Equitable Life Assurance Society

Solvency and Financial Condition Report (SFCR)

31 December 2016

Index

Glossary

Abbreviation or Technical Term	Long Form / Explanation
AAM	Aberdeen Asset Management
ALCo	Asset and Liability Committee
AMC	Annual Management Charge(s)
APS X2	Review of Actuarial Work
ARC	Audit and Risk Committee
BACS	Bankers Automated Clearing Services run by Payments Schemes Limited
BAU	Business As Usual
CEF	Claims Enhancement Factor
CEO	Chief Executive Officer
CIUs	Collective Investments Undertakings
CMI	Continuous Mortality Investigation
COLL	Collective Investment Schemes Sourcebook
CRA	Credit Risk Adjustment
DDM	Dynamic Distribution Model
EA	Excess Assets
EC	Economic Capital
ECAI	External Credit Assessment Institutions
ECD	Earliest Contractual Date
EIOPA	European Insurance and Occupational Pension Authority
EPEHL	Equitable Private Equity Holdings Ltd
ESG	Economic Scenario Generator
EU	European Union
EUC	End User Computing

ExCo	Executive Committee
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FRS102	Financial Reporting Standard – applicable in the UK and Republic of Ireland
Gilts	Gilt-edged securities are bonds issued by the British Government
GIR(s)	Guaranteed Investment Return(s)
KFH	Key Function Holder
KFP	Key Function Performer
KPI(s)	Key Performance Indicator(s)
KRD	Key Rate Duration
KRI	Key Risk Indicators
LBG	Lloyds Banking Group
LPI	Limited Price Indexation (relates to annuity products)
MCR	Minimum Capital Requirement
MI	Management Information
MLRO	Money Laundering Reporting Officer
NED	Non-Executive Director
OEIC	Open Ended Investment Company
OpsCo	Operations Committee
ORSA	Own Risk and Solvency Assessment
pa	per annum
PRA	Prudential Regulatory Authority
PwC	PricewaterhouseCoopers
RCSA	Risk and Control Self-Assessment
RM	Risk Margin

RSP	Recurrent Single Premium
SCR	Solvency Capital Requirement
Solvency II	European Union law that codifies and harmonises the EU insurance regulation. Primarily it concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. Came into effect on 1 January 2016.
TAS	Technical Actuarial Standards
TAS-D	Technical Actuarial Standards - Data
TAS-I	Technical Actuarial Standards - Insurance
TAS-M	Technical Actuarial Standards - Modelling
TAS-R	Technical Actuarial Standards – Reporting Actuarial Information
TMTP	Transitional Measure on Technical Provisions
UKCGC	United Kingdom Corporate Governance Code C.1: Accountability - Financial And Business Reporting C.2: Accountability - Risk Management and Internal Control C.3: Accountability - Audit Committee and Auditors
VA	Volatility Adjustment

Directors’ Certificate

EQUITABLE LIFE ASSURANCE SOCIETY

Approval by the Board of Directors of the Solvency and Finance Condition Report for the period ending 31 December 2016

We certify that:

1. The Solvency and Financial Condition Report (SFCR) has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and

2. We are satisfied that:

    a. Throughout the financial year in question, the Society has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable; and

    b. It is reasonable to believe that, at the date of the publication of the SFCR, the Society has continued so to comply, and will continue so to comply in future.

On behalf of the Board of the Equitable Life Assurance Society

Chris Wiscarson
Chief Executive
16th May 2017

Audit Report

Report of the external independent auditors to the Directors of Equitable Life Assurance Society pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

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

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2016

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2016, **('the Narrative Disclosures subject to audit');** and

- Company templates S.02.01.02, S.12.01.02, S.22.01.21, S.23.01.01, S.25.01.21 and S.28.01.01 **('the Templates subject to audit').**

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

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

- The unaudited 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Society templates S.05.01.02, S.05.02.01 and S.19.01.21;

- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measure on technical provisions as set out in the Appendix to this report;

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Responsibility Statement').

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

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, and as supplemented by supervisory approvals.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority (PRA). As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations, which have been supplemented by the approvals made by the PRA under the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- Written notice 2234684 dated 13 November 2015 granting PRA approval to apply a volatility adjustment to the relevant risk-free interest rate term structure.

- Written notice 3253648 dated 24 November 2016 granting PRA approval to apply a transitional deduction to its technical provisions.

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

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors.

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the relevant elements of the Solvency and Financial Condition Report. In addition, we read all the financial and non-financial information in the Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
16 May 2017

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

- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

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

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

- The following elements of template S.12.01.02
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions.
- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional on technical provisions.
- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.

Article 292 - Summary

1. The solvency and financial condition report shall include a clear and concise summary. The summary of the report shall be understandable to policy holders and beneficiaries.
2. The summary of the report shall highlight any material changes to the insurance or reinsurance undertaking's business and performance, system of governance, risk profile, valuation for solvency purposes and capital management over the reporting period.

Summary

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 some £7bn (£6,575,000k) of assets on behalf of approximately 141,000 individual with-profits policyholders; 143,000 with-profits policyholders in company pension schemes and 123,000 unit-linked policyholders. The vast majority are expected to take their benefits over the next 20 years.

The Society's business model remains straightforward. The Society's mission in run-off is exclusively to serve the best interests of our existing policyholders.

This report explains the Society's strategy, linking it to the principal risks and our key performance indicators.

The Society's strategy

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

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

In 2015 we sold £0.9bn (£850,000k) of annuities to Canada Life, which subsequently transferred in 2016. This transaction reduced the Society's risks and, therefore, its capital requirements, and was material to the Board's decision to increase capital distribution to 35%.

Our approach to capital distribution

Every year the Board assesses the impact of its risk reduction programme and decides whether an adjustment in capital distribution is warranted. To help inform the Board, extensive reviews of the capital required under a wide range of possible future economic conditions are undertaken.

In 2016, the Board felt able to maintain capital distribution at 35% notwithstanding the political and economic volatility. The Chairman warned in his 2015 statement that these conditions could lead to a reduction in capital distribution, and twice during the year, as conditions deteriorated, we wrote to policyholders explaining the risk, and its implications for capital distribution.

We are required to hold capital against the risk that policyholders defer taking their benefits when long-term interest rates are low. The new regulatory regime, Solvency II, required us to hold even more capital to address this risk.

Dramatic reductions in ten year interest rates, throughout 2016 and particularly following the EU Referendum, led to falls in our solvency coverage. Throughout the year, we considered various risk mitigation options to maintain the 35%. The most material action was to apply to our regulator for a more gradual transition to the amount of capital we need to hold under Solvency II. These are a transitional reduction in technical provisions, (TMTP) helping to mitigate the risk margin (RM) on available capital.

The application was approved at the end of 2016 and provides an underpinning to the 35%. However, the existence of the guarantees means that the combined risks of low interest rates and policyholder deferrals are a constant threat to our good management of the Society.

The Board is firm in its belief that, when policyholders leave, they should leave with a fair share of capital. The key here is that there should be proper balance between those policyholders who leave over the next few years and those who remain well beyond that. So long as there is sufficient capital to support the latter, earlier leavers should not be denied a fair capital distribution for the sake of higher investment returns to those policyholders who remain.

Carefully managing solvency

Company solvency levels are regulated by the Prudential Regulation Authority (PRA). There is a further regulator, the Financial Conduct Authority (FCA) that pays particular attention to fairness to policyholders. Our decision to maintain the capital distribution of 35% has been made following consultation with both regulators.

Under the Solvency II regime, it is necessary to assess our capital using two different measures. Both require us to hold more capital than in previous years. The first measure, known as the Standard Formula, adopts a generic rules-based approach. It is this measure that is particularly sensitive to the interest rate reductions. This is because the rules dictate that extra capital has to be held (referred to as the Risk Margin), which increases in size as interest rates fall.

In addition to the Standard Formula measure, we also calculate solvency based on our view of the risks that directly impact the Society. This measure of solvency is very similar to that reported over the last few years using the concept of Economic Capital (EC) described in the next section. We commonly refer to this as Management's view of the capital required.

This latter measure does not lead to the volatile movements in coverage seen under the first measure as we match policy payments to income from assets. This means that, when interest rates fall, the liabilities increase in line with our assets. Importantly, we cannot match assets to the Risk Margin (RM), thereby leaving us exposed to interest rate movements under the Standard Formula measure.

The Board has defined a risk appetite such that the Society should hold capital at least 120% of that required in the two measures described above. Were the ratio to fall below 120%, capital distribution would likely be reduced. In arriving at the amount of capital we can distribute, we ensure we have sufficient capital to cover both measures.

The interest rate reductions in 2016 caused the Standard Formula coverage levels to fall during 2016 before our mitigating actions took effect. Year-end coverage was very similar to the levels at the start of the year.

Capital Management

The amount of capital we hold is the excess of assets over policy liabilities. This measure, known as Excess Assets, has improved since 2015, driven by: changes in valuation assumptions; our cost reductions; unit-linked charge increases; and an accounting gain from the derivatives held to mitigate the impact of low interest rates. Given the continuing political and market uncertainty, the Board do not consider it prudent to treat the gain from derivatives as distributable, as it may yet be needed to provide further protection against the risk of low interest rates combined with policyholders deferring their retirement.

Management's view of the amount of capital required is called Economic Capital (EC). Here, we consider the impact on the Society's capital under extreme conditions; events that could occur once in every 200 years resulting from, among other things, insurance risk, credit risk, market risk and operational risk.

Accounting rules do not allow these extreme events to be included as liabilities in the financial statements, but the capital required to support them is, nevertheless, the equivalent of non-distributable reserves. We are required to hold this Economic Capital (EC) to protect policyholders and, therefore, it has to be deducted from Excess Assets to arrive at the Surplus.

The impact of the new solvency regulations has been, as expected, to increase Economic Capital (EC). We have taken action in recent years to ensure our Excess Assets have risen so that the impact on our Surplus is largely mitigated.

Excess Assets and Economic Capital (EC) interact as follows:

	2016 £k
Excess Assets (EA) – the amount of capital we hold	1,005,000
Economic Capital (EC)[(1)] – the amount of capital we require	(423,000)
Surplus [(1)]	582,000

(1) Calculation of Economic Capital was not audited by PricewaterhouseCoopers LLP

The Surplus is the difference between the capital held and the capital required. When policyholders leave, they receive the capital distribution prevailing at the time. In 2016, this amounted to £93,000k which is funded by the Excess Assets.

Our accounting policy has been amended to reflect the impact on liabilities caused by the new solvency regulations. The prior year figures above have been adjusted accordingly. The liabilities in the Financial statements are prepared using the Management View approach described above.

Investment return

The Society's investment strategy is to effectively manage solvency and, only then, to maximise return. Key to this strategy is our policy of matching 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. In order to assess when policy payments will occur, judgement is required regarding future policyholder behaviour.

This strategy necessarily leads to a relatively conservative investment approach. The Society's portfolio consists primarily of British government securities (gilts), corporate bonds, and cash. During the last few years, the Society has all but eliminated its holdings in capital intensive equities and property.

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. Consequently, the return is likely to be lower than from a portfolio invested in equities and property. However, and this is critical, capital distribution can be significantly higher.

While it is impossible to fully mitigate the risk of credit defaults or the widening of credit spreads due to market turbulence, the Board believes that our low risk investment portfolio will provide better protection than an alternate one which carries higher risk.

The return on investments in 2016 was 10.6%. As a result of our matching policy, the Society's liabilities have risen by an equivalent amount to the assets. Consequently, the part of the return arising from the change in asset values has been deducted (8.5%) in order to arrive at the fund performance which, in 2016, was 2.1% before charges of 1.5%.

In considering an appropriate increase to policy values, we are informed more by the underlying long-term sustainable rate of return, secured when contributions were originally invested, than by the in-year performance. The underlying return is of the order of 2% pa after deduction of charges.

The Board has decided therefore that, for 2016, policy values will increase at 2% pa for UK with-profits pension policies (1.6% pa for life assurance policies where tax is deducted).

Interest rates have been falling for many years and since 2009 have repeatedly found new lows. Where policyholders postpone taking retirement benefits, we have to reinvest assets at the interest rates prevailing at the time. Therefore, if policyholders continue to defer taking their benefits, the underlying rate of return of 2% is likely to become unsustainable at some point.

Unit-linked business

In 2016, we made two significant changes to the unit-linked business. In April 2016, we increased the annual management charge (AMC) from 0.5% to an average of 0.72%, much nearer market norms. The charges now cover the costs of running the business. We have also reduced the number of funds under management from 107 to 30 to ensure that policyholders are mainly invested in large liquid funds which will also help improve investment performance. In consequence of these important steps in regard to unit-linked policies, Excess Assets have increased by c£35,000k. As a result, this business has become less of a capital strain to with-profit policyholders.

Predicting the future

Every year, the Board reviews how much capital will be required and how much is likely to be available for distribution under a wide range of possible future economic conditions. The most likely outcomes result in capital distribution rising over the next ten years assuming policyholders continue the retirement patterns of the past.

However, more and more policyholders are choosing to remain with the Society past their expected retirement date. In a low interest rate environment, this increases the capital strain of the guarantees. The potential for this trend to continue represents the most significant risk faced by the Society.

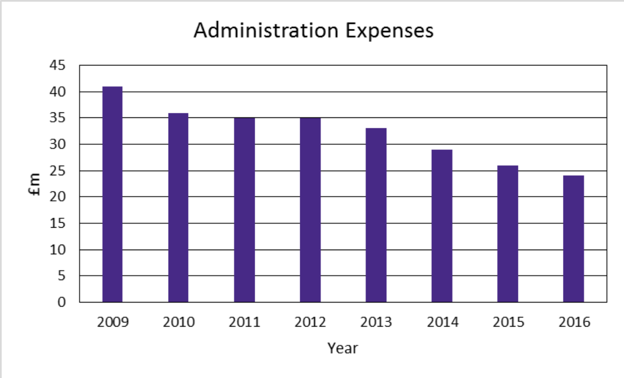
In regard to those policyholders who have left the Society, the trend in the value of claims is shown in the graph below:

The reduction in the annual value of claims from 2009 to 2014 has coincided with a period of low interest rates and higher capital distribution. In 2016, following reductions in our solvency coverage, we wrote to policyholders explaining that the 35% capital distribution was at risk. This was followed by an increase in claims in the last quarter of the year, which are now reverting to the levels of 2015.

We were successful in addressing the challenges in 2016 but, as long as the guarantees remain, there will always be a risk that capital distribution will, at some point, have to be reduced. Hence, our current investigation, to establish whether we can provide greater certainty to the distribution.

Providing the best value-for-money cost base

We consider value-for-money to be where administrative expenses reduce in line with the run-off of policies as policyholders retire. During 2016, the reduction in policies was approximately 30,000; an 8% fall over 2015. Administrative expenses fell by c8% from £26,000k to £24,000k.



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. A good example is the sale of the annuity book.

Total costs in 2016 have fallen to £37,000k, from £43,000k in 2015. Particularly noteworthy is that costs are down from £115,000k in 2009.

Reducing administrative expenses in line with policy run-off 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, the exit of a group pension scheme.

However, over time, the associated costs are managed downwards. As the table below shows, we have been able to reduce expenses faster than policy numbers.

% reduction between 2009 and 2016	
Administrative expenses	40
Policy numbers	35

The main areas of saving continue to be from the Lean Manufacturing techniques first introduced in 2011, and the Society's cost reduction programme known as Simplification. Lean Manufacturing promotes continuous improvement and operational excellence within the business.

The Simplification programme has succeeded in reducing costs by an annualised £5,600k by removing complexity, renegotiating third party tariffs, and aligning the cost base more directly to policy run-off. In addition, following a review of our product offerings, we decided to withdraw from the loss-making administration service provided to Group Final Salary schemes. As a result of the programme, staff numbers, including contractors, fell from 318 in December 2015 to 242 by the end of 2016. The benefits of the programme have led to an improvement of £18,000k in our forecast of future expenses.

The Society currently levies a charge of 1% pa of the value of with-profits assets to cover the costs of running the business. Our Lean Manufacturing and Simplification work has been fundamental to keeping costs within that 1% in recent years.

We have also built up a cost reserve which, together with the 1% expense charge, is intended to provide sufficient funds to meet the Society's future costs.

In setting targets to deliver a value-for-money cost base, the Board is mindful of the need to have in place strong controls. In this respect, the Society operates a robust and comprehensive risk management framework. Service to policyholders is monitored very regularly and, throughout 2016, we have performed within the standards agreed by the Board.

Following successful completion of the main risk reduction initiatives, exceptional project expenditure during 2016 of £4,000k remains significantly lower than in previous years.

The perspective of policyholders

We place great store on what policyholders think. Every year, we seek the views of a representative sample of policyholders through questionnaires and focus groups.

