NEWS RELEASE

For immediate release
24 March 2015

Policyholders to benefit from 35% capital distribution

Equitable Life today announces that from 1 April 2015, its capital distribution to with-profits policyholders increases from 25% to 35%.

This increase has been made possible by two significant financial transactions over the last year. In July 2014, the Society agreed with Halifax Life to take back full control of its unit-linked business. Then, earlier this month, the Society reached an agreement to transfer its non-profit annuity business to Canada Life.

Chris Wiscarson, Equitable Life's Chief Executive said:
"The Society's strategy of recreating policyholder value is delivering. Over the last five years, with-profits policyholders would have seen a transfer value of £10,000 grow to almost £15,500."

Ian Brimecome, Equitable Life Chairman said:
"The Society made more progress in 2014 than in any of my five years as Chairman. Our determination to return the Society's capital to its with-profits policyholders as fairly and as soon as possible, remains undimmed."

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Equitable Life media enquiries:
James Leviton
Teneo
0207 186 8883
James.leviton@teneostrategy.com

Notes to editors overleaf/……

Notes to editors

1. The Society's preliminary results for the year ended 31 December 2014 are attached.

2. The two major risk reduction programmes completed in the last year are:-

   In July 2014, we signed a contract with Halifax Life, part of Lloyds Banking Group to transfer the Equitable Life's unit-linked business back to the Society. Since 2001, this business was reinsured through Halifax Life. The Society now has direct control of the unit-linked business. More details are published on the Equitable website: http://www.equitable.co.uk/media/43208/ruby-web-announcement-final.pdf

   On 2 March 2015, Equitable Life agreed to transfer 31,000 annuities valued at c£875m as at 31 December 2014 to Canada Life. More details are published on the Equitable website: http://www.equitable.co.uk/media/41574/equitable-life-and-canada-life-press-release-3-march-2015-finalb.pdf

3. All individual with-profit policyholders have contracts with a guaranteed investment return. Over 98 out of 100 of these policyholders benefit from today's announcement, as the capital distribution together with the policy value exceeds the guaranteed benefit.

4. A with-profits pension policy with a transfer value of £10,000 at the end of 2010 would have a transfer value of c£15,500 on 1 April 2015. This increase is made up of the 35% capital distribution, the annual investment return on policy values, and the removal of the 5% financial adjustment in 2014.

5. Capital distribution history (% of policy values)

	2011	2014	2015
Capital Distribution	12.5%	25%	35%
Financial Adjustment	5%	0%	0%

Contents

Chairman's statement

The Society's Chairman
Ian Brimecome
on behalf of the Board

Dear members

I am pleased to report that the Society made more progress in 2014 than in any of my five years as Chairman.

- We doubled the level of capital distribution when policyholders take their benefits to 25%.
- We removed the 5% Financial Adjustment levied on transferring policies.
- We completed the transfer of our IT support services from Lloyds Banking Group to Atos.
- We signed an agreement with Halifax Life, now part of Lloyds Banking Group, to take full ownership of our unit-linked business.

Capital distribution

The Society's strategy of recreating value for policyholders remains as important as ever. Our capital ratios have remained satisfactory and our determination to return the Society's capital to you, as fairly and as soon as possible, is undimmed.

We are pleased to announce that we will increase the level of capital distribution from 1 April 2015 to 35% of policy values as at 31 December 2014.

Of course, we cannot guarantee that the capital distribution will be ever upwards or, be in such large increments as we've been able to achieve in recent years. Economic events and regulatory capital requirements must be properly heeded in securing the Society's foundation for the next 20 or 30 years, being the period of run-off for the policies we manage.

Unit-linked policyholders

In March 2015, we transferred our unit-linked business back from Halifax Life. We are now once again entirely responsible for managing these policies to the benefit of both unit- linked and with-profits policyholders.

In fact, many policyholders have both a unit-linked and a with-profits component to their savings. Such policyholders would have noticed rather more frequent communication about the with-profits element than the unit-linked. This will most certainly change in the future.

Importantly, this transfer leads to a significant reduction in the amount of capital we are required to hold under the new European regulations known as Solvency II.

Our annuity portfolio

In March 2015, we contracted with Canada Life to transfer to them the Society's £0.9bn annuity book.

As reported last year, the Society has to hold a material level of capital against this annuity book to address the risk that annuitants live longer than anticipated. The run-off profile of the annuity book is considerably longer than the with-profits business. This means we have to hold back high levels of capital to support non-profit annuities, to the disadvantage of all but the longest surviving with-profits policyholders.

In line with the Society's strategy, the transfer of the annuity book will release further capital for distribution.

Pension reforms

Early in 2014, the Chancellor of the Exchequer announced reforms to pensions that are as significant as I have seen for many years. From April 2015, pensions policyholders will have much greater flexibility in choosing what to do with their retirement savings. In particular, policyholders aged over 55 will be able to take all of their retirement savings as cash, with 25% normally being tax free and the remainder being taxed at their marginal rate.

Another important reform is the launch of the Government sponsored service, Pension Wise. This will offer free impartial guidance to policyholders about what to do with their savings at retirement.

In the spirit of these pension reforms, the Society has gone to great lengths to simplify the process that you have to go through when you take your benefits. Among many changes, we have dispensed with a considerable amount of the jargon much loved by the pensions industry but few others.

A volatile world

During my five years as Chairman, the world economy has swung from one unexpected state to another.

This uncertainty has consistently led to very low interest rates, and I think this is very relevant to our emphasis on capital distribution. We see no merit in investing in higher return riskier investments that require capital support when all that means is an opportunity to earn a per cent or two better than we are currently achieving. Far more sensible is to *not* take the risk, *not* consume capital, and *return that capital to you*.

One area that merits such attention is our corporate bond portfolio. In particular, we have reduced our holdings in corporate bonds and we have reduced the term over which we are prepared to invest in them. This approach leads directly to lower capital requirements, both today and under the new Solvency II regime.

Policy values

Our approach to corporate bonds leads inevitably, but precisely as intended, to a lower rate of return on the overall investment portfolio. Strange to say, therefore, that the gross return on the Society's assets over 2014 was 13.7%. Some 11.2% of the 13.7% is a capital gain as asset values have increased. The 11.2% cannot be used to increase policy values, because we hold the assets until the end of the term, ready to cover the cost of maturing policies. This is known as matching.

Matching means that, as interest rates rise or fall, the value of the underlying assets fall and rise correspondingly. And so do our liabilities to the same extent. The impact on the Society is therefore minimised unless for some reason we choose to move away from the matched position.

The great advantage of matching is that our ability to pay policy benefits is much less affected by interest rate movements. This is by far the best way of managing a closed fund.

Following on from our approach to matching and to reducing the Society's risks, we think carefully about how much it is appropriate to adjust policy values each year.

In recent years, we have increased policy values by 2% pa. Again in 2014 and 2015, we consider that a 2% pa return net of charges is appropriate and have increased policy values accordingly.

As to future returns, we are considering further whether the best outcome for our policyholders is to return more capital to them rather than maintain a portfolio of riskier assets simply to enable a 2% return.

We plan to report further on our thinking in 2016 once we have successfully bedded down the two material changes to our assets: being the sale of the annuity book and the repatriation of the unit-linked book.

Solvency II

From the beginning of 2016, we will move to the new European regulatory regime known as Solvency II.

In deciding how best to recreate value for policyholders, Solvency II is often front of mind. In particular, the way we structure our investment portfolio and our decision to take back ownership of our unit-linked business both make entire sense under the new solvency regulations.

We confirm that we have taken the new regulations into account in deciding on the 35% capital distribution.

Government compensation

In the run-up to the General Election, you may have seen that the Equitable Members Action Group ("EMAG") has been campaigning for additional Government compensation. If EMAG is successful, the vast majority of the Society's with-profits policyholders would benefit. We commend EMAG for this laudable campaign.

Board changes

We welcome Penny Avis, who has joined the Board as a non-executive Director. Penny is a qualified accountant and a former Deloitte corporate finance partner. She has served as an elected non-executive Board member at Deloitte UK LLP responsible for oversight of executive management. We look forward to benefiting from Penny's extensive experience.

As announced at our 2014 Annual General Meeting, Ian Reynolds retired from the Board last December. Ian has made a unique contribution to the Society over the past eight years. His unambiguous, consistent and persistent challenge on fairness to policyholders at Board, Audit and Risk Committee and Nominations Committee has been greatly valued. We thank him warmly.

Corporate governance

For many years, the Society has voluntarily adopted the relevant provisions of the UK Corporate Governance Code. As a member of the Association of Financial Mutuals, we are also subject to their Annotated Code. These codes set our standards for strong corporate governance with which companies should comply, and I confirm that the Society is in full compliance.

We are satisfied that your Board acts with integrity, diligence and very real purpose in recreating policyholder value.

Looking to the future

I know that I repeat myself from previous years, but my words are no less important for that. We shall continue to reduce the risks of the Society, thereby reducing the amount of capital that the Society has to hold against the uncertainty of those risks.

It remains our firm intention to continue our programme of distributing capital to you, our with-profits policyholders, as fairly and as soon as possible.

We look forward to the future with determination and confidence.

Ian Brimecome
Chairman
23 March 2015

Strategic report

Introduction

The Equitable Life Assurance Society is a mutual company owned by its members. The Society no longer writes any new business and is therefore in run-off. We manage the assets of: approximately 165,000 individual with-profits policyholders; 170,000 with-profits policyholders in company pension schemes; 145,000 unit-linked policyholders; and 30,000 annuitants. The majority of the with-profits and unit-linked business is expected to run off over the next 20 years; the annuity business will take longer. During 2014, the run-off relating to with-profits policies was 5%, in line with previous years.

The Society's business model remains straightforward. The Society is not open to new sales, so our strategy is exclusively to serve the best interests of our existing policyholders. For those who hold with-profits policies, the Society's capital is essentially their stake in the business. At the end of 2014, that capital amounted to £797m.

It is necessary to hold capital to ensure that the Society can meet its contractual obligations to policyholders far into the future in any number of challenging economic circumstances. Simply stated, the more risks the Society takes in managing its business, the more capital it needs to hold in case things go wrong.

Approximately half of individual policies and the great majority of company pension schemes have contracts entitling the with-profits policyholders to a Guaranteed Investment Return ("GIR") of 3.5% per year. The risk that the total payout to policyholders is lower than this remains the most significant financial exposure the Society faces and drives much of the strategy outlined in this report. We define payout as the policy value and investment return as enhanced by the capital distribution.

The Society's strategy

The Society's aim is to recreate policyholder value by distributing all of the assets among with-profits policyholders as fairly and as soon as possible.

To achieve this, we carefully manage solvency to enable capital distribution to be made and only then seek to maximise investment return, all the while providing a best value-for-money cost base.

Over the last few years, we have taken critical steps to reduce or eliminate key risks, thereby reducing the Society's capital requirements. During the second half of 2014, the Board began the process of selling the £0.9bn of annuities, leading to a contract with Canada Life on 2 March 2015. This sale, together with the repurchase of the unit-linked business, has been material to the Board's decision to increase the capital distribution from 25% to 35% commencing 1 April 2015. These transactions have built upon the achievements of previous years, such as the settlement in 2013 of our obligations under the Staff Pension Scheme.

We have concluded that it is fair to maintain at zero the Financial Adjustment when policyholders transfer their benefits on non-contractual terms. We have also concluded that it is fair to increase UK with-profits pension policy values by 2% pa (1.6% pa for life assurance policies where tax is deducted).

Against an economic backdrop of continuing low interest rates and a stock market value lower at the end of the year than the beginning, it is the Board's view that policyholders are receiving a rather better payout than could be obtained through many other means. Over the past five years, with-profits policyholders would have seen a transfer value of £10,000 grow to almost £15,500.

The Board has no wish that policyholders should leave prematurely, but is firm in its belief that, when policyholders do leave, they should leave with a fair share of capital. Indeed, subject to market conditions, and adequate capital support for those who remain, the Board wishes to continue increasing capital distributions in the future, as and when the opportunity presents itself.

Distributing all of the assets among with-profits policyholders as fairly and as soon as possible

The Board believes that a fair distribution is one that allows a policyholder to leave with an amount of capital that does not disadvantage those that remain. As the Society is in run-off, it is also fair that capital is distributed as soon as possible. The main technique used by the Board to achieve this strategy is to reduce risks against which capital is held, thereby increasing the amount available for distribution.

Company solvency levels are regulated by the Prudential Regulation Authority ("PRA") and fairness to policyholders by the Financial Conduct Authority ("FCA"). We put great store in having an open and cooperative relationship so that our regulators fully understand our run-off strategy and how we are performing against our objectives.

