers and staff and becoming more efficient as we make greater investment in our infrastructure.

Covid-19 ('Covid') impacted greatly on the Bank's activities as a result of the lockdown period and the virus control measures. During the lockdown period, the Bank remained open for business and successfully transitioned to a 'Working from Home' operating model. This had only limited impact on the Bank's operational and control capabilities, demonstrating the effectiveness of its operational resilience. Where the offices have remained open, under the careful supervision of the Society's property management department, regular Covid risk assessments have been undertaken. Measures have been implemented across all sites to give staff all the protections that can be afforded. In line with the rest of the Society, the Bank chose not to take advantage of the Government financial support under the Coronavirus Job Retention Scheme to pay wages of employees and no members of staff were furloughed.

Clearly, the pandemic affected the Bank's lending activities as a result of the national lockdown, the virus control measures imposed and the Government economic support schemes that were put in place. In particular, the Government's decision to defer the payment of VAT and tax payments meant the Bank's provision of short-term finance to businesses to fund these payments virtually ceased beyond the first quarter of the year. In addition, the first period of lockdown between March and May included the closure of dental practices, a core customer sector of the Bank. This had the effect of significantly reducing the volumes in two of the Bank's core lending products, acquisition finance and the provision of unsecured personal loans for dental treatment through the retail Point of Sale ('PoS') portal launched in 2019. Whilst the lifting of the lockdown measures in Q4 of 2020 saw a surge in business volumes due to pent up demand, this did not fully offset the business lost in the previous two quarters. This, though, was offset to a large degree by a strong performance in the Bank's other core finance product, asset finance lending, which saw above expected volumes as the Bank continued to support the SME market even whilst the economic disruption and uncertainty existed.

The biggest impact of the pandemic and resulting economic recession on the Bank's financial performance has been on its credit risk and levels of potential impairment. At the peak of the first wave of lock down in the spring and early summer,

Strategic report (continued)

the Bank supported its customers through the economic uncertainty by providing over 500 customers (value £135.2m) with loan forbearance arrangements. This support and ongoing relationship management has enabled, by 31 December 2020, all but ten of these customers to get their finances into a position to recommence repayments on their loans. Due to current forbearance activity and ongoing Government support schemes, the Bank has not yet seen the crystallisation of forbearance or current arrears into default. However, the key risk still remains the viability of financially stretched businesses who have had their cashflow significantly impacted, whilst acquiring more debt and higher repayments as a result. There remains a significant risk of a 'cliff edge' effect, exacerbated by Government support ending. Assuming the current vaccination programme and lockdown measures are successful in returning economic activity to some form of 'normal' by the summer, eventual impairment may not crystallise until Q3/Q4 2021 onwards. In recognition of this the Bank has raised £7.1m of impairment provisions related to the impact of Covid.

Whilst additional costs have been incurred in maintaining a high standard of health and safety aimed at preventing the spread of coronavirus, Management have sought to mitigate the impact of the loss of income through the tight management of other expenditure through savings made on employment costs, property, energy and other expenses during the period.

The Bank and Society have also recognised how the lockdown and remote working arrangements can have a substantial negative impact on the mental health and wellbeing on employees. The Group has worked hard to mitigate the impact of the virus on staff through the following measures:

- Regularly signposting Group resources relating to Mental Health Training, Mental Health First Aiders, Employee Assistance Programme
- Placing particular emphasis on managing mental health upfront, with focus on ensuring regular "welfare" calls, encouraging staff to maintain regular contact (non-work conversations), mental health workshops and a variety of virtual social events to enable colleagues to stay in touch and maintain social interaction
- Be Well at Wesleyan – an internal wellbeing strategy to actively support the mental health and wellbeing of employees
- Mandatory Mental Health training for managers

Moving forward, the Bank will continue to prioritise staff wellbeing, with mental health and wellbeing benefiting from a raft of measures including mindfulness sessions and emotional and wellbeing interventions.

Business Review

Despite the significant resources the Bank needed to deploy to deal with the operational impact and challenges arising from the pandemic, we also made significant progress against the Bank's and Society's key strategic objectives. The key achievements during 2020 are as follows:

Lifelong Partner

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

The relationship with our business and professional customers, and the products provided to them are essential in supporting them in securing their financial futures. In 2020, the Wesleyan's Partner for Life ethos was evidenced by the swift transition from providing in person, face to face product application and servicing capabilities to remote servicing (either over the phone or online) as the UK entered its first lockdown. We also supported our customers whilst they struggled financially due to the unprecedented economic stress by actively understanding their needs to keep their businesses financially viable and providing loan repayment forbearance arrangements.

To cement this position as a Lifelong Partner to our customers we will:

- Further develop products and propositions to continue to better support customers' business and personal financial product needs
- Further enhance product distribution and servicing channels to enhance the customer experience and transact with customers in the ways they want to transact

Strategic report (continued)

Brilliant to do business with

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

Now more than ever, it's vitally important for the Bank's customers to be able to interact with us in different ways, and us with them. In 2020, in response to the pandemic, the Bank moved to hosting customer events remotely. In 2021, further investment will be made in improving the ways customers can transact with the Bank online. We also continued to develop our internal capabilities; building on how technology and data is used to improve how we serve our customers. This activity will continue to play key part in 2021 and beyond, with ongoing training and support of colleagues, recruitment and development of new skills and implementation of new ways of working to enable the Bank to better identify and respond to customer needs in these unprecedented times.

To be Brilliant to do business with, the Bank will:

- Continue to build operating capabilities that are designed around customer journeys; improving quality, efficiency and our customers' experience of dealing with us
- Strengthen and develop how we serve and transact with customers, meeting more of their needs and solving their queries quickly and efficiently
- Continue to support our people's specialist understanding of the businesses we serve, through tailored training, tools and support

Despite the disruption caused by Covid, the Bank continues to expand its range of products and extend its presence into the broker market, reaching out to a wider range of customers, writing £244m of new finance loans onto its balance sheet in 2020 against a budgeted expectation of £283m. In pursuit of its objective of growing the proportion of medium to longer term lending it provides, the value of loans and advances on its balance sheet by the end of 2020 grew by 38.2% in the year (from £274.9m to £379.9m). As a result gross interest income from the Bank's medium and long-term lending increased from £16.8m in 2019 to £19.2m in 2020; a 14.3% year on year increase.

As highlighted above, whilst the Bank has been very successful in limiting the levels of actual default in its loan portfolios, Management has recognised the likelihood that true impact of the severe recession in 2020 will only be felt once the existing Government support measures have been lifted. As a result there has been a significant increase in the provisions for impairment, rising from £0.4m in 2019 to £7.9m in 2020; including £7.0m set aside to cover potential default from customers provided with forbearance. As a result, total operating loss increased to £7.3m, a substantial decline on 2019 (£1.3m).

In 2020 the Bank, in conjunction with the Society, progressed with the project to transfer the Self Invested Personal Pension ('SIPP') product away from the Bank. This is not a core product for the Bank (only £1.75m of balances held in SIPP accounts on the Bank's balance sheet at year end) and carries a disproportionate level of operational and regulatory risk than the Bank is willing to accept. This is expected to complete early in the second quarter of 2021. The Bank has now nearly completed the migration of the Bank's IT infrastructure hosted by the Group and that hosted on the Bank's own infrastructure to the Microsoft Azure cloud. The existing infrastructures require upgrading both to enhance operational capacity, capability and performance and improve operational resilience. This is vital in supporting the Bank's long-term sustainability as, without robust and reliable infrastructure, the Bank risks not being able to effectively deliver its products and services. This should be completed in the first half of 2021.

Looking forward, with business volumes back in line and ahead of original targets in the last quarter of 2020 following the easing of economic restrictions, this has continued into 2021 with strong demand for the Bank's products, particularly through the PoS proposition. The Bank has also extended this proposition into veterinary practices to provide funding for the treatment of pets and is seeking other opportunities in similar markets. On the funding side of the balance sheet, this is currently sourced through offering a range of fixed and variable rate retail deposit accounts, including Cash ISAs, Easy Access Savings accounts and Fixed Rate Bonds of varying duration. In addition, the Bank participates in the Bank of England's Funding for Lending Scheme ("FLS") which is provided through the utilisation of the Bank's acquisition finance loans as eligible collateral. The FLS funding matures in 2021, however, in 2020, the Bank of England launched the Term Funding Scheme with additional incentives for SMEs ("TFSME"), a Term Funding Scheme to offer four-year funding at or very close to Bank Rate. The Bank has been accepted to participate in this scheme and has been provided with a borrowing allowance from the Bank of England, though the actual amount that can be drawn is dependent on the amount

Strategic report (continued)

of collateral the Bank has available to support the drawings and the level of net lending to SME's in the reference period. Drawings under the TFSME can be made up until 31 October 2021 with the term of each transaction being for four years from the date of drawdown.

The Bank has also developed plans to acquire an online deposit taking and internet banking portal. This will allow the Bank to automate the current manual processes supporting the deposit taking process and increase its range of deposit products to reduce interest rate risk and liquidity and funding costs. The Bank's senior management is also engaged with the Society in reviewing the existing outsourcing arrangements and agreement to ensure the services provided by the Society meet the Bank's strategic needs and is on an arm's length, third party provider basis. This revised agreement is expected to be signed in early 2021.

As you will read on page 25, despite the impact of Covid the Bank's capital and liquidity strength remains good. The Society provided the Bank with £42.14m of capital during the year to provide additional capital required to meet Regulatory requirements, cover the potential impairment losses arising from Covid and to support further balance sheet growth. This means we have capital reserves above those required of us by the regulator to mitigate against the risks that may arise. The Bank's business plans include the support from the Society to provide capital, so its financial strength is also a key factor. The Society's financial strength remains very robust, meaning it has capital reserves significantly above those required by the Regulator in order to be in a position to provide this support.

The Bank's funding strategy is designed to balance funding requirements and liquidity of the Bank. Under PRA guidelines, the Bank is required to maintain a liquidity buffer comprising of a stock of high quality, unencumbered liquid assets. The liquidity buffer to be held is at least the minimum requirement advised by the Bank's regulator. As at the year end the Bank held £24.0m (2019: £31.2m) in UK government bonds. All other surplus funds are placed with approved counterparties.

Section 172 of the Companies Act 2006

Reporting

Set out below is an overview of matters discussed by the Board of Directors and Senior Management during the financial year, in accordance with their duties under Section 172(1) (a) to (f) of the Companies Act 2006. This includes evidence of how the interests of the Bank's key stakeholders have been considered in Board discussions and decision-making. The key stakeholders for the Bank are identified as the following:

| Stakeholder | Why we engage and key metrics for engagement | Why is it important to engage |
|----------------|---|--|
| Wesleyan Group | <p>Wesleyan Assurance Society is the Bank's sole shareholder. The Bank relies on the Society for additional capital to enable it to achieve its strategic growth plans and for other support as set out in note 3. The key metrics used by the Society to monitor the Bank's performance are:</p> <ul style="list-style-type: none"> • Net Operating Profit • Return on Equity share capital • New Business sales • Net Interest Margin • Loan default rate • Cost income ratio • Capital and liquidity ratios • Business diversification | <p>Continued access to capital is of vital importance to the long-term success of the business. Through our engagement activities we strive to obtain the Society's agreement to our strategic objectives and how we go about executing them. The strategic objective is to create value for our shareholder by generating strong and sustainable profits to support the Bank's growth objectives and provide a return to the Group.</p> <p>We also utilise Group services and resources to manage day to day operational requirements of the Bank under an outsourcing arrangement. It is therefore essential that we engage with the operational areas of the Society that we rely on to ensure efficiency, cost effectiveness and</p> |

Strategic report (continued)

| Stakeholder | Why we engage and key metrics for engagement | Why is it important to engage |
|-------------|---|--|
| | | resilience of these services to enable us to meet our obligations to other stakeholders (for example customers and workforce). |
| Employees | <p>The Bank's employees help to deliver products and services to customers. 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.</p> <p>Key metrics for employees are:</p> <ul style="list-style-type: none"> • The quarterly Employee Opinion Survey ('EOS') score and employee engagement levels • The level of vacancies open for more than 90 days • New starter and overall attrition rates • Departmental resource capacity levels • Levels of absence through sickness • Levels of diversity in the workforce | <p>The company's long-term success is predicated on the commitment of our employees to our purpose and demonstration of our values on a daily basis. We support the operation and development of 'One Wesleyan' encouraging an inclusive, empowered and diverse culture supported by agreed behaviours and values.</p> <p>We engage with our employees to ensure that we are fostering an environment that they are happy to work in and that best supports their well-being. We invest significantly in our employees as we believe that maintaining low turnover rates across the entire workforce enhances efficiency and productivity rates.</p> |
| Regulators | <p>The Board is provided with information on key regulator engagement (for example meetings, correspondence, new Policy or Supervisory statements) at each meeting and the status of any activities required to be notified to the Regulator. Regulator engagement is also measured through the number of business incidents reported to the Regulator on a monthly basis.</p> | <p>Financial service providers continue to face stringent regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, financial crime, internal control frameworks and the integrity of financial services delivery. It is important therefore that the Bank engages with its regulators to ensure that it continues to understand and meet these requirements and seeks to have an open and cooperative relationship with its regulators.</p> |
| Customers | <p>The Bank engages with its customers on a regular basis to understand if its products and services are meeting customers' needs and expectations. Key metrics for customer engagement are:</p> <ul style="list-style-type: none"> • The Net Promoter Score reported on a monthly basis • Number of unfair customer outcomes identified • Amount of redress paid to customers as a result of our errors or failings • Service levels and standards are maintained within our operational service metrics | <p>We create value by providing the products and services our customers need and aim to do so in a way that fits seamlessly into their lives. This helps us to build long-lasting relationships with our customers. We maintain trust by striving to protect our customers' data and information and delivering fair outcomes for them – and if things go wrong, we need to address complaints in a timely manner. Operating with high standards of conduct is central to our long-term success and underpins our ability to serve our customers.</p> |
| Suppliers | <p>We have a limited number of key suppliers and outsourced activities (other than those with our Shareholder identified above) who provide us with the technology and infrastructure that</p> | <p>The Bank seeks to work collaboratively with its suppliers as they are integral to the running of the business. The Bank looks to build good long-term relationships, but suppliers will be replaced if they underperform, a better partner</p> |

Strategic report (continued)

| Stakeholder | Why we engage and key metrics for engagement | Why is it important to engage |
|---------------------------|--|---|
| | <p>supports our business and access to customers we wish to do business with.</p> <p>Key metric</p> <ul style="list-style-type: none"> incidents of critical service loss Monitoring of key performance indicators and service levels <p>In February 2020, the Bank constituted an Operational Resilience Committee. This includes a critical view of third-party risk management in particular material outsourcing relationships, with a focus on maintaining important business services in even the most adverse of scenarios.</p> | <p>emerges, or they do not uphold the same standards and values as the Bank. New partners will be sought where they can provide additional capabilities and resilience to the Bank's operations and infrastructure. They are fundamental to the quality of our products and services we offer to our customers and ensuring that, as a business, we meet the high standards of conduct that we set ourselves.</p> |
| Community and Environment | <p>The impact of our operations on the communities in which we work is an important consideration for the whole Wesleyan Group. The Bank, as part of the Society, seeks to support the wider community through the work of the Wesleyan Foundation in areas aligned to professions of the customers it serves.</p> | <p>The Society Board engages directly with the wider community through events run by the Wesleyan Foundation. It also receives regular updates on the work the business does with the wider community and oversees sustainability actions.</p> |

| Stakeholder | How Management and/or Directors engage |
|----------------|--|
| Wesleyan Group | <p>The key mechanisms of engagement included:</p> <ul style="list-style-type: none"> The Bank's Chairman being a member of the Wesleyan Group Board The Bank's CEO being a member of the Group Executive Committee ('GEC') Group Non-Executive Directors and GEC members are invited to attend Bank Board meetings to enable them to get a better understanding of the strategy, performance and operations of the Bank Group representatives at key Bank Management Committee meetings Bank representation on a number of key Group committees, e.g. Operational Resilience and Group Operating Environment Committees Regular meetings between Bank Executives and their Group Executive line management Active discussions to review and update the provision of outsourcing services and revisions to the agreement |

Strategic report (continued)

| Stakeholder | How Management and/or Directors engage |
|-------------|--|
| Employees | <ul style="list-style-type: none"> • Regular Group-wide updates via video conferencing for all colleagues where management explain performance, future plans and strategies for the Group including the Bank. • Monthly updates are attended by senior management to keep them informed of performance and strategy which is then disseminated to their individual teams. The Bank also conducts quarterly gatherings by video conference to update on performance and engage on any other matters colleagues wish to raise. • A range of learning offerings and development programmes are available to colleagues, including technical courses and mentoring programmes, as well as coaching support on behavioural and leadership skills. • The Society conducts a quarterly employee opinion survey which collates employee opinions for the Bank individually. Management uses this to assess how the employees feel about the company but also to act on its findings. • The Group also has an employee forum (Partnership Council which is chaired by the Group's CEO) where employees can express their views discuss strategic changes within the business, communicate opinions and concerns to the Executive team and resolve local level issues with employees in their areas including the Bank. • As part of the Inclusion and Diversity initiative, Black, Ethnic, Minority and Everyone ('BE ME') and gender networks have been established to help promote and celebrate diversity. It's also an opportunity to get a better understanding of matters that may impact people of all genders and backgrounds at Wesleyan and realise the potential of a truly inclusive and diverse workforce. These initiatives help to offer peer support and advocacy to all colleagues; as well as help raise the profile of key topics in a structured way. |
| Regulators | <p>In addition to the regular provision of data and information, key members of the Bank's Board and Executive Committee will regularly engage with the Regulators on a formal and informal basis. This will include through the annual PRA Supervisory Review and Evaluation Process ('SREP') visit, attendance at meetings arranged by the Regulator, attendance at industry seminars at the PRA and through less formal conversations and other communications with the PRA and FCA where specific matters are covered. Regular meetings have been held and data exchanged with the Regulators since the outbreak of the Covid-19 pandemic to keep them informed about the impact it has had on the Bank's financial and operational performance.</p> |
| Customers | <p>The customer index is one of the measures on the Bank balanced scorecard and is updated on a quarterly basis. The detailed reports behind this on a retail and commercial basis are presented back to the business on a monthly basis. New products are reviewed and assessed prior to launch to ensure the product delivers the right customer outcomes.</p> <p>The Bank's Product Governance Committee receives a review of each product once a year. This is structured to capture a snapshot of customer outcomes and feedback over a 12 month period, on a product by product basis. The Product Governance Committee also looks at external and wider market trends from independent market reports and behaviours that may impact customers and prospects. From time to time members of the Executive will personally meet individual customers or prospects too.</p> |
| Suppliers | <p>The Bank views all critical supply relationships as being predominantly of a partnership nature and we recognise that the strength and success of key suppliers is essential to ensure the ongoing stability of our own services. The Board has been closely involved in the approval of a major data centre outsourcing arrangement which is due to complete in 2021.</p> <p>All critical suppliers of goods or services are reviewed via a formal scheduled process. This will involve a minimum of an annual check on financial strength, and where applicable, annual risk assessment, including security and process standards. Suppliers are also checked to ensure their policies and statements align with the Group's ethical standards. Additionally, critical service providers are subject to regular service review meetings, minimum quarterly but typically monthly. These meetings review service delivery for the period against formal SLAs, key risks, issues and</p> |