In our most recent survey, it is very pleasing to know that almost all policyholders who had engaged with our staff felt that they had responded positively.

This confirms our view that staff take great pride in providing a trusted and valued service.

Principal risks

The Society operates a comprehensive risk management framework through which it identifies, monitors and reports on the principal risks to its strategic objectives. They are managed within a risk appetite set by the Board, who also ensure that adequate capital is held against these risks.

Simply stated, the more risk the Society takes in managing its business, the more capital it needs to hold in case things go wrong. Hence, the Board's focus on reducing these risks.

While individual risks are important, the Board also considers certain combinations of risks. This is particularly relevant in turbulent market conditions. For example, falling interest rates combined with policyholders deferring benefits is a particularly onerous combination. If these risks were to materialise in an economic environment of credit defaults and a divergence of swap and gilt yields, then this would put at risk the current level of capital distribution.

To mitigate the risk of policyholders taking their benefits beyond their expected retirement date, we will continue our research into the factors that might give rise to this deferral.

The main risks relevant to the Society are described below.

Insurance risk

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

The most material insurance risk is in regard to retirements and transfers not being in line with estimates.

To mitigate this risk, the Society holds a series of derivatives called swaptions. When interest rates reduce, the value of the swaptions rises, offsetting the increase in Economic Capital (EC) that might arise as a result of policyholders deferring retirement. When interest rates rise, the value of the swaptions will fall but will be offset by a reduction in Economic Capital (EC), leading to minimal change in overall Surplus.

When interest rates fall to very low levels, as they did in 2016, the value of the swaptions far exceeds the required level of protection. Management took advantage of these extraordinary circumstances to adjust the derivatives and release the excess value, thereby realising an accounting gain of £95m.

The second material insurance risk is in regard to expenses not reducing in line with policyholder run-off. The risk reduced during 2016 following the success of the Society's Simplification programme.

Liquidity risk

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

The Society continues to hold high levels of liquid assets in order to provide protection against the scenario of policyholders who have passed their earliest contractual date (ECD) deciding to take their benefits immediately.

The impact of such an event would be approximately £1.3bn, and liquid assets significantly in excess of this amount are held in mitigation.

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) The risk of default on its portfolio of fixed-interest securities, especially corporate bonds; and
(ii) 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 performance so that appropriate management actions can be taken to pre-empt loss from default events. No defaults occurred in 2016.

The major reinsurance treaties are with companies in Lloyds Banking Group (LBG). At £0.4bn, these exposures are much reduced following the unit-linked transaction.

Market risk

(i) Interest rates: the risk that interest rate changes have a financial impact through any 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 2016, there were two adjustments to asset duration following the year-end and half-year liability valuations. The adjustments had the impact of further strengthening cash flow matching.

(ii) Spread risk: changes in the value of corporate bonds relative to gilts could have a financial impact on our capital calculations. As long as policyholders do not change their behaviour, we will hold the bonds until they mature so any capital strain is of a temporary nature. The Society invests in a diversified portfolio of high-quality corporate bonds, thereby reducing the potential exposure.

(iii) Swap basis risk: Solvency II requires liabilities to be valued using swap rates, whereas our assets are primarily gilts and bonds. In 2016, there was some divergence of swap rates from gilt rates, which impacted our Solvency II coverage. We have accepted this risk and do not hedge against it.

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:

(i) Those related to delivery of services to our policyholders;

(ii) The delivery of services to the Society by significant third party suppliers; and

(iii) Risks in executing strategic projects.

The management controls designed to mitigate these risks have succeeded in keeping losses to a bare minimum. There have been no material changes to operational risk in the year.

Having said that, cyber-attacks on companies are a growing threat. These could lead to loss of policyholder data, operational disruption, and reputational damage. Working closely with suppliers, the Board regularly assesses the threat level in the UK, along with the Society's defences against various potential attacks. Management also conducts simulations to ensure the Society is as prepared as it can be.

Regulatory risk

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

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. We have arrangements in place to identify new regulatory developments, implement changes to meet these requirements, and monitor ongoing compliance.

Key performance indicators

Key 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. The most important indicators are shown in the table below.

% of policy value	2015-17	2014	2011
Capital distribution	35	25	12.5
Policy value increase	2	2	2
Financial Adjustment	0	0	5

The Board's strategy of capital distribution has clearly led to increases in policyholder value.

We estimate that, as a result of capital distribution, approximately 97 out of 100 individual with- profits policyholders taking their benefits receive a pay-out greater than the policy guarantee.

Conclusion

The Board is confident that it can deliver run-off with capital distribution most likely increasing gradually over time. Notwithstanding that, we will determine in 2017 whether there are means of materially reducing the risk of any reduction in capital distribution as well as identifying alternatives to run-off which could release capital earlier.

A. Article 293 - Business and Performance

A.1 Business

1. The solvency and financial condition report shall include all of the following information regarding the business of the insurance or reinsurance undertaking:

(a) the name and legal form of the undertaking;

(b) the name and contact details of the supervisory authority responsible for financial supervision of the undertaking and, where applicable, the name and contact details of the group supervisor of the group to which the undertaking belongs;

(c) the name and contact details of the external auditor of the undertaking;

(d) a description of the holders of qualifying holdings in the undertaking;

(e) where the undertaking belongs to a group, details of the undertaking's position within the legal structure of the group;

(f) the undertaking's material lines of business and material geographical areas where it carries out business;

(g) any significant business or other events that have occurred over the reporting period that have had a material impact on the undertaking.

Guideline 1 - Business

1.13. Under section "A.1 Business" of the SFCR as defined in Annex XX of the Delegated Regulation, insurance and reinsurance undertakings should describe at least the following information regarding their business:

a) The name and location of the legal or the natural persons that are direct and indirect holders of qualifying holdings in the undertaking (including the immediate and ultimate parent entity or natural person), the proportion of ownership interest held and, if different, the proportion of voting rights held;

b) A list of material related undertakings including the name, legal form, country, proportion of ownership interest held and, if different, proportion of voting rights held;

c) A simplified group structure.

A.1 Business

(a) The Equitable Life Assurance Society is a mutual society registered in England No. 37038. Registered office: 20-22 Bedford Row, London, WC1R 4JS.
Administrative Office: Walton Street, Aylesbury, Buckinghamshire, HP21 7QW

(b) The Society is authorised and regulated by the Prudential Regulation Authority (PRA) as a Category 3 firm and, from 2 November 2015, the Society is regulated for conduct by the Financial Conduct Authority (FCA) as a "flexible portfolio" firm. The Society complies with all relevant requirements of PRA and FCA as set out in their respective Handbooks.

The Society's PRA contact is:

Supervisor
Retail Life Supervision
Prudential Regulation Authority
Bank of England
London
EC2R 8AH
Phone - +44 (0)20 3461 7000

The Society's FCA contact is

Pensions & Retirement Income / Life Insurance and Financial Advice
Supervision – Investment, Wholesale and Specialists Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

Phone - 020 7066 1000

(c) Auditors: PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT

(d) The Society is a mutual organisation with only one tier of capital, namely policyholders' funds. No other sources of additional capital are currently available.

(e) The Society's only subsidiary, Equitable Private Equity Holdings Ltd (EPEHL) is a wholly owned private equity investment that is not consolidated but is recorded in the balance sheet at net asset value.

Consolidation would result in no material change to the Society's balance sheet.

EPEHL, is a Guernsey registered company, investing in Knightsbridge Integrated Holdings V L.P., which invests in North American equity and venture capital projects. EPEHL made a loss in 2016 of £42k ($52k) and its total net asset value as an approximation of its fair value is £30,000k ($37,000k).

(f) The principal activity of the Society during 2016 remained the transaction of life assurance and pension business in the form of guaranteed, participating and unit-linked contracts, predominantly in the UK. The Society closed to new business on 8 December 2000.

Operations are focused on the administration of c400,000 policies comprising c£7bn (£6,900,000k) of policyholder liabilities. Policies are running off at a rate of approximately 35,000 per annum.

(g) **Reinsurance with Lloyds Banking Group**

Contracts with Lloyds Banking Group (LBG) represent the Society's largest reinsurance arrangement and create an asset on the Balance sheet of £409,000k, being the entitlement for the Society to recover from LBG the claims paid under reinsured business. 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.

Annuity reinsurance with Canada Life

On 2 March 2015, the Society entered into an agreement with Canada Life to reassure the non-profit annuity business, under which Canada Life bore substantially all the risks and rewards of this business with effect from 1 January 2015.

In order to protect policyholders from counterparty credit risk, the initial premium was deposited back with the Society. The investment returns from the secured assets were attributed to Canada Life, as reflected in 'Other technical charges'.

Following the completion of a High Court process, the non-profit and unit-linked annuity business was novated to Canada Life on 19 February 2016 as a Part VII transfer under the Financial Services and Markets Act 2000. On completion of the transfer, the reinsurance agreement was terminated and the assets held on deposit transferred to Canada Life.

Unit linked Business

In 2016, we made two significant changes to the unit-linked business. In April 2016, we increased the annual management charge (AMC) from 0.5% to an average of 0.72%, much nearer market norms. The charges now cover the costs of running the business. We have also reduced the number of funds under management from 107 to 30 to ensure that policyholders are mainly invested in large, liquid funds which will also help improve investment performance. In consequence of these important steps in regard to unit-linked policies, Excess Assets have increased by £35,000k. As a result, this business has become less of a capital strain to with-profit policyholders.

A.2 Underwriting Performance

The solvency and financial condition report shall include qualitative and quantitative information on the insurance or reinsurance undertaking's underwriting performance, at an aggregate level and by material line of business and material geographical areas where it carries out business over the reporting period, together with a comparison of the information with that reported on the previous reporting period, as shown in the undertaking's financial statements.

A.2 Underwriting Performance

The Society closed to new business in December 2000. Therefore underwriting performance is no longer considered of material relevance to the Society.

Movement in Excess Assets

The principal movements in the Excess Assets during the year are shown in the following table.

	2016 £k	2015 £k	2016 Key movements
Opening Excess Assets	793,000	797,000	
Investment performance net of changes in policy values	173,000	(24,000)	Includes gains on swaptions and impact of changes in credit spreads
Variance in expenses experience and assumptions	51,000	9,000	Reflects increased variability of future expenses
Unit-linked buy back from LBG	-	(26,000)	
Annuity reinsurance	-	77,000	
Changes in valuation experience and assumptions	86,000	11,000	Reflects deferral of retirements and increase in assumed level of surrenders
Capital distribution within claims payments	(93,000)	(66,000)	Increase reflects higher level of claims
Change in accounting policy	-	10,000	
Other movements	(5,000)	5,000	
Closing Excess Assets	**1,005,000**	**793,000**	

Premiums and Claims

	2016 £k	2016 £k	2015 Restated £k	2015 Restated £k
Earned premiums, net of reinsurance				
Gross premiums written	1,000		16,000	
Annuity business reinsurance initial premium	-		(850,000)	
Insurance business element of buy-back	-		180,000	
Other outward reinsurance premiums	(5,000)		(6,000)	
		(4,000)		**(660,000)**
Claims incurred, net of reinsurance				
Claims paid – gross amount	498,000		459,000	
Reinsurers' share	(29,000)		(71,000)	
		469,000		**388,000**

A.3	Investment Performance
	The solvency and financial condition report shall include all of the following qualitative and quantitative information regarding the performance of the investments of the insurance or reinsurance undertaking over the reporting period together with a comparison of the information with that reported on the previous reporting period, as shown in that undertaking's financial statements:
(a)	information on income and expenses arising from investments by asset class and, where necessary for a proper understanding of the income and expenses, the components of such income and expenses;
(b)	information about any gains and losses recognised directly in equity;
(c)	information about any investments in securitisation.

A.3 Investment Performance

(a)

The table below shows Investment performance during the year end 31st December 2016

INVESTMENT PERFORMANCE

	At 31 December 2016 £k					Year end 2015 £k
	Realised gains/ (losses)	Unrealised gains / (losses)	Investment income	Investment expenses	**TOTAL RETURN**	**TOTAL RETURN**
Fixed income securities						
Government bonds	49,400	122,200	92,500		**264,100**	**5,200**
Index linked	61,400	1,900	5,200		**68,500**	**(16,000)**
Other fixed interest	18,300	2,400	46,900		**67,600**	**13,000**
	129,100	**126,500**	**144,600**		400,200	2,200
Other Investments						
Property & Equity	(11,900)	13,800	-		**1,900**	**700**
Derivatives	110,800	(14,900)	-		**95,900**	**(5,600)**
	98,900	**(1,100)**	**-**		97,800	(4,900)
Unit linked funds						
Property & Equity	2,400	33,300	-		**35,700**	**(100)**
Collective Investment Undertakings (CIUs)	(21,100)	224,100	33,300		**236,300**	**(61,900)**
Derivatives	(100)	-	-		**(100)**	**300**
	(18,800)	**257,400**	**33,300**		271,900	(61,700)
Interest	1,100	100	2,200		**3,400**	**2,200**
Other	800	3,400	(500)	(6,200)	**(2,500)**	**(5,100)**
TOTAL ASSETS	**211,100**	**386,300**	**179,600**	**(6,200)**	**770,800**	**(67,300)**

Fixed income investment returns are significantly higher than in 2015 due to the fall in yields. By comparison, stable yields in 2015 resulted in a very low investment return.

Investments held to cover unit linked liabilities are mostly equity based Collective Investment Undertakings (CIUs). Gains on these assets reflect an overall rise in equity based investments over the year.

The year saw significant volatility with yields falling in February and again in June, due to uncertainties over Brexit, but then rising after the US presidential election result. During the year, yields fell and with-profits asset values rose. In quarter four, claims increased following the September letter, and interest rates increased from their lows.

Unit linked assets have also increased as investment returns exceeded claims, due to equity markets reaching all-time highs.

(b) The Society does not recognise any gains or losses directly in equity

(c)

The Society does not hold investments in securitisation (for example, asset backed securities).

A.4 Performance of other activities

The solvency and financial condition report shall describe the other material income and expenses of the insurance or reinsurance undertaking incurred over the reporting period together with a comparison of the information with that reported on the previous reporting period, as shown in that undertaking's financial statements.

Guideline 2 – Performance of other activities

1.14. Under section A.4. Performance of other activities" of the SFCR as defined in Annex XX of the Delegated Regulation, insurance and reinsurance undertakings should describe in general the leasing arrangements in relation to each material leasing arrangement, separately for financial and operating leases.

A.4 Performance of other activities

Net operating expenses

	2016 £k	2015 £k
Administration expenses	24,000	26,000
Costs of strategic initiatives	4,000	5,000
Redundancies	1,000	4,000
Total net operating expenses	**29,000**	**35,000**
Investment management expenses	6,000	7,000
Claims handling expenses	2,000	1,000
Total costs	**37,000**	**43,000**

Administration expenses have fallen in 2016 as a result of efficiency savings from less back-office support staff and smaller office space. Administration expenses include lease costs of less than £1,000k. Costs of strategic initiatives include those associated with the delivery of the Canada Life annuity sale, ongoing activity relating to simplifying business processes and reducing the number of unit-linked funds we operate. Increase in claims handling expenses is aligned to the higher level of claims experienced in 2016.

Other technical income and charges

Other technical income of £6,000k includes rebates received from unit-linked Open Ended Investment Company (OEIC) fund managers of £5,000k.

Other technical charges of £57,000k in 2016 includes £27,000k for the transfer of unit-linked annuities that were not part of the reinsurance arrangement, with Canada Life, and £30,000k negative investment return on assets over which Canada Life held a secured charge.

A.5 Any other information
The solvency and financial condition report shall include in a separate section any other material information regarding their business and performance of the insurance or reinsurance undertaking.

A.5 Any other information

At this time there is no other material information to disclose.