Unit-linked business

During 2014, one of the Board's key actions was to contract with Halifax Life, now part of Lloyds Banking Group ("LBG") to buy back the Society's unit-linked business. In March 2001, substantially all of the Society's unit-linked business was reinsured through Halifax Life. The arrangement effectively transferred the risks and rewards to LBG. The reinsurance arrangement did not, however, remove the primary liability of the Society to its policyholders, and so we were required to make provisions in the Balance Sheet equal to the value of the assets to which the unit contracts were linked.

Under the terms of the reinsurance agreement, if the Society were to become insolvent, LBG could then make payments directly to policyholders. However, were Halifax Life, for any reason, not to honour its commitments under the reinsurance contract, it is the Society's capital that unit-linked policyholders would rely on to meet their contractual entitlement. Therefore, the Society had to retain capital against the risk that Halifax Life was unable to meet its contractual obligations. This is known as counterparty risk capital.

Under Solvency II, counterparty capital requirements are especially onerous and, to mitigate this risk, the Society entered into a contract with Halifax Life in July 2014 for £27m, to repurchase the unit-linked business. The transaction came into effect after the balance sheet date on 8 March 2015 when £1.9bn of assets transferred from Halifax Life. As a result, an increase in our capital requirements of more than £200m will be avoided and the Society once again controls all material aspects of its business model for the benefit of policyholders.

Annuities

The Society had to hold a material level of capital relating to the £0.9bn annuity book, to address the risk that annuitants live longer than expected. This is known as longevity risk. The prime concern of the Board has been that the run-off profile of the annuity book is more than ten years longer than the with-profits business. The sale to Canada Life has all but eliminated this exposure to longevity risk and has reduced our exposure to risks associated with corporate bonds.

As a result of the sale more than £100m of capital over and above that recorded in the 2014 accounts is now available for distribution. This success was central to the Board's decision to raise the rate to 35%. A description of the accounting treatment for 2015 for both annuities and unit-linked policies can be found on page 75.

Our approach to capital distribution

A number of performance indicators are used by the Board to show the extent to which the strategies designed to recreate policyholder value are achieving the desired outcome. As regards capital distribution, the key indicator is its size and timing.

% of policy value	2009	2011	2014	2015
Capital distribution	0	12.5	25	35
Financial Adjustment	5	5	0	0

Capital distribution to policyholders began on 1 April 2011. At that time, a sum equivalent to 12.5% of policy values was allocated to payments for with-profits policies.

Following successful completion of the strategic projects described earlier, we have conducted a further extensive review of the capital required to meet regulatory requirements, both now and under a wide range of possible future economic and regulatory conditions.

In consequence, the Board has decided to increase the distribution to 35%. We explain how this works in practice on page 77. Full consultation with both the PRA and the FCA took place in advance of the Board's decision.

The Society's plan to meet the expected Solvency II capital requirements is on track. Our decision to increase the capital distribution to 35% has been made on the basis that it is affordable under the new solvency regime.

We estimate that a 35% capital distribution should lead to approximately 98 out of 100 individual with-profits policyholders receiving a payout greater than the policy guarantee.

Capital distribution: our plans for the future

As is very clear from this report, the Board is determined to continue reducing the Society's risks, in particular, those relating to credit and expenses, thereby reducing the levels of capital we need to hold. Every year, the Board will assess the impact of its risk reduction programme and decide whether a further increase in capital distribution is warranted.

We cannot be certain that capital distribution will forever increase because, the higher the amount, the more difficult it is to maintain that level in times of, say, market turbulence.

The Board has assessed the potential capital available for distribution in the years ahead and considers that any future increments are likely to be less than seen during the last two years. This is because the most significant steps to reducing and eliminating risk have now been taken.

Carefully managing solvency to enable capital distribution and only then seeking to maximise return

The Board believes that there is great value for policyholders in managing assets in a manner that minimises risk. While this means that investment returns are expected to be lower than a strategy involving riskier equity and property assets, the significantly lower capital requirement means that surplus capital can be paid to policyholders more quickly. In a closed book, this is fair to policyholders who take their benefits in the next few years. So long as there remains sufficient capital to support the longest serving policyholders, earlier leavers should not be denied a fair capital distribution for the sake of higher investment returns to those policyholders who remain.

The Board has been successful in improving solvency ratios during 2014 as a direct result of actions taken in executing its investment strategy. In turn, this has led to an increase in the amount available for capital distribution, and is the main reason for the increase in Surplus set out in the table on page 8.

Solvency

The first important capital measure used at the Society is Excess Realistic Assets ("ERA"). This is the excess of assets (calculated on a realistic basis as used in the accounts) over policy liabilities (calculated on our best estimate of policyholder behaviour). ERA has increased from £691m at the end of 2013 to £797m at the end of 2014, primarily due to the investment performance of our derivatives. These are held to mitigate the risk of interest rates falling, which may take place at the same time as policyholders deferring retirement, which would then drive up the cost of their guarantees.

The derivatives are explained in more detail on page 70.

The second important capital measure used at the Society is Economic Capital ("EC"). Here we consider the impact on the Society's capital under

extreme conditions, that is, events that could occur once in every 200 years, resulting from, among other things, insurance risk, credit risk, market risk, operational risk and liquidity risk. Accounting rules do not allow these extreme events to be included in the technical provisions in the accounts.

The main changes to EC in 2014 were:

- The effects of low interest rates, including the impact on the cost of guarantees. This is offset by the increase in the value of derivatives in the ERA;
- The reduction in operational risk following the transfer of IT to Atos, as described under Principal risks; and
- The reduction of credit risk through our investment strategy, as described under Investment return.

A simple example will show how the ERA and EC measures interact:

	2013 £m	2014 £m
ERA – the amount of capital we hold	691	797
Less: EC – the amount of capital we require	231	235
Surplus	460	562

The Surplus is the difference between the capital held and the capital required. The Board considers that an increasing level of Surplus should be regarded as positive, as it can make this available to policyholders as they leave.

The change in the surplus is summarised below:

	£m	£m
Surplus at 1 January		460
Effect of low interest rates on:		
Derivative value increasing ERA	96	
Guarantees and other risks in EC	(98)	
		(2)
Effect on EC of reduction in:		
Operational risk	14	
Credit risk	80	
		94
Other		10
Surplus at 31 December		562

Individual Capital Assessment

Under PRA rules, we are also required to prepare a confidential assessment of the Society's capital needs. These capital requirements are met out of the ERA and, in extreme situations, from non-guaranteed benefits. The Board has defined a risk appetite such that the Society should hold capital at least 120% of that required under the Individual Capital Assessment ("ICA") rules. The current level is significantly in excess of this.

We place great store on what the policyholders think about our strategy and especially our plans for capital distribution. We obtain feedback through regular questionnaires and other research. Every year, we seek the views of a representative sample of policyholders. We are pleased to report that the great majority of these policyholders continue to consider the Board to be steering the Society in the right direction.

Investment return

The Society's strategy is to effectively manage solvency and, only then, to maximise return. Key to this strategy is matching policy payments to income from assets. This means that, as interest rates rise or fall, the Society's ability to pay benefits is much less affected, thereby reducing the risk of changing interest rates impacting the capital required.

This necessarily leads to a relatively conservative investment approach, with the Society's portfolio consisting primarily of British government securities (gilts) and corporate bonds. During the last few years, the Society has materially reduced its holding in capital intensive equities and property. In order to reduce the capital held against credit and spread risks, the Board has decided to reduce the exposure to long dated corporate bonds. Long dated liabilities will now be matched by gilts and shorter dated liabilities by corporate bonds. We have also sold the majority of our asset backed security holdings to avoid the particularly onerous capital burden under Solvency II. These are good examples of carefully managing solvency to enable capital distribution and only then seeking to maximise return.

Given our strategy, the investment return needs to be seen in context of the increased capital distribution resulting from investing in relatively low risk assets. The resulting return net of charges will be lower than from a portfolio invested in higher risk equities and property, but capital distribution will be significantly higher. It is the Board's intention to continue with this investment strategy, which may result in a lower return in the future to ensure a higher capital distribution.

The return on investments in 2014 was 13.7%, which represents both realised and unrealised gains as well as income from the invested assets. The significant fall in interest rates in 2014 has increased the value of gilts and bonds, which constitutes a large part of the return in the year. As a result of our matching policy, the liabilities have risen by an equivalent amount.

Consequently, the part of the return arising from the government bond yield movement has been removed (11.2%) in order to arrive at the investment performance of the fund which, in 2014, was 2.5% before charges of 1.5%.

The Board considers the historic and potential return net of charges for expenses and guarantees in deciding upon the smoothed rate to be passed on to policyholders. Further details are provided on page 52.

In considering an appropriate increase to policy values, the rate of return at which the assets were originally invested to match the liabilities is a key consideration. This long-term sustainable rate is more important than the return currently being earned on the fund, because of the close matching maintained between assets and liabilities. The Board has assessed, all other things being equal, that the long-term sustainable rate should continue at 2% pa net of charges.

This focus on the long-term rate achieves our aim of smoothing out the effects of short-term investment performance. Following the valuation at the end of 2014, the Board has confirmed that, for 2014, policy values will increase at 2% pa for UK with-profits pension policies (1.6% pa for life assurance policies where tax is deducted).

The Society continues to hold high levels of liquid assets in order to provide protection against the possible scenario of policyholders who have passed their earliest contractual date deciding to take their benefits immediately. While this scenario did not occur in 2014 following the increase in capital distribution, the Board considers it prudent to be prepared given the uncertainties in accurately predicting policyholder behaviour, especially relevant today, given the extra choice under this Government's pension reforms.

The impact of such an event would be approximately £1.4bn. Therefore, liquid assets significantly in excess of this amount are held in mitigation.

Providing the best value-for-money cost base

We consider a value-for-money cost base to be one where the business-as-usual costs reduce in line with policy benefits, all the time providing a trusted and valued service. During 2014, this was successfully achieved.

We also incur costs through the need for one-off projects. Success for such spend is to reap the benefits of the projects, which are often critical to enabling capital distribution. In the future, project expenditure on strategic programmes is expected to reduce.

Total costs in 2014 have fallen to £46m, down from £78m in 2013, and down from £115m in 2009.

Administrative expenses

The Board considers that a key performance indicator is the reduction in administrative expenses in line with policy benefit numbers. This requires efficiency savings to be made which more than mitigate upward pressures on the cost base such as inflation. In any given year, it is not always possible to achieve this due to, for example, our exposure to an unexpected exit of a group pension scheme. However, over time, the associated costs will be managed downwards. Therefore, it is fair to measure the change to the end of 2014 since the current Board was constituted in 2009.

% reduction since 2009	2014
Administrative expenses	28
Policy benefit numbers	24

The main areas of saving continue to be from the Lean Manufacturing techniques, introduced in 2011. Lean Manufacturing techniques promote continuous improvement and operational excellence within the business. In addition, the Society has launched Simplification in 2014, a cost reduction programme that simplifies business processes and achieves reductions in third party expenditure. In consequence, staff numbers, including contractors, fell from 371 in December 2013 to 357 by the end of 2014.

In setting targets to deliver a value-for-money cost base, the Board is mindful of the need to, first, have in place strong controls and, second, deliver a service trusted and valued by policyholders.

In regard to strong controls, the Society operates a robust and comprehensive risk management framework discussed in more detail on page 19. Service is monitored across a range of objectives against which there are specific targets. In the last few years, a high level of service has been maintained in excess of the targets while reducing costs in line with run-off.

It is also essential to the success of the Society to have a motivated and engaged workforce which is flexible, responsive and understands its role in living up to the Society's four values of transparency, fairness, affordability and delivering for our policyholders. Each year, staff are asked to complete a survey covering areas important to their engagement at work.

In 2014, the vast majority of staff clearly understood their role in recreating value for policyholders and agreed that the Equitable Life is a good place to work. Very similar results were also recorded in previous years.

Our future cost plans

No redundancy programme took place in 2014 as we sought to retain experienced staff to cover any rise in claims following the increase in capital distribution. In 2015, we expect to make approximately 40 people redundant. This reduction reflects the fewer number of policies that have to be administered and the completion of strategic programmes. We have fully consulted with the union and the affected departments.

Over the last few years, a reserve has been built up, which, together with the 1% charge to policyholders for expenses, is intended to provide sufficient funds to meet the Society's future costs.

The Board will continue to execute plans through its Simplification programme, so that the current charge to policyholders of 1% of policy values for costs can be maintained during run-off.

Exceptional project expenditure during 2014 of £10m is significantly lower than in previous years following the successful completion of the transfer of the IT estate to Atos. It is planned to continue at this lower level during 2015 and beyond. The costs of strategic programmes will fall away, but will be replaced by severance expenditure.

Principal risks

The Society operates a comprehensive risk management framework, through which it identifies, monitors, reports and manages its principal risks and ensures that adequate capital is held against them.

The main risk types relevant to the Society are insurance, credit, market, operational, liquidity, regulatory and strategic. The Board continues to reduce the Society's exposure to these risks.