Strategic report (continued)

| Stakeholder | How Management and/or Directors engage |
|---------------------------|--|
| | <p>actions as well as general relationship matters. Any material areas of concern or interest arising are raised to the Bank Executive and/or Board as appropriate.</p> <p>Potential new suppliers to the Bank are assessed via a formal selection and procurement process that considers a range of quality and cost metrics prior to any contractual formal engagement.</p> |
| Community and Environment | <p>The Bank engages with the community and environment through schemes and initiatives operated across the Society and all employees are given the opportunity to take two days leave for volunteering.</p> <p>The Wesleyan Foundation was one of the initial corporate donors to award £10,000 to the Heart of England Community Foundation's Coronavirus Resilience Fund. Further grants of £1,500 have been made available to local groups in the West Midlands providing services such as food banks, emergency food and medicine parcel deliveries and outreach.</p> <p>The Wesleyan Foundation has also gifted £100,000 to charities and organisations supporting the well-being of key workers that are currently working hard on the front lines during this time of crisis.</p> <p>The Society also:</p> <ul style="list-style-type: none"> • Joined forces with Governors for Schools to allow staff the opportunity to become a school governor and use their volunteering time in a different way. • Supported the Business in the Community Waste into Wealth project by donating our old furniture to charities. • Helped kick start the "1000's computers for Schools campaign" with Titan Partnership with a grant to purchase devices to be distributed to schools for use by pupils whilst being home schooled. |

Principal decisions during 2020

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

Board meetings follow an agenda agreed in advance between the Chair, CEO and Company Secretary. These cover the financial performance of the Bank, including updates from the CEO and Executive Committee and a review of risk across the Bank, progress on strategic initiatives, customer and product related reports and people, culture and communication matters. The Board receives reports from its sub-committees and reviews its performance annually. The Risk and Audit Committees particularly pay consideration to fair outcomes for customers in their discussions and pay due regard to expectations of our Regulators. The Nominations Committee has a remit to consider wider governance matters including such areas as diversity and inclusion and sustainability, considering both outcomes for employees and the wider community.

| | |
|---|---|
| Principal Decision | <p>As part of the ongoing development and approval of the Bank's strategy, the Board approved the next phase in the shift in the focus of its lending activities with the decision to broker out short term finance from 2021 rather than to write it onto the Bank's balance sheet. In addition, the Board reviewed and approved the revised capital requirements informed by the PRA following its SREP visit in November 2019. In support of this and the increase in balance sheet growth, the Board approved the issue of £32.14m of additional share capital during the year.</p> |
| Impact on the long-term sustainable success of the Bank | <p>The move to broker out short-term lending to a nominated third party recognises the commitment to building a long-term sustainable business, focused on building long term relationships with the Bank's key customers and introducers. It also reflects the inherently higher credit risk in the Bank's short-term lending and the segments it serves. The impact of the strategy on the Bank's capital, liquidity and funding risks and requirements were</p> |

Strategic report (continued)

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|---|--|
| | also considered though the annual Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP') which were approved by the Board. The raising of additional capital was necessary to ensure the Bank's sustainability. |
| Stakeholder considerations | <p>The increase in capital required to achieve the objectives above required shareholder support. These decisions, objectives and outcomes were shared with the Parent. The impact of this on the Bank's return on equity and fair value were considered. The Bank's updated capital forecasts and business plan were shared with the Society to gain their support of this strategy. During its engagements with the Regulator, the sustainability of the Bank's business model had been raised, which has been part of the consideration in formulating this strategy.</p> <p>The workforce was also considered as the revised strategy requires a different mix of resource and experience to both acquire and administer such business. The risks arising from this were assessed to ensure minimum disruption to existing employees and to minimise the impact on workforce engagement and satisfaction. This was mitigated through the redeployment of resource where possible.</p> <p>Customer and supplier groups were also considered; relationships with funders to whom loans were brokered were opened and new relationships with brokers who could introduce longer term loan business established.</p> |
| Principal decision | In response to the Covid-19 Global Pandemic, the Board considered its impact on, inter alia, the Bank's strategy, business plans, the impact on customers' ability to repay their loans and the provision of forbearance arrangements, financial performance, inherent risks and controls, operational capabilities and staff health and welfare. This included the approval of revised operational structures, KRI and KPI reporting and control requirements. The Board also assessed the impact of Covid on the Bank's impairment loss provisioning and approved the issue of an additional £10m of share capital to mitigate this forecast loss. |
| Impact on the long-term sustainable success of the Bank | The Covid pandemic has the potential to significantly impact the Bank's sustainability through substantially reducing the levels of business (both through a loss of lending opportunities as a result of Government economic support structures and through reduced business investment and therefore requirements for finance), thereby considerably reducing income. The impact of the pandemic on the viability of the Bank's loan customers could also impact the levels of impairment loss incurred by the Bank and therefore its own capital resources and thus the ability to pursue its strategy; operating costs have also increased to provide both remote working capabilities and to provide a safe and secure environment for those who currently work in the office and for when a return to working in the office is more widely permitted. The impact of Covid and the lock down restrictions imposed by the Government has had a significant impact on the mental health and wellbeing of employees. Significant instances of absenteeism, either directly as a result of the virus or indirectly through the impact on mental health of employees, would have a material impact on the Bank's operational capacity and its ability to maintain and effective service for its customers. |
| Stakeholder considerations | The workforce was considered as the revised operating structures required employees to work from home and for resources to be redeployed to those functions where significant customer support was required. The practicalities of remote working and risks arising from this were assessed to ensure minimum disruption to existing employees and to minimise the impact on workforce engagement and satisfaction. Ongoing monitoring of employee health and welfare was undertaken and, in conjunction with Group-wide actions and activities in this area, a Wellbeing Hub and Mental Health & Wellbeing Triage Service was launched. The Wellbeing service provides 24/7 online access to health and wellbeing |

Strategic report (continued)

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|--|---|
| | <p>advice, tips and guidance and the triage service offers bespoke mental health and wellbeing guidance tailored to individual needs.</p> <p>Significant engagement was made with customers who have loans with the Bank and were facing financial difficulties and unable to make loan repayments. Forbearance arrangements were agreed with customers to assist them in managing their financial commitments until such time as their levels of income had increased back to a level where repayments could recommence.</p> <p>The increase in capital required to cover the potential impairment losses required shareholder support. The Bank's assessment of these losses under a range of scenarios was shared with the Society along with updates on the Bank's financial performance and ongoing management of forbearance arrangements.</p> <p>The Bank also engaged with the Regulator on a regular basis to keep them informed of the impact of Covid on the Bank's performance and principal risks.</p> |
| Principal decision | The Board approved a project to acquire and implement a retail deposit and internet banking portal to facilitate the Bank's ability to raise funds to support loan growth. |
| Impact on the long-term sustainable success of the Bank | <p>In order for the Bank to meet its strategic objective of growing the balance sheet through building long term loan balances, it requires funding through raising deposits from the retail deposit market. The current channels and processes used to do this rely on significant levels of manual intervention and are not sufficiently flexible or adaptable to both customer and employee needs, particularly in the current lock down and remote working environment. They also limit the range of deposits and the type of customer the Bank is able to provide and attract. The implementation of the deposit portal will significantly enhance the Bank's deposit raising capabilities, increase efficiency and greatly facilitate the Bank's funding requirements. Improved internet banking functionality will allow for greater customer self-service, providing them with easier and more flexible access to their funds and greater in-life servicing options.</p> |
| Stakeholder considerations | <p>The customers interests were heavily considered to ensure their experience through the online deposit application and servicing processes and their experience of using the portal will be as seamless and efficient as possible and will meet their expectations. The Bank's core SME customer base was also considered to ensure the portal is able to serve the business deposit market; the range of retail deposit products that can be provided through the portal to meet customers' differing needs was a further consideration in the decision.</p> <p>Employee interests is also a core consideration as the online portal should considerably reduce the manual processing required to raise deposits, reducing the impact on operational capacity stretch during periods of deposit raising activities.</p> |

SUSTAINABILITY

Wesleyan Group's sustainability approach and strategy

The Bank, as part of the Wesleyan Group, believes that it should act in a sustainable and responsible way in all its business operations. In fact, doing the right thing for customers, employees and communities is part of Wesleyan's DNA.

Sustainability for Wesleyan encompasses three ESG "Factors" covering a wide range of goals, for example:

- Environmental - reducing our impact on global temperature increases, limiting GHG emissions and reducing pollution
- Social - tackling inequality and helping disadvantaged communities
- Governance - following good governance practices, including sound management structures, maintaining positive employee relations, fair remuneration for our employees and complying with all laws and regulations

Strategic report (continued)

The approach to sustainability has these factors at its heart.

It is recognised that sustainability is a journey; with short, medium and longer-term activity required to meet the Group's aims. In 2019, the Wesleyan Group Board approved its first Sustainability Directional Strategy. With ESG at its core, this strategy sets out eight key sustainability principles, encompassing areas ranging from sustainability in product offerings, infrastructure, investment of customers' funds, support and guidance for employees, through to the good causes that are support. The Sustainability Strategy is integral to the way we manage sustainability, as it drives the behaviours and actions that are seen as vital to meeting the sustainability goals.

At Wesleyan Bank specifically, the Bank's Board has approved the following risk appetite statement in relation to climate risk:

'Wesleyan Bank will take a proportionate response to risks arising from climate change, embedding risk management principles to actively manage and monitor both the physical and transition risks. Wesleyan Bank will explore opportunities in green finance as current and future customer needs develop'.

WHAT HAVE WE DONE SO FAR?

Due to the Covid-19 pandemic, 2020 was a challenging year for the Group. However, despite these challenges, the following key sustainability milestones have been achieved:

- Commitment to become carbon neutral in our operations by 2023, and fully carbon neutral by 2050 at the latest
- Implemented a sustainability governance and oversight structure, including the establishment of a Sustainability Committee and assigned key responsibilities within the business
- Provided information, support and guidance to employees on a range of sustainability matters
- Collaborated with the wider business community – the Society being proud signatories of the UK Business Group Alliance for Net Zero and for a green recovery from Covid
- Aligned the Society's Corporate Social Responsibility activity to United Nations Sustainable Development Goals ("SDGs")

At Wesleyan Bank, in line with the PRA's Supervisory statement SS3/19 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change', the Bank's Chief Risk Officer ('CRO') has been assigned responsibility for identifying and managing financial risks from climate change. A 'Climate risk plan' has been developed and approved and actions are progressing to meet regulatory expectations. The most material exposures have been identified and mapped to a climate risk register and a qualitative assessment has been conducted based on the RAG ratings linked to the climate risk register. An action plan, approved by the Risk Committee, has been developed to monitor progress in implementing the actions identified to embed the Bank's climate risk plan into the business; this is monitored on a regular basis both at ExCo and by the Risk Committee. In addition, the following actions have been taken:

- Documented and approved a climate risk appetite statement.
- Developed and approved a qualitative statement for risk appetite.
- Defined clear roles, responsibilities and accountability across all three lines of defence for the management of climate related risks.
- Identified relevant documentation (including committee terms of reference and policies) which need to be updated to reflect responsibilities and accountabilities relating to climate change.
- Establish linkages of climate risks with known risk types and identified and documented a specific climate risk register.
- Reviewed and incorporated relevant guidance into the Bank's modelling approach for the impact of climate risk.
- Developed a three stage process to identify key exposures and meet the PRA requirements for scenario analysis.

The regulatory drive is styled "*greening finance*" and "*financing green*", meaning that there is as much focus and effort required in working towards a 'net zero' operating model as there is in developing finance products for 'green' solutions.

Strategic report (continued)

PROGRESS MADE WITH OUR TCFD REPORTING

The Financial Stability Board established the Task Force on Climate-related Financial Disclosures (“TCFD”) with the aim of improving industry disclosure of climate-related risks and opportunities. Wesleyan Society believes this disclosure is important for customers and other stakeholders and have committed, by signing a Statement of Support, to implementing the TCFD’s recommendations where possible in this annual report, and in full by 2022.

The TCFD recommendations cover four thematic areas: Governance, Strategy, Risk Management and Metrics and Targets; the disclosures are summarised in this way in the table below.

| Governance | Strategy |
|---|---|
| <p>Ultimately, the Board has responsibility for climate related risks and opportunities. To support this, the Society Sustainability Committee is in place, which is a sub Society Board Committee that provides governance and oversight for sustainability activity.</p> <p>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.</p> <p>Overall responsibility for the Society’s climate related financial risks has been allocated to the Society’s Chief Risk Officer, who chairs the Sustainability Committee. The Sustainability Committee is attended by the Bank’s Chief Risk Officer who has responsibility for identification and management of the Bank’s climate related financial risks. More granular ownership of specific sustainability risk areas has been allocated at Executive and Senior Management Level.</p> | <p>The Society has put in place a Sustainability Directional Strategy, which sets out the principles for the management of risks and opportunities around sustainability. The strategy is informed by the various risk identification processes described on page 15 of this report and in the risk management section below.</p> <p>The eight principles cover the following areas: Overall Sustainability Commitment, Sustainability in Customer Offerings, Sustainable Investments and Banking, Sustainable Supplier Management, Sustainable Infrastructure, Sustainability for Employees, Sustainable CSR Work, and Sustainability in External Communications.</p> <p>These principles cover the areas where it is believed the greatest risks and impacts for the Group, including the Bank, are likely to occur from both climate change and sustainability more generally.</p> <p>Each principle considers risks and opportunities over the short, medium and longer term. Specific risk treatments are described in a more granular level in the relevant Policies and Procedures within Wesleyan.</p> <p>As part of the Bank’s ICAAP process, we will be undertaking stress testing with the specific aim of testing the financial impacts of climate change, and other aspects of sustainability. This testing will be used to continually validate and inform the sustainability strategy.</p> |
| Risk Management | Metrics and Targets |
| <p>In general, the risks around sustainability are viewed to be thematic in nature and, as such, sustainability risk is not categorised as a separate risk type. Instead, these risks are managed as part of specific risk types within the Integrated Risk Management Framework and through scenario testing.</p> <p>In practice, when reviewing specific risk types such as credit risk or reputational risk, sustainability is considered as part of those risks. The major risk management policies</p> | <p>The Group has developed a basic set of metrics, aligned to the eight sustainability principles, that allows tracking of progress with regards to sustainability. These metrics include electricity, gas, paper and water usage, business mileage and carbon footprint where available.</p> <p>Significant activity is planned to enhance and further capture and report relevant climate related information, including the group carbon footprint and granular data on the scope 1, 2 and 3 GHG emissions. In order to do</p> |

Strategic report (continued)

| | |
|--|--|
| have recently been reviewed and updated to ensure that sustainability risks are incorporated. However, where required, specific policies have been put in place. | this, the Society is investing in new processes and systems, such as a new procurement system. |
| The various tools within the Integrated Risk Management Framework are used to identify, assess, manage and report sustainability risks. | The Group has set a target to become carbon neutral in its operations by 2023, and fully carbon neutral by 2050. |
| | Further targets will be set over the next 12 months linked to the sustainability principles. |

ENVIRONMENTAL MATTERS

Protecting our environment is important to the Wesleyan Group and is a key part of the Group's sustainability strategy. The Group has committed to reduce its impact on the environment and, as part of that commitment, has set a target to be Carbon Neutral in its Operations by the end of 2022. To meet this target, activity already underway includes:

- Reducing use of paper and printing. Paper from printers has been reduced and offset the effect of paper printing by planting trees in Brazil, Madagascar, Dominican Republic and Ireland. 80% of printer toner cartridges have been reused with the remainder being recycled so none are sent to landfill or incineration.
- Waste reduction. No waste is sent to landfill – 90% is recycled with 10% used as Refused Derived Fuel.
- Sustainable practices in our offices. These include installing LED lighting and reduced water usage in Head Office and introducing reusable bio-degradable plates for meetings.
- Travel. Business travel is being reduced where possible and with support for employees through the Cycle to Work Scheme.
- Suppliers. Sustainability principles are embedded into the procurement policies when choosing suppliers, outsourcers and other business partners. All stationery is purchased through Wild Hearts, an organisation that uses their activities and profits to create global change and improve the lives of people across the world.
- Collaborating with the wider business community. The Society is proud signatories of the UK Business Group Alliance for Net Zero and for a green recovery from Covid.

In addition to participating in the Group wide Sustainability initiatives, the Bank has undertaken a number of activities specifically in relation to the management and mitigation of risks associated with climate change. These are outlined as follows:

Governance

Whilst the Bank's CRO has been assigned responsibility for identifying and managing financial risks from climate change, the Executive and management of the Bank have primary accountability for the day to day management and control of risks. This includes risk ownership, embedding risk management in business processes and ensuring that all material risks are identified, assessed, mitigated, monitored and reported through the governance structure. All staff will, though, have responsibility for ensuring the Bank's climate risks are appropriately managed.

In order to monitor the Bank's exposures to climate risks and to ensure that the Bank's operates within its stated risk appetite, the following governance structure has been adopted:

The Board is accountable for the Bank's exposure to climate risk. The Board's responsibilities are to:

- Establish the Bank's strategy and culture in managing climate related risks;
- Review and challenge the 'Climate risk plan' to ensure regulatory expectations are met;
- Review and challenge climate risks over a short (3-5 years), medium (10 year) and long (30 years) term basis; and
- Participate in regular climate risk training to stay current with the evolving risk landscape.

The Risk Committee will assist the Board in fulfilling these responsibilities, it will:

- Review and challenge risk appetite metrics to monitor and assess climate risk;
- Review and challenge material policies in order to manage climate risk;

Strategic report (continued)

- Review and challenge outputs of stress testing to ensure appropriate actions are defined; and
- Review and challenge outputs included in Regulatory reporting such as ICAAP and Financial Disclosures.

In addition, accountability for the day to day oversight of climate risk management activities to ensure the actual risk profile of the Bank is within the approved risk appetite has been delegated to ExCo, ALCO, Credit Committee and the Product Governance Committee.

Risk Management

The Board has assessed the risks associated with climate change and has identified the following key risks:

- Strategic risk

Strategic risk exposure is driven by customer expectations changing in favour of green finance, increased regulatory scrutiny on firms invested in 'brown sectors' and lack of data to accurately model risk exposures over a longer-term basis. As the finance industry transitions to offering green finance products there is a heightened risk to new/retention business.

- Credit default

The Bank is at risk of customer's businesses being impacted by severe weather events and/or assets being damaged, leading to subsequent financial losses and impacting on their ability to repay outstanding commitments with the Bank. The Bank is also at risk of assets becoming "stranded" due to large exposures relating to "brown" sectors. The future value of these assets could significantly reduce over the lifetime of the agreement and may become uninsurable thereby impacting the Bank's security valuations. There is also a risk that secondary values are not yet understood in the market and therefore could impact the structure of agreements and/or leave the Bank exposed.