B. Article 294 - System of Governance

B.1 General information on the system of governance

The solvency and financial condition report shall include all of the following information regarding the system of governance of the insurance or reinsurance undertaking:

(a) the structure of the undertaking's administrative, management or supervisory body, providing a description of its main roles and responsibilities and a brief description of the segregation of responsibilities within these bodies, in particular whether relevant committees exist within them, as well as a description of the main roles and responsibilities of key functions;

(b) any material changes in the system of governance that have taken place over the reporting period;

(c) information on the remuneration policy and practices regarding administrative, management or supervisory body and, unless otherwise stated, employees, including:

(i) principles of the remuneration policy, with an explanation of the relative importance of the fixed and variable components of remuneration;

(ii) information on the individual and collective performance criteria on which any entitlement to share options, shares or variable components of remuneration is based;

(iii) a description of the main characteristics of supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body and other key function holders;

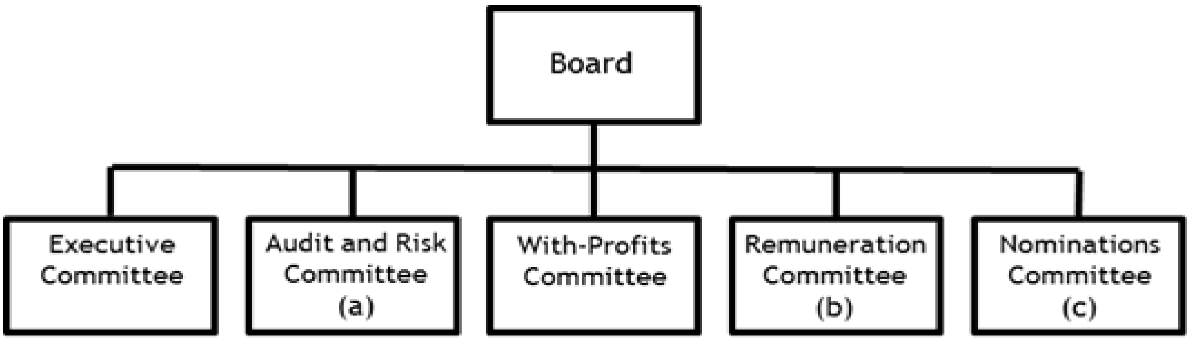
(d) information about material transactions during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body.

Guideline 3 - Governance Structure

1.15. Under section “B.1. General information on the system of governance” of the SFCR as defined in Annex XX of the Delegated Regulation, insurance and reinsurance undertakings should explain how the key functions have the necessary authority, resources and operational independence to carry out their tasks and how they report to and advise the administrative, management or supervisory body of the insurance or reinsurance undertaking (hereinafter “AMSB”).

B.1 General Information on the system of governance

(a) The Society aims to meet the highest standards in corporate governance and voluntarily adopts the relevant provisions of the 2016 UK Corporate Governance Code (UKCGC). The Board is responsible to the Society’s members for good corporate governance and applies high standards to ensure that this is achieved.



Key to membership of principal Board Committees

(a) Audit and Risk
(b) Remuneration
(c) Nominations

The Board of Directors

Ian Brimecome (b) (c) - Chairman

Keith Nicholson (a) (b) (c) - Deputy Chair and Senior Independent Director

Chris Wiscarson - Chief Executive (CEO)

Simon Small - Finance Director

Penny Avis (a)

Daniel Finkelstein

Ian Gibson (a)

Cathryn Riley (a) (b) (c)

In 2016 there were 9 Board meetings, 8 With-Profit Committee, 7 Audit & Risk Committee, 1 Nominations Committee and 3 Remuneration Committee meetings held.

The Board

The Board meets regularly to lead, control and monitor the overall performance of the Society. The Board's principal functions are: to determine the strategy and policies of the Society; to set out guidelines within which the business is managed; and to review business performance. The Board considers and decides on all major matters of Society corporate strategy and ensures that the strategy is consistent with its appetite for risk. There is a formal schedule of matters reserved for the Board's decision. Members of senior management supply the Board with appropriate and timely information and are available to attend meetings and answer questions. Authority is delegated to the Chief Executive (CEO) for implementing strategy and managing the Society.

The roles of Chairman and Chief Executive (CEO) are separated and the Chairman has primary responsibility for the effective functioning of the Board.

Management of the Society

The Executive team meets weekly to manage business activities. Papers are prepared and presented to the Board and its Committees by the Executive team. The Executive team comprises: the Chief Executive; the Finance Director; the Risk Director; the Chief Actuary; the Head of Human Resources; and two Senior Managers, Customer Service.

The Chief Actuary, advises on the Society's ability to meet obligations to policyholders. He identifies and assesses the risks that could have a material impact on meeting these objectives as well as the capital needed to support the business. He also advises the Board on the methods and assumptions to be used for the assessment of the value of the Society's liabilities, and reports on the results. The Society is also required to appoint a With-Profits Actuary, who advises the Board on key aspects of the discretion to be exercised affecting with-profits business, including the fair treatment of and communication with with-profits policyholders, and advice on bonus rates.

The Board has responsibility for investment strategy, investment policy and appointing investment managers. These responsibilities are discharged through the Society's Asset and Liability Committee (ALCo), which is chaired by the Finance Director. The Committee takes advice from the Chief Actuary and the Chief Investment Officer, and regularly liaises with the investment advisers to oversee day-to-day investment matters.

The Finance Director is the executive responsible for: the Society's Finance, IT Change, Company Secretariat and Investment functions; and our unit-linked business. He is also responsible for corporate strategy development and monitors progress against targets.

Monthly management information (MI) in respect of financial performance, fair treatment of policyholders, complaints handling, risk management, compliance and investment performance is prepared and reviewed by senior management, the Executive team and the Board.

Each year, the Society prepares a three-year business plan and budget to assist in the monitoring of results, assets, liabilities and investment performance. Actual performance against these plans is actively monitored and, where appropriate, corrective action is agreed and implemented.

The Senior Managers, Customer Service, are responsible for ensuring that we meet the day-to-day needs of policyholders.

The Risk Director, is responsible for: providing the framework of risk policies; processes and approaches to be followed by staff; and for reporting to the Audit Risk Committee (ARC) and the Board on the key risks facing the Society and how those risks are controlled and managed.

The Head of Human Resources, is responsible for establishing appropriate standards of: recruitment; staff performance review; union relations; and staff communications.

Board Committees

The Board formally delegates certain specific responsibilities to the three Board Committees.

Audit Risk Committee (ARC)

The objectives of the Committee are to assist the Board in ensuring that:

With regard to audit matters:

- The accounting systems provide accurate and up to date information on the financial position of the Society, and that the published Annual Report and Accounts represents a true and fair reflection of this position and that regulatory information is on a properly prepared basis.

- Appropriate accounting policies and systems of internal control are in place for the Society, taking account of those internal controls and other activities carried out by third parties in relation to their provision of services to the Society.

- The Society meets, in all material respects, the provisions relating to Principles C1, C2 and C3 of The UK Corporate Governance Code appended to the Listing Rules of the FCA and the Guidance on Audit Committees, except where the Board does not consider that the guidance is appropriate or relevant to the Society.

- The Society complies with the Financial Services and Markets Act 2000 and Money Laundering Regulations.

With regard to risk matters:

- The risk appetite is appropriate for the Society's needs.

- Key risks are identified and managed.

Nominations Committee

The objectives of the Committee are:

- To assist the Board in ensuring that the Board has a mix of Directors with the necessary skills, experience and independence to govern the Society effectively;

- To assist the Board in ensuring that suitable candidates are identified to fill vacancies or to add to the strength of the Society's Board;

- To review, on an ongoing basis, the appropriateness and suitability of each Director for continuing membership of the Board taking into account regulatory requirements and good corporate governance practices; and

- To assist the Board to meet, wherever possible, the standards set out in the UK Corporate Governance Code published by the Financial Reporting Council (FRC), in relation to membership of the Board.

Remuneration Committee

The objectives of the Committee are to assist the Board in ensuring that:

- The overall terms and conditions of employment of all Directors (including Executive Directors) are satisfactory; and

- Remuneration policy and practice for the Society complies with the remuneration requirements of Articles 275 of the Solvency II regulations and with the European Insurance and Occupational Pensions Authority (EIOPA) 'Guidance on system of governance' finalised on 14 September 2015, and wherever possible, meets the standards set out in the UK Corporate Governance Code published by the Financial Reporting Council (FRC).

With-Profits Committee

The Committee considers matters affecting with-profits policyholders such that the interests of all, or, where relevant, specific groups of, policyholders are appropriately considered. Its primary objective is to ensure the fair treatment of with-profits policies, having due regard to:

- Appropriate risk and capital management;
- Fair pay-out's when benefits are taken;
- Appropriate investment strategies for the Society's fund;
- Clear and timely policyholder communications; and
- Any issues that with-profits policyholders might reasonably expect the Committee to consider.

The Committee works closely with, and obtains the opinion and advice of, the Society's With-Profits Actuary. In 2016, the Board carried out the duties of the With-Profits Committee. In order to ensure appropriate focus is given to these duties, the With-Profits Committee meets as part of Board Meetings at which there are with-profits items.

B.1 (b)

On behalf of the Board, the ARC has reviewed the effectiveness of the risk management and internal control systems for the year ended 31 December 2016.

The review demonstrated that the Society has in place a comprehensive set of risk management and internal control arrangements. These include the identification, assessment, measurement, monitoring, reporting and management of risks. The review also confirmed that the Society is compliant with the Systems of Governance requirements under Solvency II. There have been no material changes to the Society's Systems of Governance in 2016.

B.1 (c) (i)

The purpose of the remuneration policy is to ensure that staff are appropriately incentivised to meet the objectives of the business. The policy is set by the Board, having been recommended by the Remuneration Committee. Executive Director remuneration is set and reviewed by the Remuneration Committee. The Committee reviews and approves, if thought fit, recommendations from the Chief Executive (CEO) regarding the remuneration of the Senior Management Team. Employee remuneration is monitored, and changes are approved by the Executive Committee (ExCo).

As well as salary, pension and other benefits, staff have the opportunity to receive a discretionary annual bonus.

All staff benefit from life assurance cover. The Society pays the insurance premiums on behalf of certain staff. Eligible staff are automatically enrolled into a workplace pension scheme, the Equitable Life Grouped Personal Pension Plan with Legal & General.

The only current form of variable remuneration is the discretionary annual bonus scheme. There are no long-term incentive plans or other bonus schemes.

In addition to the discretionary annual bonus, in the event of a corporate transaction, the Society may introduce a retention bonus arrangement, linked to value created, to ensure executive Directors remain with the Society during a period of uncertainty. It is not possible to set out the terms of such an arrangement in advance as they would arise from the specific circumstances at the time. Disclosure would follow in the Remuneration report in the year following the establishment of such an arrangement.

Bonus payments depend on the Society achieving target performance against the Society's scorecard. Individual performance at an exceeded level against their personal objectives leads to a higher level of bonus payment, while a 'not met' rating results in no bonus being payable.

With the exception of senior staff subject to specific remuneration arrangements under Solvency II, such as deferral, malus and clawback, variable remuneration paid to employees under the discretionary annual bonus scheme represents no more than one-third of their total pay, and in the great majority of cases a much smaller proportion than this.

Non-executive Directors (NEDs) receive only fees and are not eligible to receive benefits, pension or any annual or long-term incentives.

B.1 (c) (ii)

Bonus payments depend on the Society achieving target performance against the Society's scorecard. The Society's scorecard and the scorecards of the Executive Committee (ExCo) are approved by the Remuneration Committee.

The Society's 2017 balanced scorecard is as follows:

Objective	Measure	Performance required
Policyholders	Payments to policyholders With-profits policyholder views regarding direction of the Society; Policyholder behaviour research	Issue within agreed timescales Percentage of positive views less percentage of negative views to be greater than 50% Use to enhance service proposition
Financial	Solvency ratios Expense levels	Ratios to be within agreed limits Not to exceed budget
Risk	Manage risk within agreed appetite Solvency II	Key risk indicators (KRIs) in place, monitored and action taken On time reporting; internal assessment confirms compliance
Projects	Strategic projects Simplification	Complete projects to time, cost and quality Deliver target 2017 cost savings
People	Staff survey	Positive scores to exceed 70% on all questions

Objectives set down in the scorecards are cascaded through the Society to ensure that employee objectives are consistent with the Society's strategy, support delivery of the required performance and effective risk management.

Individual performance at an exceeded level against their personal objectives leads to a higher level of bonus payment, while a 'not met' rating results in no bonus being payable.

B.1 (c) (iii)

As previously mentioned NEDs receive only fees and are not eligible to receive benefits, pension or any annual or long-term incentives.

The Society does not provide an occupational pension scheme for Directors. A cash allowance is provided in lieu.

Eligible staff are automatically enrolled into a workplace pension scheme, the Equitable Life Grouped Personal Pension Plan with Legal & General. Under the contribution structure until 30 September 2018, the Society makes a minimum contribution of 6% of basic salary, notwithstanding whether the individual makes a contribution into the Plan. The Society further matches contributions by individuals up to a maximum of 10% of basic salary.

B.1 (d)

There were no material related party transactions during 2016.

B.2	**Fit and proper requirements**
The solvency and financial condition report shall include all of the following information regarding the 'fit and proper' policy of the insurance or reinsurance undertaking:	
(a)	a description of the undertaking's specific requirements concerning skills, knowledge and expertise applicable to the persons who effectively run the undertaking or have other key functions;
(b)	a description of the undertaking's process for assessing the fitness and the propriety of the persons who effectively run the undertaking or have other key functions.

B.2 Fit and proper requirements

B.2 (a)

The Society recognises that the operation of an effective system of governance is fundamental to its success. That system is in turn dependent on the fitness and propriety of its key function holders and key function performers (KFP). An appropriate Fitness and Propriety Policy is therefore imperative for ensuring that the Society has the right people in place to enable the sound and prudent management of the business.

The Society seeks to recruit and appoint Approved Persons, Key Function Holders and Key Function Performers who meet and continue to meet requirements in relation to the following:

- Appropriate personal characteristics (including being of good repute and integrity).
- Training.
- Creditworthiness.
- Experience, knowledge and skills.
- Qualifications.
- Conduct standards.
- Criminal records (barring driving convictions).
- Past business conduct.

B.2 (b)

The Policy specifically requires that the Board be satisfied that the fitness and propriety of any Approved Person or Key Function Holder has been established before they are appointed into role.

Compliance and HR procedures set out requirements for the recruitment and ongoing assessment of Key Function Holders and Key Function Performers. These procedures cover the checks that must be undertaken, references to be obtained, arrangements for ongoing performance management, and requirements for annual review of fitness and propriety.

There are a range of checks that should normally be performed for individuals seeking approval. The regulators' guidance is that firms must perform an appropriate level of due diligence for a candidate they wish to appoint, which must be carried out before submitting an application. The types of checks will be determined in part by the nature of the role to be undertaken.

Checks will normally include:

- References from current/previous employers covering the last 6 years: these must be regulatory references where appropriate.
- Verification of qualifications.
- Appropriate personal characteristics (including being of good repute and integrity).
- Creditworthiness.
- Criminal records (barring driving convictions).
- Experience, knowledge and skills.
- Past business conduct.

FCA and PRA require that where an individuals is or was employed by a regulated firm, that the employer must provide a regulatory reference and 'all relevant information'. The firm may not always provide a regulatory reference where the individual did not perform a regulated role while employed by the firm. In this instance, referral should be made to the Senior Compliance Manager. Regulatory references are also required from organisations where the individual is, or was during the last six years, a NED.

A competency assessment will normally be performed by:

- The CEO for Approved Persons (except NEDs);
- The Chairman for NEDs; or
- Hiring manager in other cases such as the Money Laundering Reporting Officer (MLRO).

The Risk Director will decide who performs the competency assessment for Key Function Holders who do not require approval. The assessment needs to be sufficiently detailed to evidence the relevant competencies and development areas for the individual. A skills analysis is completed and a development plan must be produced to address any gaps, including timeframe for completion of the plan. The plan should include sufficient detail to demonstrate how the gaps will be addressed and who will undertake the training. The annual Fitness and Priority assessments for Non-Executive and Executive Directors is embedded into the annual Board evaluation of performance and annual reviews of directors' performance. The Chairman's performance review is led by the Society's Senior Independent Director. Formal review is recorded at the Society's Nominations Committee.

For all other staff captured by the new requirements, the annual fitness and propriety assessment are embedded within the Society's performance management process and staff complete an annual declaration and self- assessment form. The Risk Director reviews the evidence of the annual fitness and propriety checks, seeking satisfactory explanation of (or, if necessary, investigating) any apparent irregularities. He reports to the Chief Executive (CEO) on the outcome of the assessments of fitness and propriety.

B.3 Risk management system

The solvency and financial condition report shall include all of the following information regarding the risk management system of the insurance or reinsurance undertaking:

(a) a description of the undertaking's risk management system comprising strategies, processes and reporting procedures, and how it is able to effectively identify, measure, monitor, manage and report, on a continuous basis, the risks on an individual and aggregated level, to which the undertaking is or could be exposed;

(b) a description of how the risk management system including the risk management function are implemented and integrated into the organisational structure and decision-making processes of the undertaking.

Guideline 4 - Risk management system for internal model users	
1.16.	Under section "B.3 Risk management system including the own risk and solvency assessment" of the SFCR as defined in Annex XX of the Delegated Regulation, insurance and reinsurance undertakings using a partial or a full internal model to calculate the SCR, should describe at least the following information addressing the governance of the internal model:
a)	The responsible roles and specific committees if any, their main tasks, position and scope of responsibilities;
b)	How existing committees interact with the AMSB in order to meet the requirements of Article 116 of Solvency II Directive;
c)	Any material changes to the internal model governance during the reporting period;
d)	A description of the validation process (used to monitor the performance and on-going appropriateness of the internal model).