Insurance risk

Insurance risk refers to fluctuations in the actual timing, frequency and severity of insured events relative to the expectations of the Society at the time of underwriting.

The two most important examples are:

(i) Longevity risk, which is discussed on page 67 and has now been all but eliminated.

(ii) Expenses risk: the risk that the Society may not be able to reduce its costs in line with policyholder run-off. This is discussed on page 67. As a consequence of the Simplification programme, this risk has been reduced during 2014.

Credit risk

Credit risk refers to where a counterparty fails to pay amounts in full when due. The main credit risks faced by the Society are:

(i) Default risk: the risk of default on its portfolio of fixed-interest securities, especially corporate bonds.

(ii) Counterparty risk: the risk of default by any of its reinsurers.

The Society seeks to limit exposure to credit risk by setting robust selection criteria and exposure limits covering factors such as counterparty financial strength. The Society monitors against these limits so that appropriate management actions can be taken to pre-empt loss from default events. No such defaults have occurred in 2014.

The major reinsurance treaties are with companies in LBG. Because reinsurance does not remove the Society's primary liability to its policyholders, the credit rating of LBG and certain of its group companies are monitored closely. As noted on page 6, the Board has substantially reduced our exposure to this risk with reinsured assets falling from approximately £2.4bn at the end of 2014 to approximately £0.5bn at 8 March 2015.

Market risk

(i) Interest rates: the risk that interest rate changes have a financial impact through mismatching of assets and liabilities.

The Society closely matches the expected income from assets to the expected outgoings from policy maturities.

The more closely we are matched, the less capital is required against interest rate movements.

During 2014, there were two adjustments to asset terms in line with the year-end and half year liability valuations. As a result, cash flow matching has been further strengthened.

(ii) Policy transfers: the risk that maturities and transfers are not in line with estimates.

Should interest rates fall even further from today's very low levels, there is a risk that some policyholders with a 3.5% guarantee would delay taking benefits as the guarantee becomes more attractive.

This means that more capital would need to be held for longer and would therefore not be available for early distribution.

To mitigate this risk, the Society holds a series of derivatives called swaptions. When interest rates are low, the value of the swaptions rises and is recorded in ERA, offsetting the increase in EC relating to the risks they are designed to mitigate. The overall impact on the surplus shown in the table on page 8 is, consequently, immaterial. When interest rates rise, the value of the swaptions will fall but will be offset by a reduction in EC, leading to minimal change in overall surplus.

(iii) Spread risk: changes in the value of corporate bonds relative to gilts could have a financial impact on ERA. The Society invests in a diversified portfolio of high-quality corporate bonds, thereby reducing the potential exposure. During 2014, as discussed on page 9, the duration of the bond portfolio was shortened, thereby further mitigating the risk. The sale of the annuities to Canada Life in 2015 has further reduced our exposure to spread risk.

Operational risk

Operational risk is the potential for loss to result from inadequate or failed internal processes and systems, human error or from external events. The main sources of operational risk for the Society are: first, those related to delivery of services to our policyholders; second, the delivery of services by significant third party suppliers; and third, risks in executing strategic projects. With the successful completion of the transfer of the IT estate to Atos, this last risk has been materially reduced, leading to a £14m reduction in capital required.

Liquidity risk

This is the risk that the Society could fail to meet short-term cash flow requirements, particularly those in respect of policyholders taking their benefits.

For many years ahead, the Society monitors its liquidity position by estimating the expected cash outflows from its insurance and investment contracts.

It manages any potential mismatch by purchasing assets with similar durations to meet these obligations. As discussed on page 9, this risk has been substantially mitigated.

Regulatory risk

Regulatory risk is the risk to capital and reputation associated with a failure to identify or comply with regulatory requirements and expectations.

The Society maintains an open and cooperative relationship with its regulators and has arrangements in place to identify new regulatory developments, implement changes to meet these requirements, and monitor ongoing compliance, such that the risk was fully mitigated in 2014. The Board expects that the remaining uncertainties over the impact on the Society of the new Solvency II regime will become clear by the end of the year. These uncertainties have been taken into account in the capital distribution decision making process. The regulatory environment continues to be one of constant change with no signs that the pace will slow down during 2015.

Strategic risk

The Society faces a number of risks to the achievement of its strategic objectives, especially those related to capital distribution. When determining the Society's strategy, the Board assesses the risks associated with the implementation of that strategy, and sets its risk appetite.

The Society manages the risks within the specified appetite, taking action when necessary to bring them back within that appetite.

The Board considers that, as a result of action it has taken, the principal risks faced by the Society continue to be well managed and are at historically low levels. Therefore, the capital required to be held against them is lower, and the amount available for distribution consequently higher. This has been critical to the decision to increase the capital distribution to 35%. In short, policyholder value continues to be recreated.

Chris Wiscarson
Chief Executive
23 March 2015

Simon Small
Finance Director

Profit and loss account

For the year ended 31 December 2014

Technical account – long-term business

	Notes	2013 £m	2013 £m	2014 £m	2014 £m
Earned premiums, net of reinsurance					
Gross premiums written	3	25		36	
Outward reinsurance premiums		(15)		(11)	
			10		25
Investment income	4		296		280
Unrealised gains on investments	4		-		466
Other technical income			4		3
Total technical income			**310**		**774**
Claims incurred, net of reinsurance					
Claims paid – gross amount	5	402		386	
Reinsurers' share		(34)		(33)	
			368		353
Changes in other technical provisions, net of reinsurance					
Long-term business provision – gross amount	11d	(595)		437	
Reinsurers' share	11d	54		(114)	
			(541)		323
Technical provisions for linked liabilities – gross amount	11d	291		121	
Reinsurers' share	11d	(290)		(74)	
			1		47
Net operating expenses					
Administration expenses	6a	33		29	
Exceptional expenses projects	6a	21		10	
Exceptional expenses former pension scheme	6b	16		-	
			70		39
Investment expenses including interest	4		7		6
Unrealised loss on investments	4		403		-
Taxation attributable to the long-term business	8		2		6
			482		51
Total technical charges			**310**		**774**
Balance on the Technical Account			-		-

The results for 2014 and 2013 are not consolidated, as explained in Note 1a. All significant recognised gains and losses are dealt with in the Profit and Loss Account. All amounts relate to continuing operations. The Notes on pages 47 to 75 form an integral part of these financial statements.

Balance sheet

As at 31 December 2014

Assets

	Notes	2013 £m	2014 £m
Investments			
Land and buildings	9a	3	5
Investments in Group undertakings	9b	22	23
Shares and other variable yield securities and units in unit trusts	9b	61	134
Debt and other fixed-income securities	9b	4,934	5,235
Deposits and other investments	9b	307	328
		5,327	**5,725**
Assets held to cover linked liabilities	9c	**263**	**310**
Reinsurers' share of technical provisions			
Long-term business provision	11c	374	488
Technical provisions for linked liabilities	11c	1,961	1,925
		2,335	**2,413**
Debtors			
Debtors arising out of direct insurance operations	10	4	4
Debtors arising out of reinsurance operations	10	-	3
Other debtors	10	4	5
		8	**12**
Other assets			
Cash at bank and in hand		**7**	**5**
Prepayments and accrued income			
Accrued interest and rent		65	56
Other prepayments and accrued income		4	3
		69	**59**
Total assets		**8,009**	**8,524**

The Notes on pages 47 to 75 form an integral part of these financial statements.

Balance sheet

As at 31 December 2014

Liabilities

	Notes	2013 £m	2014 £m
Technical provisions	11a		
Long-term business technical provision - gross amount		5,671	6,108
Technical provisions for linked liabilities	11b	2,224	2,235
		7,895	**8,343**
Creditors			
Creditors arising out of direct insurance operations		21	20
Creditors arising out of reinsurance		2	-
Amounts owed to credit institutions	14a	4	3
Other creditors including taxation and social security	14b	71	147
		98	**170**
Accruals and deferred income		**16**	**11**
Total liabilities		**8,009**	**8,524**

These financial statements were approved by the Board on 23 March 2015 and were signed on its behalf by:

Simon Small
Finance Director

Equitable Life Assurance Society registered company number 37038

The Notes on pages 47 to 75 form an integral part of these financial statements.

Notes on the financial statements

1. Accounting policies

a. Basis of presentation

The financial statements have been prepared under the provisions of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies, section 405 of the Companies Act 2006. They have been prepared in accordance with applicable accounting standards and the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("the ABI SORP") issued by the Association of British Insurers ("ABI") dated December 2005 and revised in December 2006, which, inter alia, incorporates the requirements of 'FRS 27 Life Assurance'. The true and fair override provisions of the Companies Act 2006 have been invoked in respect of the non-depreciation of investment properties, as explained in section h. The financial statements do not include a cash flow statement under the exemption for mutual life assurance companies within 'FRS 1 Cash flow statements'.

The Directors have considered the appropriateness of the going concern basis used in the preparation of these financial statements, having regard to the ability of the Society to be able to meet its liabilities as and when they fall due, and the adequacy of available assets to meet liabilities. In the opinion of the Directors, the going concern basis adopted in the preparation of these financial statements continues to be appropriate. A more detailed explanation is provided in the Directors' report on page 16.

The size of the Society's remaining subsidiary company is immaterial from the point of providing a true and fair view of the affairs of the Group. Therefore, these accounts are not consolidated and represent the results and position of the Society only.

b. Change in accounting policies

The Directors have reviewed the accounting policies and satisfied themselves as to their appropriateness. There are no changes in accounting policy from the prior year.

c. Contract classification

The Society has classified its Long Term Assurance business in accordance with 'FRS 26 Financial Instruments: Recognition and Measurement'. Insurance contracts are contracts that transfer significant insurance risk such as non unit-linked non-profit contracts. Investment contracts are those contracts where no significant insurance risk is transferred. Investment contracts that contain a discretionary participation feature entitling the policyholder to receive additional bonuses or benefits, such as with-profits contracts, are classified as investment contracts with discretionary participation feature. Those investment contracts that do not have this feature are classified as investment contracts without discretionary participation feature, and are almost entirely unit-linked contracts.

Hybrid policies that include both discretionary participation feature and unit-linked components have been unbundled and the two components have been accounted for separately.

Reinsurance contracts have been classified in the same manner as direct contracts, with those reinsurance contracts which do not transfer significant insurance risk classified as financial assets.

A major treaty with companies in Lloyds Banking Group ("LBG") reinsures unit-linked and non-profit business. Some of the underlying policies reinsured by the treaty are classified as insurance and others as investment. Rather than classifying the reinsurance treaty as a whole, the underlying policies have been considered and the reinsurance classified accordingly.

d. Insurance contracts and investment contracts with discretionary participation feature

Earned premiums

Premiums earned are accounted for on a cash basis, in respect of single premium business and recurrent single premium pension business, and on an accruals basis in respect of all other business.

All pension policies contain an open market option under which, in lieu of the benefits that must be taken on retirement, the equivalent lump sum can be transferred to another provider. All such lump sums, arising from policies within the Society, are included in 'Claims paid'.

Claims

Death claims are recorded on the basis of notifications received. Retirements at the option of policyholders and surrenders are recorded when notified; contractual retirements, maturities and annuity payments are recorded when due. Claims on with-profits business include bonuses payable, which in turn include capital distribution amounts.

Claims payable include interest and direct costs of settlement.

Reinsurance contracts

Outward reinsurance premiums are recognised when payable. Reinsurance recoveries are credited to match the relevant gross claims.

Liabilities

Liabilities for insurance contracts and investment contracts with discretionary participation feature are measured as described in section k.

e. Investment contracts without discretionary participation feature

Unit-linked and non-profit investment contracts classified as investment without discretionary participation feature are classified as financial instruments under FRS 26 and so have been accounted for using the principles of deposit accounting. Policyholders' deposits and withdrawals are not included in premiums and claims in the Profit and Loss Account, but are accounted for directly in the Balance Sheet as adjustments to technical provisions. Fees receivable from investment contracts without discretionary participation feature are reported in 'Other technical income'.

Liabilities for contracts classified as investment without discretionary participation feature are measured on an amortised cost basis. The amortised cost of these financial liabilities is equivalent to the amount payable on demand without penalty.

f. Investment return

Investment return comprises all investment income, realised gains and losses, and movements in unrealised gains and losses, net of investment expenses, including interest payable on financial liabilities.

Investment income, including interest income from fixed-interest investments and rent, is accrued up to the balance sheet date. Other income is recognised when it becomes payable.

Property rental income arising under operating leases is recognised in equal instalments over the period of the lease.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost.

Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

g. Valuation of investments

All financial assets are initially recognised at cost, being the fair value at the date of acquisition. Subsequently, all financial assets are valued at fair value through the Profit and Loss Account. Where possible, fair value is based on market observable data, which is used to determine a bid market valuation. Where market observable data is not available or is inadequate it will be supplemented by broker or dealer quotations, the market values of another instrument that is substantially the same or other appropriate valuation techniques.