- Capital

There is a risk that policy changes will be applied to Risk Weighted Assets ('RWAs') to encourage lending into green sectors. This may be achieved through penalising lending into brown sectors which could significantly impact the Bank's capital requirements. There is also an increased risk to available capital as greater focus develops on green finance with the value of traditional assets linked to fossil fuels decreasing in value.

- Liquidity

There is a risk that the transition to a carbon neutral economy is disorderly thereby having adverse impacts on liquidity. Customer sentiment may also start to favour those institutions with greener credentials, so the Bank cannot afford risking becoming unattractive to depositors.

- Operational

There is a risk that the Bank's third-party suppliers cannot provide agreed services due to climate events, for example flood-related outages at third party cloud/data centre providers, or that the Bank sources suppliers with a poor net-zero strategy. Physical risks arising from climate change could affect the operations of the Bank (for example business continuity events) because of increasing frequency and severity of weather events. Likewise, keeping abreast of key suppliers' own credentials and those of the underpinning supply chain will be critical in understanding the Bank's overall 'green' proposition.

- Conduct

There is a reputational risk resulting from customers changing sentiments and moving to "Green sectors" and the Bank not moving quickly enough and is deemed to favour "Brown sectors". There is also a risk that the Bank does not embed the right culture to protect customers and itself by ensuring adequate action is taken to manage the impact of risks associated with climate change. Regulators also remain focussed on climate change initiatives therefore heightening the risk of regulatory fines for firms not taking appropriately timely action.

Social Matters

Through the Society the following initiatives have been undertaken to ensure the organisation continues to support and engage with local communities:

Strategic report (continued)

- The Wesleyan Foundation was one of the initial corporate donors to award £10,000 to the Heart of England Community Foundation's Coronavirus Resilience Fund. Further grants of £1,500 have been made available to local groups in the West Midlands providing services such as food banks, emergency food and medicine parcel deliveries and outreach.
- The Wesleyan Foundation has also gifted £100,000 to charities and organisations supporting the well-being of key workers that are currently working hard on the front lines during this time of crisis.
- Joined forces with Governors for Schools to allow staff the opportunity to become a school governor and use their volunteering time in a different way.
- Supported the Business in the Community Waste into Wealth project by donating the business's old furniture to charities.
- Helped kick start the "1000's computers for Schools campaign" with Titan Partnership with a grant to purchase devices to be distributed to schools for use by pupils whilst being home schooled.
- Partnered with Make Good Grow to provide a pilot of virtual skills-based volunteering opportunities with a formal agreement to expand this in 2021.
- Continued to support MicroTyco virtually to students ensuring students could continue to participate in accessing learning around business behaviours in a safe, 'micro' environment.
- Employees have supported students from across the UK with mentoring through the Social Mobility Foundation, Envision and The Girls Network.
- Continued to support the Homelessness Task Force in Birmingham.

Respect for Human Rights

The Group has implemented the following policies and statements to ensure that the way it operates and its people behave have respect for human rights:

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

Through the Society the following initiatives have been undertaken:

Gender Network: 'Working together for gender parity'

- By the end of 2020 there was 32.3% female representation in the Group's senior leadership population – up from 25% in January 2019 and 14.9% in January 2018. A target to achieve 40% female representation in the senior leadership population by 2025 and committed to achieving a first milestone of 33% by 2022 – a year earlier than originally planned – has been set.
- In February, a weekend leadership event was hosted for 55 schoolgirls from underprivileged BAME backgrounds.
- An International Women's Day panel and keynote speaker event was hosted featuring Faye Pressly COO of Vanti – 100% scored the event as very good or excellent.
- Launched 'Inspiring Female Leaders' – three virtual events, six speakers. Participants reported learning or gaining the following from the events: inspiration, tools and ideas to improve resilience and mind-set change, confidence and self-belief.
- A new Domestic Violence and Abuse policy was implemented and nearly £3,000 raised with the Running for Refuge lockdown fundraiser.
- Supported the refreshed 30% Club application process, to improve access to this high-profile mentoring scheme for talented women from a range of backgrounds.

BE ME: Black Ethnic Minority and Everyone

- The Society recruited a Diversity and Inclusion Manager, ensuring the learnings and reflections from the Black Lives Matter movement are embedded into how the Group conducts business every day.
- Collaborating with our other networks and Wesleyan employees, created a charity cookbook for St Chad's Primary School, raising over £1,150.
- Wesleyan has signed the #1000BlackInterns initiative, offering 10 paid internships to young black persons who want to enter the financial sector.

Strategic report (continued)

- Inclusive recruitment; blind CV's and diverse interviewing panels are being introduced to the recruitment process to increase diverse shortlists of applicants.
- We are focusing on changing the imagery we use in 2021 so that it is inclusive and reflective of our workforce.

OMG! Open Minds Group

- A £5,000 donation made to Birmingham LGBT+ allowing 20 people to access 200 free counselling sessions. A service that has been under considerable stress during the pandemic due to restricted fundraising opportunities.
- Working closely with the other networks, the OMG! Network created an allyship strategy to further increase members for all the diversity networks.

NEW; employee network group

The wellbeing of staff has been a particular priority over the last 12 months with the following initiatives being examples of what actions have been taken to ensure all staff have the support and resources they need:

- An additional 9 Mental Health First Aiders were trained ensuring there are 34 trained Mental Health First Aiders represented from different areas across Wesleyan.
- increased support for the Mental Health First Aiders by arranging regular supervision sessions for them to share concerns and align the advice that they give.
- Mental Health First Aiders volunteered to be available over the Christmas and the New Year period to help any colleague that felt isolated, wanted a chat or access support.
- Mental Health Training for managers was launched last year and all managers completed it by the end of the year proving invaluable to managers during the pandemic.
- A Wellbeing Webinar Series was delivered focusing on the topics that matter the most to our people (support for working parents, stress, work life balance, anxiety & sleep).
- The Wesleyan Wellbeing Hub for employees was launched – a website where employees can take questionnaires to self-assess their health and wellbeing and receive advice and tips on how they can look after themselves or seek further support.

Anti-corruption and Anti-bribery

The Group has implemented the following policies and statements to ensure that the Group does not undertake any activities that are deemed to be corrupt:

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

To enforce, implement and embed this within the Society's culture the following initiatives have been taken:

- All staff undertake annual training to recognise and combat corruption bribery, and financial crime.
- All Staff undertake training to ensure awareness of Conduct Rules in Financial Services.
- All staff 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 CBT.
- Quarterly Phishing simulations and bitesize follow up training.
- Spoof training.
- Privileged user/high risk user training.

Strategic report (continued)

The section below summarises the Bank's governance arrangements and continued enhancements.

GOVERNANCE BY DIRECTORS

THE BOARD

The Board meets regularly to lead, control and monitor the overall performance of the Bank and the sustainability of the business model including 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 Bank's Chief Risk Officer and Company Secretariat attend all Board meetings. There is a formal schedule of matters reserved for the Board's decision. The roles of Chair and Chief Executive are separated and the Chair has primary responsibility for the effective functioning of the Board. Authority is delegated to the Chief Executive for implementing strategy and managing the Bank.

A full internal evaluation of the Board and its processes was carried out in the first quarter of 2020 with a further review in the second quarter, in line with industry guidance. All members of the Board contributed to the evaluation, as did the Bank's Executive team (and the Company Secretary). The review highlighted the size and composition of the Board was sound, was largely effective in its role, exhibited appropriate behaviours and culture and was well chaired. Areas for improvement were identified relating to enhancing engagement with Bank employees and improvements to the timeliness, style and content of Board papers. The Board reviewed the results from the evaluation and established a plan to implement the enhancements identified.

The Board and its Committees have access to the Head of Corporate Audit, Bank's Chief Risk Officer and Company Secretary. They may also obtain independent professional advice, at the Bank's expense, about any matter concerning the Bank relevant to their duties.

No Non-Executive Director holds any accounts with the Bank. The remuneration of directors is disclosed on page 50 and records the remuneration of the Executive and Non-Executive Directors. In addition to the areas of engagement with key stakeholders and the principal decisions that impacted them described above, the main areas discussed by the Board in 2020 were:

Covid-19

- The Board obtained regular information and updates on the impact of Covid-19 on the Bank's financial and operational performance and regular reforecast projections as a result of the pandemic

STRATEGY

- Held two dedicated Board strategy meeting and reviewed and agreed the Bank's Strategy including critical success factors
- Held specific meetings to review the Bank's strategy following revisions to the Bank's Regulatory capital requirements
- Received regular updates on progress to implement the Strategy
- Received reports from the Chief Risk Officer on risks to the achievement of the Strategy
- Received regular updates on the transfer of the SIPP product to a third party

SHAREHOLDERS/CUSTOMERS

- The Bank's Chair provided regular updates on the key areas of consideration at the Society Board, of which he is a member
- Received presentations on the Bank's key customer segments and products

FINANCE

- Approved the Bank's 2020-2024 budget and business plan and the associated funding plan
- Received regular updates on the financial position of the business
- Reviewed and approved the annual report and accounts and related documents
- Received and approved reports on and approved the Regulatory capital and liquidity assessments and requirements of the Bank, its recovery and resolution plans

Strategic report (continued)

PEOPLE/CULTURE

- Discussed the impact of Covid-19 on the health and welfare of employees, in particular the impact on mental health, and the actions being taken and resources being made available to all staff to ensure their mental health and well being
- Discussed and agreed changes to the organisational structure to support the strategy and reviewed the Bank's approach to fulfilling its Senior Managers & Certification Regime responsibilities
- Reviewed key people metrics including the results of the Employee Opinion Surveys undertaken during the year and the associated actions

PERFORMANCE

- Received regular updates on the Bank's operational performance
- Received regular reports on progress of the implementation of the Bank's migration of its IT architecture to the cloud and other IT transformation projects

ASSURANCE

- Received regular updates on the key risks faced by the business and mitigating actions
- Reviewed and approved the Bank's programme to identify, assess and monitor the risks from and impact of climate change

GOVERNANCE/ RISK

- Received reports from the Board's Sub Committees
- Reviewed and approved key policies
- Received an annual report from the Bank's MLRO that the Bank was compliant with Anti Money Laundering requirements
- Carried out a Board effectiveness review covering Board sub Committees
- Approved the Bank's climate risk appetite statement and climate risk plan

THE CHAIR

Martin Bryant is the Chair of the Bank, he is also a Non-Executive Director of the Society Board. In addition to his responsibilities with the Bank and Society, Martin's other significant commitments are as a Non-Executive Director of Scout Shops Limited and Nuffield Health.

EXECUTIVE DIRECTORS

There is currently one Executive Director on the Board, the Chief Executive Officer.

NON-EXECUTIVE DIRECTORS

There are currently three independent Non-Executive Directors on the Board, plus the Chair. Their diverse experience, skills and independent perspectives provide effective review and challenge of the Bank's activities. The Bank therefore had more than half of its Board comprising independent Non-Executive Directors, excluding the Chair 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 Board considers all Non-Executive Directors to be independent of the Bank in all matters notwithstanding their fees. These assessments are based on the character of the individuals in respect of independent mindedness when it comes to the raising of relevant issues and the rigorous process of assessment, judgement and follow through. Great emphasis is also placed on their knowledge and experience of the industry.

APPOINTMENTS TO THE BOARD

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

Strategic report (continued)

BOARD COMMITTEES

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

AUDIT COMMITTEE

An Audit Committee for Wesleyan Bank was established in September 2015. The Audit Committee assists the Board in fulfilling its responsibilities in respect of the Annual Accounts and Regulatory Returns to the Prudential Regulation Authority. Jeremy Brettell has served as Chair of this Committee since its inception.

The Committee comprises two other Independent Non-Executive Directors, one of whom, Bill Gray, is the Chair of the Bank's Risk Committee. Other attendees include the Chair, Bank's Chief Executive Officer, Finance Director, Director of Operations, Director of Technology and Transformation, Chief Risk Officer, Head of Corporate Audit and the Bank's external auditors. The Committee keeps under review the Bank's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Bank has introduced the opportunity for employees to contact an independent confidential advice line. The Committee also held a private session with the Head of Corporate Audit and the external auditors during the year.

The Committee's main activities during 2020 included:

- Reviewing the Bank and its subsidiaries' financial statements, their going concern assessments and the Bank's annual Pillar 3 disclosures for recommendation for approval by the Board
- Review and approval of the Corporate and external audit annual plans and their resources
- Annual assessment of the effectiveness of Corporate and external audit processes
- Review of key financial policies for recommendation for approval by the Board
- The financial implications of Covid on the Bank and on impairment provisions in particular
- Receiving reports from the Head of Corporate Audit and the external auditors on a wide range of issues and regulatory change

RISK COMMITTEE

A Risk Committee for Wesleyan Bank was established in September 2015. The Risk Committee's principal role is to consider the risks faced by the Bank and to advise the Board. Jeremy Brettell was appointed Chair of the Risk Committee on its inception until July 2016 when Bill Gray was appointed. The Committee comprised two other Independent Non-Executive Directors during 2020, one of the members, Jeremy Brettell, is the Chair of the Bank's Audit Committee. Other attendees include the Chair, Chief Executive, Finance Director, Director of Operations, Director of Technology and Transformation, the Chief Risk Officer, Head of Corporate Audit, Head of Group Compliance and the Money Laundering Reporting Officer ('MLRO'). The Committee's main activities during 2020 included:

- In response to Covid-19, the Risk Committee undertook these specific measures:
 - Received regular (up to weekly) reporting of key liquidity, capital and credit risk reporting and levels of risk exposure against risk appetite. This included the amount of capital held in excess of Regulatory requirements, the levels of forbearance within the Bank's loan portfolios and the impact of forbearance measures on the Bank's liquidity position
 - Received reports on and reviewed changes in the Bank's risks and operation of controls as a result of working from home operating environment
- Reviewed and assessed the Bank's core Regulatory documents, including the ICAAP, ILAAP, recovery and resolution plans
- Reviewing and assessing the risk oversight provided by management in connection with current and emerging risk exposures
- Reviewing and approving enhancements to the Bank's risk escalation, definition of risk materiality and critical risk reporting process
- Assessing the impact of management's strategic plans as well as external events on the risk profile of the Bank and approving its Regulatory capital and liquidity assessments
- 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, new products and regulatory change; and
- Reviewed the Bank's Climate risk plan

Strategic report (continued)

NOMINATIONS COMMITTEE

The Bank established a Nominations Committee in January 2020, Robert Clare was appointed Chair of the Committee from its inception. The Committee comprised the Chair and the other Independent Non-Executive Directors. The Chief Executive, Company Secretary and the Society's Chief People and Strategy Officer are in attendance as required. The terms of reference of the Committee includes:

- 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 Executives.
- The Committee will consider the composition of the Board and determine whether 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.
- Reviewing and assessing training needs for the Bank's Board and Committees.

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. The parent entity has the authority to approve the appointment of candidates to fill the position of Chief Executive and Chair, taking into consideration the recommendations from the Committee. The Committee's main activities during 2020 included:

- Reviewed the structure, size and composition of Board to ensure it was appropriate
- Reviewed the capabilities and expertise needed by the Bank to deliver its business plan across a range of areas of competence and compared this to the skill set of the Board and Executive Team to identify any gaps and ensure there was mitigation in place
- Reviewed succession plans for the Bank covering the Board and senior/critical roles to ensure there were appropriate contingency plans in place including identifying where external cover would be needed
- Examined the training needs of the Board and agreed an Education Plan
- Received an update from the Partnership Council the body put in place for the Group to allow for a two way exchange of views between the Executive and Board
- Reviewed the Senior Managers & Certification Regime map and ensured that the Board had sufficient oversight over group wide Senior Manager Function holders.

MANAGEMENT OF THE BANK

In accordance with the Board's Terms of Reference, the Board has delegated authority to the Chief Executive for implementing strategy and managing the Bank. The Chief Executive has formed certain Executive Committees to assist him in carrying out his responsibilities. The Executive Committees comprise the Chief Executive, the Finance Director, the Director of Operations, the Director of Technology and Transformation, the Chief Risk Officer and the Director of Sales and Marketing; other members of senior management and those from the Society who provide the Bank with outsourced services attend as appropriate. The Executive Committees meet regularly to manage business activities. Papers are prepared and presented to the Board after agreement by the appropriate Executive Committee.

ACCOUNTABILITY AND AUDIT

The Board of Directors is ultimately responsible for the Bank'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 Bank operates.

CONTROL ENVIRONMENT

Corporate governance

Whilst the Bank is a wholly owned subsidiary of the Wesleyan Assurance Society it has its own independent Board and governance structures i.e. Bank Risk Committee, Bank Audit Committee and Bank Nominations Committee. The Society

Strategic report (continued)

will receive the Bank's Strategic Plan along with regular reports on financial performance and other matters and, based on these approved plans, the shareholder plays its role in providing capital and, where required, funding to the Bank to support its Strategic delivery.

Integrated risk governance is a systemic approach to decision making processes associated with the Bank's risk universe, based on concepts of cooperation, participation, mitigation and sustainability, adopted to achieve a more effective Risk Management Framework. This means applying the principles of good governance to the identification, assessment, management and communication of risks in a broad sense. It incorporates such criteria as accountability, participation and transparency within the procedures and structures by which risk-related decisions are made and implemented. Integrated risk governance includes the totality of people, rules, conventions, processes and mechanisms and is concerned with how relevant risk information is collected, analysed and communicated, and how management decisions are taken.

In this context, integrated risk governance is both a model and a tool. For the Bank, the governance model is the construct of how the organisation's structures, processes and people relate to each other to enable balanced risk intelligent decisions. As a tool, integrated risk governance provides assurance to Bank's stakeholders that the organisation is being prudently managed in the context of the value that stakeholders are seeking.

The Bank has an independent in-house risk function and currently utilises Group Compliance resource for development and implementation of its Compliance Monitoring Plan, in addition to regulatory advice and policy activities. The Society's Corporate Audit function ('Corporate Audit') also provides internal audit services to the Bank. The Bank Audit Committee agrees the resources and scope of the work that will be performed and in undertaking this work the Group Corporate Audit function will operate to Bank levels of materiality. The Bank has in place an SLA with these and other Group functions covering the outsourced services they provide. Regular (at least quarterly) meetings are held between the Bank and the various group functions to assess performance against the documented SLA and identify any remedial actions required.

The Bank's approach to integrated risk governance is aligned with the Bank's business model and strategic plan and the key elements of the Bank's integrated risk governance is set out on the following pages:

Three Lines of Defence Model of Governance

The management of risk across the Bank follows the 'three lines of defence' model:

- Executives, management and all members of staff of the Bank have primary responsibility for the day to day management and control of risks ('1st line of defence').
- The Bank's Risk Committee, supported by the Risk function, assists the Board to formulate risk appetite, strategies, policies and limit structures for the management of risk and provides independent objective challenge, oversight and support of risk management activity across the Bank. The Compliance function of the Society monitors compliance with the FCA's handbook and other regulations. ('2nd line of defence').
- The Bank's Audit Committee, supported by the Society's Corporate Audit function, provides independent and objective assurance on the effectiveness of the overall system of internal control, including financial, operational, compliance and risk management ('3rd line of defence'). The Corporate Audit plan is agreed by the Bank's Audit Committee and its delivery is subject to regular, formal monitoring and review through that Committee.