B.3 Risk management system

B.3 (a)

The Society's Risk Management Policy sets out the minimum standards for Equitable Life's arrangements for ensuring it has robust structures, roles and responsibilities and processes in place to identify and assess, measure, monitor, report and manage the key risks to which the Society's business is exposed. The Policy states that the Society is committed to:

- Maintaining a strong culture of risk management and controls throughout our business;
- Managing risk in a proportionate and cost effective manner, whilst ensuring compliance with applicable laws and regulations; and
- Having risk management arrangements that support the achievement of our strategic objectives.

The Risk Management Policy states that the ultimate responsibility of oversight of risk management rests with the Board.

The Society follows the widely recognised 'three lines of defence' approach to governance, under which primary responsibility for day-to-day risk management and compliance rests with business areas. Oversight and challenge is provided by the Risk and Compliance function as the second line of defence, and independent assurance is provided by Internal Audit as the third line of defence.

The ARC has delegated authority from the Board for reviewing the Society's internal control and risk management systems, and for monitoring performance against the Board's risk appetite.

The Risk Director is responsible for ensuring that there is an effective and well-documented enterprise-wide risk management framework, including:

- A risk and control self-assessment process (RCSA) no less frequently than half-yearly, which requires senior management to attest to the risks and associated controls in place within their area of the business;

- Risk management policies for all principal risk categories. Material changes to these policies are approved by the Board;

- The agreement by the Board of risk appetite statements which are closely linked to the achievement of the Society's strategic objectives, and key risk indicators for monitoring against risk appetite;

- A robust and consistent approach across the Society for risk identification and risk assessment; and

- Detailed monitoring, review and reporting on material risks, including to the principal management and risk committees.

The Risk Management Framework is designed to meet the requirements and standards set by the PRA and the FCA, and under the new Solvency II requirements which applied from 1 January 2016.

Aggregate Risks

Top Risks are those material risks, or aggregation of a number of related material risks:

- Which would have the greatest impact on the delivery of the Society's strategy, irrespective of their likelihood, or

- Which are currently at 'front of mind'. For example due to their potential impact on the delivery of the Society's strategy or some temporary phenomena which increases their likelihood.

Any member of ExCo, ARC or Board can propose a Top Risk, as can the Risk Function. The Risk Director and ExCo must agree that a particular risk be treated as a Top Risk, before it is put to ARC and Board for review and approval. Top Risks are reported monthly to ExCo and the Board, and reviewed quarterly by ARC.

Given the potential for Top Risks to have an adverse impact on the delivery of our strategy, ExCo, ARC and the Board focus attention on ensuring that these risks have been identified and are being properly assessed and managed.

This is particularly relevant in turbulent market conditions. For example, falling interest rates combined with policyholders deferring benefits is a particularly onerous combination. If these risks were to materialise in an economic environment of credit defaults and a divergence of swap and gilt yields, then this would put at risk the current level of capital distribution.

B.3 (b)

The Society calculates the Solvency Capital Requirement (SCR) following standard formula and does not use an internal model.

The Risk Director is a member of the Executive Committee (ExCo) which ensures that the Risk Function is well informed about the strategy and business plans of the Society and the manner in which these are being implemented.

The Executive Committee (ExCo) also has a key role in providing oversight over the adequacy of risk management arrangements in respect of all risk categories.

The risk management function itself is carried out by a small team located within the Risk and Compliance Department reporting to the Risk Director. The main roles and responsibilities of the Risk function include:

- Promote risk management within the Society's culture, including through provision of risk training.
- Develop and promote an integrated approach to risk management.
- Provide expert advice and guidance to Board and ExCo on risk management and to inform strategy setting, decision making and the determination of appetite for risk.
- Ensure that risk policies are aligned to strategy.
- Lead the periodic review of the Risk Management Strategy, and Risk policy, and the operation of the Enterprise-wide Risk Management Framework, including risk processes, methodologies and reporting.
- Ongoing development and maintenance of the risk categorisation approach.
- Lead the production of the "Own Risk & Solvency Assessment".
- Review the continued appropriateness of the Standard Formula approach, having regard to the risk profile of the Society.

Methods through which the Risk Function implement their risk strategy

The Society has a documented Enterprise-wide Risk Management Framework which describes the processes that are in place to deliver effective risk management and meet the requirements set out in the Risk Management Policy. Core elements of the Framework are explained below.

Risk Appetite

Risk appetite is the amount and type of risk that the Board is willing to accept in pursuit of our business objectives.

The Society's Risk Appetite is set annually as part of the Board strategy and business planning process and reviewed half yearly (or more frequently if required), as documented in the Corporate Planning Framework. More detailed granular Risk Appetites, which flow from and are aligned with Board Risk Appetite are set from time to time by the ExCo, the Operations Committee (OpsCo) and the Asset and Liability Committee (ALCo). All risks must be managed in accordance with the Risk Appetite set by the Board and detailed Risk Appetites.

As per the Risk Management Policy, the Risk Director is responsible for ensuring that there is a process in place to enable the Board's Risk Appetite to be set and reviewed regularly.

The Risk Director and Chief Actuary are jointly responsible for the recommendation of Risk Appetite to ExCo and then to the Board.
The Risk Appetite of the Society is cascaded throughout the Society in the form of limits and key performance indicators. Risk Appetite is critical because it acts as the ultimate constraint on our activities and so it needs to be embedded into everything we do.

Risk strategy and plans

The Risk Strategy is to support the corporate strategy by ensuring that effective arrangements are in place to identify, control and manage risks to the delivery of the Society's strategy. The Risk function's strategy and functional operating model are reviewed annually by the ExCo in the context of the annual planning cycle.

Risk Identification and Assessment

The key tool for risk identification and assessment is the Society's quarterly Risk and Control Self-Assessment Process (RCSA), which is the process used by management to identify their functions' risks and controls, and assess the impact and likelihood of each of these. Through the RCSA process, functions and projects will highlight those risks that are material (those with Society level impact). Emerging risks will also be highlighted.

The Risk function provides challenge to management to ensure that risks have been identified and that effective controls are in place. Risk reporting is then provided to risk committees, the Executive Committee (ExCo), Audit & Risk Committee (ARC) and Board for discussion and challenge.

Risk Measurement

The Society employs a range of risk measures, metrics and tools to assist in assessing risk exposures and deciding on suitable mitigating actions.

Further, detailed Stress and Scenario analysis and sensitivity testing are used to inform management and the Board about the robustness of the Society's strategy to adverse foreseeable events.

Risk monitoring

The ongoing cycle of risk monitoring includes the maintaining and regular review of risk-registers, the risk event reporting process and trend analysis of Key Risk Indicators (KRIs) by management and committees.

A range of tools and processes are deployed to manage and mitigate risks. These are dependent upon the nature of the risk and the appetite of the Society for that risk. Specific actions to mitigate material risks are discussed at the relevant governance forum(s) to ensure that they provide sufficient mitigation and that they do not expose the Society to other types of risk for which there is no appetite.

Risk reviews and 'deep dives' are used to enable more intensive review of particular risks at the relevant Committee. These are used where management wants to understand a risk in more detail and/or validate the appropriateness of the impact and likelihood scores or mitigating actions.

B.4	Own risk and solvency assessment
The solvency and financial condition report shall include all of the following information regarding the process the insurance or reinsurance undertaking has adopted to fulfil its obligation to conduct an own risk and solvency assessment:	
(a)	a description of the process undertaken by the undertaking to fulfil its obligation to conduct an own risk and solvency assessment as part of its risk management system including how the own risk and solvency assessment is integrated into the organisational structure and decision making processes of the undertaking;
(b)	a statement detailing how often the own risk and solvency assessment is reviewed and approved by the undertaking's administrative, management or supervisory body;
(c)	a statement explaining how the undertaking has determined its own solvency needs given its risk profile and how its capital management activities and its risk management system interact with each other.

B.4 Own risk and solvency assessment (ORSA)

B.4 (a)

The ORSA is the Society's own assessment of the capital that it needs to hold in view of its particular risk exposures, business and strategic plans and risk appetite.

ORSA is an ongoing process throughout the year to evaluate the Society's view of risks and capital.

The ORSA Report summarises the risks faced by the Society, and how they are managed and mitigated. It explains how, having regard to these risks, capital is assessed to ensure that it is adequate for a 1 in 200 year event. The Report is intended to provide assurance to the Executive Committee (ExCo) and Board that the Society's overall risk-based capital requirements are met, both over the three year business planning horizon, and in projections over the longer-term.

ORSA Framework

The main components of the framework are:

- **Ongoing processes** which are part of BAU risk management, including risk identification, management and governance, continuous monitoring of the Society's solvency position and data quality and governance;

- **Other relevant processes** or activities conducted annually, or infrequently, which are not specifically completed for the ORSA, but which provide important input to the ORSA process;

- **Core ORSA processes**, which consist of:

  - Running the ORSA model to produce the ORSA capital requirements, and the Dynamic Distribution Model (DDM) to provide projections of capital and solvency needs over the business planning period;
  - Collating records of all processes involved in the ORSA;
  - Producing the ORSA Report, and appendices;
  - Quality assurance/audit/independent review of the ORSA process.

The above components lead to an ORSA Report that is used by the Society's Board to take strategic decisions as part of the strategy-setting and business planning process. The report is also a source of information for certain key staff on the risks within the business and the approach to risk management in the context of the Society's business strategy and risk appetite.

Preparation of the ORSA Report

The ORSA Report preparation typically commences in August.

The Risk Function leads the preparation of the ORSA Report, coordinating inputs from across the business and ensuring a coherent end-product. A draft of the report is presented to Board alongside the strategy and business plans at the Strategy Setting and Business Planning meetings in November. After these meetings, the report is revised and presented to December Board for discussion and approval.

The Risk Director provides PRA with a copy of the Society's Business Plan and ORSA Report once approved by Board, and informs FCA that these documents have been produced.

How the ORSA is embedded into the management and decision making processes of the Society

Throughout the year, the Executive Committee (ExCo) reviews the Society's risk profile, making reference to the ORSA Report to assess that the actions envisaged are being carried out. The Society's Operations Committee and Asset and Liability Committee also pay specific regard to the risks described under ORSA, to ensure that they are being appropriately managed.

Preparation of the ORSA Report is a fundamental part of the annual strategy process. Its drafting is supervised through the ExCo strategy meeting in early October, the Board strategy meeting at the end of October, and formally adopted alongside the three year Business Plan at the December Board Meeting.

Board formally reviews the ORSA Report at its mid-year meeting which specifically evaluates progress against the Society's strategy. At this stage, Board considers whether the approach to the risks as described in the ORSA Report remain appropriate, or whether additional or different actions should be taken. Board also consider whether there have been any emerging risks that merit attention alongside those set down in the ORSA Report. While during 2016, there have been changes to the Top Risks, particularly with regard to volatile market conditions and low interest rates, Board considered that the conclusions of the 2015 ORSA Report remained valid, with one exception; that being to mitigate the impact of the low interest rate environment through application for the use of a Transitional Deduction. The Society's application was approved by PRA in November.
Should the risk profile of the company materially change, an out of cycle ORSA Report will be prepared.

The ORSA Report is considered before the Society makes major decisions. For example, the decision in March 2016 to maintain Capital Distribution at 35% was assessed by reference to the 2015 ORSA Report to ensure that the risks had been appropriately and consistently identified.

During 2016, the Society undertook the following activities in relation to solvency measurement:

- Calculation of the ORSA and SCR capital requirements.
- Projection of the solvency capital over the business planning period.
- Stress and scenario testing, including reverse stress testing.
- Monthly reporting of the ORSA and SCR solvency position

B.4 (b)

The Board are accountable for reviewing and approving at least annually, the ORSA Policy and the ORSA process results and Report.

The Risk Function are responsible for providing the ORSA Report to PRA.

B.4 (c)

Unlike the Standard Formula where many assumptions are specified by EIOPA, the assumptions and methodologies under the ORSA Solvency basis best reflect the Society's view of its risks.

The Society is required by the regulator to hold solvency capital. It is our strategic intention to distribute all of the assets amongst the with-profit policies as fairly and as soon as possible. Capital Management is a fundamental element of the Society's risk management system as it aims to meet these two objectives.

The Society's strategic objectives related to capital management are to:

- Carefully manage solvency to enable capital distribution and, only then, seeking to maximise return; and
- Distribute all of the assets amongst with-profits policyholders as fairly and as soon as possible.

The Board has made the following Key Risk Appetite Statements:

i) Sufficient capital to meet economic and regulatory requirements.

ii) Fairness maintained across policyholder generations and distribution policy reflects policyholder expectations of smoothing.

Key risk indicators (KRIs) have been set for each of these statements. In the case of i), these are set in terms of the probability of ORSA or SCR coverage falling below certain levels. For ii), there is a level above which coverage becomes excessive, resulting in concerns about fairness. This is currently assessed using a 10 year projection of the solvency position of the Society.

In delivering the Society's strategy, the driving force is to continue to de-risk the business thereby reducing capital requirements and so increase the amount available for distribution to With-Profits policyholders in the years to come.

In establishing the level of capital distribution, the driving principle is to establish an appropriate level of fairness between policyholders who leave and those who stay. Moreover, the Society wishes to provide a degree of stability thereby allowing policyholders to plan for their future as best they can.

The Society's principal risks are:

- Policyholders deferring retirement in a low interest rate environment given 3.5% Guaranteed Investment Returns (GIRs) on 80% of policies.

- Effect of low interest rates on SCR capital.

B.5	**Internal control system.**

The solvency and financial condition report shall include all of the following information regarding the internal control system of the insurance or reinsurance undertaking:

(a) a description of the undertaking's internal control system;

(b) a description of how the compliance function is implemented.

B.5 Internal control system.

B.5 (a)

The Directors are ultimately responsible for the Society's system of internal control and for reviewing management's arrangements for ensuring its effectiveness, including the effectiveness of controls over outsourced activities. This system is designed to manage rather than eliminate the risk of failure to achieve business objectives. The system can only provide reasonable, rather than absolute, assurance against material loss or misstatement. The Directors seek to ensure that the Society mitigates its exposure to risks consistent with its strategy. They also take into consideration the materiality of the risks to be managed and the cost-effectiveness of the relevant aspects of internal control.

As previously mentioned in B.3 (a) the Society has adopted the widely recognised 'three lines of defence' approach to governance.

An appropriate organisational structure for planning, executing, controlling and monitoring business operations is in place in order to achieve the Society's objectives. The structure is reviewed and updated on a regular basis, taking into account the different priorities of the Society's business, to ensure that it provides clear responsibilities and control for key areas. Separate functions have been established for Risk Management, Compliance and Internal Audit.

B.5 (b)

Primary responsibility for day-to-day compliance rests with business areas. Oversight and challenge is provided by the Compliance function as the second line of defence.

The role and responsibilities of compliance are:

- Maintaining and developing the Regulatory Risk & Compliance Framework;
- Providing guidance and advice on regulatory matters;
- Reporting regularly on regulatory risks and mitigating actions;
- Maintaining a breach log and monitor breaches and actions to resolve these, consider root causes and undertake investigations where required, reporting breaches to the PRA/FCA as required under Fundamental Rule 7/Principle 11;
- Preparing management for interactions with the Regulators;
- Providing Key Function Holders and Key Function Performers with training on regulatory matters;
- Managing the relations with PRA and FCA, together with other regulators, including co-ordinating responses to information and other requests;
- Ensuring those undertaking Senior Insurance Management Functions and FCA Controlled Functions have been approved by PRA and or FCA, and briefing them on their responsibilities (at approval and at least annually thereafter);
- Ensuring that procedures are in place to assess the fitness and propriety of Key Function Holders and Key Function Performers, during recruitment and on an annual basis;
- Monitoring analyse and report on regulatory developments;
- Producing an annual Compliance Plan setting out priorities for the coming year; and
- Maintaining an up to date set of Compliance Procedures.

B.6	Internal audit function
The solvency and financial condition report shall include all of the following information regarding the internal audit function of the insurance or reinsurance undertaking:	
(a)	a description of how the undertaking's internal audit function is implemented;
(b)	a description of how the undertaking's internal audit function maintains its independence and objectivity from the activities it reviews.

B.6 Internal audit function

a) The Internal Audit Function

The Society's Internal Audit team provides assurance over the operation of governance, risk management and the system of internal control. This team draws on technical audit support from a specialist third party.

The programme of internal audit reviews is based on the Society's risk profile, independently assessed by Internal Audit and reviewed by the Audit and Risk Committee. The delivery of the Internal Audit plan and the activities to report and track audit findings are reported to, and reviewed by, the ExCo and the ARC.

b) Organisational Independence

Independence is the freedom from conditions that threaten the ability of Internal Audit to carry out its responsibilities in an unbiased manner. To achieve this independence the Head of Internal Audit does not perform any operational functions and has direct and unrestricted access to senior management and the Board.