A financial asset is recognised when the Society commits to purchase the asset, and is derecognised when the contractual right to receive cash flows expires or when the asset is transferred.

Financial assets at fair value through the Profit and Loss Account have two subcategories: financial assets held for trading; and those that were designated at inception as fair value through the Profit and Loss Account. As required by FRS 26, derivative instruments have been classified as held for trading. All other financial assets have been classified as fair value through the Profit and Loss Account. No material financial assets have been classified as held to maturity, loans and receivables or as available for sale under FRS 26 classification.

The Society's derivatives are interest rate swaptions and forward contracts. Hedge accounting has not been used for these instruments. Collateral received to back derivative positions is recognised on the Balance Sheet as cash, with a corresponding liability in 'Other creditors'.

Securities lent, where substantially all the risks and rewards of ownership remain with the Society, are retained on the Balance Sheet at their current value. Collateral received in respect of securities lent is not recorded on the Balance Sheet.

h. Property

Freehold and leasehold properties are valued individually by the qualified surveyors Jones Lang LaSalle on the basis of open market value, as defined in the Royal Institution of Chartered Surveyors ("RICS") Valuation Standards, less the estimated costs of disposal.

No depreciation is provided in respect of investment properties. The Directors consider that this accounting policy is appropriate for the financial statements to give a true and fair view as required by 'SSAP 19 Accounting for Investment Properties'. Depreciation is only one of the factors reflected in the annual valuations and the amount which might otherwise have been shown cannot be separately identified or quantified.

i. Investments in Group undertakings

Investments in Group undertakings are carried at net asset value with changes in carrying value reported in the Profit and Loss Account.

j. Impairment policy

The Society reviews the carrying value of its assets (other than those held at fair value through the Profit and Loss Account) at each balance sheet date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the Profit and Loss Account. Impairment is only recognised if the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

k. Technical provisions – long-term business provision and provision for linked liabilities

The long-term business provision is determined for the Society, following an investigation of the long-term funds, and is calculated in accordance with the rules contained in the combined Financial Conduct Authority ("FCA")/Prudential Regulation Authority ("PRA") Handbook of Rules and Guidance. The investigation is carried out as at 31 December. For the with-profits business of the Society, the liabilities to policyholders are determined in accordance with the PRA realistic capital regime and in accordance with the requirements of FRS 27. These liabilities include guaranteed bonuses and an estimate of non-guaranteed benefits, including future discretionary increases to policy values, and provision for any guaranteed values which are in excess of policy values. With-profits policy liabilities do not include an allowance for capital distribution.

With-profits technical provisions include an amount representing the excess of assets over other realistic liabilities. This amount is referred to as Excess Realistic Assets ("ERA") in these financial statements and is a key measure of the Society's capital, as described in the Strategic report.

The calculation of the long-term business provision for all non-profit and index-linked annuity business is calculated using the gross premium valuation method, where the provision equals the discounted value of benefits and expenses.

The Society's investment contracts without discretionary participation feature consist almost entirely of unit-linked contracts. The liability in respect of unit-linked contracts is equal to the value of assets to which the contracts are linked, and is included in 'Technical provisions' in the Balance Sheet.

l. Taxation

The charge for taxation in the Profit and Loss Account is based on the method of assessing taxation for long-term funds. Provision has been made for deferred tax assets and liabilities using the liability method on all material timing differences, including revaluation gains and losses on investments recognised in the Profit and Loss Account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and has not been discounted, and is only recognised to the extent that recovery is possible at a later date.

m. Foreign currency translation

Monetary assets and liabilities in foreign currencies are expressed in pounds sterling at the exchange rates ruling at the balance sheet date. Income and expense transactions have been translated at rates of exchange ruling at the time of the transactions.

n. Segmental reporting

In the opinion of the Directors, the Society operates in one business segment, being that of long-term insurance business.

2. Reinsurance

On 1 March 2001, the Society entered into reinsurance contracts with Halifax Life (now part of LBG), in respect of certain of its unit-linked and non-profit business. The establishment of the reinsurance contracts effectively transferred the risks and rewards in respect of the reinsured business to LBG. However, the primary obligation under the policies remains with the Society and so the technical provisions on the Balance Sheet include reinsured policies.

Premiums and deposits received from policyholders in respect of reinsured business are immediately forwarded to LBG. LBG reimburse the Society for any claims and withdrawals the Society has paid to policyholders in respect of reinsured business. Under the terms of the reinsurance contracts with LBG, if the Society were to become insolvent, or reasonably likely to become insolvent in the opinion of the reinsurer's board, LBG can then make payments directly to policyholders whose policies have been reinsured.

The reinsurance contracts create an asset on the Balance Sheet of £2,413m, being the entitlement for the Society to recover from LBG the claims paid under reinsured business (see Note 11c). In the event of the insolvency of the reinsurer, the Society would be liable for any shortfall between the obligations under the policies and the amounts recovered.

As described in the Strategic report, in 2014 the Society entered into a further contract with Halifax Life, now part of LBG, to buy back £1.9bn of previously reinsured unit-linked business. The 2014 contract was conditional on transferring the assets to the Society, which occurred in March 2015, and the Society now directly manages the assets backing the majority of unit-linked policies. The insurance and expense risk associated with the recaptured business has returned to the Society and the concentration of counterparty risk with LBG has significantly reduced. Further information is provided in Note 18.

The Society has several other outward reinsurance contracts under which relatively small volumes of business are reinsured.

The reinsurance balance amounted to a credit to the long-term business Technical Account at 31 December 2014 of £210m (2013: £255m credit). This credit is largely driven by an increase in the reinsurer's share of non-profit liabilities.

3. Earned premiums

Premiums received in respect of investment contracts without discretionary participation feature are not included in the Technical Account or in the table below, as stated in Note 1e. The total of these deposits received in 2014 was £29m and represents linked pension business (2013: £34m). New premium deposits were £5m (2013: £3m).

Premium income included in the Technical Account is analysed in the table below.

	2013 £m	2014 £m
Analyses of gross premiums:		
Individual premiums	24	34
Premiums under group contracts	1	2
	25	**36**
Regular premiums	20	19
Single premiums	5	17
	25	**36**
Premiums from non-profit contracts	14	10
Premiums from with-profits contracts	9	24
Premiums from linked contracts	2	2
	25	**36**
Premiums from life business	13	12
Premiums from pension business	12	24
	25	**36**
Premiums from UK business	23	34
Premiums from overseas business	2	2
	25	**36**

Classification of new business

The Society closed to new business on 8 December 2000. However, the Society continues to recognise new business premiums and deposits in a number of instances, including:

- Unless classified as investment contracts without discretionary participation feature, transfers from group to individual contracts are classified as new business single premiums and, for accounting purposes, are included in both claims incurred and as single premiums within gross premiums written. Such amounts constitute the majority of premiums from non-profit contracts and the increase in new premium income in 2014.

- Where an amount of fund under a managed pension is applied to secure an immediate annuity, that amount is included in both claims incurred and as a single premium within gross premiums written.

Of the £36m gross premiums reported in the Technical Account and analysed in the table above, £17m was new premium income in the year (2013: £5m). The new premium income related to single premium pension business and was split £1m non-profit, £14m with-profits and £2m linked (2013: £2m non-profit, £2m with-profits, £1m linked). Annual equivalent premiums in respect of new business received during the year were £2m (2013: £0.5m). New premiums in respect of reinsured business during the year were £2m (2013: £1m).

4. Total investment return

	2013 £m	2014 £m
a. Total investment return		
Investment income comprises income from:		
Land and buildings	1	-
Other investments	204	182
Net gains on realisation of investments	91	98
Investment income and net realised gains at fair value through the Profit and Loss Account	**296**	**280**
Investment expenses including interest comprise:		
Investment management expenses	**(7)**	**(6)**
Unrealised gains/(losses) on investments	(403)	466
Investment return for the year	**(114)**	**740**
Total value of invested assets (Note 9)	5,590	**6,035**
Percentage investment return	(2.0%)	**13.7%**

Note:
Included within the table above is £95m net gain (2013: £33m net loss) in respect of derivative investments (interest rate swaptions and US dollar to sterling forward exchange contracts), held to mitigate interest rates and currency risks. All derivatives are designated as held for trading.

A fall in yields led to significant unrealised gains on gilts and swaptions in 2014. The investment return of £740m corresponds to a return on invested assets of 13.7% (2013: -2.0%). The adjustments made to the return on invested assets to derive the return net of charges are shown in the table below and discussed in the Strategic report.

	2013 %	2014 %
Return on investments	(2.0)	13.7
Adjusted for:		
Movements affecting liabilities	5.5	(11.2)
Expenses	(1.0)	(1.0)
Guarantees	(0.5)	(0.5)
Tax and changes in provision	(0.4)	(0.1)
Return net of charges	**1.6**	**0.9**

b. Interest income and expense not included in the investment return

Contracts classified as investment with discretionary participation feature are measured at amortised cost. The interest income and expense in respect of such contracts is included within the Technical Account under the heading 'Change in long-term business provision'.

5. Claims incurred

	2013 £m	2014 £m
Claims paid - gross claims	402	386
Investment contract claims which are deposit accounted for and therefore not included in the Technical Account	299	139

Claims paid include claims handling expenses of £1m (2013: £1m). Included in the above payments are capital distribution amounts and attributable final and interim bonuses for the Society of £48m (2013: £31m), reflecting the increase of capital distribution from 12.5% to 25% from 1 April 2014.

6. Net operating expenses

	2013 £m	2014 £m
a. Non-exceptional		
Administration expenses	33	29
b. Exceptional		
Costs of strategic initiatives and other projects	20	9
Redundancies	1	1
	54	39
Exceptional costs of former pension scheme (Note 7c)	16	-
Total net operating expenses	**70**	**39**
Investment management expenses (Note 4a)	7	6
Claims handling expenses (Note 5)	1	1
Total costs	**78**	**46**

Administration expenses have fallen in 2014 as a result of efficiency savings and the cessation of costs associated with the former Staff Pension Scheme. Exceptional expenses represent expenses associated with the Society's strategic initiatives and are not associated with the administration of policies. Costs of strategic initiatives and other projects include the costs associated with the transfer of IT services to our new IT provider Atos, activity relating to simplifying business processes and the buy-back of unit-linked business.

c. Services from auditors

PricewaterhouseCoopers LLP ("PwC") is one of a number of professional firms that undertake advisory work for the Society. Where PwC has been engaged to perform such work, in circumstances where it is to the Society's advantage that it does so, the Society's regular commitments procedures are followed, and the Audit and Risk Committee reviews them to ensure that auditor independence is preserved. During the year, the Society received the following services from the Society's auditor:

	2013 £m	2014 £m
Fees payable for the audit of the Society's accounts	0.3	0.3
Fees payable to the Society's auditor for other services:		
Audit of regulatory return	0.2	0.2
Agreed upon procedures associated with half-year position	0.1	-
	0.6	**0.5**

7. Directors and employees

	2013 £m	2014 £m
a. Staff costs		
Wages and salaries	14	15
Social security costs	2	2
Pension costs	1	1
	17	**18**

Wages and salaries increased in 2014 largely due to the final payment of Long Term Incentive Plan payments to senior employees. The monthly average number of employees employed by the Society during the year, including executive Directors, required to be disclosed in accordance with the Companies Act 2006, was 337 (2013: 360). Staff numbers reduced during 2014 due to efficiencies made in the year. The Society engages the services of a number of contractors. The total staff number at the end of 2014 including contractors was 357 (2013: 371).

Throughout 2014, a group personal pension plan with Legal & General has been made available to employees. With effect from 1 July 2014, staff have been automatically enrolled in this scheme in line with Workplace Pensions legislation. Pension costs represent the employer contribution to this plan and are based on a percentage of salary.

b. Emoluments of Directors

Full details of Directors' emoluments, pensions and interests, as required by the Companies Act 2006, are included in the Directors' remuneration report.

c. Former staff pension arrangements

The Society entered into an agreement with Clerical Medical Group (now part of LBG) in March 2001, when it sold its administrative and sales operations. During 2013, the Society ceased to be a participating employer of the schemes. Payments of £79m were made to LBG, to settle all liabilities in connection with the schemes. Balance Sheet provisions of £80m held at 31 December 2012 were released in 2013. The Society's obligations arising from the 2001 contracts in respect of the pension schemes and as an employer associated with the schemes were fully extinguished in 2013.

8. Taxation

	2013 £m	2014 £m
Taxation charged to the Technical Account		
UK corporation tax		
Current tax on income for the period	1	6
Adjustments in respect of previous years	1	-
Total charge	**2**	**6**

The UK corporation tax charge is provided at 20% (2013: 20%), computed in accordance with the rules applicable to life assurance companies, whereby no tax is charged on pension business profits. The 2014 charge is larger than in recent years, reflecting investment income and gains earned in the year.