The three lines of defence model of corporate governance provides a clear allocation of responsibilities for the ownership and management of risk, to avoid overlaps and/or gaps in risk governance. The first line of defence is any risk-taking operating unit or function. On the first line, ownership and accountability for any risks taken resides with the executive management and staff. The second line is the risk management and compliance function that coach and provide oversight, quality assurance and challenge to operations. The third line of defence includes Corporate Audit, which provides independent assurance to the Board and the Audit and Risk Committees.

The Bank is committed to the highest standards of business ethics and conduct and seeks to maintain these standards across its operations. The Bank's Risk Management Framework 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 Bank'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 Bank's business, to ensure that it provides clear responsibilities and control for

Strategic report (continued)

key areas. Separate internal functions have been established for internal audit, compliance, risk management and change programme management, with the use of outsourced resources in areas where particular skills and knowledge are required. 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 Bank operates a number of control procedures to safeguard depositors' funds, including:

- Executive Committee meetings, chaired by the Bank Chief Executive, which consider significant risk and control issues as part of their remit, including:
 - The output of assurance activity undertaken by the Risk and Compliance functions and of Corporate Audit in addition to oversight of 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 Bank has developed to manage situations in which buildings, systems or significant employees are unavailable;
 - A risk assessment methodology;
 - Physical controls, segregation of duties and reviews by management;
 - Reports from the Bank's Compliance Officer who has oversight of the compliance with the FCA's/PRA's business standards on a day-to-day basis;
 - Preparation and monitoring of detailed budgets for functional business segments; and
 - A change programme management function to structure, co-ordinate, monitor and report on the most significant projects that the Bank is undertaking.

INFORMATION AND COMMUNICATION

Regular management information in respect of financial performance, customer service and complaints handling 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 Bank prepares an annual business plan and budget to assist in the monitoring of results. Actual performance against these plans is actively monitored and, where appropriate, corrective action is agreed and implemented.

INTERNAL AUDIT

The Bank has an internal audit capability (Corporate Audit) which is provided by the Society, 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 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 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 Bank's external auditors.

The Audit Committee monitors the status of corrective actions for the improvement of the effectiveness of the system of internal control.

STAKEHOLDER COMMUNICATIONS

The Board is committed to openness in its communications with all key stakeholders, for further information see s172 statement above.

Strategic report (continued)

GOING CONCERN

The directors are responsible for making a formal assessment as to whether the 'going concern' basis is appropriate for preparing these financial statements. The going concern basis presumes that the Bank will continue to be able to meet its guaranteed obligations to depositors and other creditors as they fall due. To do this, the Bank must have sufficient assets, not only to meet the payments associated with its business, but also to withstand the impact of other events that might reasonably be expected to happen for a period of twelve months from the signing of these financial statements. The directors have examined the various issues relevant to the going concern basis and will take proactive action to maintain regulatory capital and liquidity at all times. Furthermore, the financial position of the Bank has been projected under a range of economic scenarios including scenario and sensitivity analysis of the Bank's business plans, stress testing of the Bank's liquidity and capital requirements, reverse stress testing to identify the extent of the severity of the economic scenario that the Bank can survive and other scenario analysis and the directors are confident of the Bank's financial strength and its ability to withstand market shocks. As a result, the directors do not believe that any material uncertainties exist in relation to going concern that need to be disclosed in the financial statements.

Accordingly, the Board considers it has given due consideration to all the potential risks and possible actions available to it and has concluded that it remains appropriate to prepare these financial statements on a going concern basis and no material uncertainties exist.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of risk is a fundamental aspect of the Bank's policies. To achieve this the Board of Directors is committed to establishing and maintaining an effective risk management framework and risk culture whereby proper controls exist to protect the Bank from excessive risk and ensuring that at all times the Bank complies with all relevant legislation. We recognise that in a fast moving and challenging external world, our strategy may need to change to respond to developments in our operating environment, an example being the challenges associated with maintaining a high quality service to our customers during the Covid-19 pandemic. Therefore the Board regularly reviews the Bank's long-term strategic plans. In developing and monitoring strategy, the Board's priority is to ensure that strategic initiatives do not compromise the future financial strength or reputation of the Bank or its ability to provide fair outcomes for our customers. Further details are set out below and in Note 26 to the financial statements.

IDENTIFYING AND MANAGING THE IMPACT OF RISK

We identify and monitor risks to ensure that our business aims and customer objectives can be met. Where possible, the risks are given a monetary value (quantifiable risks), for example credit impairment losses. The potential capital impact of these risks is determined through financial 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 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 Executive at the accountable Executive Committee and at each meeting of the Risk Committee. The most significant risks to the Bank, along with an overview of the framework in place to manage them, are set out on pages 18 to 23 and 26 to 27 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 Compliance teams. Corporate Audit acts as a third line of defence assessing how effectively risk is being managed and identifying and tracking any mitigating actions.

OUR APPETITE FOR RISK

As a business, we accept risk to deliver our strategic objectives and recognise the need to balance risk and reward. A key tool in helping to achieve this is the documenting of the Bank's ICAAP and ILAAP. This is an annual process where we look at all of the risks to which we might be exposed and supports capital and liquidity planning and strategic business planning (including funding). Our Internal Capital and Liquidity requirements are established as part of the ICAAP and ILAAP processes. This defines the capital and liquidity required to stay within our risk appetite, both now and across the five year business planning period. We set these at a higher level than the minimum regulatory requirements, in line with our strategy of maintaining financial strength.

Strategic report (continued)

APPLYING RIGOUR TO RISK MANAGEMENT

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

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

The Bank's capital and liquidity planning process runs continuously, with an updated plan produced annually and approved by the Bank's Board. The plan is based on the ICAAP, ILAAP, funding plan, annual and five year business plans. The Bank's five year capital and funding projections sets our strategic growth plans and provides a framework for operational planning and budgeting. Based on the outputs of the ICAAP and ILAAP and the other processes described above, the directors have a reasonable expectation that the Bank will be able to continue in operation and meet its liabilities as they fall due over the planning period.

Covid-19

Like most business across the world, Covid-19 has had a material impact on the Bank in 2020, and, as described above, we have had to respond in an agile way to manage the risks to us from the pandemic. In order to continue to provide great service to our customers and ensure our staff's safety, we have had to quickly make significant changes to the way we interact with our customers and how we operate our business. For example, we had to make significant changes to our technology to enable most of our staff to work from home at short notice, to ensure our customer service was not impacted and safety of staff was not compromised. Our risk management framework had previously identified the risks associated with a pandemic, and therefore we were able to respond in the most appropriate way for both our customers and our business.

BREXIT

Following Brexit and the negotiation of a trade deal, we have considered how the UK's future trading arrangements could impact the Bank and its customers. There has, as yet been little adverse effect on the financial markets or reductions in customer investment. In general, we believe that the Bank will not be significantly impacted, mainly because we are strong financially, and because of the profile of our core target market. Most importantly, the Bank does not trade outside the UK jurisdiction in any of its products or markets. Prior to Brexit occurring, an exercise was undertaken internally to identify any regulatory impact of Brexit on the Bank's operational ability, which concluded that no major longer term regulatory impact is expected.

Key Performance Indicators

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---------------------------------|---------|---------|----------|----------|---------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| | | | Restated | | |
| Profit / (loss) before tax * | (7,281) | (1,251) | (10,295) | (14,146) | 200 |
| Loans and advances to customers | 379,854 | 274,918 | 185,134 | 131,531 | 111,300 |
| Total deposits | 330,042 | 283,053 | 216,669 | 154,316 | 117,800 |
| Net interest margin (%) | 3.3% | 3.8% | 2.0% | 4.1% | 3.7% |
| Impairment charge (as % book) | 1.5% | 0.2% | 1.1% | 1.7% | 0.2% |
| Liquidity (%) | 19.2% | 29.1% | 33.4% | 24.0% | 27.2% |
| CT1 ratio | 25.0% | 18.7% | 21.9% | 23.9% | 24.1% |
| Liquidity Coverage Ratio (%) | 847% | 2413% | 307% | 681% | 632% |

*The loss before tax for 2018 is after impairment of shares in group undertakings of £11.5m and return of investment in subsidiary of £5.8m. In 2018 £265k of document fee income was reclassified from other income to net interest income. The loss before tax for 2017 is stated after impairment of share in group undertakings of £10.4m.

Strategic report (continued)

Capital (unaudited)

The table below sets out the Bank's capital resources and ratios:

| | Unaudited 2020 £'000 | Unaudited 2019 £'000 |
|-------------------------------|----------------------------|----------------------------|
| Core Tier 1 capital resources | 86,587 | 48,797 |
| Tier 1 capital resources | 86,587 | 48,797 |
| Core Tier 1 ratio | 25.0% | 18.75% |
| Tier 1 ratio | 25.0% | 18.75% |

Core Tier 1 ratio / Tier 1 ratio

The Tier 1 capital ratio is the ratio of the Bank's core equity capital to its total risk weighted assets. Risk weighted assets are the total of all assets held by the Bank weighted by the credit risk according to a formula set out in the Capital Requirements Regulations.

Although the company made a loss, Tier 1 capital increased due to the parent company subscribing for new share capital of £42.14m in the year (see Note 25). The capital strength of the Bank has not, to date, been unduly impacted by Covid-19.

Leverage ratio

The Basel III leverage ratio expresses the Bank's Tier 1 capital as a proportion of its total exposures. For this purpose, total exposures include all on balance sheet exposures net of specific provisions and other accounting valuation adjustments.

The level of capital held throughout the year is comfortably in excess of regulatory requirements. The Bank's leverage ratio at the end of December 2020 was 19.68% (2019: 14.51%)

Emerging risks (Provision 28 Corporate governance code)

Our key and emerging risks framework helps enable us to identify forward looking risks so that we may take action either to prevent them materialising or limit their effect. Top risks are those that may have a material impact on the financial results, reputation or business model of the Bank in the year ahead. Emerging risks are those that have large unknown components and may form beyond a one-year horizon. If any of these risks were to occur, they could have a material effect on Wesleyan Bank. During 2020, the Bank identified eight key risks (before any mitigating actions had been taken into consideration) and five emerging risks to reflect the directors' assessment of their potential effects on the Bank:

Key Risks

| Key Risks | Potential Impact |
|---------------------------|--|
| Macroeconomic environment | There is a risk that the macroeconomic environment declines as the result of sustained uncertainty relating to the Covid-19 Pandemic and / or Brexit, which could lead to a reduced lending demand, an upturn in arrears and / or large counterparty default(s) |
| Capital | There is a risk that the Bank will require further capital as a result of the mix of business and / or change in regulatory requirements relating to RWAs and / or higher than forecast impairment and this is not provided by the Shareholder. This could lead to a lack of growth or breach of regulatory limits |
| Strategic business growth | There is a risk that reducing acquisition and asset finance volumes to deliver the agreed strategy which balances growth with capital requirements, could result in volumes reducing more than anticipated as a result of impaired broker relationships and increased sales staff attrition |
| People risk | There is a risk that adequate skills, knowledge or experience cannot be attracted or maintained, particularly where there are single point of dependencies. This could lead to the expected plan not being delivered in line with expectations, in addition to an increase in operational losses and reputational risk |

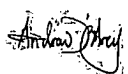
Strategic report (continued)

| Key Risks | Potential Impact |
|---------------------------|---|
| Operational resilience | There is a risk that operational disruption could occur which could result in the Bank not being able to prevent, respond to, recover and learn from which causes detriment to customers. This is as a result of not being resilient in the areas of 1. Technology; 2. Cyber; 3. People; 4. Third-Parties; 5. Property |
| Dental Sector issues | There is a risk that as a result of a combination of Covid-19 and Brexit, overseas staff may be difficult to obtain, resulting in a recruitment crisis in certain areas of the UK. This could impact some dental practices in their ability to deliver treatments, whilst already stretched with increased fallow time required between treatments. |
| Macroeconomic environment | There is a risk that the macroeconomic environment declines as the result of sustained uncertainty relating to the Covid-19 Pandemic and / or Brexit, which could lead to a reduced lending demand, an upturn in arrears and / or large counterparty default(s) |
| Climate change risk | There is a risk that the Bank may not meet the regulatory requirements relating to managing climate change risk and / or the actions taken to mitigate against climate change risk may impact upon the delivery of the Strategic Plan, i.e. changes required to be made to Bank products |

Emerging Risks

| Emerging risks | Potential Impact |
|--|---|
| Global recession | Delayed business investment decisions as a result of continued Covid related interruptions to normal business and social activities impact the Bank's strategic ambitions |
| Fin-Tech/Challenger Bank competition | Enhanced competitive capabilities and low exposure to legacy issues lead to optimal customer journeys and place the Bank's margins and market share at risk |
| Pace and breadth of change from digitalisation | Adoption of digitisation by competitors could lead to a loss of business due to a quicker customer journey, in addition to improved costs over the long term. |
| SME Regulation | The extension of the regulatory perimeter into SME's impacting the way the Bank's strategy and potentially increasing costs. |
| 'Open Banking' | System development costs, increase cost of funds (improved competition with larger providers) |

On behalf of the board



A D'Arcy
Director
24 March 2021

Directors' report

The directors present their Annual report and audited financial statements of the Bank for the year ended 31 December 2020.

Results and dividends

The Bank's operating loss for the year was £7.3m (2019: £1.3m). The directors do not recommend the payment of a dividend (2019: £nil). The loss for 2020 reflects the financial impact of Covid-19 as described in the strategic report.

Parent company support

The Society, by an agreement dated 2 July 1998 as amended, has placed at the disposal of the Bank an irrevocable overdraft facility not exceeding £10m. In addition to the irrevocable overdraft facility, by agreement dated 24 December 2012, the Society placed at the disposal of the Bank a continuing committed loan facility of £40.0m. At 31 December 2020 £nil had been drawn against both facilities (2019: £nil). In addition, the Society has guaranteed the repayment of the Mutual Gold Fixed Term Bonds Issued by the Bank up to a maximum sum of £250k for an individual or £500k for a joint account in the event that the Bank fails to repay such amounts.

The assets of the Bank include loans to customers amounting to £357k (2019: £330k), which are secured on life policies taken out with the Society. The Society has guaranteed these loans.

During the year the Society provided an additional £42.14m in share capital to support the Bank's balance sheet growth. The Society has also formally committed to provide on-going capital support to the Bank in line with the Bank's strategic plans.

Going concern

The directors have, as is appropriate, adopted the going concern basis in preparing the financial statements. Further details regarding the going concern basis can be found in the Corporate Governance section on page 24 and in the accounting policies in the notes to the financial statements.

Donations

The Bank made no political or charitable donations during the year (2019: Nil)

Exemptions for qualifying entities under FRS 102

Exemptions are covered in note 3 'Accounting policies'.

Financial Instruments

Details of financial instruments are contained in note 27.

Directors and Directors' interest

The directors of the Bank who were in office during the year and up to the date of signing the financial statements were as follows:

M Bryant
J Brettell
W Gray
A D'Arcy
R Clare

No director had any interest in the shares of the Bank at 31 December 2020 (2019: £nil).

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout

Directors' report (continued)

the last financial year and is currently in force. The Bank also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

Future developments

Future developments are covered in the Strategic report.

Corporate responsibility

As part of a mutual organisation, the Bank's principal focus is on its customers, however the importance of having responsible policies for employees, suppliers and other stakeholders and the community is recognised and the potential impact of key corporate responsibility issues is considered within the Bank's decision-making framework. This is described in more detail in the Strategic report.

Post balance sheet events

There have been no significant events after the statement of financial position date.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

Independent auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditor and a resolution on their re-appointment as auditors for the whole of the Wesleyan Group will be put to the Society's AGM.

Board approval

The Statement of director's responsibilities in respect of the annual report and financial statements on pages 39 to 71 were approved on 24 March 2021 by the Board of Directors who authorised A D'Arcy to sign the financial statements on behalf of the Board.

By order of the Board



A D'Arcy
Director

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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard FRS 102 The Financial Reporting Standard applicable in the UK and the Republic of Ireland ("FRS 102").

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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies in accordance with section 10 of FRS102 and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 102 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company financial position and financial performance;
- in respect of the financial statements, state whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- in respect of the financial statements, prepare the financial statements on the going concern basis unless it is appropriate to presume that the company will not continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report and directors' report, that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

By order of the Board



A D'Arcy
Director

Dated 24 March 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESLEYAN BANK LIMITED

Opinion

We have audited the financial statements of Wesleyan Bank Limited ("the Bank" or "the Company") for the year ended 31 December 2020 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes 1 to 32 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 Company 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 Company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Bank's financial statement close process, we confirmed our understanding of the directors' going concern assessment process and also engaged with Management early to ensure all key factors were considered within their assessment;
- We independently identified factors that may indicate events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern,
- We obtained the Directors' going concern assessment, including the cash flow forecasts for the going concern period which covers the period of 12 months from when the financial statements were authorised for issue. The Bank modelled a number of adverse scenarios in its cash flow forecasts in order to incorporate unexpected changes to the forecasted liquidity and capital positions.
- We compared the budgeted financial information with historical actual results, in order to form a view on the reliability of the forecasting process.
- We obtained the directors' reverse stress testing and downside sensitivity analysis, and challenged key assumptions, in particular relating to liquidity and capital.
- We considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- We considered the mitigating factors included in the cash flow forecasts and capital and liquidity that are within control of the Bank. This included assessing the directors' assumptions that future capital injections will be provided by the Bank's parent, Wesleyan Assurance Society ("the Society"), as required.

Independent auditors' report to the members of Wesleyan Bank Limited (continued)

- We reviewed correspondence between the Bank and its regulators to evidence the current regulatory capital position and also to provide evidence as to changes in the Bank's capital requirement across the going concern period.
- We reviewed the Bank's going concern disclosures included in the Annual Report and Financial Statements in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

The Bank received £42.1m of additional capital from the Society in 2020, which has strengthened the Bank's capital position in comparison to the prior year.

Over the assessed going concern period, the Bank has forecast that it will remain in compliance with its capital and liquidity requirements using base case assumptions. We have concluded that the Bank's forecasts and expected outcome over the going concern period are reasonable, and from the stress testing performed, we concluded that although there are uncertainties relating to these forecasts, the risk of the Bank breaching its regulatory capital requirements and being subject to regulatory forbearance does not represent a material uncertainty.

The Bank has also drawn down on an additional £13.0m of funding from the Term Funding Scheme with additional incentives for SMEs ("TFSME") which provides additional liquidity. We do not believe that the Bank's liquidity forecasts give rise to a material uncertainty.