The scope of Internal Audit Assurance activity covers all areas of the Society and includes the review of 2nd line Risk and Compliance functions and services.

While the Risk Director has certain responsibilities for both 2nd and 3rd line activities, risks of reduced independence are mitigated by:

- A clearly articulated and understood dual reporting line for the Head of Internal Audit to the Risk Director and the Chairman of the ARC;
- Regular one to one meetings between the Head of Internal Audit and the CEO and; the Head of Risk and the chair of the Audit Committee.
- Ensuring that the CEO is the accountable Executive for audits on areas under the responsibility of Risk Director, and that the Chairman of the ARC agrees the scope of such audits;
- Continued use of third party Internal Audit co sourced services, who also have direct access to the Chairman of the ARC and CEO;
- Co-sourced Internal Audit resource is used to perform any reviews of 2nd line of defence activities that report to the Risk Director;
- The ARC annual assessment of the effectiveness of Internal Audit.

Objectivity

Assurance must be delivered in an impartial, unbiased manner and avoid any conflict of interest.

Internal auditors must not perform any operational functions or assess specific operations for which they were previously responsible within the last year.

The Head of Internal Audit has the right of attendance at executive and risk committees, but does not make business decisions as part of this attendance and is not a member of any decision making committees.

B.7 Actuarial function
The solvency and financial condition report shall include a description of how the actuarial function of the insurance or reinsurance undertaking is implemented.

B.7 Actuarial function

The Society's Actuarial Function provides effective actuarial control which allows identification, modelling and control of Financial, Insurance, Operational and Regulatory risks to acceptable levels, and supports sound decision-making, capital management and regulatory compliance.

Competence

The Chief Actuary is responsible for ensuring that the Actuarial function has the right mix and level of skills and expertise and meets appropriate standards. This is achieved by:

- Work being carried out by appropriately qualified actuaries, technical staff and other individuals under supervision of actuaries who, themselves, are meeting professional standards;

- Actuarial tasks being planned to ensure there is skilled resource with sufficient time to carry out the right level of internal controls in line with the Materiality and Proportionality Policy. This includes ensuring that there are sufficient and appropriate resources available to ensure that the do/check/review processes are independent;

- Any conflicts (resources, professional or otherwise) being identified, documented and communicated in a timely manner to ExCo and, if appropriate, to other committees or the Board.

- Work meeting the standards set out by the actuarial profession. Requirements are set out in the Financial Reporting Council (FRC) Actuarial Code (including the specific requirements of the Chief Actuary and the With-Profits Actuary). The minimum standards for actuaries are set out by the FRC in a series of Technical Actuarial Standards covering modelling, data, insurance specific work and reporting. These are referred to as TAS-M, TAS-D, TAS-I and TAS-R respectively. Internal Checklists provide evidence of compliance with professional standards for all actuarial material referred to the Board and its committees.

The Actuarial Function is currently structured as follows:

- Reporting team specialising in stochastic valuations, Solvency II SCR results, ORSA results;

- Actuarial Services team providing data analysis and experience analysis; and

- Actuarial Improvements team providing a controlled and separate area for model, and other, developments.

Teams are led by managers with detailed knowledge of the regulatory environment and the theory and practice of the relevant work. Managers are supported by actuaries, trainee actuaries and other technical specialists (e.g. data analysts, valuation experts) to ensure continuity of knowledge and skills and enable appropriate succession plans to be produced.

The Actuarial Function supports external actuaries in providing assurance at the request of the Technical Review Committee or ExCo for material actuarial work used to support the Society's strategy.

Evidence of appropriate levels of internal control is documented for all actuarial tasks. For smaller tasks, a Project Control Document is used. For actuarial models and their usage, more detailed standard documents are produced, reviewed, challenged and maintained.

Models

Much of the work performed by the Actuarial Function for calculating technical provisions and assessing capital requirements is carried out using models.

The key models, together with a brief description of their purpose, are:

- **Solvency II SCR Model**
  Values the Society's business in accordance with Solvency II Standard Formula regulations.

- **ORSA Model**
  Values the Society's business in accordance with its own views of its risks.

- **Dynamic Distribution Model (DDM)**
  Projects ORSA and SCR capital requirements and is used in the assessment of the Claims Enhancement Factor (CEF)

- **Monthly MI Models**
  Produce estimated month-end liability values.

The Society has governance arrangements and controls for models used for material strategic and business decision-making.

Hardware and software are sufficient to enable calculations to be performed at the required level of detail and within the prescribed reporting timescales. Adequacy of these resources will be reassessed if they risk compromising the level of detail, level of accuracy (numbers of model points, number of stochastic simulations) or reporting timescales.

Appropriateness of the methodology and assumptions used in calculations of technical provisions and capital requirement is achieved by appropriate internal and independent external review and challenge.

Quality Assurance

Actuarial control over the quality of calculations and reports is achieved through the following:

- Maintaining a do / check/ review process for all key calculations. All reports to ExCo, Board and its committees are reviewed by the Chief Actuary;

- Review of Actuarial work is considered as directed by APS X2, issued by The Institute and Faculty of Actuaries;

- Production of Project Control Documents;

- Completion of Checklists to ensure TAS and regulatory compliance of reports and calculations;

- Risk assessment of calculation processes;

- Maintenance of a standard spreadsheet template and design protocol to ensure spreadsheets are clear to understand and are subject to change control;

- Production of standard documentation where appropriate to ensure processes carried out correctly and completely: Process diagrams, risk assessments, checklists and procedure notes; and

- Key models built in accordance with agreed specifications. If it is necessary to deviate from the agreed specification, relevant documentation must be amended and re-presented to the appropriate authority for approval and appropriate testing must be carried out subsequently.

Data

The closed book and stable systems lead to data consistency and accuracy over time due to the absence of change. Data quality, sufficiency and completeness are achieved by:

- Maintaining data dictionary specifying names of data items, meaning, usage, origin and importance enabling all data items to be identified and understood, used correctly and changes to the data items assessed and understood.

- Extracting policy data at benefit level with validation and reconciliation procedures on key fields in the data production process.

- Reconciling asset data between source and model.

- Documenting policy and asset data extraction processes demonstrating source, use and quality of data.

- Complying with the Technical Actuarial Standard TAS D and documenting any approximations or assumptions applied.

- Completing regular data quality questionnaires and reporting any data quality issues to the Data Quality Manager

Experience Analysis

Best estimates of key valuation assumptions are compared with actual experience and presented to Board on persistency, mortality, expenses and analysis of change in capital resources.

Risk Assessment

As required under the RCSA Process, the Actuarial Function has its own risk register which is reviewed at least monthly by the function to identify, categorise and document key risks. The register supports the quarterly RCSA submission.

B.8 Outsourcing

The solvency and financial condition report shall include a description of the outsourcing policy of the insurance or reinsurance undertaking, that undertaking's outsourcing of any critical or important operational functions or activities and the jurisdiction in which the service providers of such functions or activities are located.

B.8 Outsourcing

The Society uses outsourcers where, due to our lack of scale or areas of expertise, we do not have the ability to provide the service in-house. In these instances, we will go out to the external market and source the provision of these services from the most appropriate Third party service provider who meets our business needs. We manage these Third party service providers in accordance with minimum standards for engagement and management of contractual agreements.

The Society has strategic outsourced arrangements in respect of its IT, property, investment management and administration service providers.

All contracts are with UK companies or UK offices of overseas companies.

The Society needs to ensure that contracts with Third Party providers are only entered into where:

- A clear business need and business benefits have been demonstrated.

- An appropriate Third Party has been selected based on a good understanding of the market for the activity and a robust selection process.

- The financial implications have been assessed and shown to be acceptable.

- It has been demonstrated that adequate Governance has supported the decision to enter into the contract.

- An appropriate level of Due Diligence has been undertaken, and the associated risks fully assessed.

The Society needs to ensure that, once a contract is entered into, the contract and the ongoing relationship with the Third Party are appropriately managed over the course of the contract.

The Board and Management are committed to ensuring that:

- All outsourcing arrangements, relating to activities for which the Society remains liable as an authorised entity, are assessed regularly in light of regulatory considerations, and:

- Written agreements are sufficiently robust to manage not only counterparty risk, but also to minimise exposure to service, regulatory, compliance and reputational risks.

B.9 Any other information

The solvency and financial condition report shall include an assessment of the adequacy of the system of governance of the insurance or reinsurance undertaking to the nature, scale and complexity of the risks inherent in its business.

B10

The solvency and financial condition report shall include in a separate section any other material information regarding the system of governance of the insurance or reinsurance undertaking.

B.9 – B.10 Any other information

On behalf of the Board, the ARC has reviewed the effectiveness of the risk management and internal control systems for the year ended 31 December 2016, taking into account matters arising up to the date of this report.

The review demonstrated that the Society has in place a comprehensive set of risk management and internal control arrangements. These include the identification, assessment, measurement, monitoring, reporting and management of risks. The review also confirmed that the Society is compliant with the Systems of Governance requirements under Solvency II. There have been no material changes to the Society's Systems of Governance in 2016.

A programme of internal audits and compliance monitoring takes place to provide assurance that the Society's controls are fit for purpose and that regulatory requirements are being met. No material control issues arose in 2016 and there were no material risk events or breaches during the year. If significant failings or control deficiencies were to be identified, the Committee would confirm whether or not appropriate remedial action had been taken. The review concluded that the Society's risk management and internal control systems are operating effectively.

C. Article 295 - Risk Profile

C	**Risk Profile**
	The solvency and financial condition report shall include qualitative and quantitative information regarding the risk profile of the insurance or reinsurance undertaking, in accordance with paragraphs 2 to 7, separately for the following categories of risk:
(a)	underwriting risk;
(b)	market risk;
(c)	credit risk;
(d)	liquidity risk;
(e)	operational risk;
(f)	other material risks.

The Society operates a comprehensive risk management framework through which it identifies, monitors and reports on the principal risks to its strategic objectives. They are managed within a risk appetite set by the Board, who also ensures that adequate capital is held against these risks.

The main risks relevant to the Society are:

- Insurance risk (Underwriting risk)
- Market risk
- Credit Risk
- Liquidity risk
- Operational risk
- Regulatory risk

C (a)	**Underwriting Risk**
C.2 (a)	
	The solvency and financial condition report shall include the following information regarding the risk exposure of the insurance or reinsurance undertaking, including the exposure arising from off-balance sheet positions and the transfer of risk to special purpose vehicles:
(a)	a description of the measures used to assess these risks within that undertaking, including any material changes over the reporting period;
(b)	a description of the material risks that that undertaking is exposed to, including any material changes over the reporting period.
(c)	a description of how assets have been invested in accordance with the ‘prudent person principle’ set out in Article 132 of Directive 2009/138/EC so that the risks mentioned in that Article and their proper management are addressed in that description.

C.3 (a)

With regard to risk concentration, the solvency and financial condition report shall include a description of the material risk concentrations to which the insurance or reinsurance undertaking is exposed

C.4 (a)

With regard to risk mitigation, the solvency and financial condition report shall include a description of the techniques used for mitigating risks, and the processes for monitoring the continued effectiveness of these risk-mitigation techniques.

C.5 (a)

With regard to liquidity risk, the solvency and financial condition report shall include the total amount of the expected profit included in future premiums as calculated in accordance with Article 260(2).

C.6 (a)

With regard to risk sensitivity the solvency and financial condition report shall include a description of the methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks and events.

C.7 (a)

The solvency and financial condition report shall include in a separate section any other material information regarding their risk profile of the insurance or reinsurance undertaking.

Guideline 5 - Underwriting risk

1.17. Under section "C.1 Underwriting risk" of the SFCR as defined in Annex XX of the Delegated Regulation, insurance and reinsurance undertakings should, regarding the use special purpose vehicles, describe if they were authorised under Article 211 of Solvency II Directive, identify the risks that are transferred to it and explain how the fully funded principle is assessed on an ongoing basis.

C (a) Underwriting 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; and
- Persistency risk.

C.2 (a) **(a)**

The enterprise-wide risk management framework describes the measures used to assess the Society's risks. Further details are set out in section B3.

The key insurance risks are measured using KRIs.

The Society's approach to measuring persistency experience is by reviewing the rate at which policies are going off the books against Earliest Contractual Date (ECD), split by contractual and non-contractual exits.

KRIs are maintained by the Actuarial Function. Exceptions are reported to ExCo and Board.

As part of the Society's assessment of the adequacy of its financial resources, Insurance Risks are subject to stress and scenario testing.

There have been no material changes to the measures used to assess these risks over the reporting period.

C.2 (b) **(a)**

Expense risk

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 risks are:

- The assumed future cost base of the business is higher than expected;
- Future inflation of expenses is higher than anticipated; and
- The value of future charges deducted from unit-linked policies is lower than expected.

Expense Inflation Risk

Risks relating to future expenses are monitored by:

1. Comparing actual expenses against plan; and
2. Reviewing business plans and strategic projects against run off assumptions.

Expense risk associated with investment management is monitored against levels set within the Investment Guidelines on a daily basis by the Investment Manager. The performance of the actual assets vs the benchmark is reviewed by ALCo on a monthly basis via the BlackRock reporting. The appropriateness of the benchmark in relation to the actual expense liabilities is reviewed on an annual basis by ALCo.

The increase in the level of charges and the rationalisation of the range of unit-linked funds have reduced the Society's exposure to expense risk. The active management of expenses using Lean Manufacturing and Simplification techniques continues to be a key focus for the Society.

Longevity Risk

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. Exposure to this risk reduced following the reinsurance of substantially all of the Society annuities to Canada Life in 2015 and their subsequent transfer on 19 February 2016.

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.

Mortality Risk

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, these represent only 2% of with-profits policy values. All deferred annuities and most assurances are reinsured.

Persistency Risk

Persistency risk is the risk 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.

The Society is closed to new business and 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.

The Society regularly reviews options for removing or reducing the level of risk via transactions such as reinsurance or transfer of business.

C.2 (c) **(a)**

PRA's Prudent Person Principle means firms are expected to exercise prudence in relation to the acquisition and holding of assets and to ensure that assets are appropriate to the nature and duration of liabilities.

The Society's risk management policies, together with the Asset Management Policy and the Investment Guidelines enable us to identify, measure, monitor, manage, control and report on the risks inherent in the Society's assets and investments.

These arrangements include requirements relating to the security of assets, their quality and liquidity, and duration, all of which are monitored by the Asset & Liability Management Committee through monthly reporting received from our investment managers, BlackRock and, for unit linked funds, Aberdeen Asset Management Limited (AAM). The Committee monitors the performance of the investment managers against the Investment Guidelines and objectives set for each portfolio. BlackRock and AAM are also required to report to the Committee on any breaches of the Guidelines, as well as compliance with the Prudent Person Principle and on the actions they have taken, or are taking to rectify such breaches.

C.3 (a)

The concentration of insurance risk relates to most of the Society's with-profits policies providing an underlying 3.5% pa guarantee. With an investment return of 2% pa, the material risk faced by the Society is that policyholders defer retirement so that the guaranteed values once again become greater than the policy value even when the latter is enhanced by capital distribution.

Most individual policyholders have a retirement value greater than the underlying guarantee. However, the longer the low interest rate environment continues, the greater the risk that our capital distribution strategy will no longer benefit so many policyholders.

C.4 (a)

The methods used to manage and monitor the Society's risks are set out in section B.3. Those specific to insurance risks are described below:

Expense risk

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.

Timing of insured events risk: Longevity, Mortality and Persistency risks

The Society is closed to new business and 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.

The Society regularly reviews options for removing or reducing the level of risk via transactions such as reinsurance or transfer of business.

To mitigate the impact of with-profits 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.

Continued monitoring

Insurance risks are monitored and escalated. Routine monitoring is conducted through the quarterly Risk, Control and Self-Assessment process and regular risk reporting.

C.5 (a)

Not Applicable to Underwriting Risk.

C.6 (a)

Stress tests comprise movements in a single risk, such as shifts in interest rates.

Scenario tests comprise simultaneous movements in different risks, such as changes to retirement rates, credit spreads, interest rates and expenses.

Both the excess of assets over liabilities and the regulatory capital that would be required under each test are calculated, assuming that the changes occur instantaneously. Reverse stress tests are also performed to determine which event or combinations of events would lead to failure of the business model.

The table below shows the sensitivity to reasonably possible scenarios on the ratios of Own Funds (the excess of assets over liabilities) to the SCR, including the underlying assumptions:

Expense

	Net impact on solvency coverage ratio
	2016
Sensitivity scenario	**%**
10% increase in assumed level of expenses	(19)
0.5% increase in assumed rate of UK expense inflation	(14)

Timing of Insured Events

The following table shows the sensitivities to possible changes in the timing of when policyholders choose to take their benefits.