9. Non-linked investments

	Cost		Current Value	
	2013 £m	2014 £m	2013 £m	2014 £m
a. Land and buildings				
Leasehold	9	9	2	2
Freehold	3	3	1	3
	12	**12**	**3**	**5**
b. Financial assets held at fair value through the Profit and Loss Account				
Investments in Group undertakings				
Shares [1]	**21**	**21**	**22**	**23**
Shares and other variable yield securities and units in unit trusts				
Shares and units in unit trusts	91	66	18	10
Other variable yield securities [2]	80	72	43	124
	171	**138**	**61**	**134**
Debt and other fixed-income securities[3]				
Short-term gilts	732	569	728	565
Gilts, index-linked and government approved bonds	2,605	3,027	2,562	3,326
Corporate bonds	1,546	1,262	1,644	1,344
	4,883	**4,858**	**4,934**	**5,235**
Deposits and other investments	**307**	**328**	**307**	**328**
	5,394	**5,357**	**5,327**	**5,725**

Notes:

[1] The Society's group undertaking is a majority investment in Equitable Private Equity Holdings Limited ("EPEHL"), a Guernsey registered company. EPEHL's investment is Knightsbridge Integrated Holdings V L.P., which invests in equity and venture capital projects. EPEHL made a loss in 2014 of £30,000 ($46,000) (2013: £25,000 ($42,000)) and its total net asset value is £24m ($37m) (2013: £22m ($36m)).

[2] Interest rate swaption derivatives, valued on a mark-to-model basis and classified as 'held for trading'.

[3] Includes listed investments of £5,234m (2013: £4,934m) at fair value.

	Cost		Current Value	
	2013	2014	2013	2014
	£m	£m	£m	£m
c. Assets held at fair value through the Profit and Loss Account to cover linked liabilities				
Debt and other fixed-income securities	235	241	263	301
Deposits and other investments	-	9	-	9
	235	**250**	**263**	**310**
Total value of investments	**5,629**	**5,607**	**5,590**	**6,035**

During the year, the Society has undertaken stock lending but this is not reflected on the Balance Sheet because the beneficial ownership of assets lent remains with the Society. Stock lending is undertaken to support market liquidity. At the balance sheet date, investments of £299m (2013: £329m) were lent in the normal course of business to authorised money brokers on a secured basis, and investments of £308m (2013: £347m) were received as collateral from brokers. Income earned on stock lending during the year, net of fees paid, was £0.1m (2013: £0.2m).

Collateral received from brokers is government obligations issued or guaranteed by states which are full members of the Organisation for Economic Cooperation and Development ("OECD") and is not less than 102% of the market value of borrowed fixed-income securities.

The Society closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique. Such valuation techniques use market observable data wherever possible, including prices obtained via pricing services, dealer quoted prices, or models such as net asset value.

For fixed-income securities for which there is no active market, the fair value is based on prices obtained from pricing services or dealer price quotations. Such valuations are based on market observable data including transaction prices, dealer bids and quoted market prices for securities with similar credit, maturity and yield characteristics.

d. Fair value hierarchies

(i) In accordance with FRS 29, investments carried at fair value have been categorised into a fair value hierarchy:

Assets valued at quoted market prices from active markets ("Level 1")

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets.

Prices substantially based on market observable inputs ("Level 2")

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset either directly or indirectly. Level 2 inputs include the following:

- Quoted prices for similar (i.e. not identical) assets in active markets; and
- Quoted prices for identical or similar assets in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.

Prices based on unobservable inputs where observable inputs are not available ("Level 3")

Inputs to Level 3 fair values are unobservable inputs for the asset, for example, assets valued by a model or securities for which no recent market observable price is available.

The Society holds interest rate swaptions, which are valued based on an industry recognised model, which is calibrated to market observable data where possible. Significant inputs to this model include interest rate curves and interest rate volatility. The sensitivity of the model to changes in assumptions has been assessed and indicates that changing one or more of the assumptions to reasonably possible alternative assumptions would not significantly change the fair value of financial assets.

(ii) Analysis of investments according to fair value hierarchy:

31 December 2014 Asset category	Level 1 £m	Level 2 £m	Level 3 £m	Total Fair Value £m	Other Assets £m	Balance Sheet Total £m
Land and buildings	-	-	-	**-**	5	**5**
Investments in Group undertakings	-	-	23	**23**	-	**23**
Shares and units in unit trusts	-	-	10	**10**	-	**10**
Other variable yield securities	-	-	124	**124**	-	**124**
Debt securities and other fixed-income securities	3,804	1,283	148	**5,235**	-	**5,235**
Deposits and other investments	19	309	-	**328**	-	**328**
Total non-linked invested assets	**3,823**	**1,592**	**305**	**5,720**	**5**	**5,725**
Assets held to cover linked liabilities	234	9	67	**310**	-	**310**
Total invested assets	**4,057**	**1,601**	**372**	**6,030**	**5**	**6,035**
Total invested assets	**67%**	**27%**	**6%**	**100%**	**-**	**100%**

31 December 2013 Asset category	Level 1 £m	Level 2 £m	Level 3 £m	Total Fair Value £m	Other Assets £m	Balance Sheet Total £m
Land and buildings	-	-	-	**-**	3	**3**
Investments in Group undertakings	-	-	22	**22**	-	**22**
Shares and units in unit trusts	-	-	18	**18**	-	**18**
Other variable yield securities	-	-	43	**43**	-	**43**
Debt securities and other fixed-income securities	3,171	1,497	266	**4,934**	-	**4,934**
Deposits and other investments	17	289	1	**307**	-	**307**
Total non-linked invested assets	**3,188**	**1,786**	**350**	**5,324**	**3**	**5,327**
Assets held to cover linked liabilities	199	-	64	**263**	-	**263**
Total invested assets	**3,387**	**1,786**	**414**	**5,587**	**3**	**5,590**
Total invested assets	**61%**	**32%**	**7%**	**100%**	**-**	**100%**

(iii) The change in the distribution of assets between Level 1 and Level 2 during the year reflects purchases and disposals of assets. There have been no significant transfers between Level 1 and Level 2 during the year.

(iv) Level 3 reconciliation:

	Total £m
Balance at 1 January 2014	414
Total net gains or (losses) recognised in the Profit and Loss Account	65
Purchases	71
Sales	(202)
Transfers into Level 3	24
Transfers out of Level 3	-
Balance at 31 December 2014	**372**

The total gains shown above are included within 'Unrealised gains on investments' within the Profit and Loss Account, of which £71m gain relates to assets which were still held at the end of the period.

Four stocks, of total value £24m, were transferred into Level 3 during the period as their valuation was based on inputs that are no longer market observable for those assets.

No stocks were transferred from Level 3 to Level 2 during the period.

10. Debtors

	2013 £m	2014 £m
Debtors arising out of direct insurance		
Amounts owed by policyholders	4	4
Debtors arising out of reinsurance	-	3
Other debtors		
Corporation tax asset	1	-
Debtors other than Group and related companies	3	5
	8	**12**

The carrying values of these items equate closely to fair values and are expected to be realised within a year of the balance sheet date.

11. Technical provisions

a. Gross long-term business technical provisions

	2013 £m	2014 £m
Non-profit technical provisions		
Non-profit insurance technical provisions	961	1,117
Non-profit investment technical provisions	7	7
	968	**1,124**
With-profits technical provisions		
With-profits insurance technical provisions		
Policy values	184	163
Cost of guarantees	60	80
Future charges	(27)	(27)
Impact of early surrenders	-	-
Other long-term liabilities	35	18
	252	**234**
With-profits investment technical provisions		
Policy values	2,984	2,841
Cost of guarantees	817	1,108
Future charges	(238)	(221)
Impact of early surrenders	(11)	-
Other long-term liabilities	208	225
	3,760	**3,953**
Excess Realistic Assets	**691**	**797**
	4,703	**4,984**
Total long-term business technical provisions	**5,671**	**6,108**

b. Gross linked liabilities

	2013 £m	2014 £m
Index-linked annuities	274	323
Other linked insurance liabilities	152	149
Other linked investment liabilities	1,798	1,763
Total linked liabilities	**2,224**	**2,235**

c. Reinsurers' share of technical provisions: insurance and investment contracts

	2013 £m	2014 £m
Non-profit insurance technical provisions	367	481
Non-profit investment technical provisions	7	7
	374	**488**
Index-linked annuities	11	13
Other linked insurance liabilities	152	149
Other linked investment liabilities	1,798	1,763
	1,961	**1,925**
Total reinsurers' share	**2,335**	**2,413**

d. Movement in technical provisions

	Gross technical provisions				Reinsurers' share of technical provisions	
	Non-linked £m	ERA £m	Sub Total £m	Linked £m	Non-linked £m	Linked £m
Opening positions	4,980	691	5,671	2,224	374	1,961
Change arising from new deposits[1]	-	-	-	29	-	29
Change arising from withdrawals[1]	-	-	-	(139)	-	(139)
Other changes reported in Technical Account	331	106	437	121	114	74
Closing positions	**5,311**	**797**	**6,108**	**2,235**	**488**	**1,925**

Note:
[1] Premiums (Note 3) and claims (Note 5) in respect of investment contracts without discretionary participation feature are not included in the Technical Account, but are reported as deposits to and withdrawals from technical provisions.

e. Movement in Excess Realistic Assets

The principal movements in the ERA during the period are shown in the following table.

	2013 £m	2014 £m	2014 Key movements include:
Opening Excess Realistic Assets	588	691	
Investment performance net of changes in policy values	75	83	Gains on swaptions
Variances in expenses and provisions	8	21	Improved view of our future expenses
Changes in valuation experience and assumptions	35	41	Variance in claims experience
Capital distribution within claims payments	(16)	(35)	Capital distribution paid to policyholders, reflecting increase from 12.5% to 25%
Other movements	1	(4)	
Closing Excess Realistic Assets	691	797	

f. With-profits technical provisions

The long-term business provisions for the Society's with-profits business have been calculated in accordance with the PRA realistic capital regime. The principal assumptions used to calculate these provisions and the comparatives are described below.

The calculation of realistic liabilities for the Society includes an estimate of any future non-guaranteed bonuses that may be payable. The realistic liabilities do not include an allowance for capital distribution. The value of the liabilities is made up of the following components:

- Policy values: for recurrent single premium ("RSP") policies, the policy value represents a smoothed investment return (net of charges for expense, taxation, the cost of guarantees and other factors) applied to premiums paid. Other types of with-profits policies are valued to achieve an equivalent result;

- Cost of guarantees: the cost of meeting contractual guarantees in excess of the policy values, now and in the future. Further information is provided in section (ii) below;

- Future charges: the margin assumed to be retained each year from the return earned on with-profits assets, before making future increases to policy values. A charge of 1% pa (2013: 1% pa) is assumed to be retained to provide capital to meet the expected cost of guarantees, without allowance for capital distribution;

- Impact of early surrender: the value of the Financial Adjustment assumed to be deducted from future non-contractual surrenders. The deduction is assumed to be nil% of policy values (2013: 5%) and depends on the assumed level of surrenders prior to contractual termination; and

- Other long-term liabilities, including miscellaneous provisions, less a deduction for the present value of future profits from non-profit business. Further information is provided in section (iii) below.

Factors such as economic assumptions, policyholder retirement dates, surrenders and mortality experience affect a number of the above components, and further information is provided in section (i) below.

(i) Factors affecting a number of components of with-profits technical provisions

Economic assumptions

In order to produce valuations of the cost of guarantees, future charges and the impact of early surrenders, an economic model is required to generate projections of policy values in many different economic scenarios. The valuation involves constructing 5,000 scenarios, aggregating the results under each scenario and then calculating the average liability. In each scenario, policy values are assumed to change in line with the projected return on with-profits assets net of charges.

The economic model used by the Society in the valuation was supplied by Barrie & Hibbert. The model used is market consistent and has been calibrated to the gilt yield curve at the valuation date, and this determines the risk-free rates used in the projections. The effect of the change in yield curve from 2013 to 2014 was to decrease the ERA by £8m (2013: increase £22m). Assumptions are also required for the volatility of the asset values for different asset categories. Bond volatilities vary by term and duration and are calibrated to those implied by swaption volatilities obtained from market sources. For equity values, the model produces a 10 year volatility of 22% (2013: 22%). For property values, the model uses an assumed volatility of 13% (2013: 15%).

Retirements

For the majority of RSP contracts, benefits can be taken on contractual terms at a range of ages. For example, benefits from Retirement Annuity policies can be taken at any age from age 60, whereas benefits from Group Pension policies are expected to be taken at each scheme's normal retirement age. This date is referred to as the Earliest Contractual Date ("ECD"). A proportion of policyholders take their benefits before and a proportion after the earliest expected retirement date.

An investigation of the actual retirement ages for the Society's with-profits policyholders, analysed by type of contract, has been carried out, based on experience during 2013 and 2014. The results of that investigation have been used to set the assumed retirement ages for the valuation.