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 company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

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

Overview of our audit approach

| | |
|-------------------|--|
| Key audit matters | <ul style="list-style-type: none"> • Valuation of impairment provisions in the Bank's retail and commercial loan books • Risk of fraud in the recognition of income using the Effective Interest Rate ("EIR") method |
| Materiality | <ul style="list-style-type: none"> • Overall materiality of £820k (2019: £500k) which represents 0.95% of equity (2019: 1%). |

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

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

Independent auditors' report to the members of Wesleyan Bank Limited (continued)

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 |
|--|--|
| <p>Valuation of impairment provisions in the Bank's retail and commercial loan books</p> <p><i>Please refer to the Accounting policies (page 42); and Note 8 of the Financial Statements (page 48).</i></p> <p>At 31 December 2020, the Bank reported loan loss provisions of £12.3m (2019: £5.7m) against total gross loans of £392.7m (2018: £281.1m).</p> <p>The determination of the Bank's provisions over the retail and commercial loan books is subjective and judgemental. Key judgements and estimates in respect of the valuation of the provisions include:</p> <ul style="list-style-type: none"> - Assumptions such as the expectations of future cash receipts and the period of expected future settlement used in the retail collective impairment models. - The probability of default, loss given default and exposure at default assumptions in the Bank's commercial collective provision. - Measurement of individually assessed provisions. <p>The level of judgement and estimation has increased as a result of COVID-19, leading to greater uncertainty in determining expected recoveries. As such, the risks associated with credit impairment provisions has increased in 2020.</p> | <p>We understood and evaluated the design effectiveness of key controls over the impairment process, and elected to take a substantive approach to our testing of impairment provisions.</p> <p>To test Management's expectations of future cash receipts, we obtained evidence of payments received for a sample of accounts over the year, or since the loan went into arrears if less than 12 months. We then recalculated the average monthly repayment received and compared this to the balance included in the Bank's model, on which future expected cash receipts are based. We also assessed the historical accuracy of Management's payment assumptions with reference to payments received in the year.</p> <p>We challenged Management's expectations of the period for which future settlements will be received with reference to observed historical performance of the retail loan portfolio.</p> <p>We tested the completeness of data within the Bank's retail impairment model by selecting a sample of loans from the Bank's underlying source systems and testing that these were appropriately included in the model. We tested accuracy of the data through agreement of data fields for a sample of loans to the Bank's source systems.</p> <p>We assessed a sample of specific provisions for retail loans through considering the underlying characteristics of the loan, including recent payment behaviour.</p> <p>Our substantive audit procedures over the Bank's commercial collective provision model included assessing, challenging and substantiating the key assumptions, being probability of default, loss given default and exposure at default. We completed this testing with reference to the historical performance of the Bank's commercial loan portfolio, and tested that agreements included within the model were appropriately segmented in line with the underlying loan characteristics.</p> <p>We also tested the reasonableness of Management's judgements around the increased uncertainty of recovery and likelihood of loss having been incurred on those loans which had been granted forbearance in the year, and tested the completeness and appropriateness of overlays recognised in response to this increased risk.</p> <p>For a sample of the Bank's higher risk commercial loans we obtained an understanding of the latest developments in the borrower's situation and the factors impacting the</p> |

Independent auditors' report to the members of Wesleyan Bank Limited (continued)

| | <p>measurement of provisions, including factors arising from COVID-19. With the support of our valuation specialists we independently assessed the valuation of underlying collateral used in Management's cash flow calculations.</p> <p>We tested a sample of performing retail and commercial loans to assess the reasonableness of Management's provision estimate.</p> |
|---|--|
| Key observations communicated to the Audit Committee | |
| <p>We concluded to the Audit Committee that the provision levels held by the Bank in relation to loan loss impairment were reasonably estimated.</p> | |
| Risk | Our response to the risk |
| <p>Risk of fraud in the recognition of income using the Effective Interest Rate ("EIR") method</p> <p><i>Please refer to the Accounting policies (page 42); and Note 5 of the Financial Statements (page 47).</i></p> <p>The Bank records interest income on its loan portfolio under the Effective Interest Rate ("EIR") method.</p> <p>The EIR method of revenue recognition spreads the income statement recognition of income and expense cash flows that are, in substance, integral to the overall yield of the financial instrument over its modelled life.</p> <p>The method involves judgement in determining the initial EIR and recording the present value of adjustments arising in subsequent periods when cash flows are reforecast. As such, it represents a risk of fraud in revenue recognition through management override of internal controls.</p> <p>The Bank's EIR calculations are most sensitive to behavioural life assumptions, and the appropriateness of the fees included in the calculation.</p> <p>The risks associated with the EIR calculation have increased in the year as a result of the increased volatility in customer repayment behaviour as a result of COVID-19.</p> | <p>We understood and evaluated the design effectiveness of key controls over the EIR accounting process, and elected to take a substantive approach to our testing of the EIR adjustment.</p> <p>We challenged the expected life assumptions adopted by the Bank and tested this for consistency with recent loan repayment activity. We considered the impact of COVID-19 on customer behaviour in the completion of these procedures.</p> <p>On a sample basis we assessed that the fees included in the EIR calculation met the directly attributable criteria under FRS 102 with reference to the underlying source documents. We performed testing on the completeness and accuracy of data used in the calculation.</p> <p>We independently recalculated the EIR adjustment for a sample of loans to challenge the balance recorded by Management.</p> |

Independent auditors' report to the members of Wesleyan Bank Limited (continued)

Key observations communicated to the Audit Committee

We communicated to the Audit Committee that the EIR calculations as at 31 December 2020 were appropriate and reasonable in the context of current observable behaviours of the Bank's loan book, and that the fees included in the calculation were appropriate. These resulted in EIR adjustments which were appropriately derived.

In the prior year, our auditor's report included a key audit matter in relation to the consideration of COVID-19 in respect of the Bank as an event after the reporting period. This focused on the impact of COVID-19 on the capital and liquidity forecasts of the Bank, and whether COVID-19 gave rise to material uncertainties over going concern. In the current year, the Bank has received £42.0m of additional capital from its Parent, Wesleyan Assurance Society. As a result, the risks associated with the Bank's ability to continue as a going concern have reduced in 2020.

As a result of the revisions to ISA (UK) 540 Going Concern, effective for periods commencing on or after 15 December 2019, the procedures we have performed and resultant conclusions over going concern are now separately discussed within the Conclusions Relating to Going Concern section of our auditor's report and are not included as a key audit matter.

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 company to be £820k (2019: £500k), which is 0.95% (2019: 1%) of equity. The reason for selecting equity as the basis for our audit materiality calculation is that the Bank has been loss making for several years. We also see equity as the main focus for the users of the financial statements.

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 company's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £410k (2019: £250k). We have set performance materiality at this percentage based on various considerations including the past history of audit differences, the effectiveness of the control environment and other factors affecting the entity and its financial reporting.

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 £41k (2019: £25k), 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.

Independent auditors' report to the members of Wesleyan Bank Limited (continued)

Other Information

The Other Information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the Other Information contained within the Annual Report and Financial Statements.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is 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
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 30, 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 company'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 company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report to the members of Wesleyan Bank Limited (continued)

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.

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.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are
 - Financial Conduct Authority ("FCA") rules.
 - CRD IV (Basel III) and Prudential Regulation Authority ("PRA") rules.
 - Companies Act 2006.
 - Financial Reporting Council ("FRC") rules and guidance.
 - Tax Legislation (governed by HM Revenue and Customs).
- We understood how the Bank is complying with those frameworks by reviewing relevant committee minutes and reports, holding discussions with the Bank's legal team and internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We also reviewed the Bank's Whistleblowing Policy.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, internal audit and the Audit Committee.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management personnel, reviewing the key policies and reports on the aforementioned regulatory frameworks as well as reviewing the correspondence exchanged with the Regulators, and meeting with them at least annually, and gaining an understanding of any regulatory investigations and enforcement actions being undertaken.
- The Bank operates in the financial services 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 Bank on 11 May 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including

Independent auditors' report to the members of Wesleyan Bank Limited (continued)

previous renewals and reappointments is four years, covering the years ending 31 December 2017 to 31 December 2020.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company 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 company'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 company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Steven Robb (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
25 March 2021

Statement of comprehensive income
for the year ended 31 December 2020

| | Note | 2020 £'000 | Restated 2019 £'000 |
|--|------|----------------|---------------------------|
| Interest receivable and similar income | 5 | 17,136 | 15,191 |
| Interest payable and similar charges | 5 | (4,721) | (4,123) |
| Net interest income | | 12,415 | 11,068 |
| Operating lease income | | 2,118 | 1,788 |
| Other income | 6 | 241 | 170 |
| Total income | | 14,774 | 13,026 |
| Administrative expenses | 7 | (12,274) | (12,293) |
| Depreciation | 18 | (1,858) | (1,561) |
| Impairment charge for credit losses | 8 | (7,923) | (423) |
| Loss on ordinary activities before taxation | 9 | (7,281) | (1,251) |
| Tax credit on loss on ordinary activities | 10 | 1,704 | 202 |
| Loss for the financial year | | (5,577) | (1,049) |

Following the change in the Bank's focus on lending and the year-on-year increase in operating lease balances, the directors determined it would be more appropriate to disclose operating lease income separately within the profit and loss account. As a result, the interest receivable and similar income for 2019 has been restated by £1,788k (from £16,979k to £15,191k - see note 5).

The above results derive from continuing operations.

The Bank has no recognised gains or losses other than those stated above and, therefore no separate presentation of other comprehensive income has been included.

Balance sheet
As at 31 December 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|------|----------------|----------------|
| Assets | | | |
| Loans and advances to banks | 13 | 43,969 | 48,208 |
| Loans and advances to inter-group companies | 14 | - | 3,150 |
| Loans and advances to customers | 16 | 379,854 | 274,918 |
| Share in group undertakings | 17 | 500 | 500 |
| Tangible fixed assets | 18 | 4,708 | 4,351 |
| Intangible assets | 19 | - | 1,053 |
| Other assets | 20 | 10,961 | 5,332 |
| Total assets | | 439,992 | 337,512 |
| Liabilities | | | |
| Deposits by banks | 21 | 13,000 | - |
| Customer accounts | 22 | 330,042 | 283,053 |
| Other liabilities | 23 | 10,363 | 4,435 |
| Total liabilities | | 353,405 | 287,488 |
| Capital and reserves | | | |
| Called up share capital | 25 | 114,040 | 71,900 |
| Profit and loss account | | (27,453) | (21,876) |
| Total capital and reserves | | 86,587 | 50,024 |
| Total equity and liabilities | | 439,992 | 337,512 |

The notes on pages 42 to 71 are an integral part of these financial statements.

The financial statements on pages 39 to 71 were approved by the Board of Directors on 24 March 2021 and were signed on its behalf by:



A D'Arcy
Director

Statement of changes in equity
for the year ended 31 December 2020

| | Called up share capital £'000 | Retained earnings £'000 | Total capital and reserves £'000 |
|---|-------------------------------------|-------------------------------|--|
| Balance as at 1 January 2019 | 57,900 | (20,826) | 37,074 |
| Share capital issued in the year (Note 25) | 14,000 | - | 14,000 |
| Total comprehensive income/(loss) in the year | - | (1,049) | (1,049) |
| Balance as at 31 December 2019 | 71,900 | (21,876) | 50,024 |
| Balance as at 1 January 2020 | 71,900 | (21,876) | 50,024 |
| Share capital issued in the year (Note 25) | 42,140 | - | 42,140 |
| Total comprehensive income/(loss) in the year | - | (5,577) | (5,577) |
| Balance as at 31 December 2020 | 114,040 | (27,453) | 86,587 |

Notes to the financial statements

1 Statutory information

Wesleyan Bank Limited is a company domiciled in England and Wales, registration number 2839202. The registered address is Colmore Circus, Birmingham, West Midlands, B4 6AR.

2 Compliance with accounting standards

The individual financial statements of Wesleyan Bank Limited 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" ("FRS102") under the special provisions relating to banking companies of Statutory Instrument 267 2008, and to schedule 2 of the Companies Act 2006.

3 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of accounting

The financial statements are prepared on a going concern basis under the historical cost convention, modified to include certain items at fair value.

The preparation of financial statements in conformity with FRS 102 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Going concern

The Bank's business activities, together with the factors likely to affect its future development and performance are set out in the Strategic report. The Bank currently has high levels of liquid financial resources with approximately 10.0% (2019: 14.3%) of total assets in cash or cash equivalents. The directors regularly review the Bank's loan book and take action where necessary to recover debts. The directors believe that the Bank is well placed to manage its business risks set out in the Management of risk report on page 60 to the financial statements.

After considering the review of the Bank's operations included in the Strategic report, the directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for a period of twelve months from the signing of these financial statements. The directors have examined the various issues relevant to the going concern basis and will take proactive action to maintain regulatory capital and liquidity at all times. The Bank's growth plans include the support from the Society to provide capital. The financial position of the Bank has been projected under a range of economic scenarios and over various forecast periods (see page 24).

As detailed on pages 25 and 26, the Bank's capital and liquidity strength remains good, meaning the Bank has capital reserves above those required of us by the regulator.

In addition, the Bank can draw funds from the Society on a fixed term basis to support the financing of growth.

Accordingly, the Board considers it has given due consideration to all the potential risks and possible actions available to it and has concluded that it remains appropriate to prepare these financial statements on a going concern basis and no material uncertainties exist.

Notes to the financial statements (*continued*)

Interest receivable / payable

For instruments measured at amortised cost the effective interest method is used to measure the carrying value of a financial asset or a liability to allocate associated interest income or expense over the relevant year. The effective interest rate ("EIR") is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the 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. The calculation includes all fees received and paid and costs borne that are an integral part of the effective interest rate, except where the fees and costs are charged by subsidiary entities and all other premiums above or below market rate.

Share in group undertakings

The share in group undertakings is valued at cost less impairment.

Impairment charge for credit losses

Specific impairment provisions are made against advances for which recovery is considered doubtful or without recourse to recovery action and represent the quantification of actual and expected losses from identified accounts. Objective evidence that financial assets are impaired include default or delinquency by the counterparty, extending or changing repayment terms, indications that a counterparty may go into bankruptcy, or other observable data relating to the group of assets such as adverse changes in the payment status of counterparties, or economic conditions that correlate with defaults in the group.

The amount of specific impairment provision raised is assessed on a case-by-case basis. In assessing the impairment provision, the Bank uses analysis of historical trends to identify the amount, quality and timing of recoveries, which are then discounted based on the estimated period of recovery based on these trends. This estimated recovery amount is used to calculate the amount of loss incurred, adjusted for management's judgement as to whether current economic conditions are such that actual losses are likely to be greater or less than suggested by historical analysis. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

The impairment charge for credit losses is deducted from loans and advances to customers in the balance sheet. The impairment provisions made during the year are charged to the profit and loss account. Loans are written off when there is no realistic prospect of recovery. Where collectability of loans is subject to significant doubt, interest relating to the loans is treated as being irrecoverable and is not recognised in the profit and loss account. Such interest is credited to the suspended interest account.

Specific provision assessments for individually significant loans involve judgement in relation to estimating future cash flow timings, sale proceeds, and any rental income to be received.

All assets without a specific provision are assessed collectively. To cover impaired advances which have not yet been identified, a collective impairment provision has been made against the loan portfolios. The collective provision has been monitored against historical collection rates and also reflects the specific impact that Covid-19 has had on the Bank's loan portfolios and the wider economy as a whole and the levels of forbearance provided. The current level of arrears has been measured against the historical data to arrive at a percentage provision to be applied against each arrears tranche.

Judgement is exercised in deciding how to apply historic experience to current market conditions and the current profile of the book.

When a subsequent event causes the amount of expected impairment losses to decrease, the impairment loss is reversed through the statement of comprehensive income.

Notes to the financial statements *(continued)*

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax is recognised in respect of timing differences at the reporting date where they are reasonably expected to occur in the foreseeable future and as otherwise indicated.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity, certain disclosure exemptions. The Bank has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows; under FRS 102 paragraph 1.12(e) disclosures in respect of key management personnel; and under FRS 102 33.1A disclosures in respect of transactions with wholly owned subsidiaries and members of a group that are wholly owned by such a member; on the basis that it is a qualifying entity.

The Bank has taken advantage of the exemption, under FRS 102 paragraph 9.3(a) from preparing consolidated financial statements as it is a wholly owned subsidiary of Wesleyan Assurance Society.

Intangible assets

Software development costs are recognised as an intangible asset and are capitalised to the extent there is expected to be a future benefit and these are separately identifiable and incremental. These costs are in relation to internally developed customer portals and is expected to be used within the business over a period of 5 years. The costs are amortised over 5 years from the point that they are brought into operational use.

At 31 December 2020 no Intangible assets were held, these having been transferred at net book value to a related subsidiary Syscap Holdings Limited as explained in Note 19.

Tangible fixed assets

Tangible fixed assets are stated at original historical cost less accumulated depreciation. The directors regularly review the useful economic lives of assets and, where necessary, adjust the expected useful life.

Equipment for hire depreciation is provided to write off the cost less estimated residual value of each asset, by equal instalments over its useful economic life. The term of hire ranges from 1 to 7 years

Leasehold improvements are depreciated over the life of the relevant lease, 10 years, on a straight-line basis.

Office equipment is depreciated on a straight-line basis with depreciation rates ranging 2-4 years.

Leases

The Bank as lessor

From January 2018 the Bank commenced writing its own leases and continues to manage the agreements that were originated in its subsidiary Syscap Leasing Limited.

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

Operating lease assets are stated at original historical cost less accumulated depreciation. The directors regularly review the useful economic lives of assets and, where necessary, adjust the expected useful life.

Depreciation is provided to write off the cost less estimated residual value of each asset, by equal instalments over the term of the agreement.

Notes to the financial statements (*continued*)

Leases (continued)

Finance lease and similar loan and hire purchase contracts are accounted for on a similar basis. The capital value of the minimum lease payments is included within loans and advances to customers and amortised as appropriate over time. Finance income is spread over the period of the lease using the actuarial method of income recognition and is included within interest receivable and similar income. Rental receipts are apportioned between finance income and reduction of the net investment in finance leases. The related obligations, net of future finance charges, are included in loans and advances to customers.

Loan origination fees are recognised over the life of the agreement on a reducing balance basis.

At inception, the Bank assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Subsidies

Subsidies received to enter into a finance lease with a customer are recognised over the life of the agreement on a reducing balance basis.

Residual values

Residual value exposure occurs due to the uncertain nature of the value of an asset at the end of an agreement. Residual values are set at the commencement of the lease based upon management's expectation of future sale proceeds. Throughout the life of an asset its residual value will fluctuate because of the uncertainty of the future market for that asset as well as general economic conditions. Due to this level of uncertainty, a provision has been created to cover any permanent impairment required in the future.