Impact on solvency coverage ratio	**With-profits retirement rates Decrease[1]** %	**With-profits retirement rates Increase[2]** %
2016	(15)	(1)

Note:

[1] A change in retirement rates in respect of policies with a guaranteed return of 3.5% pa that is approximately equal to those policyholders delaying retirement by an average of 1 year.

[2] A change in retirement rates in respect of policies with a guaranteed return of 0% pa that is approximately equal to those policyholders retiring on average one year earlier.

A deferral of policyholders taking their retirements benefits has a significant impact on solvency coverage due to the additional cost of guarantees.

To mitigate the risk of policyholders taking their benefits beyond their expected retirement date, we will continue our research into the factors that might give rise to this deferral.

Sensitivity to annuitant longevity risk was all but eliminated following the reinsurance and subsequent transfer of the annuity book to Canada Life. The residual exposure arises from certain with-profits policies that contain a guaranteed minimum level of pension.

While individual risks are important, the Board also considers certain combinations of risks. This is particularly relevant in turbulent market conditions. For example, falling interest rates combined with policyholders deferring benefits is a particularly onerous combination. If these risks were to materialise in an economic environment of credit defaults and a divergence of swap and gilt yields, then this would put at risk the current level of capital distribution.

The Society continues to hold high levels of liquid assets in order to provide protection against the scenario of policyholders who have passed their earliest contractual date (ECD) deciding to take their benefits immediately. The impact of such an event would be immediate claims of approximately £1.3bn (£1,300,000k), and liquid assets significantly in excess of this amount are held in mitigation.

C (b) Market risk

C.2 (b)

The solvency and financial condition report shall include the following information regarding the risk exposure of the insurance or reinsurance undertaking, including the exposure arising from off-balance sheet positions and the transfer of risk to special purpose vehicles:

(a) a description of the measures used to assess these risks within that undertaking, including any material changes over the reporting period;

(b) a description of the material risks that that undertaking is exposed to, including any material changes over the reporting period.

(c) a description of how assets have been invested in accordance with the 'prudent person principle' set out in Article 132 of Directive 2009/138/EC so that the risks mentioned in that Article and their proper management are addressed in that description.

C.3 (b)

With regard to risk concentration, the solvency and financial condition report shall include a description of the material risk concentrations to which the insurance or reinsurance undertaking is exposed

C.4 (b)

With regard to risk mitigation, the solvency and financial condition report shall include a description of the techniques used for mitigating risks, and the processes for monitoring the continued effectiveness of these risk-mitigation techniques.

C.5 (b)

With regard to liquidity risk, the solvency and financial condition report shall include the total amount of the expected profit included in future premiums as calculated in accordance with Article 260(2).

C.6 (b)

With regard to risk sensitivity the solvency and financial condition report shall include a description of the methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks and events.

C.7 (b)

The solvency and financial condition report shall include in a separate section any other material information regarding their risk profile of the insurance or reinsurance undertaking.

C (b) Market Risk

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 Asset and Liability Committee.

C.2 (a) **(b)**

Interest rate Risk

The Society measures its exposure to Interest rate risk by the duration mismatch between assets and the liabilities. This is monitored on a daily basis by the Investment Manager and reported every other month to ALCo. Also reported is the breakdown of the duration into key rate durations (KRD). These measures allow the Society to understand the sensitivity to general interest rate market movements and to movements of specific parts of the yield curve.

The market value of the swaption portfolio is measured by the Investment Manager and reported to ALCo monthly.

The swaption portfolio is reviewed at least annually to determine whether it is still appropriate as a mitigant against the negative consequences of agreed stress scenarios and falling interest rates.

Spread Risk

Spread risk is measured by a number of metrics calculated by the Investment Manager and provided on a monthly basis to ALCo. These include spread duration and the capital requirement for spread risk.

Liability Matching Risk

Overall cash flow matching risk is monitored monthly by ALCo through:

- Year-by-year matching reports;
- Cumulative matching schedules;
- Key rate duration (KRD) active duration (years) tables; and
- KRD monetary impact exposures.

There have been no material changes to the measures used to assess these risks over the reporting period.

C.2 (b) **(b)**

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; and

iv) Currency risk.

(i) Interest rate risk

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.

As mentioned under insurance risk C.3 (a), there is a further risk for the Society in respect of the guaranteed investment return on with-profits 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, if policyholders defer their retirement beyond the dates assumed, or if both scenarios occurred together.

(ii) Equity and property price risk

The capital requirement for equity risk has increased over the year. This is mainly due to the increase in unit-linked charges, i.e. in effect a larger expense risk, and the impact of rising equity markets.

(iii) Corporate bond spread risk

The capital requirement for credit spread risk reduced over the year mainly due to a decrease in bond holdings. The capital requirement is expected to reduce over time as the business runs off. The impact of the reduction is offset, however, by an increase in the proportion of lower rated corporate bonds.

The changes in capital requirement are mainly due to changes in the matching position.

(iv) Currency risk.

The capital requirement for currency risk has increased over the year. This is mainly due to the increase in unit-linked charges.

C.2 (c) **(b)**

This is described in further detail within section C.2(c) – Credit Risk.

C.3 (b)

The Society’s approach to the management of market risk is to set limits for specific market risks, and exposure to those risks, to enable effective management of the Society’s solvency level. This is particularly applicable to credit spread risk and duration mismatch, as these can be easily adjusted using market instruments.

The Society's detailed risk appetite statements, supporting KRIs for market risk are set by the Asset and Liability Committee (ALCo) and monitored on a monthly basis.

C.4 (b)

Interest rate 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 policies each year. Index linked gilts are held to match the expected outgoings from 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.

The table below illustrates how with-profits investments are mainly in fixed–interest securities:

UK with-profits assets mix	**2016** %
Gilts	56
Corporate bonds	22
Short-term gilts and cash	20
Other	2
	100

To mitigate the impact of with-profits 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.

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.

Equity and Property Price risk

The Society's with-profit assets do not include property investments. This is therefore not a significant source of risk.

The Society has little appetite to invest in equity due to its high capital requirement. The Society holds almost no equity investments and so this is not a significant source of risk to the with-profits business.

Corporate Bond Spread risk

Corporate bond spread risk is managed though the investment policy, whereby the Society invests in a diversified portfolio of high-quality corporate bonds. The Society's corporate bond holdings typically have terms of less than eight years, as these are less sensitive to changes in spread than longer dated bonds. The duration of gilt holdings ensures that policy liabilities remained matched.

Currency 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.

Monitoring

Market risks are monitored and escalated in accordance with the Enterprise-wide Risk Management Framework. Routine monitoring is conducted through:

- The quarterly Risk, Control and Self-Assessment Process.
- Bi –monthly reporting of Insurance and financial risks to the Asset and Liability Committee (ALCo).
- ALCo also receives monthly reporting from the Investment Managers against the Investment Guidelines.

C.6 (b)

Sensitivities

Please refer to the previous section - Insurance Risk C.6 (a), for further understanding of the methodology underlying stress testing.

Interest rate risk

The following table shows the sensitivity solvency coverage to changes in interest rates.

Scenario	**Impact on solvency coverage ratio**
Interest rates, at all terms	**2016**
	%
Fall by 0.5% pa	(32)
Rise by 1.5% pa	55

Equity and property risks

The following table shows the sensitivity to a reasonably possible scenario and illustrates the very low exposure to equity price risk.

With-profits asset value impact	
	2016
Equity prices decrease by 20%	(£16,000k)

Corporate bond spreads

The following table shows the sensitivity to reasonably possible scenarios.

Impact on solvency coverage ratio	
Change in corporate bond spreads	**2016 %**
Rise 1.5% pa	29
Fall 0.5% pa	(8)

Currency risk

The Society is exposed to the risk that movements in foreign exchange rates reduce the value of charges levied on unit-linked business.

The impact of a change of 10% in foreign exchange rates at the reporting date would have reduced the excess of assets over liabilities by £4,000k after allowing for the mitigating impact of the US dollar forward exchange contract.

C (c) Credit risk

C.2 (c)

The solvency and financial condition report shall include the following information regarding the risk exposure of the insurance or reinsurance undertaking, including the exposure arising from off-balance sheet positions and the transfer of risk to special purpose vehicles:

(a) a description of the measures used to assess these risks within that undertaking, including any material changes over the reporting period;

(b) a description of the material risks that that undertaking is exposed to, including any material changes over the reporting period.

(c) a description of how assets have been invested in accordance with the 'prudent person principle' set out in Article 132 of Directive 2009/138/EC so that the risks mentioned in that Article and their proper management are addressed in that description.

C.3 (c)

With regard to risk concentration, the solvency and financial condition report shall include a description of the material risk concentrations to which the insurance or reinsurance undertaking is exposed

C.4 (c)

With regard to risk mitigation, the solvency and financial condition report shall include a description of the techniques used for mitigating risks, and the processes for monitoring the continued effectiveness of these risk-mitigation techniques.

C.5 (c)

With regard to liquidity risk, the solvency and financial condition report shall include the total amount of the expected profit included in future premiums as calculated in accordance with Article 260(2).

C.6 (c)

With regard to risk sensitivity the solvency and financial condition report shall include a description of the methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks and events.

C.7 (c)

The solvency and financial condition report shall include in a separate section any other material information regarding their risk profile of the insurance or reinsurance undertaking.

C (c) Credit risk

C.2 (a) **(c)**

The key measure of credit risk arising from counterparties is the credit ratings sourced from rating agencies registered as External Credit Assessment Institutions (ECAIs) under EU regulations. The Society relies upon the Investment Manager to assess the ratings, to provide ratings where they are not available from ECAIs and monitor any movements.

The Investment Manager uses the credit ratings in conjunction with the actual exposures to monitor the aggregate portfolio against a series of risk limits, recorded in the Investment Guidelines. The Investment Guidelines govern allocation to different credit rating bands, minimum credit ratings and issuer concentration. Breaches of the Investment Guidelines are reported to the Investment Function and ALCo as they occur.

A further credit risk measure is the level of solvency capital held by the Society against the credit risk associated with investing in corporate bonds. This measure is reported monthly by the Investment Manager. It is also calculated by the Actuarial Function. It is monitored against limits provided in the Investment Guidelines.

Risk Reporting is carried out by Risk, informed by KRIs maintained by Actuarial. The Risk Report is reviewed every other month by ALCo, and reported to the Board. The KRIs are designed to provide an early warning of increased risk and to highlight where exposure has exceeded or might exceed appetite. These then trigger mitigating actions where appropriate.

The KRIs also highlight downgrades in ratings and any actual bond defaults. The Investment Manager is responsible for actively measuring and managing credit risk within Bond portfolios.

There have been no material changes to the measures used to assess this risk over the reporting period.

C.2 (b) **(c)**

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.

There has been no material change to the Society's exposure to credit risk in 2016.

C.2 (c) **(c)**

This is described in further detail within section **C.2** (c) **(a)**.

C.3 (c)

The Society's exposure to credit risk associated with all the Society's financial assets is summarised below, according to the middle rating of the external credit ratings supplied by Moody, Standard & Poor's and Fitch.

2016 **Credit ratings**	**AAA** **£k**	**AA** **£k**	**A** **£k**	**BBB** **£k**	**Other** **£k**	**Total** **£k**
Debt and other fixed-income securities	141,000	3,201,000	397,000	463,000	20,000	4,222,000
Deposits and other investments	374,000	-	19,000	-	-	393,000
Cash at bank and in hand	-	-		6,000	-	6,000
Other financial assets	3,000	20,000	6,000	9,000	19,000	57,000
Reinsurers' share of technical provisions and liabilities[1]	-	-	409,000	-	-	409,000
	518,000	3,221,000	831,000	478,000	39,000	5,087,000

Note
(1) The amount of reinsurers' share of technical provisions in the table above is based on technical provisions in the 2016 financial statements.

The largest single credit risk exposure amounts to £409,000k for business reinsured with companies in LBG. 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 £12,000k of investments (credit rating A) with LBG.

After LBG, the next largest single credit exposure is £37,000k, relating to an investment in Bayerische Motoren Werke AV (BMW).

C.4 (c)

Management of risk:

Credit risk is monitored by the Society's Asset and Liability Committee (ALCo). 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 potential credit risk exposure from default by swaption counterparties is mitigated by the receiving of collateral. Collateral of £81,000k 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 £81,000k.

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. The Society has not experienced nor expects any 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 a company in LBG. Reinsurance does not remove the primary liability of the Society to its policyholders, therefore the credit rating of LBG and certain of its group companies are monitored closely in order to manage the risk.

Monitoring

ALCo is the key decision making body responsible for credit risk mitigation/management. Following review of reporting (as above), actions required to mitigate the risk are devised and responsibilities allotted. This may result in adjustments to policy, strategy or Investment Guidelines.

Implementation of strategy to mitigate/manage credit risk is carried out by BlackRock, AAM, Schroders and Northern Trust to whom the investment management and custody services of the Society have been outsourced. Oversight mechanisms to provide the Society with the required reassurance over the systems and controls operated by third parties are set out in the Asset Management Policy.

Reporting on the embeddedness of this risk policy will be delivered through reports submitted by the Risk Function to the ExCo and ALCo.

Daily monitoring to ensure that the exposure to individual counterparties remains within the limits set by the Society is the responsibility of the Investment Managers. Significant events are reported to the Society at the regular meetings held with management.

As part of the Society's assessment of the adequacy of its financial resources, credit risk exposures are subject to stress testing and scenario analysis. The results of these are reported to the Board, ARC and ALCo.

ALCo also receives a monthly Investment Report from the Investment Managers and a detailed Stock Lending Report from Northern Trust (the Stock Lending Agent).

This monitoring process is used by management to identify their functions' risks and controls, and assess the impact and likelihood of each of these.

C.6(c)

Sensitivities

The Society undertakes stress and scenario testing, including reverse stress testing. Stresses and scenarios are used to inform the Executive and Board on the risks faced by the Society from the macro environment.

Market risk tests take account of changes in credit spreads, the gilt-swap spread and the credit risk adjustment.

Sensitivity to corporate bond spreads are covered in section C.2 (b)(b).

C (d) Liquidity risk

C.2(d)

The solvency and financial condition report shall include the following information regarding the risk exposure of the insurance or reinsurance undertaking, including the exposure arising from off-balance sheet positions and the transfer of risk to special purpose vehicles:

(a) a description of the measures used to assess these risks within that undertaking, including any material changes over the reporting period;

(b) a description of the material risks that that undertaking is exposed to, including any material changes over the reporting period.

(c) a description of how assets have been invested in accordance with the 'prudent person principle' set out in Article 132 of Directive 2009/138/EC so that the risks mentioned in that Article and their proper management are addressed in that description.

C.3 (d)

With regard to risk concentration, the solvency and financial condition report shall include a description of the material risk concentrations to which the insurance or reinsurance undertaking is exposed

C.4 (d)

With regard to risk mitigation, the solvency and financial condition report shall include a description of the techniques used for mitigating risks, and the processes for monitoring the continued effectiveness of these risk-mitigation techniques.

C.5 (d)

With regard to liquidity risk, the solvency and financial condition report shall include the total amount of the expected profit included in future premiums as calculated in accordance with Article 260(2).

C.6 (d)

With regard to risk sensitivity the solvency and financial condition report shall include a description of the methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks and events.

C.7 (d) The solvency and financial condition report shall include in a separate section any other material information regarding their risk profile of the insurance or reinsurance undertaking.

C (d) Liquidity risk

Liquidity risk

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

C.2 (a) **(d)**

Analysis of the Society's activities and its associated sources of liquidity risk is carried out as appropriate by the Finance and Actuarial functions and the Chief Investment Officer. ALCo reviews the investment policy in the light of any internal or external changes and considers the liquidity risk implications of any material changes.

The level of liquid assets is measured, and monitored against the amount required to meet a potential mass lapse.

The main mitigant for liquidity risk is the cautious investment policy. Assets are selected in terms of their nature, duration and liquidity in order to meet claims as they fall due. This addresses both short-term and long-term liquidity risk.

Other processes impacting on liquidity risk are the banking and treasury functions ensuring the availability of cleared funds for each day's payments (including BACS).

There were no material changes to the Society exposure to Liquidity Risk over 2016.

C.2 (b) **(d)**

The main source of liquidity concentration risk for the Society is the potential for with-profits policyholder claims to diverge from assumptions requiring forced sale of the Society's assets. A significant increase in the level of claims, without a sufficient buffer of liquid assets might, give rise to the need to sell illiquid assets on a forced sale basis.

Claims payments as a result of high levels of unit-linked claims would be met by sales of units. There could be a short-period where claims payments need to be made but money from the sale of units has not been received. The impact is not expected to be significant.