The retirement assumptions vary between different product types. The ranges of retirement dates assumed vary between policyholders being assumed to retire at ECD (2013: at ECD) and up to 13 years (2013: 13 years) later than ECD.

Surrenders

An investigation of the actual surrender rates for the Society's with-profits business, analysed by type of contract, has been carried out based on experience during 2013 and 2014. The results of that investigation have been used to set the assumed surrender rates for the valuation.

Non-contractual surrender rates are assumed to fall steadily over the next few years to a long-term rate of 1.5% pa (2013: 1.5% pa). The effect of the change in the surrender rates has resulted in no change to the ERA (2013: decrease by £3m).

Mortality

Using the results of an investigation into the Society's actual mortality experience, mortality assumptions have been derived for the with-profits business as detailed in the table below.

Mortality assumptions by class of business	2013	2014
Endowment assurances (with-profits)		
Conventional With-Profits business	90.0% AMC00 ultimate for males 97.5% AFC00 ultimate for females	90.0% AMC00 ultimate for males 92.5% AFC00 ultimate for females
Recurrent Single Premium business	82.5% AMC00 ultimate for males 87.5% AFC00 ultimate for females	80.0% AMC00 ultimate for males 87.5% AFC00 ultimate for females

Mortality assumptions for other classes of business are not material and, for this reason, are not shown above.

(ii) Cost of guarantees

Guarantees are features of life assurance contracts that confer potentially valuable benefits to policyholders. They expose the Society to two types of risk: insurance (such as mortality and morbidity) and financial (such as market prices and interest rates). The value of a guarantee comprises two elements: the intrinsic value and the time value. The intrinsic value is the amount that would be payable if the guarantee was exercised immediately. The time value is the additional value that reflects the possibility of the intrinsic value increasing in future, before the expiry of guarantee. In adopting FRS 27, the intrinsic and time values of all guarantees are included in policyholder liabilities.

All the Society's material guarantees are valued on a market consistent basis using the economic model and assumptions, as described in section (i) above.

The Society has in issue two principal types of with-profits policy: RSP policies and Conventional With-Profits ("CWP") policies. These policies represented 98% and 2%, respectively, of the total policy values at 31 December 2014 (98% and 2% of the total policy values at 31 December 2013). For the majority of RSP policies issued before 1 July 1996, each premium (after charges) secures a Guaranteed Investment Return ("GIR"), typically at the rate of 3.5% pa. For the majority of RSP policies issued after 1 July 1996, the GIR is nil%. For CWP policies, guarantees are payable at specified dates or on the occurrence of specified events.

The guarantees in respect of the Society's with-profits business relate to a guarantee on contractual termination (for example, on retirement, maturity, death or on payment of an annuity). The terms of the guarantee vary by contract. For the Society's RSP contracts where there is a GIR, the value of that guaranteed return is assessed based on assumed retirement ages of policyholders. Certain policies also contain a guaranteed minimum level of pension as part of the condition of the original transfer of state benefits to the policy.

For CWP business, there is a guarantee that the amount payable on death or at maturity (where appropriate) will not be less than the sum assured and any declared reversionary bonuses.

For policies where the guaranteed value at contractual termination exceeds the policy value at that date, the excess would be paid, and estimates of such excess form part of the realistic liabilities. In calculating the amount payable to policyholders, account is taken of any management actions such as making changes to policy values in response to changes in market conditions. The cost of these guarantees has increased from £877m in 2013 to £1,188m at 31 December 2014, principally as a result of falling government bond yields. This amount is included within 'Technical provisions' (see Note 11a).

There is inherent uncertainty in calculating the cost of these guarantees, as the value depends on future economic conditions, policyholder actions (such as early or late retirement and surrenders) and mortality. In calculating the value of the guarantees, account has been taken of actual experience to date, in addition to industry benchmarks and trends. Information on retirement, surrender and mortality assumptions is included in section (i) above. For economic assumptions, prices for relevant quoted and non-quoted derivatives are used to confirm market consistency.

(iii) Other long-term liabilities

Technical provisions include amounts in respect of specific provisions so that the total of the Society's technical provisions properly reflect our best estimate of the liabilities held.

Other long-term liabilities	2013 £m	2014 £m
Regular expense provision	200	228
Miscellaneous provisions		
Exceptional expense provision	21	10
German legal claims	1	-
Financial options	5	7
Present value of non-profit business	16	(2)
Other long-term liabilities	**243**	**243**

In addition to the 1% pa (2013: 1% pa) future charge to provide capital to meet the cost of guarantees previously described, a further charge of 1% pa (2013: 1% pa) is deducted from the return earned on assets each year and is available to meet the cost of running the with-profits business. This amount is not sufficient to meet business running costs and so a regular expense provision of £228m (2013: £200m) is held in 'Other long-term liabilities', with the aim of maintaining a stable expense charge as the business declines. Assumptions for retirements, surrenders and mortality affect the estimation of future costs of running the business and are described in section (i) above. The lower valuation interest rate in 2014 as compared to the previous year is the main cause of the increase in the regular expense provision.

The exceptional expense provision represents the anticipated additional exceptional expenses of £10m (2013: £21m) over future years.

Financial options represent the value of the option within a small number of CWP policies to take their benefits in annuity form.

The present value of non-profit business represents the future profits and losses expected from cash flows of the in-force non-profit and index-linked annuity business, less an amount to meet the cost of holding capital in respect of this business. These amounts have been deducted as a capitalised amount from the technical provisions in accordance with the requirements of FRS 27. The resulting anticipated present value of non-profit business is a profit of £2m (2013: £16m loss).

g. Non-profit technical provisions

Annuities in payment and deferred annuities comprise most of the Society's non-profit technical provisions. The majority of this provision is for annuities in payment for which the technical provisions have been calculated using the gross premium method, where the provision equals the present value of the future benefits and expenses. The principal inputs to the valuation for both types of annuity are:

- Interest rates based on yields on the assets held, with reductions for credit risk;
- Future expenses arising directly from non-profit and index-linked annuities; and
- Annuitant longevity.

The assumptions and their comparatives are shown in the following tables, along with explanations of the effect of changes in the year on the technical provisions net of reinsurance.

(i) Interest rates

Valuation interest rates are based on the yields on the assets held, reduced for risk. Reductions from the yield for risk for corporate fixed-interest securities are based on credit ratings, and these reductions have been reviewed in light of latest experience data. Fixed-interest and index-linked yields have fallen compared to those at the end of 2013. The changes to the valuation interest rates in aggregate have increased the net non-profit technical provisions by £99m and have increased the net index-linked annuity provision by £37m. Similarly, the market value of the backing assets has altered as yields have varied, and this in part offsets the change in technical provisions.

Class of business	Valuation interest rate %	
	2013	2014
Non-profit annuities in payment		
Basic Life and General Annuity business – pre 1992	3.50	2.00
Basic Life and General Annuity business – post 1991	3.15	1.80
Pension business	3.50	2.00
Index-linked annuities in payment		
Basic Life and General Annuity business – pre 1992	0.22	(0.67)
Basic Life and General Annuity business – post 1991	0.20	(0.60)
Pension business	0.22	(0.67)
Non-profit deferred annuities	2.80	1.50

(ii) Future expenses

Future expenses arising directly from non-profit and index-linked annuities in payment are allowed for in two ways: an explicit per policy allowance and an expense allowance for fund management. The per policy expense allowance in the valuation basis reflects an assessment of future variable administration costs and has been assumed to increase at 3.2% pa (2013: 3.5% pa).

Class of business	Future per policy expense allowance	
	2013	2014
Non-profit and index-linked annuities in payment		
Basic Life and General Annuity business – pre 1992	£10.00 pa	£12.00 pa
Basic Life and General Annuity business – post 1991	£10.00 pa	£12.00 pa
Pension business	£10.00 pa	£12.00 pa

The expense allowance for fund management, expressed as a percentage of the value of the fund, is 0.083% pa (2013: 0.11% pa). The expense allowances for 2014 shown above apply to both UK and non-UK policies. The impact of changes in the year on the expense provision has been a decrease of £1m (2013: increase £2m).

(iii) Annuitant longevity

The Society continues to make allowance for future improvements in the longevity of annuitants. The Society's valuation has been carried out using published mortality tables and an investigation into the Society's actual mortality experience. The volume of the Society's recent annuitant mortality experience data is decreasing as a result of past disposals of blocks of annuity business. This leads to a greater degree of uncertainty in the experience analysis and will require greater weight to be given to wider industry data in the future. This year's review of mortality resulted in no change in index-linked annuity and non-profit annuity technical provisions net of reinsurance (2013: £nil).

Mortality assumptions by class of business	2013	2014
Non-profit and index-linked annuities during payment		
Basic Life and General Annuity business	75% IML00 cmi2011 (U=2013)* for males	75% IML00 cmi2011 (U=2014)* for males
	77.5% IFL00 cmi2011 (U=2013)* for females	77.5% IFL00 cmi2011 (U=2014)* for females
Pension business	75% PNML00 cmi2011 (U=2013)* for males	75% PNML00 cmi2011 (U=2014)* for males
	65% PNFLA00 cmi2011 (U=2013)* for females	65% PNFLA00 cmi2011 (U=2014)* for females

Note:

* The allowance for future mortality improvements is based on the mortality improvements as per cmi2011 tables (with a long-term improvement rate of 1.5% pa for males, 1.25% pa for females).

h. Gross linked liabilities

Index-linked annuities are valued in the same way as non-profit annuities, as described in Note 11g. The technical provision in respect of other linked business is equal to the value of the assets to which the contracts are linked. This business is wholly reinsured to LBG (see Note 2).

A provision in respect of future expenses and mortality risks on other linked insurance business and future expenses on index-linked annuities is included in the non-profit insurance technical provisions.

12. Regulatory valuation capital statement

a. Analysis of capital

This note presents the capital position of the Society, as reported in the Society's annual PRA insurance returns, also known as Peak 1. This is a different view of capital than either the ERA (known as Peak 2), as calculated under the realistic valuation regime and reported in the Balance Sheet; or the Economic Capital ("EC") view, that underpins strategic decisions and is referred to in the Strategic report.

As part of regulatory valuation reporting, each life assurance company must retain sufficient capital to meet the capital requirements, as specified in the FCA/PRA Handbook of Rules and Guidance.

Each life assurance company calculates the available capital resources as the value of the assets less the value of the liabilities on a regulatory valuation basis, as specified in the FCA/PRA Handbook of Rules and Guidance. Each company is required to hold a minimum level of capital known as the Capital Resource Requirement ("CRR").

The CRR comprises the Long-Term Insurance Capital Requirement ("LTICR") and if required, an additional element of capital required so as to reduce the surplus capital to be no more than the surplus on a realistic valuation basis. This additional amount of capital is added to the CRR, and is referred to as the With-Profits Insurance Capital Component ("WPICC").

However, for the Society as a closed mutual with-profits fund, the PRA require that all capital is anticipated to be distributed to policyholders, leaving a nil balance of surplus capital on a realistic valuation basis. To achieve this, the WPICC for the Society is therefore the difference between the available capital resources and the LTICR, leaving a nil balance of excess capital resources.

The capital statement in respect of the Society's life assurance business at 31 December 2014 is set out below.

	2013 £m	2014 £m
Available capital resources	450	486
Long-Term Insurance Capital Requirement (LTICR)	(211)	(223)
With-Profits Insurance Capital Component (WPICC)	(239)	(263)
Total regulatory Capital Resource Requirement (CRR)	**(450)**	**(486)**
Excess of available capital resources over CRR	-	-

b. Movement in available capital resources

The available capital resources for the Society amount to £486m (31 December 2013: £450m). The table below shows the effect of movements in the total amount of available capital of the Society during the year.

Movement in available capital resources	2013 £m	2014 £m
At 1 January	367	450
Investment return and interest rate movements	82	79
Other valuation assumptions	(1)	(14)
Expense reductions	36	5
Other movements	(34)	(34)
At 31 December	**450**	**486**

c. Restrictions on available capital resources

It is the Society's aim to manage its business in a sound and prudent manner for the benefit of all policyholders. The Society closed to new business in 2000 and new policies are only issued where there is a regulatory or contractual obligation to do so. The Society has no shareholders and all surpluses and deficits belong to the with-profits policyholders. The Society seeks to ensure that it can meet its contractual obligations to both policyholders and creditors as they fall due. Any new distributions of surplus will be made in non-guaranteed form.

d. Sensitivity to market conditions of liabilities and components of capital

The available capital resources are sensitive to both market conditions and changes to a number of non-economic assumptions that affect the valuation of the liabilities of the fund. The available capital resources (and capital requirements) are most sensitive to the mix of assets held to back the liabilities, as the yield on these determines the interest rate at which the liabilities are valued. Defaults on fixed-interest assets directly reduce the available capital resources, as does any increase in non policy-related provisions.