Financial instruments

(i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financial transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method. At the end of each reporting period, financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss. Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in the statement of comprehensive income, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Notes to the financial statements (*continued*)

Financial instruments (continued)

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for Goods or Services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Participation in the Bank of England's Funding for Lending Scheme and Term Funding Scheme with additional incentives for SMEs ('TFSME')

The Bank is a participant in the Bank of England's Funding for Lending Scheme. This scheme allows participants to borrow treasury bills from the Bank of England against collateral, in the form of certain eligible loans and advances, which is placed with the Bank of England. The treasury bills received under the scheme can subsequently be used by the Bank, for example they may be sold by the Bank or placed under a sale and repurchase agreement.

In the former case, when only treasury bills have been borrowed, the transactions are accounted for off balance sheet, since the Bank retains substantially all of the risks and rewards of ownership of the loans pledged as collateral and, similarly, the Bank of England retains the risks and rewards of ownership of the borrowed treasury bills.

Should the treasury bills be the subject of a sale and repurchase agreement, the cash received and liability to the counterparty under the agreement are recorded on the balance sheet.

The TFSME allows the participants to draw funds directly from the Bank of England against collateral in the form of certain eligible loans and advances, which is placed with the Bank of England. Drawdowns under the TFSME may be undertaken on each business day during the Drawdown Period which will open no later than 27 April 2020, and which will run until 30 April 2021. The term of each transaction will be for 4 years from the date of drawdown. The borrowing under this scheme will be on balance sheet.

Notes to the financial statements (continued)

4 Significant judgements and estimation uncertainty

The Bank makes judgements in applying its accounting policies which affect the amounts recognised in the accounts. In addition, estimates and assumptions are made that could affect the reported amount of assets and liabilities within the following financial year. The most significant areas where judgements and estimates are disclosed is regarding loan loss provisions and certain provisions in relation to future liabilities and receivables which are described within the relevant accounting policy in Note 3.

5 Net interest income

| | 2020 £'000 | Restated 2019 £'000 |
|---|---------------|---------------------------|
| Interest receivable and similar income | | |
| Interest on loans and advances to banks | 104 | 336 |
| Interest on customer loans | 15,628 | 13,616 |
| Interest on customer leases | 1,360 | 1,184 |
| Interest on intercompany loans | 44 | 55 |
| | <u>17,136</u> | <u>15,191</u> |
| Interest payable and similar charges | | |
| Customer accounts | 4,580 | 3,914 |
| Due to parent undertaking | 22 | 103 |
| Due to banks | 119 | 106 |
| | <u>4,721</u> | <u>4,123</u> |

All interest income and expense is earned on assets that are not measured at fair value through profit and loss.

Following the change in the Bank's focus on lending and the year-on-year increase in operating lease balances, this has resulted in an increase in the operating lease income. Operating lease income is now presented separately in the statement of Comprehensive Income and reported within Total Income rather than Net Interest Income. As a result the interest receivable on customer leases for 2019 has been restated by £1,788k (from £2,972k to £1,184k).

6 Other income

| | 2020 £'000 | Restated 2019 £'000 |
|---|---------------|---------------------------|
| Fees and commission income | 148 | 70 |
| Portfolio acquisition fee | - | 100 |
| Net income from disposal of leased assets | 93 | - |
| | <u>241</u> | <u>170</u> |

7 Administrative expenses

| | 2020 £'000 | 2019 £'000 |
|-------------------|---------------|---------------|
| Management charge | 9,729 | 10,304 |
| Central charge | 2,545 | 1,989 |
| | <u>12,274</u> | <u>12,293</u> |

Notes to the financial statements *(continued)*

8 Impairment charge for credit losses

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Collective | | |
| As at 1 January | 405 | 405 |
| Charged to the profit and loss account | 6,830 | - |
| At 31 December | <u>7,235</u> | <u>405</u> |
| Specific | | |
| As at 1 January | 5,254 | 5,981 |
| Charged to the profit and loss account | 1,093 | 423 |
| Amounts written off | (1,266) | (1,150) |
| At 31 December | <u>5,081</u> | <u>5,254</u> |
| Total | | |
| As at 1 January | 5,659 | 6,386 |
| Charged to the profit and loss account | 7,923 | 423 |
| Amounts written off | (1,266) | (1,150) |
| At 31 December | <u>12,316</u> | <u>5,659</u> |
| | 2020 £'000 | 2019 £'000 |
| Interest in Suspense | | |
| As at 1 January | 521 | 420 |
| Change in interest in suspense during the year | 57 | 101 |
| At 31 December | <u>578</u> | <u>521</u> |

All impairment charges relate to loans and advances to customers.

9 Loss on ordinary activities before tax

Loss on ordinary activities before taxation is stated after charging the following amounts:

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Depreciation of tangible fixed assets | 1,858 | 1,561 |
| Services provided by the company's auditor | | |
| - Audit | 162 | 148 |
| - Regulatory | <u>2</u> | <u>2</u> |

Notes to the financial statements (*continued*)

10 Tax on loss on ordinary activities

The tax charge (credit) for the year is assessed at the standard rate of corporation tax in the UK for the year ended 31 December 2020 of 19% (2019: 19%). The differences are explained below:

| | 2020 £'000 | 2019 £'000 |
|--|----------------|---------------|
| <i>Amounts owed by ultimate parent undertaking</i> | | |
| - UK Corporation tax on loss for the year | 443 | 421 |
| - Adjustment in respect of prior periods | 215 | (32) |
| Total current tax charge | <u>658</u> | <u>389</u> |
| <i>Deferred tax:</i> | | |
| - Origination and reversal of timing differences | (1,821) | (658) |
| - Adjustment in respect of prior periods | (378) | - |
| - Impact of change in tax rate | (163) | 67 |
| Total deferred tax | <u>(2,362)</u> | <u>(591)</u> |
| Tax credit on loss on ordinary activities | <u>(1,704)</u> | <u>(202)</u> |

Factors affecting current and future tax charges

Within the 2020 Budget, the government announced legislation to keep the Corporation Tax rate for the year starting 1 April 2020 and 1 April 2021 at 19%.

The UK Government announced on 3 March 2021 its intention to increase the UK rate of corporation tax to 25% from 19% from 1 April 2023. As this rate was not substantively enacted at the year end, deferred tax has been calculated based on the prevailing rate of 19%. The estimated impact of the new 25% rate on the deferred tax asset would be immaterial.

| | 2020 £'000 | 2019 £'000 |
|--|----------------|---------------|
| <i>Reconciliation of the tax expense</i> | | |
| Loss on ordinary activities before taxation | (7,281) | (1,251) |
| Current tax at 19% (2019:19%) | (1,383) | (238) |
| Effects of: | | |
| - Expenses not deductible for tax purposes | 5 | 1 |
| - Corporation tax adjustment in respect of prior periods | 215 | (32) |
| - Deferred tax adjustment in respect of prior periods | (378) | - |
| - Impact of change in tax rate on deferred tax balance | (163) | 67 |
| Total tax credit | <u>(1,704)</u> | <u>(202)</u> |

Notes to the financial statements *(continued)*

10 Tax on loss on ordinary activities *(continued)*

Deferred tax asset

| | 2020 | 2019 |
|--|--------------|--------------|
| | £'000 | £'000 |
| At beginning of year | 1,241 | 650 |
| Adjustment in respect of prior periods | 378 | - |
| Profit and loss credit (charge) for the year | 1,821 | 658 |
| Impact of change in tax rate | 163 | (67) |
| At year end <i>(Note 20)</i> | <u>3,603</u> | <u>1,241</u> |

Deferred tax assets comprise timing differences attributable to:

| | 2020 | 2019 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Finance lease receivables and tangible fixed assets | 2,262 | 1,241 |
| General impairment provisions | 1,341 | - |
| | <u>3,603</u> | <u>1,241</u> |

The directors are of the opinion, based on recent and forecast performance of the Bank, that when these timing differences reverse, the expected level of future profits will be sufficient to recover the tax benefit deferred.

The Bank also has unrelieved losses carried forward of £nil (2019: £3,354k) for which the deferred tax asset is not recognised.

11 Directors' Remuneration

The remuneration of those directors who are also directors of the parent company is disclosed in the financial statements of Wesleyan Assurance Society.

The remuneration payable to the directors comprising one (2019: one) executive director and four (2019: five) non-executive directors for the year ended 31 December 2020 was as follows:

| | 2020 | 2019 |
|------------------------------------|------------|------------|
| | £'000 | £'000 |
| Aggregate emoluments | <u>490</u> | <u>483</u> |
| Highest paid director's emoluments | <u>320</u> | <u>308</u> |

The remuneration disclosed above comprises the total remuneration received by each director for their services as directors of the company and, where applicable, the holding company and fellow subsidiary companies. It is not practicable to apportion these amounts between services as directors of the company and services as directors of the holding and fellow subsidiary companies. Where a director of the company is also a director of the holding company, the holding company has borne the expense. Otherwise the company has borne the expense covering the directors' services to the company and subsidiary companies. The remuneration of the directors included £31k for pension contributions (2019: £30k).

PRA Remuneration Code

The Bank is governed by the PRA Remuneration Code as a Tier 3 firm and, as such, has undertaken a review of the requirements of the Code. The Bank considers that it complies with all aspects of the Code.

Notes to the financial statements *(continued)*

12 Staff numbers and cost

The average monthly number of employees (including executive directors) during the year was:

| | Number of employees | |
|----------------|---------------------|------------|
| | 2020 | 2019 |
| Administration | 77 | 73 |
| Sales | 35 | 39 |
| | <u>112</u> | <u>112</u> |

The aggregate payroll costs of these employees (including executive directors) during the year amounted to:

| | 2020 | 2019 |
|-----------------------|--------------|--------------|
| | £'000 | £'000 |
| Wages and salaries | 5,573 | 3,329 |
| Social security costs | 625 | 376 |
| Other pension costs | 416 | 248 |
| | <u>6,614</u> | <u>3,953</u> |

The Bank's staff only contribute into a defined contribution scheme and the Bank has no liability to a defined benefit scheme. There were no outstanding prepaid pension contributions at 31 December 2020 (2019: £Nil). The payroll costs have increased since 2019 as all staff costs are recharged directly to the Bank rather than partially to one of its subsidiaries.

13 Loans and advances to banks

| | 2020 | 2019 |
|---------------------------|---------------|---------------|
| | £'000 | £'000 |
| Repayable on demand | 20,017 | 16,967 |
| Repayable within 3 months | 3,948 | 14,007 |
| Repayable in 3- 6 months | 20,004 | 17,234 |
| | <u>43,969</u> | <u>48,208</u> |

Amounts due within 6 months includes gilts and treasury bills totalling £23,952k (2019: £31,241k) which have a market value of £23,952k (2019: £31,215k).

14 Loans and advances to inter-group companies

| | 2020 | 2019 |
|--------------------------------|-------|-------|
| | £'000 | £'000 |
| Loan to Syscap Leasing Limited | - | 3,150 |

During the year the Bank provided funds to support the remaining business and operations of Syscap Leasing Limited through an interest-bearing facility which is 1.5% above the Official Bank Rate of the Bank of England. The facility was repaid in full at the end of December 2020.

Notes to the financial statements (continued)

15 Asset encumbrance

At 31 December 2020

| | Other assets (comprising assets encumbered at the central bank and unencumbered assets) | | | | |
|---|---|---|---|----------------------|----------------|
| | Assets positioned at the central bank (ie pre-positioned plus encumbered) | Assets not positioned at the central bank | | | Total £'000 |
| | | Readily available for encumbrance | Other assets that are capable of being encumbered | Cannot be encumbered | |
| Loans and advances other than loans on demand | 62,683 | 28,259 | - | 288,912 | 379,854 |
| Debt Securities issued by general governments | 23,952 | - | - | - | 23,952 |
| Nostro Balances | - | - | - | 20,017 | 20,017 |
| Intergroup | - | - | - | 500 | 500 |
| Tangible & intangible assets | - | - | - | 4,708 | 4,708 |
| Other assets | - | - | - | 10,961 | 10,961 |
| Total | 86,635 | 28,259 | - | 325,098 | 439,992 |

At 31 December 2019

| | Other assets (comprising assets encumbered at the central bank and unencumbered assets) | | | | |
|---|---|---|---|----------------------|----------------|
| | Assets positioned at the central bank (ie pre-positioned plus encumbered) | Assets not positioned at the central bank | | | Total £'000 |
| | | Readily available for encumbrance | Other assets that are capable of being encumbered | Cannot be encumbered | |
| Loans and advances other than loans on demand | 66,634 | - | 35,705 | 172,579 | 274,918 |
| Debt Securities issued by general governments | - | 29,421 | - | 1,794 | 31,215 |
| Nostro Balances | - | - | - | 16,993 | 16,993 |
| Intergroup | - | - | - | 3,650 | 3,650 |
| Tangible & intangible assets | - | - | - | 5,404 | 5,404 |
| Other assets | - | - | - | 5,332 | 5,332 |
| Total | 66,634 | 29,421 | 35,705 | 205,752 | 337,512 |

Notes to the financial statements (continued)

16 Loans and advances to customers

| | 2020 | 2019 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Repayable on demand | 6,969 | 5,200 |
| Repayable within 3 months | 45,891 | 26,659 |
| Repayable over 3 months but within one year | 54,993 | 39,786 |
| Repayable over one year but within five years | 134,469 | 87,542 |
| Repayable over five years | 150,426 | 121,911 |
| Less allowance for impairment | (12,894) | (6,180) |
| | <u>379,854</u> | <u>274,918</u> |
| | | |
| | 2020 | 2019 |
| | £'000 | £'000 |
| Retail loans | 15,792 | 21,494 |
| Commercial loans | 364,062 | 253,424 |
| | <u>379,854</u> | <u>274,918</u> |

Within the total value of loans and advances to customers are balances due under finance leases. The Bank has entered into finance lease agreements with customers for business equipment. These agreements give the customer the rights and rewards equivalent to ownership of the underlying equipment for a fixed period subject to the payment of a rental. At the end of the period the customer can continue to use the equipment by paying a contingent secondary rental.

The present value of the minimum lease payments receivable discounted at the rate implicit in the agreement total £91,425k (2019: £39,828k).

The investment in the minimum lease payments receivable become repayable as follows:

At 31 December 2020

| | Gross value of lease payments receivable £'000 | Unearned income £'000 | Net value of lease payments receivable £'000 |
|--|--|-----------------------------|--|
| Not later than one year | 32,704 | (4,282) | 28,422 |
| Between one and five years | 66,144 | (6,806) | 59,337 |
| Later than five years | 4,467 | (267) | 4,200 |
| Total | <u>103,314</u> | <u>(11,355)</u> | <u>91,959</u> |
| Allowance for uncollectible minimum lease payments | | | (535) |
| The present value of minimum lease payments | | | <u>91,425</u> |

In addition to the lease payments receivable disclosed above the Bank has £nil (2019: £nil) of unguaranteed residual values accruing to the benefit of the Bank. In the year to 31 December 2020 the Bank recognised £nil (2019: £nil) of contingent rentals as income.

Notes to the financial statements (continued)

16 Loans and advances to customers (continued)

As at 31 December 2019

| | Gross value of lease payments receivable £'000 | unearned income £'000 | Net value of lease payments receivable £'000 |
|--|--|-----------------------------|--|
| Not later than one year | 15,716 | (2,174) | 13,542 |
| Between one and five years | 28,642 | (2,475) | 26,167 |
| Later than five years | 232 | (22) | 210 |
| Total | 44,590 | (4,671) | 39,919 |
| Allowance for uncollectible minimum lease payments | | | (91) |
| The present value of minimum lease payments | | | 39,828 |

Leasing arrangement

During the prior year the Bank took over the majority of Syscap Limited's broker agreements. Under certain brokerage agreements the lessors are entitled to require the Bank to repurchase the equipment at the end of the lease for a predetermined amount. In addition the Bank entered into broker agreements in its own right. At year end the total amount of potential future repurchase costs resulting from the exercise of selling options by lessors was £4k (2019: £5k).

The sale or releasing of repurchased equipment has been a material contributor to profits in prior periods. In the directors' opinion expected turnover from the sale or releasing of equipment will exceed the cost of repurchase.

17 Shares in group undertakings

| | 2020 £'000 | 2019 £'000 |
|----------------|---------------|---------------|
| At 1 January | 500 | 500 |
| Impairment | - | - |
| At 31 December | 500 | 500 |

The Bank continues to review the purpose and use of its subsidiary undertakings and opportunities to simplify the corporate structure. The Bank also intends to transfer all existing assets and liabilities of Syscap Limited and Syscap Leasing Limited to the Bank during 2021, as all business is now undertaken within the Bank.

The directly held subsidiary undertakings of the Bank at 31 December 2020 are shown below, all investments are in ordinary shares.

The Bank and all directly held subsidiary undertakings are incorporated and domiciled in England.

All directly held subsidiaries are 100% wholly owned and held at cost less impairment.

| Company | Percentage held | Principal activities |
|-------------------------|-----------------|---|
| Syscap Holdings Limited | 100% | Owns and licenses intangible fixed assets |
| Syscap Limited | 100% | Broker - introduction of finance |

Notes to the financial statements (*continued*)

17 Shares in group undertakings (*continued*)

The indirectly held subsidiary undertakings of the Bank at 31 December 2020 are shown below.

| Company | Percentage held | Holding Company | Principal activities |
|------------------------|-----------------|-------------------------|---|
| Syscap Group Limited | 100% | Syscap Holdings Limited | Dormant |
| Syscap Leasing Limited | 100% | Syscap Limited | To arrange lease finance and the provision of associated services |
| Serco Paisa Limited | 50% | Syscap Limited | JV with Serco Group PLC to effect finance |

The entities listed below are taking advantage of exemption from audit under section 479a of the Companies Act 2006 on the basis that the Society irrevocably guarantees the debts and liabilities that these subsidiaries have entered into during the 2020 financial year.

| Companies exempt from audit | |
|-----------------------------|-------------------------------|
| Syscap Holdings Limited | (Registered Number: 05740449) |
| Syscap Group Limited | (Registered Number: 03132650) |
| Syscap Limited | (Registered Number: 02471568) |
| Syscap Leasing Limited | (Registered Number: 02718043) |

The registered office of all directly and indirectly held subsidiary undertakings is CI Tower, St George's Square, New Malden, KT3 4TE.

Notes to the financial statements (continued)

18 Tangible fixed assets

| | Equipment for hire £'000 | Leasehold improvements £'000 | Office equipment £'000 | Total £'000 |
|----------------------------------|--------------------------------|------------------------------------|------------------------------|----------------|
| Cost | | | | |
| At 1 January 2020 | 6,652 | - | 102 | 6,754 |
| Additions | 2,201 | 72 | 68 | 2,341 |
| Disposals | (1,380) | - | (68) | (1,448) |
| At 31 December 2020 | <u>7,473</u> | <u>72</u> | <u>102</u> | <u>7,647</u> |
| Accumulated depreciation | | | | |
| At 1 January 2020 | 2,392 | - | 11 | 2,403 |
| Charge for year (see note below) | 1,872 | 2 | 13 | 1,887 |
| Disposals | (1,351) | - | - | (1,351) |
| At 31 December 2020 | <u>2,913</u> | <u>2</u> | <u>24</u> | <u>2,939</u> |
| Net book value | | | | |
| At 31 December 2020 | <u>4,560</u> | <u>70</u> | <u>78</u> | <u>4,708</u> |
| At 31 December 2019 | <u>4,260</u> | <u>-</u> | <u>91</u> | <u>4,351</u> |

Equipment for hire accumulated depreciation includes £69k additional depreciation in relation to operating lease residual values. In the prior year £29k of this balance was classified under Other liabilities. Opening balances have not been restated for this amount.