C.2 (c) **(d)**

This is described in further detail within section **C.2**(c)**(a)** Insurance Risk.

C.3 (d)

As per section **C.2** (b) **(d)** above

C.4 (d)

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

Assets backing linked liabilities are mostly invested in UK listed OEICs. In the unlikely event that OEIC fund managers suspend trading, the Society would be exposed to liquidity risk. The Society has sufficient liquid assets to meet cash flow requirements on linked policies. In extreme scenarios, the Society can defer paying unit-linked claims for up to one month and, in respect of property linked funds, up to six months.

Over the longer term, the Society monitors its forecast liquidity position for with-profits business by estimating the expected cash outflows 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.

Monitoring

ExCo and ALCo are provided a Liquidity and Cash Flow Monitoring Report within the monthly MI pack. Adverse trends and any areas of concern are highlighted.
Liquidity risks are monitored and escalated in accordance with the Enterprise Risk Management Framework. Routine monitoring will be conducted through the quarterly risk and control self-assessment process, regular risk reporting and through ExCo.

This monitoring process is used by management to identify their functions' risks and controls, and assess the impact and likelihood of each of these.

C.5 (d)

The Society closed to new business on 8 December 2000.

No credit is taken for expected profits that might arise from premiums in existing policies.

C.6 (d)

Sensitivity

The Society's investment strategy and reinsurance arrangements mean that it has a very low exposure to liquidity risk. Even in a scenario such as corporate bonds becoming illiquid, 76% 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, can be terminated at any time. The value of unit-linked polices, net of reinsurance, that could be terminated at 31 December 2016 is £1.8bn (1,846,000k).

With-profits policies with an Earliest Contractual Retirement Date (ECD) prior to 31 December 2016 have a contractual value no lower than total guaranteed benefits, and equalled £1.3bn (£1,300,000k) at 31 December 2016. The liquid assets previously referred to include £3.6bn (£3,600,000k) to back with-profits policies. This is more than sufficient to meet the value of these guaranteed with-profits benefits.

The majority of recurrent single premium (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.

C.(e) Operational risk

C.2(e)

The solvency and financial condition report shall include the following information regarding the risk exposure of the insurance or reinsurance undertaking, including the exposure arising from off-balance sheet positions and the transfer of risk to special purpose vehicles:

(a) a description of the measures used to assess these risks within that undertaking, including any material changes over the reporting period;

(b) a description of the material risks that that undertaking is exposed to, including any material changes over the reporting period.

(c) a description of how assets have been invested in accordance with the 'prudent person principle' set out in Article 132 of Directive 2009/138/EC so that the risks mentioned in that Article and their proper management are addressed in that description.

C.3 (e)

With regard to risk concentration, the solvency and financial condition report shall include a description of the material risk concentrations to which the insurance or reinsurance undertaking is exposed.

C.4 (e)

With regard to risk mitigation, the solvency and financial condition report shall include a description of the techniques used for mitigating risks, and the processes for monitoring the continued effectiveness of these risk-mitigation techniques.

C.5 (e)

With regard to liquidity risk, the solvency and financial condition report shall include the total amount of the expected profit included in future premiums as calculated in accordance with Article 260(2).

C.6 (e)

With regard to risk sensitivity the solvency and financial condition report shall include a description of the methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks and events.

C.7 (e)

The solvency and financial condition report shall include in a separate section any other material information regarding their risk profile of the insurance or reinsurance undertaking

C (e) Operational risk

C.2 (a) **(e)**

Operational risk is the potential for loss to result from inadequate or failed internal processes and systems, human error or from external events.

The Society uses a scenario modelling approach to quantify the amount of capital required. Using this approach, the business identifies plausible, but severe, scenarios for the event types based on operational risk data and management experience. These scenarios are used as inputs to an operational risk model, which calculates the operational risk capital required to survive a one in 200 year event.

Further details regarding the measures used to assess the Society's risks are set out in section B.3.

The Board requires that the Society maintains a strong control environment as the Society's cost base reduces. In support of this Board risk appetite statement, the Society has a series of triggers in place which define its limited appetite. These measures are reviewed at least annually in the context of the Society's strategy setting process.

More detailed operational risk appetite statements and associated KRIs are set from time to time by OpsCo who will review performance against these appetites.

C.2 (b) **(e)**

The main sources of operational risk for the Society are:

- Those related to delivery of services to our policyholders;
- The delivery of services to the Society by significant third party suppliers; and
- Risks in executing strategic projects.

Cyber-attacks on companies are a growing threat. These could lead to loss of policyholder data, operational disruption, and reputational damage. Working closely with suppliers, the Board regularly assesses the threat level in the UK, along with the Society's defences against various potential attacks. Management also conducts simulations to ensure the Society is as prepared as it can be.

On behalf of the Board, the ARC has reviewed the effectiveness of the risk management and internal control systems for the year ended 31 December 2016, taking into account matters arising up to the date of this report.

There have been no material changes to operational risk in the year.

C.2 (c) **(e)**

This is described in further detail within section **C.2** (c) **(a)** and **C.6** **(a)** Insurance Risk.

C.3 **(e)**

This is described in section **C.2** (b) **(e)**.

C.4 **(e)**

The key systems and controls used to manage the Society's operational risk exposure are described below:

People

- An organisational structure chart for the business, supported by roles and responsibilities/job descriptions for key roles.
- An annual programme of computer based training modules to be completed by all staff.
- Mid and full year performance reviews for all staff.
- Policies and procedures to support recruitment, retention, remuneration and performance management.
- Regular staff communications.

Processes

- Documented procedures for core processes, including Core Process Risk Assessments where required.
- Policies and/or Frameworks for key areas of Operational Risk such as Third Party Management, Financial Crime, Complaint Handling, Conflicts of Interest and Whistleblowing.

Systems

- An IT strategy which is approved annually by the ExCo and the Board.
- An Information Security policy, Framework and related guidance.
- An End User Computing (EUC) guidelines.
- Identification and assessment of emerging risks, including annual review of global risks by the ARC.

Business Continuity

- Documented arrangements for Business Continuity and IT Disaster Recovery.
- Documented and agreed test plans and procedures.
- Execution of an annual programme of testing including crisis management scenario tests.
- Periodic crisis management scenario tests.

Monitoring

Routine monitoring will be conducted by management and via the OpsCo and ExCo based on regular operational risk reporting produced by the Risk Team (including reporting on the outcomes of the quarterly RCSA process).

This monitoring process is used by management to identify their functions' risks and controls, and assess the impact and likelihood of each of these.

C.6 (e)

The Society uses a scenario based approach as the basis for assessment of capital attributable to operational risk. The Society does not perform stress testing for operational risks as such risks are typically independent of market conditions.

C.(f) Other material risks

C.2(f)

The solvency and financial condition report shall include the following information regarding the risk exposure of the insurance or reinsurance undertaking, including the exposure arising from off-balance sheet positions and the transfer of risk to special purpose vehicles:

(a) a description of the measures used to assess these risks within that undertaking, including any material changes over the reporting period;

(b) a description of the material risks that that undertaking is exposed to, including any material changes over the reporting period.

(c) a description of how assets have been invested in accordance with the 'prudent person principle' set out in Article 132 of Directive 2009/138/EC so that the risks mentioned in that Article and their proper management are addressed in that description.

C.3 (f)

With regard to risk concentration, the solvency and financial condition report shall include a description of the material risk concentrations to which the insurance or reinsurance undertaking is exposed

C.4 (f)

With regard to risk mitigation, the solvency and financial condition report shall include a description of the techniques used for mitigating risks, and the processes for monitoring the continued effectiveness of these risk-mitigation techniques.

C.5 (f)

With regard to liquidity risk, the solvency and financial condition report shall include the total amount of the expected profit included in future premiums as calculated in accordance with Article 260(2).

C.6 (f)

With regard to risk sensitivity the solvency and financial condition report shall include a description of the methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks and events.

C.7 (f)

The solvency and financial condition report shall include in a separate section any other material information regarding their risk profile of the insurance or reinsurance undertaking.

C (f) Other material risks: regulatory risks

C.2 (a) **(f)**

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

Further details regarding the measures used to assess the Society's risks are set out in section B.3.

Heads of Department are responsible for ensuring that all relevant regulatory risks are captured on risk registers which will be reviewed and attested to quarterly. Risk shall be responsible for reviewing areas of concern highlighted as a result of this process and bringing any regulatory matters to the attention of Compliance.

The Society's Regulatory, Industry and Developments Committee reporting identifies areas of regulatory change and tracks the approach taken by the Society to implement the required changes.
Compliance provides regular reporting on regulatory matters, including the Society's arrangements for compliance, to various governance forums (ARC, OpsCo and ExCo).

C.2 (b) **(f) / C.3 (f)**

The main regulatory risk facing the Society is the risk of regulatory sanctions, financial loss or loss of reputation as a result of failure to comply with the laws, regulations, rules and codes of conduct applicable to the Society's activities.

C.4 (f)

Monitoring

The Society has a dedicated Compliance function whose role is to provide advice, guidance and challenge to business areas to assist them in ensuring compliance.

The Compliance function will perform compliance monitoring in accordance with the annual compliance Plan.

Heads of Department are responsible for ensuring that all relevant regulatory risks are captured on the Society's Risk Register. These shall be reviewed and attested to quarterly in accordance with the RCSA Guide. Risk shall be responsible for reviewing areas of concern highlighted as a result of this process and bringing any regulatory matters to the attention of Compliance.

This monitoring process is used by management to identify their functions' risks and controls, and assess the impact and likelihood of each of these.

C.6 (f)

The Society does not perform sensitivity tests for regulatory risks. The potential impact of regulatory risks are not reflected in the Balance Sheet, nor do we hold capital against these risks.

The Society considers that any such capital requirements for these are included within the capital requirements for operational risk.

C.7 Any other information
The solvency and financial condition report shall include in a separate section any other material information regarding their risk profile of the insurance or reinsurance undertaking.

C.7 Any other information

At this time there is no further material information regarding the risk profile to report.

D. Article 296 - Valuation for Solvency Purposes

D.1 Assets

The solvency and financial condition report shall include all of the following information regarding the valuation of the assets of the insurance or reinsurance undertaking for solvency purposes:

(a) separately for each material class of assets, the value of the assets, as well as a description of the bases, methods and main assumptions used for valuation for solvency purposes;

(b) separately for each material class of assets, a quantitative and qualitative explanation of any material differences between the bases, methods and main assumptions used by that undertaking for the valuation for solvency purposes and those used for its valuation in financial statements.

Guideline 6 – Assets – Information on aggregation by class

1.18. Under section "D.1 Assets" of the SFCR as defined in Annex XX of the Delegated Regulation, insurance and reinsurance undertakings should, when aggregating assets into material classes to describe the valuation basis that has been applied to them, consider the nature, function, risk and materiality of those assets.

1.19. Classes other than those used in the Solvency II balance sheet template as defined in the Implementing Technical Standard with regard to the procedures, formats and templates of the solvency and financial condition report should only be used if the undertaking is able to demonstrate to the supervisory authority that another presentation is clearer and more relevant.

Guideline 7 – Content by material classes of assets

1.20. Under section "D.1 Assets" of the SFCR as defined in Annex XX of the Delegated Regulation, insurance and reinsurance undertakings should, in relation to each material class of asset, describe at least the following quantitative and qualitative information:

a) The recognition and valuation basis applied, including methods and inputs used, as well as judgements made other than estimations which would materially affect the amounts recognised, in particular:

i. For material intangible assets: nature of the assets and information on the evidence and criteria used to conclude that an active market exists for those assets;

ii. For material financial assets: information on the criteria used to assess whether markets are active and, if the markets are inactive, a description of the valuation model used;

iii. For financial and operating leasings: describe in general the leasing arrangements in relation to each material class of assets subject to leasing arrangement, separately for financial and operating leases;

iv. For material deferred tax assets: information on the origin of the recognition of deferred tax assets and the amount and expiry date, if applicable, of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the balance sheet;

v. For related undertakings: where related undertakings were not valued using quoted market prices in an active markets or using the adjusted equity method, provide an explanation why the use of these methods was not possible or practical.

b) Any changes made to the recognition and valuation bases used or to estimations during the reporting period;

c) Assumptions and judgments including those about the future and other major sources of estimation uncertainty.

D.1 Assets

D.1 (a) and D.1 (b)

The Society's invested assets are recognised and measured according to UK accounting standards, which are consistent with international accounting standards. Assets are measured at Fair Value, mostly at market (bid) price. Judgement is applied in valuing only a small number of securities (less than 3%), namely interest rate swaptions and private equity investments. There are no areas of concern and no new areas of judgement.

Asset values by category

	Solvency II 31/12/16 £k	Accrued Income £k	Reclass (Notes) £k	**R&A 31/12/16 £k**
Fixed income securities				
Government bonds	**3,227,000**	(20,000)	(1)10,000	**3,217,000**
Corporate bonds	**1,034,000**	(19,000)	(10,000)	**1,005,000**
	4,261,000	**(39,000)**	**-**	**4,222,000**
Other Investments				
Participations (EPEHL)	**30,000**			**30,000**
Equity				
Derivatives	**76,000**			**76,000**
Collective Investments Undertakings (CIUs)	**382,000**		(2) (374,000)	**8,000**
	488,000	**-**	**(374,000)**	**114,000**
Assets held for index-linked and unit linked funds				
Collective Investments Undertakings (CIUs)	**1,840,000**			**1,840,000**
Cash & equivalents	**6,000**			**6,000**
	1,846,000	-	-	**1,846,000**
Cash & equivalents	**25,000**		374,000	**399,000**
Other current assets (3)	**18,000**	39,000		**57,000**
	43,000	39,000	374,000	**456,000**
TOTAL INVESTED ASSETS	**6,638,000**	**-**	**-**	**6,638,000**

Notes:

(1) KFW, a German government backed stock, is classified differently for Solvency II and statutory reporting (£10,000k)

(2) Most non-unit linked collective investments undertakings (CIUs) are cash funds and are classified as 'cash & equivalents' in the Report & Accounts (£374,000k)

(3) Other current assets of £18,000k include £11,000k debtors other than group or company, Corporation tax £2,000k, Reinsurance debtors £2,000k, owed by policyholders £1,000k, prepayments and accrued income £2,000k. The carrying value of these debtors equate closely to fair value and are expected to be realised within a year of the balance sheet date.

As per S.02.01 Solvency II balance sheet quantitative reporting template in Appendix 1 (excluding reinsurance recoverables).

Recognition of assets

The Society recognises a financial asset or a financial liability only when it becomes a party to the contractual provisions of the instrument. Most of the Society's assets are simple in structure and nature with no ownership issues. However, where assets are being sold or liquidated, special consideration is given to possible derecognition. At 31 December there were no liquidations or disposals requiring special consideration.

There have been no changes to the recognition and valuation bases used, or to estimations, during the reporting period.

Valuation bases, methods and main assumptions

Fixed income securities

Most of the Society's investments are fixed income securities. These securities are valued at market price based on a number of types of price source:

- Vendor quoted price
- FTSE Index quoted price
- Broker quoted price
- Model / Internal price
- Cost

Each price source is reviewed on a regular basis, with support from the Society's fund manager, to ensure that it continues to represent fair value for the asset class being valued. Independent prices are sought where values are subjective, including any securities identified as 'illiquid'.

Following a review of defaulted and non-interest paying assets, the carrying values of four securities (total market value c£350k) were reduced to zero. No other assets have defaulted or been written down in value.

Collective Investments Undertakings (CIUs)

Non-linked Collective Investments Undertakings (CIUs) comprise mostly cash funds, while those within unit linked assets are 'retail mutual funds'. These are all regulated in accordance with the FCA Collective Investment Schemes Sourcebook (COLL) and are available to other investment clients. In all cases the prices are published daily and the funds are actively traded on an exchange daily. In such circumstances the published price is considered to be the fair value of the asset.

There are no significant collective investments undertakings that are not retail mutual funds or cash funds.

Alternative methods of valuation

Mark to model techniques are used to value:

- **Participations and private equity (£37,000k)** –The Society's only subsidiary, Equitable Private Equity Holdings Ltd (£30,000k), is a wholly owned private equity investment that is not consolidated but is recorded in the balance sheet at net asset value. Net asset value is considered appropriate as it reflects the recoverable amount, of the investment.

  Other investments (£7,000k) are mostly private equity and so reported as CIUs. Valuation is at net asset value (simple, industry standard model) and is reviewed in discussion with the fund manager. Further, significant disposals are compared against carrying value, to confirm that such valuation represents fair value.