The principal non-economic assumptions are the level of future mortality rates, the level of future expenses, future retirement ages and future surrender rates.

13. Management of risk

a. Risk management framework

As described in the Strategic report, risk management is central to the Society's strategy. The Corporate governance statement describes the Society's comprehensive risk management framework and the Strategic report describes the principal risks faced by the Society, which are:

- Insurance risk;
- Credit risk;
- Market risk;
- Operational risk
- Liquidity risk;
- Regulatory risk; and
- Strategic risk.

The potential future impact of operational, regulatory and strategic risks are not reflected in the Balance Sheet and so are not discussed further here.

b. Insurance risk

Insurance risk is the risk that the actual timing, frequency and severity of insured events differ from that assumed in policy valuations.

For the Society, insurance risk consists of expense risk and the following elements relating to the timing of insured events:

- Longevity risk
- Mortality risk
- Lapse risk and
- Deferral risk

(i) Expense risk

Description
The Balance Sheet includes amounts representing the expected value of all future expenses of administration and investment management net of charges made to policy values to pay for these costs. Expense risk is the risk that expenses are higher than those assumed.

The main sources of risk are:

- The assumed future cost base of the business is higher than expected; and
- Future inflation of expenses is higher than anticipated.

Management of risk
As explained in the Strategic report, the Society actively manages its costs down, so that business-as-usual costs fall in line with policy run-off. Furthermore, the Society maintains, and regularly reviews, a set of actions it can take to directly control expenses in severe business scenarios.

Most of the Society's expenses are expected to be linked in some way to UK price inflation. To mitigate the risk of higher than expected rates of inflation, the Society holds a portfolio of index-linked assets in order to match the inflation-linked nature of expenses.

Sensitivity
The exceptional expense provision is described in Note 11. The following table shows the sensitivity to reasonably possible scenarios.

		Net impact on ERA	
		2013	2014
Sensitivity scenario	Mitigated by	£m	£m
5% increase in assumed level of expenses		(23)	(23)
1% increase in assumed rate of UK price inflation	Impact of index-linked portfolio	11	8

The active management of expenses using Lean Manufacturing and Simplification techniques is a key focus for the Society.

(ii) Timing of insured events risk

Description
Annuity benefits are payable only while policyholders survive. Liabilities in respect of these policies are based on current expectations of future survival rates. Longevity risk is the risk that policyholders live longer than currently expected, giving rise to the payment of more benefits than currently reserved for.

The Society's mortality risk exposure arises principally on non-profit assurance policies. Assurance benefits are payable only when the policyholder dies. Liabilities in respect of these policies are based on current expectations of future survival rates. Mortality risk is the risk that policyholders die sooner than currently expected, giving rise to the payment of more death benefits than currently reserved for. A further exposure to mortality risk exists on conventional with-profits policies, but, as stated in Note 11, these represent only 2% of with-profits policy values.

Lapse risk and retirement deferral risk are the risks that the timing at which policyholders choose to take their benefits differs from the timing expected. If future experience is different than expected, it can lead to an increase in the cost of the guarantees within policies.

Management of risk
The Society has low appetite to take on additional insurance risk, and, being closed to new business, does not take on new insurance risk. The Society reviews its recent claims experience and combines it with industry-wide data (standard tables of mortality rates) and industry standard models of future annuitant mortality improvement rates in order to derive expectations about future timing of policyholder claims.

Some annuities, all deferred annuities and most assurances are reinsured. The taking-on of additional longevity risk has been eliminated by providing retiring pension policyholders with a Canada Life annuity illustration and emphasising their option to seek annuities in the open market. As explained in the Strategic report and the Post Balance Sheet event note, the Society has signed contracts to transfer the existing annuity book to Canada Life, thereby removing the exposure to longevity risk. The Society regularly reviews options for removing or reducing the level of risk via transactions such as reinsurance or transfer of annuity business.

Sensitivity
The assumptions made for the timing of insured events and the impact of changes to those assumptions are disclosed in Note 11. The following table shows the sensitivity to a reasonably possible change in each assumption.

	Annuitant mortality	Assured lives mortality	Surrender rates	Retirement timing	Retirement timing
	Decrease 10%	Increase 10%	Decrease 1% pa	1 year later	1 year earlier
Impact on ERA	£m	£m	£m	£m	£m
2013	36	(1)	(54)	6	(5)
2014	46	-	(65)	(25)	26

Sensitivity to annuitant longevity risk will be all but eliminated following the transfer of the annuity book to Canada Life. The risk of policyholders surrendering less frequently and deferring retirement beyond those assumed are significant due to the impact on the cost of guarantees. The interaction of this with interest rates is discussed under interest rate risk.

c. Credit risk

Description
Credit risk is the risk that a counterparty will fail to pay amounts in full when due. The main credit risks faced by the Society are:

- The risk of default on its portfolio of fixed-interest investments, especially corporate bonds; and
- The risk of default by any of its reinsurers.

Management of risk
Credit risk is monitored by the Society's Asset and Liability Committee. The Society manages its exposure to default on its portfolio of fixed-interest investments through:

- Its policy of only investing in assets of high credit quality;
- Carefully selecting individual investments; and
- Limiting concentrations with any one counterparty.

The Society's exposure to credit risk is summarised below, according to the lowest of the external credit ratings supplied by Moody, Standard & Poor, and Fitch.

2014 Credit ratings	AAA £m	AA £m	A £m	BBB £m	Other £m	Total £m
Debt and other fixed-income securities	421	3,962	612	537	4	5,536
Deposits and other investments	318	-	19	-	-	337
Cash at bank and in hand	-	-	5	-	-	5
Other financial assets	8	30	10	9	14	71
Reinsurers' share of technical provisions and liabilities (Note 1c)	-	-	2,413	-	-	2,413
	747	**3,992**	**3,059**	**546**	**18**	**8,362**

2013

Credit ratings	AAA £m	AA £m	A £m	BBB £m	Other £m	Total £m
Debt and other fixed-income securities	561	3,405	746	468	17	5,197
Deposits and other investments	289	-	17	-	1	307
Cash at bank and in hand	-	-	7	-	-	7
Other financial assets	12	28	14	10	13	77
Reinsurers' share of technical provisions and liabilities (Note 11c)	-	-	2,335	-	-	2,335
	862	**3,433**	**3,119**	**478**	**31**	**7,923**

The totals of debt and other fixed-income securities and deposits with credit institutions include £310m (2013: £263m) of assets held to back linked liabilities. Other financial assets comprise debtors and prepayments and accrued income.

The potential credit risk exposure from default by swaption counterparties is mitigated by the receiving of collateral. Collateral of £125m (2013: £47m) has been received in cash and has been invested in assets similar in nature to cash. The value of these assets at the year end was £125m and is included in 'Deposits and other investments' in Note 9b.

The potential credit risk exposure from default by futures counterparties is mitigated by daily settlement of variation payments and through trading on a regulated futures exchange. None of the changes in the value of derivatives has been driven by changes in the credit rating of counterparties.

At the reporting date, no material financial assets were past due nor impaired (2013: £nil) and management expects no significant losses from non-performance by any counterparties.

With regard to reinsurance, steps are taken, wherever possible, to limit counterparty risk. The major reinsurance treaties are with companies in LBG. Because reinsurance does not remove the primary liability of the Society to its policyholders, the credit rating of LBG and certain of its group companies are monitored closely in order to manage the risk. As explained in the Strategic report and Note 2, the reinsurance arrangements with LBG have been reviewed in 2014, with changes implemented in 2015 to reduce the counterparty exposure with LBG.

Sensitivity

The largest single credit risk exposure amounts to £2,413m for business reinsured with a number of LBG companies (2013: £2,335m). Of the £2,413m total, £1,887m is linked business reinsured with Halifax Life, principally invested in regulated Open Ended Investment Companies ("OEIC"), £488m is non-profit business also reinsured with Halifax Life, and £38m is linked business reinsured with companies in the Clerical Medical Group. In the event of the insolvency of the reinsurer, if not honoured by the LBG parent company, the Society would be liable for any shortfall between the obligations under the policies and the amounts recovered. The Society holds a further £23m (2013: £24m) of investments (credit rating AAA) with LBG. After LBG, the next largest single credit exposure is £43m, relating to an investment in Barclays plc.

Credit risk exposure with LBG is a significant risk for the Society at the balance sheet date. Changes made in 2014 and implemented in 2015 will materially reduce this risk.

d. Market risk

Description

Market risk is the risk of adverse changes in asset values or values of future cash flows of investments. This can arise from fluctuations in interest rates, equity, property and corporate bond prices, and foreign currency exchange rates. The main responsibility for monitoring these risks lies with the Society's Assets and Liabilities Committee.

In line with the Society's investment policy, with-profits investments are mainly in fixed-interest securities, as follows:

UK with-profits assets mix	2013 %	2014 %
Gilts	47	57
Corporate bonds	30	23
Short-term gilts and cash	21	17
Other	2	3
	100	**100**

In adverse investment conditions, the Society could make appropriate reductions to with-profits policy values and apply financial adjustments to surrenders. These actions mitigate market risk, but do not remove the risk entirely for with-profits policies because the value of assets could still fall short of the value of guarantees within policies.

Market risk is considered further by looking at its four elements:

i) Interest rate risk
ii) Equity and property price risk
iii) Corporate bond spread risk
iv) Currency risk

(i) Interest rate risk

Description
Long-term liabilities fluctuate in value because of changes in interest rates. Interest rate risk is the risk that these fluctuations are not fully matched by changes in investment values.

A further risk for the Society is in respect of GIR on with-profits RSP policies, which are typically 3.5% pa In the current low interest rate environment, the cost of providing these guarantees would increase if interest rates fall further and as a result policyholders defer their retirement beyond the dates assumed.

Management of risk
The Society operates an investment policy so that assets and liabilities are matched. Specifically, the Society holds fixed-interest gilts and corporate bonds to produce income and redemption proceeds that closely match the expected outgoings from with-profits policies and non-profit annuities each year. Index-linked gilts are held to match the expected outgoings from index-linked annuities and regular expenses. The more closely we are matched, the smaller the impact of changes in interest rates.

The Society monitors the exposure to changes in interest rates through periodic reviews of the asset and liability matching position.

To mitigate the impact of policyholders with a 3.5% pa GIR deferring retirement when interest rates fall, the Society holds a series of derivatives called swaptions that increase in value when interest rates fall. The effectiveness of the swaption portfolio is reviewed periodically to ensure that it provides adequate protection against a fall in interest rates.

Sensitivity
The following table shows the sensitivity to reasonably possible scenarios, and illustrates the success of the swaption portfolio in mitigating the risk of policyholders deferring their retirement if interest rates fall.

Scenario			Impact on ERA	
Interest rates, at all terms	Relative assumption for 3.5% pa GIR policyholder retirement	Asset basis	2013	2014
			£m	£m
Fall by 0.5% pa	No change	Excluding swaptions	14	20
Fall by 0.5% pa	Defer retirement by 1 year	Excluding swaptions	10	(19)
Fall by 0.5% pa	Defer retirement by 1 year	Including swaptions	30	24
Rise by 0.5% pa	No change	Excluding swaptions	(16)	(20)
Rise by 0.5% pa	No change	Including swaptions	(29)	(52)

(ii) Equity and property price risk

Description
Equity and property price risk is the risk that falls in equity and property prices reduce the value of with-profits assets.

Management of risk
The Society has little appetite to invest in property and equity due to their high capital requirements. The Society has largely divested its equity and property assets so these are no longer significant sources of risk from with-profits business.

Sensitivity
The following table shows the sensitivity to reasonably possible scenarios and illustrates the very low exposure to equity and property price risk.

	With-profits asset value impact	
	2013	2014
	£m	£m
Equity prices decrease by 10%	(£2m)	(£2m)
Property prices decrease by 10%	(£1m)	(£1m)

(iii) Corporate bond spread risk

Description
The risk of default on fixed-interest securities has been discussed under credit risk. There is a further risk that fluctuations in the market prices of corporate bonds relative to the market price of British government bonds (gilts), known as spread, are not fully matched by changes in technical provisions. This gives rise to volatility in reported ERA values.

Management of risk
Corporate bond spread risk is managed though the investment policy, whereby the Society invests in a diversified portfolio of high-quality corporate bonds.

During 2014, the potential impact of falls in corporate bond prices was reduced by replacing approximately £400m of long-term corporate bonds with shorter-term corporate bonds that are less sensitive to changes in spread. Changes were made to gilt holdings to ensure policy liabilities remained matched. The Society also sold the majority of asset backed security holdings to avoid the particularly onerous capital burden under Solvency II and reduced corporate bond spread risk exposure.

Sensitivity
The following table shows the sensitivity to reasonably possible scenarios and illustrates the impact of investment changes in reducing the exposure to corporate bond spread risk in 2014.