Contracts for future fixed asset expenditure not provided in the financial statements total £26,070 (2019: £104,672).

The net book value of equipment for hire represents the value of equipment leased to customers on operating leases. These agreements do not give the customer rights and benefits equivalent to ownership of the agreement and the expectation is that the equipment subject to these agreements will be returned to the Bank at the end of the lease period. The future minimum lease payments under non-cancellable operating leases are repayable as follows:

| | 2020 £'000 | 2019 £'000 |
|----------------------------|---------------|---------------|
| Not later than one year | 1,643 | 1,490 |
| Between one and five years | 890 | 969 |
| Later than five years | | |
| Total | <u>2,534</u> | <u>2,459</u> |

Rentals receivable during the year under operating leases amounted to £2,118k (2019: £1,788k).
In the year to 31 December 2020 the Bank recognised £nil (2019: £nil) of contingent rentals as income.

Notes to the financial statements (continued)

19 Intangible assets

| | Software development £'000 |
|--|---|
| Cost | |
| At 1 January 2020 | 1,212 |
| Acquired from other group undertakings | 1,041 |
| Additions | 673 |
| Disposals | (2,926) |
| At 31 December 2020 | <u>-</u> |
| Accumulated depreciation | |
| At 1 January 2020 | 159 |
| Acquired from other group undertakings | 1,027 |
| Charge for year | 291 |
| Disposals | (1,477) |
| At 31 December 2020 | <u>-</u> |
| Net book value | |
| At 31 December 2020 | <u>-</u> |
| At 31 December 2019 | <u>1,053</u> |

Intangible assets relate to the capitalisation of software development costs where there is expected to be a future economic benefit derived from their development and these are separately identifiable and incremental. Contracts for future intangible asset expenditure not provided in the financial statements amount to £nil (2019: £41k).

On 31 December 2020 the Bank acquired intangible assets at net book value from its subsidiary undertakings Syscap Limited and Syscap Leasing Limited to a value of £3k and £11k respectively and transferred these assets together with existing assets acquired and amortised to the balance sheet date of £1,434k to the related subsidiary Syscap Holdings Limited. The total net book value of assets transferred to Syscap Holdings Limited amounted to £1,449k.

20 Other assets

| | 2020 £'000 | 2019 £'000 |
|--------------------------------------|-----------------------|-----------------------|
| Amounts owed by group undertakings | 6,719 | 3,731 |
| Intercompany group relief receivable | - | 216 |
| Deferred tax asset (Note 10) | 3,603 | 1,241 |
| Other debtors | 323 | - |
| Prepayments and accrued income | 316 | 144 |
| | <u>10,961</u> | <u>5,332</u> |

Amounts owed by group undertakings are unsecured and repayable on demand. Amounts owed by non-trading undertakings are interest free.

Notes to the financial statements *(continued)*

21 Deposits by banks

| | 2020 | 2019 |
|--|---------------|----------|
| | £'000 | £'000 |
| Repayable over one year but less than five years | <u>13,000</u> | <u>-</u> |
| | <u>13,000</u> | <u>-</u> |

Deposits by banks relate to amounts held on balance sheet in respect of the Bank of England's TFSME scheme.

In addition at 31 December 2020, the Bank also held £35m (2019: £35m) of treasury bills under the Bank of England's Funding for Lending Scheme, which are held off balance sheet.

22 Customer accounts

| | 2020 | 2019 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Repayable on demand | 51,520 | 45,341 |
| Three months or less but not on demand | 38,441 | 51,171 |
| One year or less but over three months | 121,973 | 91,246 |
| Five years or less but over one year | <u>118,108</u> | <u>95,295</u> |
| | <u>330,042</u> | <u>283,053</u> |

The Society has guaranteed the repayment of the Mutual Gold Fixed Term Bonds issued by the Bank up to a maximum sum of £250k for an individual or £500k for a joint account in the event that the Bank fails to repay such amounts.

23 Other liabilities

| | 2020 | 2019 |
|-----------------------------------|---------------|--------------|
| | £'000 | £'000 |
| Creditors | 3,914 | 1,579 |
| Amounts due to parent undertaking | 3,882 | 1,445 |
| Amounts due to group undertaking | 708 | - |
| Corporation tax payable | 442 | - |
| Accruals and deferred income | <u>1,417</u> | <u>1,411</u> |
| | <u>10,363</u> | <u>4,435</u> |

Amounts owed to parent and group undertakings are unsecured and repayable on demand.

24 Financial commitments

During the year the lease on the existing premises in New Malden, held in the name of the Bank's subsidiary Syscap Holdings Limited was surrendered and a new lease entered into by the Bank for the period 10 October 2020 to 9 October 2030. The total rent due in the period from 10 October 2020 to 31 December 2020 was £17k (2019: £nil).

During 2019, the lease on the existing premises in Northwich which was held in the name of the Bank's subsidiary Syscap Limited was surrendered and a new lease entered into by the Bank for the period 1 April 2019 to 31 March 2024. The total rent for the year was £69k (1 April 2019 to 31 December 2019: £52k).

Notes to the financial statements (*continued*)

24. Financial commitments (*continued*)

The minimum future annual rent under the foregoing leases which will be charged in the following periods are:

| | 2020 | 2019 |
|-------------------|------------|----------|
| | £'000 | £'000 |
| Within one year | 147 | 69 |
| Two to five years | 467 | 226 |
| Over five years | <u>369</u> | <u>-</u> |

At the year end the Bank had undrawn loan commitments of £7,411k (2019: £117k)

25 Called up share capital

| | 2020 | 2019 |
|--|----------------|---------------|
| | £'000 | £'000 |
| <i>Allotted, issued and fully paid</i> | | |
| Allotted and fully paid ordinary shares of £1 each | <u>114,040</u> | <u>71,900</u> |

During the year the Bank issued £42.14m of share capital to its Parent to support its balance sheet growth, provide additional capital in response to its revised Regulatory capital requirements and to increase capital resources in response to potential impairment losses as a result of Covid-19. This was issued in three tranches; £9.6m on 24 January 2020, £11.44m on 29 June 2020 and £21.1m on 31 July 2020.

26 Principal risks and uncertainties

Capital

The primary purpose of capital is to absorb any losses that might arise from credit losses on lending, trading losses due to margin compression or costs associated with other adverse events such as operational errors. The Board determines the level of capital required to support the Bank's strategy by performing an annual Internal Capital Adequacy Assessment Process (ICAAP). Through this process the Bank reviews its risk management framework together with the financial projections developed for the strategic plan to assess the risks to which it is exposed, the adequacy of risk management, and the capital resources it needs to support the risk exposures over its strategic planning horizon. An allocation of capital is made for each of the following risks facing the Bank:

- Credit risk from retail and commercial lending
- Credit risk from treasury assets
- Concentration risk (increasing the risk presented by credit exposures)
- Interest rate risk
- Liquidity risk
- Operational risk

The allocation is based on regulatory requirements for credit and operational risk (Pillar 1) with additional allocations to reflect the residual risk beyond the Pillar 1 determination (Pillar 2A)

Capital

This initial level of capital allocation is based on an assessment at a fixed point in time. A further assessment is made (Pillar 2B) to determine the 'PRA buffer', which provides assurance that the Bank can meet capital requirements under stressed operating conditions. The determination of the PRA buffer is a forward-looking projection and uses outputs from the Bank's strategic plan, subjecting them to stresses over a five-year planning horizon.

Notes to the financial statements *(continued)*

26. Principal risks and uncertainties *(continued)*

The severity and duration of the stress scenarios used is determined with reference to the 'anchor stress scenarios' published by the PRA. Additionally, the Bank incorporates additional stresses making the capital stress greater than that prescribed by the regulator.

This stress testing enables the Bank to estimate the size of losses that may be incurred, determine the impact these would have on the Bank's capital and compare this with the additional capital requirements that may be needed in a stressed environment.

The impact of the stress testing is compared with the ability of the Bank to react to stressed conditions by modifying its strategic plan. In particular, the Bank retains the ability to control the rate of asset growth and in times of stress could reduce lending levels reducing the Bank's overall capital requirements that may be needed in a stressed environment.

The PRA buffer is set having regard to both the impact of the stress tests and the ability of the Bank to undertake a credible range of actions in response to a stress scenario in its Supervisory Review and Evaluation Process (SREP) through which it sets the Bank's capital requirements, expressed as a total capital requirement. The PRA adds a PRA buffer to the total capital requirement to ensure that the requirements may be met throughout the strategic planning horizon.

The ICAAP is reviewed by the Bank's Risk Committee before submission to the Board for review and formal approval. Capital levels for the Bank are reported to and monitored by the Bank's Board at each meeting. The Bank retains a strong capital base, maintaining capital levels substantially above the current regulatory requirements.

Management of risk

The management of risk is a fundamental aspect of the Bank's policies. To achieve this the Board of Directors have established and are committed to maintaining an effective risk management framework and risk culture whereby proper controls exist to protect the Bank from risk, ensuring that at all times the Bank complies with all relevant legislation. The Bank has implemented its own governance arrangements to provide oversight to the Bank's risk management framework including Board sub-committees to cover risk and audit matters respectively. Underpinning our management of risk is the Bank's risk appetite, which is set by the Board and details the amount of risk we are prepared to accept in pursuit of our business objectives. Any new risk exposure, or change to any existing risk exposure, is considered in light of this risk appetite before being accepted. Our risk appetite is further broken down into the key elements of risk identified above, each having their own risk appetite.

The Bank's governance structure includes risk compliance and internal audit functions to assess the quality of internal control systems.

Operational risk

This represents the risks associated with the internal failure of systems or people, or the risk arising from external events.

These are risk events such as internal fraud, the failure of internal IT infrastructure, or external factors such as terrorism, which have the potential to impact on the Bank's ability to carry on its business. It is the policy of the Bank to protect its staff, customers, and its own reputation and assets from physical risk and financial loss through fraud or avoidable error. The Bank maintains a strong control culture. The Bank's policies and procedures are designed to prevent irregularities arising from human error or misconduct, systems failure or inadequate procedures and controls. In addition, the Bank has in place a business disaster recovery plan.

From time to time and in the normal course of business, claims against the Bank may be received, and these can relate to regulatory rules. Through consideration of the legal and regulatory requirements and on both internal and external professional advice, management is of the opinion that no material liabilities will arise in respect of these matters and hence no provision is made in these financial statements.

Notes to the financial statements (*continued*)

26. Principal risks and uncertainties (*continued*)

Credit risk

Credit risk is the risk of loss if a customer or counterparty fails to perform its obligations. The risk arises from the Bank's loans and advances to customers and the investment of liquid assets with treasury counterparties. The Bank's exposure to credit risk can be influenced by changes in the wider economy, including unemployment levels, commercial property values, household and corporate finances which impact on the continuing affordability of loans and the credit quality of treasury counterparties. The Board of Directors has defined the Bank's risk appetite for credit risk which clearly sets out the level of credit risk the Bank is prepared to accept.

The Bank's risk appetite for credit risk targets the origination of a balanced portfolio of loan assets that match the expertise and experience of its underwriters.

The Bank has documented its general lending principles and the systems and controls it has implemented to mitigate credit risk with its Credit Policy. These systems and controls include:

- The setting and regular monitoring of lending limits, including product, borrower and loan related limits, to avoid concentrations of exposures in higher risk categories.
- The setting of underwriting criteria for each product and sector designed to ensure the credit worthiness or borrowers, the affordability of loan repayments and, where applicable, the adequacy of any security taken by the Bank against the facility.
- For the Bank's commercial lending, the assessment of each new application by underwriting staff who have the necessary experience. All loan applications are approved by staff with specific underwriting mandates approved by the Board.
- The use of appropriately qualified and experienced external property surveyors, solicitors and accountants as necessary to assist with the assessment of loan applications and the perfection of security positions.
- The prevention of loan fraud through the credit application assessment and use of external fraud prevention systems.
- The pricing of all new loan products using a model that incorporates an expected loss to ensure that the lending margin received appropriately reflects the risks involved.

The Bank has a separate Arrears Policy covering the systems and controls relating to the processes for dealing with arrears and forbearance. Any changes in Policy are submitted to the Risk Committee for consideration before recommendation to the Board for approval.

The Bank's Credit Committee is responsible for monitoring the credit risk associated with loans and advances to customers. This is undertaken through a review of the credit portfolio, arrears, forbearance and provisions schedules, concentration analysis and lending limit monitoring. The Credit Committee reports into the Board's Risk Committee, which is responsible for the oversight and challenge of risk management across the Bank. It receives reports relating to key decisions taken at Credit Committee and an independent view of each risk category from the Chief Risk Officer.

Notes to the financial statements (continued)

26. Principal risks and uncertainties (continued)

The Bank's maximum exposure to credit risk is detailed in the table below:

| | 2020 | 2019 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Loans and advances to banks | 43,969 | 48,208 |
| Loans and advances to inter-group companies | - | 3,150 |
| Loans and advances to customers | 379,854 | 274,918 |
| Other assets: amounts owed by group undertakings | 6,718 | 3,730 |
| | <u>430,541</u> | <u>330,006</u> |

a) Loans and advances to banks and debt securities

The Bank's Board is responsible for approving treasury counterparties for investment purposes. Limits are placed in the amount of risk accepted in relation to one counterparty or group of counterparties. This is monitored daily by the Bank's finance team and reviewed monthly by the Bank's Asset and Liability Management Committee (ALCO).

The Bank's policy only permits lending to central government (including the Bank of England) and banks or building societies with high credit ratings.

| Industry sector | 2020 | 2020 | 2019 | 2019 |
|--------------------|---------------|------|---------------|------|
| | £'000 | % | £'000 | % |
| Banks | 20,017 | 45.5 | 16,993 | 35.2 |
| Central government | 23,952 | 54.4 | 31,215 | 64.8 |
| Total | <u>43,969</u> | | <u>48,208</u> | |

| Geographic region | 2020 | AA | AA- | A+ |
|-------------------|--------|-----|------|------|
| | £'000 | % | % | % |
| United Kingdom | 43,969 | 0.0 | 67.9 | 32.1 |

| Geographic region | 2019 | AA | AA- | A+ |
|-------------------|--------|------|-----|------|
| | £'000 | % | % | % |
| United Kingdom | 48,208 | 64.8 | 0.0 | 35.2 |

b) Loans and advances to customers

All loan applications are assessed with reference to the Bank's lending policies for personal or commercial lending dependent on the type of loan applicant. This includes assessing applicants for potential fraud risk. These lending policies are approved by the Board.

The table below provides information on retail loans by payment due status:

| Retail Loans | 2020 | 2020 | 2019 | 2019 |
|--|---------------|------|---------------|------|
| Arrears analysis | £'000 | % | £'000 | % |
| Not impaired: | | | | |
| Neither past due or impaired | 13,739 | 68.2 | 17,657 | 71.6 |
| Past due up to 3 months but not impaired | 69 | 0.3 | 434 | 1.8 |
| Past due over 3 months but not impaired | 758 | 3.8 | 3,565 | 14.5 |
| Impaired: | | | | |
| Not past due | - | - | - | - |
| Past due up to 3 months | 9 | 0.0 | 24 | 0.1 |
| Past due over 3 months | 5,561 | 27.6 | 2,983 | 12.1 |
| Total | <u>20,137</u> | | <u>24,663</u> | |

Notes to the financial statements (continued)

26. Principal risks and uncertainties (continued)

The Bank does not hold collateral against its retail loans and advances to customers except for loans totalling £337k (2019: £330k) which are secured on life policies taken out with the Society. The Society has guaranteed these loans.

The table below provides information on commercial loans by payment due status:

| Commercial loans and leases | 2020 | 2020 | 2019 | 2019 |
|--|----------------|------|----------------|------|
| Arrears analysis | £'000 | % | £'000 | % |
| Not impaired: | | | | |
| Neither past due or impaired | 362,799 | 98.9 | 243,993 | 95.1 |
| Past due up to 3 months but not impaired | 1,238 | 0.3 | 10,713 | 4.2 |
| Past due over 3 months but not impaired | 550 | 0.1 | 471 | 0.2 |
| Impaired: | | | | |
| Not past due | 195 | 0.1 | - | - |
| Past due up to 3 months | 434 | 0.1 | 195 | 0.1 |
| | | 0.5 | | |
| Past due over 3 months | 1,678 | | 1,063 | 0.4 |
| Total | 366,895 | | 256,435 | |

| Impairment provision for credit losses | 2020 | 2020 | 2019 | 2019 |
|--|----------------|----------------|----------------|----------------|
| | £'000 | £'000 | £'000 | £'000 |
| | Retail | Commercial | Retail | Commercial |
| Collective impairment provision: | (124) | (7,111) | (137) | (268) |
| Specific provision | (3,481) | (1,600) | (4,355) | (899) |
| Interest in suspense | (510) | (68) | (486) | (35) |
| | (4,115) | (8,779) | (4,978) | (1,203) |

The Bank has title to the plant and equipment that it leases and also holds collateral in the form of property and other assets against its long term secured commercial loans and advances to customers.

The Bank holds collateral against secured advances made to businesses and individuals in the form of charges over properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of financing and are updated on a periodic basis. As at 31 December 2020 the Bank holds £175k (2019: £150k) of collateral against impaired loans.

Forbearance

The Bank recognises that the personal and financial circumstances of borrowers can be directly affected by deteriorating economic conditions and unplanned events. When this happens, the Bank applies a formal policy directed towards forbearance and fair treatment of customers. The Bank uses a number of forbearance measures to assist such borrowers including agreeing a reduced monthly payment, transfer to interest only payments and the extension of the loan term. Forbearance measures are only provided to borrowers following a full assessment of their circumstances. Accounts on which forbearance has been provided are monitored and borrowers are expected to resume normal payments, including any increase to repay their loan at the end of the agreed term, once they are able.

Notes to the financial statements (*continued*)

26. Principal risks and uncertainties (*continued*)

Impairment losses on loans and advances to customers

Throughout the year and at each year-end, individual assessments are made of all loans which are in arrears, subject to forbearance activities or if there are any other significant concerns about the quality of the underlying credit. Individual impairment provision is made against those loans where there is objective evidence of impairment. Objective evidence may include:

- Significant financial difficulty of the borrower;
- Deterioration in the payment status of the loan;
- Granting a concession or forbearance to the borrower; or
- Any other information suggesting that a loss is likely in the short to medium term.

If there is objective evidence of impairment, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cashflows. Estimated cashflows will consider any anticipated recoveries through collections activity e.g. Individual Voluntary Arrangements.

When no objective evidence of impairment exists for an individual asset, it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment, and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

A collective provision is made against a group of assets where there is objective evidence that credit losses have been incurred but not identified at the reporting date. The collective impairment considers a number of factors including historical experience of default and loss emergence periods.

The amount of any impairment loss is recognised immediately through the Income Statement and a corresponding reduction in the value of the financial asset.

Treasury risk (the Bank's credit risk with wholesale counterparties)

It is the policy of the Bank to manage its resources to achieve the optimum return on funds commensurate with requirements of maintaining liquidity, controlling interest rate risk and in accordance with prescribed limits and procedures.

Under PRA guidelines, the Bank is required to maintain a liquidity buffer comprising of a stock of high quality, unencumbered liquid assets. The liquidity buffer to be held is at least at the minimum requirement advised by the Bank's regulator.

As at the end December 2020 the Bank held £35m of off balance sheet Treasury Bills through the Funding for Lending Scheme (2019: £35m) in UK government bonds and UK Treasury Bills. All other surplus funds are placed with approved institutions on the London Money Market or into approved short-term realisable investments. Placements are made only with institutions as authorised by the Board. The amount of such placements is subject to specific limits and, if of a size to be caught under the large exposure rules, agreed in writing by the PRA.

Liquidity risk

Liquidity risk reflects the potential for the Bank to be unable to meet its obligations as they become due, because of an inability to liquidate assets or obtain funding, or that it cannot easily unwind or offset specific exposures without significantly lowered prices, because of inadequate market depth or market disruption.

Notes to the financial statements (continued)

26. Principal risks and uncertainties (continued)

The aim of the Bank is to provide positive liquidity throughout time or otherwise to conform to any limits agreed in advance and in writing with the PRA. To ensure that the Bank maintains adequate liquidity to support its business strategy to grow the loan portfolio, the Board establishes policy for the measurement, management and monitoring of liquidity risk in support of its strategy. For the purposes of overall liquidity adequacy, it is the Bank's policy to maintain a liquidity buffer comprising of a stock of high quality unencumbered liquid assets. The liquidity buffer to be held is at least at the minimum requirement for the Liquidity Coverage Ratio as advised by the Bank's regulator. In normal market conditions, the stock will be maintained with a cushion over the regulatory level as defined by the Board. Liquidity is monitored daily by means of a cash position report in accordance with the PRA's reporting requirements.

Stress testing is a major component of liquidity risk management and the Bank has developed a range of scenarios covering a range of market wide and firm specific factors. A comprehensive stress testing exercise is conducted at least annually. The output of stress testing is circulated to the Board and to the Asset and Liability Committee who use the results to decide whether to amend the Bank's risk appetite and liquidity limits. The Bank has in place an appropriate contingency funding plan, which it will invoke to deal with liquidity crises which will include a bank-specific stress, a market-wide stress or breach of its liquidity risk appetite. The table below analyses the Bank's assets and liabilities into relevant maturity groupings, based on the remaining period to contractual maturity at the statement of financial position date. This is not representative of the Bank's management of liquidity.

The table below analyses the Bank's contractual undiscounted cash flows of its financial liabilities.

At 31 December 2020

| Residual maturity | Carrying Amount | Gross nominal inflow/ (outflow) | Not more than 3 months | More than 3 months but not more than one year | More than 1 year but not more than 5 years | More than 5 years |
|---|------------------|---------------------------------|------------------------|---|--|-------------------|
| Financial liabilities: | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Customer accounts | (330,042) | (337,919) | (90,026) | (123,104) | (124,790) | - |
| Deposits by banks | (13,000) | (13,052) | (3) | (10) | (13,039) | - |
| Total liabilities | (343,042) | (350,971) | (90,029) | (123,113) | (137,829) | - |
| Off balance sheet items | (35,009) | (35,000) | - | (35,000) | - | - |
| Total financial liabilities (with off balance sheet) | (378,051) | (385,971) | (90,029) | (158,113) | (137,829) | - |

At 31 December 2019

| Residual maturity | Carrying Amount | Gross nominal inflow/ (outflow) | Not more than 3 months | More than 3 months but not more than one year | More than 1 year but not more than 5 years | More than 5 years |
|---|------------------|---------------------------------|------------------------|---|--|-------------------|
| Financial liabilities: | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Customer accounts | (283,053) | (290,028) | (97,297) | (93,124) | (99,607) | - |
| Deposits by banks | - | - | - | - | - | - |
| Total liabilities | (283,053) | (290,028) | (97,297) | (93,124) | (99,607) | - |
| Off balance sheet items | (34,837) | (35,000) | - | (35,000) | - | - |
| Total financial liabilities (with off balance sheet) | (317,890) | (325,028) | (97,297) | (128,124) | (99,607) | - |

Notes to the financial statements *(continued)*

26. Principal risks and uncertainties *(continued)*

Concentration risk

This represents the risk to the Bank that results from its combined exposure to a significant group of customers within the same professional market.

The principal activities of the Bank are the provision of banking services, primarily deposit taking, personal and commercial lending, the majority of which is unsecured. Marketing activities in relation to deposits are targeted specifically at customers of the Society. Personal loans are provided to the Society's target markets including members of organisations with whom the Society has a strategic partnership, for example the National Association of Schoolmasters Union of Women Teachers ('NASUWT').

The Bank also offers commercial loans. In the legal sector loans are only made to law firms with the prime focus on 4 to 11 partner firms. As there are more law firms in the larger cities in the United Kingdom, there are some limited regional credit concentrations in those cities.

The Society operates only in the United Kingdom. Although it specifically targets members of the medical, dental, teaching, legal and accounting professions, it continues to service a significant number of Society 'core' customers, i.e. policyholders who pre-date the 1997 merger between the Society and Medical Sickness. As the Society is not an internationally diversified business, it is arguably exposed to a significant downturn in the UK economy, relative to other markets, but it believes that its core professional markets are less susceptible to economic cycles.

The Society deposits funds with the Bank on a fixed term basis to support the financing of the growth in the commercial loan book. No other single depositor accounts for more than 0.5% of Bank deposits, so the Bank does not believe there is any material concentration risk on deposit balances.

Market risk

This represents the sensitivity of the market value of a portfolio of financial assets and liabilities to changes in interest rates, foreign exchange rates and equity and commodity prices. The directors have concluded that the exposure to market risk is limited as the Bank does not have a trading book. The Bank invests in short-dated UK gilts and treasury bills; the volatility of market values in this market is considered to be low.

The Bank does not have any material foreign exchange, equity, commodity or credit spread risk. Therefore, the market risk analysis provided relates purely to the Bank's exposure and sensitivity to interest rate risk.

Interest rate risk

This is the risk that significant movements in interest rates will have a material impact on the Bank's profitability by, for example, reducing net interest margin. Rates of interest on the Bank's product range are monitored and amended as appropriate on an ongoing basis to ensure that they reflect the market price, the competition and the return that the Bank is seeking on its advances.

The Bank may be subject to an interest rate risk on its variable rate deposit accounts, where the Bank does not move rates immediately following a base rate change. However, interest rates are tiered, and the average interest rates are constantly monitored. The Bank will issue fixed rate term deposits to provide some matching for liquidity and interest rate risk in the unsecured personal loan portfolio.

Notes to the financial statements (continued)

26. Principal risks and uncertainties (continued)

Interest rate sensitivity gap analysis

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which instruments mature or, if earlier, the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates. The table below summarises these re-pricing mismatches on the Bank's non-trading book as at 31 December 2020. Items are allocated to time bands by reference to the earlier of contractual interest rate re-pricing date and the maturity or repayment date.

All interest rates and re-pricings are reviewed and agreed at ALCO, which is principally responsible for monitoring market risk. ALCO will also review sensitivities of the Bank's assets and liabilities to standard and non-standard changes in achievable effective rates. Standard scenarios that are considered monthly include a 2.00% or 0.50% rise or fall in effective average rates.

An analysis of the Bank's statement of comprehensive income sensitivity to an increase or decrease in effective rates is undertaken on an economic-based approach (assuming no asymmetrical movement and a constant statement of financial position status) is as follows:

Interest rate sensitivity gap analysis

At 31 December 2020

| | Over 3 months £'000 | Not more than 3 months £'000 | Non-interest bearing £'000 | Total £'000 |
|---|------------------------|------------------------------------|----------------------------------|----------------|
| Assets | | | | |
| Loans and advances to banks | 20,004 | 23,965 | - | 43,969 |
| Loans and advances to group undertakings | - | - | - | - |
| Loans and advances to customers | 97,347 | 276,416 | 6,094 | 379,857 |
| Shares in group undertakings | - | - | 500 | 500 |
| Tangible fixed assets | - | - | 4,708 | 4,708 |
| Intangible assets | - | - | - | - |
| Other assets | - | - | 10,958 | 10,958 |
| Total assets | 117,351 | 300,381 | 22,260 | 439,992 |
| Off balance sheet items | 35,009 | - | - | 35,009 |
| Total assets (with off balance sheet) | 152,360 | 300,381 | 22,260 | 475,001 |
| Liabilities | | | | |
| Deposits by Banks | - | 13,000 | - | 13,000 |
| Loans and advances from inter-group companies | - | - | 4,590 | 4,590 |
| Customer accounts | 240,081 | 89,961 | - | 330,042 |
| Other liabilities | - | - | 5,773 | 5,773 |
| Shareholders' funds | - | - | 86,587 | 86,587 |
| Total liabilities | 240,081 | 102,961 | 96,950 | 439,992 |
| Off balance sheet items | 35,009 | - | - | 35,009 |
| Total liabilities (with off balance sheet) | 275,090 | 102,961 | 96,950 | 475,001 |
| Interest rate sensitivity gap | (122,730) | 197,420 | (74,690) | - |

Notes to the financial statements (continued)

26. Principal risks and uncertainties (continued)

At 31 December 2019

| | Over 3 months £'000 | Not more than 3 months £'000 | Non-interest bearing £'000 | Total £'000 |
|---|------------------------|------------------------------------|----------------------------------|----------------|
| Assets | | | | |
| Loans and advances to banks | 17,243 | 30,965 | - | 48,208 |
| Loans and advances to group undertakings | - | 3,150 | - | 3,150 |
| Loans and advances to customers | 83,292 | 185,367 | 6,259 | 274,918 |
| Shares in group undertakings | - | - | 500 | 500 |
| Tangible fixed assets | - | - | 4,351 | 4,351 |
| Intangible assets | - | - | 1,053 | 1,053 |
| Other assets | - | - | 5,332 | 5,332 |
| Total assets | 100,535 | 219,482 | 17,495 | 337,512 |
| Off balance sheet items | 34,837 | - | - | 34,837 |
| Total assets (with off balance sheet) | 135,372 | 219,482 | 17,495 | 372,349 |
| Liabilities | | | | |
| Deposits by banks | - | - | - | - |
| Customer accounts | 186,531 | 92,111 | 4,411 | 283,053 |
| Other liabilities | - | - | 4,435 | 4,435 |
| Shareholders' funds | - | - | 50,024 | 50,024 |
| Total liabilities | 186,531 | 92,111 | 58,870 | 337,512 |
| Off balance sheet items | 34,837 | - | - | 34,837 |
| Total liabilities (with off balance sheet) | 221,368 | 92,111 | 58,870 | 372,349 |
| Interest rate sensitivity gap | (85,996) | 127,371 | (41,375) | - |

Economic-based approach (unaudited)

This looks at the net present value (NPV) of the balance sheet, impact of the mismatch in each time period arising between assets and liabilities measured up to 10 years. The profit risk is the result of the most severe impact of a 2% increase and a 2% decrease in rates. This is used to determine the impact on the discount rate based on an implied forward yield curve.

| | 2.00% Parallel increase | 2.00% Parallel decrease |
|------------------|-------------------------|-------------------------|
| | £'000 | £'000 |
| 31 December 2020 | (593) | 1,051 |
| 31 December 2019 | 828 | (679) |

Notes to the financial statements *(continued)*

26. Principal risks and uncertainties *(continued)*

Basis risk (unaudited)

In addition to reviewing the sensitivities of the Bank's assets and liabilities to linear changes in the forward yield curve ALCO also periodically monitors the Bank's basis risk exposure. The Bank is exposed to the following basis of interest rate risk with its maximum and minimum exposure to this risk throughout each financial period as set out below.

| | 2020 | | 2019 | |
|-------------------|----------|----------|----------|----------|
| | Max | Min | Max | Min |
| | £'000 | £'000 | £'000 | £'000 |
| Base rate | 204,280 | 172,710 | 144,540 | 119,360 |
| Administered rate | (41,880) | (52,920) | (40,500) | (44,410) |
| Fixed rate | (67,750) | (80,650) | (36,320) | (50,100) |

Basis risk is the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics (for example, LIBOR and the Bank of England base rate). This is monitored closely and regularly reported to the Asset and Liability Committee. This risk is managed by matching and where appropriate and necessary, through the use of derivatives, with established risk limits and other control procedures.

The Bank's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed accordingly.

Currency risk

The Bank does not hold any assets or liabilities in foreign currencies and has no foreign operations.

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 Bank's response to external factors is inappropriate or does not deliver the desired outcome over the longer term. The Bank 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.

The Board considers business risk in two specific areas:

- a) **Economic risk:** That a significant change in economic climate will materially affect the Bank's profitability. In terms of a potential recession, the key issue for the Bank is an increase in its exposure to credit risk.
- b) **Competitive / strategic risk:** The Society focuses primarily on specific professional markets; these are also the primary market for the Bank's products and services. While recognising that other financial services organisations already operate within those markets, there is a risk that competitors may develop a specific focus, leading to a downturn in the Society's fortunes. Following its' acquisition of Syscap, the Bank now also lends to SME's for both shorter term loans and asset finance which provides valuable diversification to its business model.

Notes to the financial statements *(continued)*

26. Principal risks and uncertainties *(continued)*

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, or actions of competitors. Recent examples of these events are the economic uncertainties created by Covid, the General Data Protection Regulations and changes to Dental contracts. Internal events include the quality and range of products and services offered, internal infrastructure being unable to deliver customer need (exacerbated by the impacts of Covid social distancing measures), and inappropriate strategic decisions taken by the Bank.

As business risk is inherent in the Bank's business model, its identification focuses on understanding the business model in the context of the environment in which Wesleyan operates, both internally and externally, and the adaptability of the business to changes in both environments. Each year, the Bank identifies any of these environmental factors that could affect its business strategy to determine the key business risks.

Conduct Risk

Wesleyan has a zero appetite for systemic unfair outcomes to customers at any part of the product lifecycle. While recognising that from time to time the Bank 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 in identifying issues that could be of concern, including considerations for the way products are designed, sales advice, complaint handling and across all other areas of customer contact. This risk is monitored through conduct risk MI and other internal assessments such as: advice quality, monitoring of complaints, delivery of fair customer outcomes (including value for money assessments), customer service performance against service standards, adherence to conduct regulations, performance of outsourced activities from third party administrators, conduct risk and rules training assessments, and sales force remuneration.

CORONAVIRUS (Covid-19)

The global coronavirus pandemic that arose in 2020 and continues to have a major impact on all economies. The impact on the Company's performance in 2020 is described in the Strategic report. With the roll out of the national vaccination programme and the Government's announced pathway to reopening the economy, provided the health data enables this pathway to be followed, the Directors believe it will have minimal further impact on the business.

27 Financial instruments

A financial instrument is a contract that gives rise to a financial asset or financial liability. The Bank is a retailer of financial instruments, mainly in the form of retail and commercial loans and savings products. The Bank uses wholesale financial instruments to invest in liquid assets and obtain funding from its parent undertaking.

The Bank has a formal structure for managing risk, including established risk limits, reporting lines, mandates, credit risk appetite and other control procedures. The Bank has an Asset and Liability Committee ("ALCO") which monitors the Bank's financial position, funding and liquidity in line with the Bank's key policy statements.

Key performance indicators are provided to the Board at each meeting and monthly to ALCO.

The company is a participant in the Bank of England's Funding for Lending Scheme. This scheme allows participants to borrow treasury bills from the Bank of England against collateral, in the form of certain eligible loans and advances, which is placed with the Bank of England. The value of this collateral at 31 December 2020 was £62.6m (2019: £66.6m).

The company is also a participant in the Bank of England's TFSME Scheme. This scheme allows participants to borrow treasury bills from the Bank of England against collateral, in the form of certain eligible loans and advances, which is placed with the Bank of England. The value of this collateral at 31 December 2020 was £23.9m (2019: £nil).

Notes to the financial statements (*continued*)

27. Financial instruments (*continued*)

Set out below is a summary of the terms and conditions and accounting policies for financial instruments.

| Financial instrument | Terms and conditions | Accounting policy |
|---------------------------------|---|---|
| Loans and advances to banks | Fixed interest rates Fixed term Short term maturity | Loans amortised at cost less impairment Accounted for at settlement date |
| Debt securities | Fixed or LIBOR linked interest rates Fixed term Short to medium term maturity | Debt instruments at amortised cost Accounted for at settlement date |
| Loans and advances to customers | Fixed or variable interest rates | Loans amortised at cost less impairment Accounted for at settlement date |
| Retail deposits | Fixed or variable term Fixed or variable interest rates | Amortised cost Accounted for at settlement date |

Financial assets and liabilities measured on an ongoing basis are held at either amortised cost or cost less impairment. Note 3: 'Accounting policies' describes how the classes of financial instruments are measured and how income and expenses are recognised. None of the Bank's financial assets or liabilities are measured at fair value.

28 Financial Services Compensation Scheme (FSCS) levy

Based on its share of protected deposits, the Bank, in common with all regulated UK deposit takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. In previous years the FSCS levy consisted of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the FSCS pays, net of any recoveries it makes using the rights that have been assigned to it. In 2008 claims were triggered against the FSCS by the failures of Bradford & Bingley and three Icelandic owned banks, Kaupthing Singer and Friedlander, Heritable Bank and Landsbanki hf. Since December 2008 there have been further claims triggered by the failures of London Scottish Bank and Dunfermline Building Society.

During the year the Bank made contributions to the FSCS levy of £5k (2019: £4k) under the management expenses levy and the compensation levy.

29 Segmental reporting

The Bank operates in one segment of business which is lending; all income on loans granted arises in the United Kingdom.

30 Related party transactions

The Bank has taken advantage of the exemption within FRS 102, paragraph 33.1A, relating to subsidiary undertakings which are 100% owned by the Group whose financial statements are publicly available. Therefore, no transactions with fellow subsidiary undertakings, or with the parent company Wesleyan Assurance Society, have been disclosed.

31 Ultimate parent company and ultimate controlling party

The ultimate parent company and controlling party of Wesleyan Bank Limited is Wesleyan Assurance Society which is incorporated by private act of Parliament and registered in England. Copies of the consolidated financial statements of Wesleyan Assurance Society may be obtained from the Company Secretary at Wesleyan Assurance Society, Colmore Circus, Birmingham, West Midlands, B4 6AR.

32 Post balance sheet events

There have been no significant events after the statement of financial position date.