Scenario	Impact on ERA	
	2013	2014
Change in corporate bond spreads	£m	£m
Rise 0.5% pa	(58)	(34)
Fall 0.5% pa	62	38

(iv) Currency risk

Description
Currency risk is the risk that changes in foreign currency exchange rates impact the value of investments and that the changes are not fully matched by changes in long-term liabilities.

Management of risk
The Society's principal liabilities are defined in pounds sterling, and its exposure to the risk of movements in foreign exchange rates is limited.

The Society's financial assets are primarily denominated in the same currencies as its liabilities, which mitigates the foreign exchange rate risk for any overseas operations. The main foreign exchange risk arises from recognised assets denominated in currencies other than those in which insurance and investment liabilities are expected to be settled. The Society invests in a US dollar forward exchange contract to mitigate the most significant exposure to currency risk, and so has very low sensitivity to currency risk.

Sensitivity
A change of 10% in pounds sterling to euro and US dollar exchange rates at the reporting date would have changed the ERA by £3m (2013: £4m) after allowing for the mitigating impact of the US dollar forward exchange contract.

e. Liquidity risk

Description
Liquidity risk is the risk of the Society failing to meet cash flow requirements as they become due.

Management of risk
Monitoring of this risk is undertaken by the Asset and Liability Committee.

The Society holds highly liquid assets in excess of short-term cash flows requirements and so has a very low exposure to short-term liquidity risk.

Over the longer term, the Society monitors its forecast liquidity position by estimating the expected cash outflows from its insurance and investment contracts and purchasing assets with similar durations to meet these obligations. The sensitivity of these outflows to changes in policyholder behaviour is also monitored. Large volumes of surrenders or policyholders taking their benefits earlier than expected can cause the forced sale of illiquid assets at impaired values. If this disadvantages continuing customers, the Financial Adjustment to policy values can be varied to maintain fairness.

Sensitivity
The Society's investment strategy and reinsurance arrangements mean that it has a very low exposure to liquidity risk.

The Society's liquidity exposure is relatively limited; even in a scenario such as corporate bonds becoming illiquid, 74% of investment assets held backing insurance and investment liabilities are held in liquid assets such as gilts and cash, which can normally be quickly realised.

Unit-linked contracts, with the exception of unit-linked annuities, can be terminated at any time, resulting in a cash flow in the category '0-1 year'. All liabilities relating to unit-linked and other non-profit investment contracts are reinsured so that, in practice, the Society is not exposed to any liquidity risk in respect of such contracts.

With-profits policies with an ECD prior to 31 December 2014 have a contractual value no lower than total guaranteed benefits, and equalled £1.4bn at 31 December 2014 (2013: £1.3bn). The liquid assets previously referred to include £3.8bn to back with-profits policies (2013: £3.2bn). This is more than sufficient to meet the value of these guaranteed with-profits benefits.

As noted in Note 11f (i), the majority of RSP benefits can be taken on contractual terms at a range of ages. The following table details the cash flows using retirement assumptions based on recent experience that vary between different product types. The range of retirement dates assumed varies between policyholders being assumed to retire at ECD (2013: at ECD) and up to 13 years (2013: 13 years) later than ECD.

2014 Estimated cash flows (undiscounted)	0-1 year	2-5 years	6-10 years	11 years and over	No term	Total	Carrying value
	£m	£m	£m	£m	£m	£m	£m
Unit-linked investment contracts	133	464	524	953	-	2,074	1,763
Other non-profit investment contracts	7					7	7
With-profits investment contracts	256	594	1,357	1,977	-	4,184	3,953
Other financial liabilities	170	-	-	-	-	170	170
Total financial liabilities	**566**	**1,058**	**1,881**	**2,930**		**6,435**	**5,893**
Of which reinsured	131	434	497	921	-	1,983	1,770
Total net financial liabilities	**435**	**624**	**1,384**	**2,009**		**4,452**	**4,123**
Net insurance liabilities	106	243	272	902	-	1,523	1,180
Excess Realistic Assets					797	797	797
Total net liabilities	**541**	**867**	**1,656**	**2,911**	**797**	**6,772**	**6,100**

2013 Estimated cash flows (undiscounted)	0-1 year	2-5 years	6-10 years	11 years and over	No term	Total	Carrying value
	£m	£m	£m	£m	£m	£m	£m
Unit-linked investment contracts	137	507	578	1,168	-	2,390	1,798
Other non-profit investment contracts	7	-	-	-	-	7	7
With-profits investment contracts	257	636	1,353	2,222	-	4,468	3,760
Other financial liabilities	98	-	-	-	-	98	98
Total financial liabilities	**499**	**1,143**	**1,931**	**3,390**	**-**	**6,963**	**5,663**
Of which reinsured	135	476	548	1,129	-	2,288	1,805
Total net financial liabilities	**364**	**667**	**1,383**	**2,261**	**-**	**4,675**	**3,858**
Net insurance liabilities	119	255	298	998	-	1,670	1,109
Excess Realistic Assets	**-**	**-**	**-**	**-**	691	691	691
Total net liabilities	**483**	**922**	**1,681**	**3,259**	**691**	**7,036**	**5,658**

14. Creditors

a. Amounts owed to credit institutions

Amounts owed to credit institutions of £3m represent uncleared payments to policyholders (2013: £4m).

	2013 £m	2014 £m
b. Other creditors including taxation and social security		
Balances with Group undertakings	14	17
Corporation tax	-	4
Derivatives positions		
Obligation to return swaptions variation margin to Morgan Stanley and Goldman Sachs	46	125
Forward US$/GBP exchange contract[1]	-	-
Other creditors	11	1
	71	**147**

Note:

[1] The fair value of the forward US dollar and sterling currency exchange contract was £0.1m liability (2013: 0.4m asset). If the Balance Sheet position is held to maturity in March 2015 the Society will be obliged to pay $27.0m and will receive £17.3m.

15. Subsidiary and associated undertakings

a. Principal subsidiary undertakings

The Society has no material subsidiary undertakings, as outlined in Notes 1 and 9.

b. Significant holdings

The Society has a small number of significant holdings.

	2013		2014	
	Number	Current value £m	Number	Current value £m
More than 20% nominal value of class of equity shares	5	2	3	2
More than 20% of partnership interest in limited partnership investing in property	1	2	-	-
More than 20% of partnership interest in limited partnership investing in equity	3	2	2	1

None of the above holdings are regarded by the Directors as associated undertakings, as the Society does not exert significant influence. None of the holdings materially affects the results or net assets of the Society. These investments are included in the Balance Sheet at current value, which is based upon the Society's share of relevant net assets.

Full information on subsidiary undertakings and companies and limited partnerships, in which the Society holds more than 20% of the nominal value of a class of equity share or ownership interests, will be annexed to the Society's next statutory annual return submitted to the Registrar of Companies.

16. Related party transactions

There were no material related party transactions during 2014 (2013: £nil).

17. Commitments

The Society has no material operating lease commitments.

Commitments in respect of uncalled capital on private equity fund interests, not provided for in the financial statements, amounted to £10m (2013: £13m) for the Society.

In line with usual business practice, warranties have been provided for strategic transactions completed in the year.

18. Post Balance Sheet events

Unit-linked business

As described in Note 2, in 2014 the Society entered into a contract with Halifax Life to buy back the previously reinsured unit-linked business. The transfer of the assets and hence implementation of the contract took place on 8 March 2015.

The Society paid £27m to Halifax Life, and in so doing gains control of all aspects of these policies. The with-profits fund will benefit from future cash flows arising from this business to the extent that they exceed future costs. The estimated adverse impact on the ERA of the 2014 contracts, using current valuation assumptions, is £27m.

The transaction will be reflected in the 2015 Annual Report and Accounts. The impact of the implementation on the Society's future Balance Sheet will be to replace approximately £1.9bn of the reinsurers' share of technical provisions with corresponding assets held to cover linked liabilities. In addition, the implementation of the 2014 contract has reduced the concentration of the Society's counterparty risk with LBG.

Annuity business

On 2 March 2015, the Society entered into a contract with Canada Life for the reinsurance and subsequent transfer of substantially all of the annuity business. The transfer is conditional on certain matters, including the approval of the High Court.

The value of the annuity liabilities, estimated using current valuation assumptions, is £0.9bn. The contract will increase the ERA and reduce the Economic Capital requirement, through the reduction of exposure to longevity and credit risk. The net impact on surplus capital over that required to be held is material and will increase distributable capital in 2015.

In order to protect policyholders from counterparty credit risk, the premium paid will be deposited back with the Society until the completion of the transfer to Canada Life. The deposit will be held in similar investments to those previously held by the Society. Canada Life will hold a secured charge over these assets. The investment returns earned by the secured assets will be attributed to Canada Life and payment of related annuities and expenses deducted from deposited assets. The effect of this deposit back arrangement will be to increase the Society's total assets and liabilities by the deposited amount.

When the transfer of policies is complete, the reinsurance agreement will be unwound and the assets held on deposit will be transferred to Canada Life. The Society will no longer recognise gross or reinsured technical provisions for these policies on its Balance Sheet.

Additional information for members

Capital distribution and the cost of guarantees

Within the annual valuation, we do not make an allowance for future capital distribution. It is instructive, however, to assess the working capital of the fund under the alternative assumptions shown below: the first assuming no capital distribution, as per the accounts; the second assuming capital distribution remains at 35% for the remainder of the lifetime of the business; and the third assuming capital distribution increases each year from 35% in 2015 at a constant rate, which aims to pay out all the capital over the lifetime of the business.

	Capital Distribution		
	Nil%	35% unchanged	35% increasing
	£m	£m	£m
Total with-profits assets	5,165	5,165	5,165
less:			
Technical provisions			
Policy values	3,004	3,004	3,004
Cost of guarantees	1,188	517	187
Future charges	(248)	(132)	(132)
Impact of early surrenders	-	-	-
Future capital distributions	-	1,352	1,682
Other long-term liabilities	243	243	243
Other liabilities	181	181	181
Working capital for fund (ERA)	797	-	-

Under the heading 'Future capital distributions', it can be seen that the majority of available capital is expected to be distributed with the Claims Enhancement Factor at 35%, with approximately £300m available for future increases. As the Strategic report discusses, it is not possible to forecast how quickly this capital can be distributed.

Your questions answered

April 2015 pension reforms

What's changing?
For many years, most policyholders have been required to use their retirement savings to buy a pension, often referred to as an annuity. Since 6 April 2015, you no longer have to buy an annuity. If you are over 55, you are able to take all your savings as cash. In most cases, 25% will be tax free and the remainder taxed at your marginal rate.

Do I have to take all the cash in one go?
No. You can take out lower amounts depending on the minimum withdrawal levels that apply from time to time.

What if I still want to buy an annuity?
You can certainly do that, and it is important that you shop around on the open market to find the best one for you.

Do I need to take any action now?
If you are thinking of retiring in the next few months, do call us on 0845 6036771. We can then provide information to help you. In any event, we will write to you a few months before your retirement date held in our records.

Are there any other changes I should know about?
There are other detailed changes, particularly about how death benefits are taxed. You can find out more on our website: www.equitable.co.uk.

Where can I find more information?
You can find a helpful retirement planning tool on our website.

Where can I go for help?
A Government-sponsored service, Pension Wise, offers free impartial guidance to policyholders about what to do with their savings at retirement. To receive free, impartial guidance, go to www.pensionwise.gov.uk.

An Independent Financial Adviser can provide personal financial advice, and may charge for this service. You can find an adviser in your area at www.unbiased.co.uk

Capital distribution

How does the 35% capital distribution work?
We look at the value of your with-profits policy as at 31 December 2014, and, for every £1,000, we allocate an extra capital distribution of £350 to that value. At the point a policyholder leaves the Society, we take the policy value plus the capital distribution, compare it with the policy's guaranteed value, where applicable, and pay out the larger amount.

What do you mean by 'guaranteed value'?
Most policies have a guaranteed value, and this is clearly shown on your Annual Statement.

What is capital?
It is money that a company needs to hold to protect itself against things going badly wrong that would otherwise lead to insolvency.

Why is the capital distribution only being paid to policyholders when they leave?
Because that's when we know for sure that the Society no longer needs to hold capital for that particular policyholder.

Why is the capital distribution not added to my guaranteed value?
If we added the capital distribution to the guaranteed value of your policy we would have to increase the amount of capital that we hold. That's the opposite of what we are trying to achieve.

Does this 35% replace the 25% distribution announced in 2014?
Yes.

How do I know that you will have enough money for policyholders who aren't planning to take their benefits for some years?
We have gone to great lengths to establish an appropriate level of fairness between policyholders who leave and those who stay. We know that we can afford the current level now. That doesn't mean to say it will never go down, because it might. We believe this best meets the balance between policyholders who want to take their benefits now and those who want to take theirs in the years to come.

Where can I find more about capital distribution?
On our website: www.equitable.co.uk.