- **Derivatives: Interest rate swaptions (£76,000k)** – valued using an industry standard model. While most inputs to the valuation model are market observable, there is some subjectivity. Significant inputs to the model include interest rate curves and interest rate volatility. The model valuation results are compared against those supplied by the swaption counterparties (Morgan Stanley and Goldman Sachs) and to disposal proceeds to confirm that an alternative set of independently chosen assumptions would not result in a significantly different valuation. All valuation differences during the period, and at the period end, have been within normal tolerance levels.

Other Assets

- Forward exchange contracts are small in value (Linked: £300k asset, Non-linked £100k liability) and all are standard exchange-traded with readily available market values

- Cash & cash equivalents represent cash at bank and trading balances held at the custodian

- Other current assets represent a portfolio of loans held against policies (£300k), amounts due from policyholders, reassurers and investment brokers and other receivables, valued at recoverable amount.

- The Society has no material intangible assets, direct property investment, leases or deferred tax assets

Assumptions and Uncertainties

Aside from assumptions used for valuation models, as noted above, there are no significant assumptions or uncertainties regarding the valuation of assets.

Active Markets

For fixed income securities, a market is considered to be 'active' if trades occur regularly and daily pricing is available. Where there are few, or no, trades or daily pricing is not available, a security is considered 'stale' and additional price information sought – generally a second vendor or broker price – to confirm the validity of the price used. The market for all UK government bonds was assessed as active at the year end.

For equity and investment funds, including most of the assets held for unit linked funds, a market is considered 'active' if there are trades on a daily basis. Where the market is not active, securities are valued at net asset value, or expected recoverable amount (if lower).

Valuation of assets in the Financial Statements

There are no differences between the bases, methods and main assumptions used in the valuation for solvency purposes and those used for valuation in the Financial Statements.

Asset values in the Solvency II Balance Sheet are shown including accrued interest thereon. In the Financial Statements, the accrued interest is shown separately. This is a difference in presentation and not a valuation difference.

Deferred taxation

The Society has £2,000k of unused tax losses from realised losses on the disposal of investments. A deferred taxation asset has not been recognised in this regard due to uncertainty of recovery. There is, therefore, no impact to SCR.

D.2 Technical provisions

The solvency and financial condition report shall include all of the following information regarding the valuation of the technical provisions of the insurance or reinsurance undertaking for solvency purposes:

(a) separately for each material line of business the value of technical provisions, including the amount of the best estimate and the risk margin, as well as a description of the bases, methods and main assumptions used for its valuation for solvency purposes;

(b) a description of the level of uncertainty associated with the value of technical provisions;

(c) separately for each material line of business, a quantitative and qualitative explanation of any material differences between the bases, methods and main assumptions used by that undertaking for the valuation for solvency purposes and those used for their valuation in financial statements;

(d) where the matching adjustment referred to in Article 77b of Directive 2009/138/EC is applied, a description of the matching adjustment and of the portfolio of obligations and assigned assets to which the matching adjustment is applied, as well as a quantification of the impact of a change to zero of the matching adjustment on that undertaking's financial position, including on the amount of technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, the basic own funds and the amounts of own funds eligible to cover the Minimum Capital Requirement and the Solvency Capital Requirement;

(e) a statement on whether the volatility adjustment referred to in Article 77d of Directive 2009/138/EC is used by the undertaking and quantification of the impact of a change to zero of the volatility adjustment on that undertaking's financial position, including on the amount of technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, the basic own funds and the amounts of own funds eligible to cover the Minimum Capital Requirement and the Solvency Capital Requirement;

(f) a statement on whether the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC is applied and a quantification of the impact of not applying the transitional measure on the undertaking's financial position, including on the amount of technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, the basic own funds and the amounts of own funds eligible to cover the Minimum Capital Requirement and the Solvency Capital Requirement;

(g) a statement on whether the transitional deduction referred to in Article 308d of Directive 2009/138/EC is applied and a quantification of the impact of not applying the deduction measure on the undertaking's financial position, including on the amount of technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, the basic own funds and the amounts of own funds eligible to cover the Minimum Capital Requirement and the Solvency Capital Requirement.

(h) a description of the following:

(i) the recoverables from reinsurance contracts and special purpose vehicles; (ii) any material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period.

Guideline 8 – Valuation of technical provisions

1.21. Under section “D.2 Technical provisions” of the SFCR as defined in Annex XX of the Delegated Regulation, insurance and reinsurance undertakings should describe the significant simplified methods used to calculate technical provisions, including those used for calculating the risk margin.

D.2 Technical provisions

D.2 (a) Technical Provisions for each line of business

Technical Provisions are the sum of the Best Estimate Liabilities and the Risk Margin. Solvency II uses a best-estimate basis for all assumptions for the calculation of Best Estimate Liabilities. A best estimate basis is one where there is an equal chance of over-estimating the actual experience and under estimating the actual experience. Best Estimate Liabilities are split between the main lines of business and between reassured and non-reassured liabilities, together with a split of the Risk Margin between business types as per **S.12.01**. (Appendix 1).

£k	With-profit participation	Unit-linked insurance	Other life insurance	Accepted Reinsurance	Total
Best estimate liabilities (gross)	3,585,487	1,909,498	453,467	682	5,949,133
Risk Margin	186,807	36,583	18,007	27	241,424
Transitional measures on technical provisions (TMTP) [1]	(70,900)	(35,000)	(1,100)	0	(107,000)
Technical Provisions	3,701,394	1,911,081	470,374	709	6,083,557
Reinsured Liabilities	(229)	(12,713)	(419,290)	0	(432,232)
Technical provisions net of Reinsured Liabilities	3,701,165	1,898,368	51,084	709	5,651,325

(1) Calculation of TMTP was not audited by PricewaterhouseCoopers LLP

Methodology for with-profits business

Technical provisions for recurrent single premium business have been calculated by projecting policy values and guaranteed values, allowing for death rates, surrender (non-contractual termination) rates and retirement rates. For contractual terminations, i.e. deaths and retirements, the amount paid is based on the higher of the projected policy value and the projected guaranteed value. For surrenders, the amount paid is the projected policy value, less any financial adjustment.

After discounting to the valuation date, values are summed across all possible claim dates for all benefit groupings. No allowance is made for capital distribution.

For the purpose of these calculations, investment returns and deflators are based on the risk-free curve defined by EIOPA, i.e. swap yields less the Credit Risk Adjustment (CRA) plus Volatility Adjustment (VA), which is subject to regulatory approval. The CRA was 17bp as at the valuation date and the VA was 30bp for sterling denominated business making up more than 99% of with-profit liabilities.

This calculation is repeated across 5,000 stochastic simulations i.e. different possible financial outcomes, and the average liability across these outcomes calculated. This methodology captures the "time value" of the underlying guarantees. In order to reduce model run times, the final model runs are performed using two blocks of 500 simulations that produce the closest match to the cost of guarantees produced by 5,000 simulations. These 1000 simulations are then used in the calculation of liabilities.

A similar methodology is used for conventional with-profits business i.e. endowments and whole of life policies. The sum assured and declared bonus on each policy is first converted into a notional policy value, using final bonus rates and a bonus reserve valuation. Expenses are implicitly allowed for in the premiums valued. Future reversionary bonuses are assumed to be zero.

Methodology for unit-linked business

The unit liability under linked contracts is valued by taking the number of units deemed to attach to policies multiplied by the valuation price per unit as provided by State Street.

At 31 December 2016, all unit liabilities were non-reassured except for c£12,000k reassured with companies in LBG.

No future premiums are assumed for unit-linked pension policies, only contractual premiums are included for unit-linked life policies.

As at 31 December 2016, the weighted average of the Society's annual management charge (AMC) across all funds was 0.72% p.a. This average may change over time if there are further fund rationalisations.

The present value of unit-linked charges is calculated by applying this charge to the projected value of liabilities, using a cash-flow approach i.e. rolling forward and discounting using the risk-free interest term structure with no VA, allowing for terminations using a multiple decrement approach.

Based on the ratio of the average Aberdeen Asset Managers fund management charge to the average annual management charge (AMC), a proportion of the resultant value of charges is attributed to unit-linked business and included within the expense reserve.

The non-unit liability is calculated using a per-policy projected cash flow methodology. The only non-linked liabilities are in respect of expenses and mortality.

Methodology for non-profit business (other life insurance)

Non-profit annuity cash-flows are projected based on best estimate mortality assumptions allowing for escalation in payment, spouse's benefits, any minimum or maximum payment term and any change to the level of annuity at a particular age, for example State Pension Age. For index-linked annuities, benefits are first increased by inflation which is implied from nominal and real gilt yields at the valuation date. The resultant cash-flows are discounted at the EIOPA risk-free curve.

For LPI annuities i.e. index-linked annuities with a maximum increase rate of 5% p.a. - the average liability across 1000 stochastic simulations was used, with inflation capped at the maximum level in each simulation for each year of the projection.

Methodology for expense reserves

The Solvency II Expense Reserve is based on the run off of the regular expense budget and given expense reduction factors using a projection of the number of policy benefits in force at future year-ends. The projection of the number of policy benefits is based on the results from the Solvency II model using the best estimate retirement and surrender persistency assumptions and appropriate mortality assumptions.

The starting point for the expense model is to identify policy administration expenses. These expenses are then split between each main product grouping and assumed to run-off at a fixed percentage rate of the projection of the total number of benefits within that product grouping (including, where applicable unit-linked and reassured benefits). A single policy can contain a number of benefits.

Other administration and support costs are assumed to run-off at fixed percentage rates of the average benefit run-off rate across all products.

For reporting purposes, policy administration expenses attributed to each product type are split between non-profit, with-profits and unit-linked business in proportion to the number of benefits. Other administration and support costs are allocated in proportion to policy administration expenses.

Expenses are increased in line with expected inflation as implied by the difference between nominal and index-linked yields curves at the valuation date.

Allowance is made for the charges made to LBG for administering the reassured business, which is based on a set of agreed per policy costs for each line of business, applied to a projection of the number of policies and multiplied by the proportion of benefits reassured at each future date. These costs are increased from the date of the 2009 agreement in line with an agreed sub-index of average weekly earnings as published by Office for National Statistics, between July 2009 and the valuation date.

Allowance is also made for unit pricing and accounting charges payable to State Street.

The resultant cash-flows are discounted at the risk-free interest rate term structure without VA.

The value of the unit-linked fund management charges described above is added to the total regular expense reserve.

The value of investment management fees payable to BlackRock is calculated by running off the current level of charges applicable to with-profits assets in line with policy values. Charges applicable to assets underlying expense reserves are run-off in line with a projection of the regular expense reserve.

Assumptions

In the calculations for with-profit business described above, charges of 2% p.a. of policy values have been allowed for, comprising the following:

- An expense charge of 1% p.a. deducted from policy values.

- A further charge of 1% p.a. deducted from policy values to make some allowance for the expected cost of guarantees and to act as a margin against risk and adverse experience.

Surrender (non-contractual termination) rates are based on recent experience, adjusted for future expected developments / trends. Surrender rates are determined by product type.

Retirement rates for pensions business are based on recent experience for each product type. An adjustment is applied to reflect expected future developments.

In the projection of assets and liabilities it has been assumed that Policy Values would be changed in line with the return on assets less charges.

Future declared reversionary bonus rates are assumed to be zero throughout the projection period.

The Society's valuation has been carried out using published mortality tables and an investigation into the Society's actual mortality experience. The Society continues to make allowance for future improvements in the longevity of annuitants.

Mortality Assumptions by class of business	Current Valuation	Previous Valuation
Basic Life and General Annuity business	92.5% PNML08 cmi2015 (U=2016)* for males	90% IML00 cmi2011 (U=2015)* for males
	90% PNFL08 cmi2015 (U=2016)* for females	92.5% IFL00 cmi2011 (U=2015)* for females
Pension business	92.5% PNML08cmi2015 (U=2016)* for males	90% PNML00cmi2011 (U=2015)* for males
	90% PNFL08cmi2015 (U=2016)* for females	80% PNFL00cmi2011 (U=2015)* for females
Temporary assurances	52.5% TMC00 for males	57.5% TMC00 for males
	65% TFC00 for females	75% TFC00 for females

* The allowance for mortality improvements is based on the CMI 2015 improvements model with a long-term rate of improvement of 1.5% pa for males and 1.25% pa for females.

Policy Administration expenses are assumed to run-off at a fixed percentage the projection of the total number of benefits within a specified product grouping. This was set at 82% as at 31 December 2016.

Other administration and support costs are assumed to run-off at a fixed percentage of the average benefit run-off rate across all products. This was set at 64% as at 31 December 2016.

Future premiums for with-profits business (contract boundaries)

The Society is closed to new business and premiums into with-profits Recurrent Single Premium (RSP) policies are only permitted if premiums have been paid in each previous calendar year. This has resulted in very low premiums in respect of RSP business. Technical provisions have therefore been calculated assuming that the only premiums payable will be those contractually due, for example under conventional with-profits policies, term assurances and flexible protection plans.

Simplifications

No significant simplifications have been used in the valuation of best estimate liabilities.

Risk Margin

The Risk Margin is an addition to the liabilities and is designed to offer extra protection to policyholders against the risk of insurer insolvency. The Risk Margin increases the technical provisions to the amount that would have to be paid to another insurance company in order for them to take on the best estimate liability.

It therefore represents the theoretical compensation for the risk of future experience being worse than best estimate assumptions, and for the cost of holding regulatory capital against this.

The Risk Margin only covers unhedgeable risks. Risks that contribute to the Risk Margin are mortality, longevity, lapse, expense, operational and counterparty default. It is assumed that were another insurance company to take on the best estimate liability they would be able to select assets in such a way so as to remove market risk.

The method of calculating the Risk Margin and the degree of simplification used in its calculation is a matter of judgement. The Solvency II regulations included four alternative methods of varying complexity and accuracy. Our chosen methodology is Level 1 of the four level hierarchy. This is the most detailed and accurate of the available methodologies.

Individual risk capital requirements are generally assumed to run-off in line with their respective liability components. For example, lapse risk is assumed to run off in line with with-profit policy values. The actual average run-off of lapse risk in the Society's projection model, the DDM, is much closer to the run-off of policy values than to any other proxy such as with-profits liabilities.

The capital requirements in respect of mortality risk and operational risk is assumed to run off in line with the with-profits component of technical provisions. Mortality risk is largely proportionate to the amount of with-profits business on the books, whilst operational risk under Solvency II (using the standard formula) is expressed directly as a proportion of technical provisions excluding unit-linked business.

Expenses are assumed to run-off in line with the best estimates from the expense model (hence the expense reserve at future valuation dates in base and stress can be calculated by discounting expected cash-flows beyond the valuation date).

Counterparty risk is assumed to run off in line with the reinsured component of best estimate liabilities. The capital requirement for counterparty risk is calculated based on credit rating and the amount recoverable from the counterparty, which is proportionate to the reinsured liabilities. Note that the credit ratings of the counterparties are assumed not to change over time.

The capital requirement for Life Underwriting risks in the reference undertaking is assumed to be the same (at time zero) as in the original undertaking because it is difficult to eliminate or hedge Life Underwriting risks.

The Risk Margin has been split between lines of business by first calculating the Risk Margin for each line of business on the assumption that other lines of business do not exist, and then splitting the total Risk Margin in proportion to these amounts.

Economic Scenario Generator

For the Society's with-profits business, an additional cost is generated when policyholders take benefits on contractual terms where their guaranteed fund is in excess of their policy value.

The cost of the guarantee in an individual simulation is the discounted value of the difference between the policy value at retirement and the guaranteed value at retirement, if the guaranteed value is higher than the policy value.

A deterministic calculation using current risk-free yields to derive expected future returns, and hence future policy values, will capture the expected, or 'intrinsic,' value of these guarantees. However, there is a wide range of possible outcomes for future investment returns, and hence future policy values and the cost of guarantees. This additional cost of guarantees arising from the uncertainty of future returns, known as the 'time value' is not captured in the intrinsic value. This can apply even if today a policy has a policy value well in excess of the guarantees.

In order to calculate the cost of the guarantees applying to our with-profits business properly, including the time value described above, the Society is required to undertake a stochastic valuation using a wide range of future investment scenarios. The stochastic simulations are produced by the Economic Scenario Generator (ESG).

The Moody's Analytics ESG, with nominal interest rates fitted to market swap rates, is used to produce the stochastic simulation file used in the calculation of technical provisions. An adjustment is made within Prophet Life DFA to calibrate the results to the EIOPA risk-free curve, increased by the VA. A separate adjustment is made without VA for the purpose of calculating the Risk Margin. This methodology means that future interest rate paths in the simulations are dispersed either side of the risk-free curve.

In order to reduce model run times, the final model runs are performed using two blocks of 500 simulations that produce the closest match to the cost of guarantees produced by 5,000 simulations.

D.2 (b) Level of uncertainty associated with technical provisions

The main uncertainty in technical provisions is in respect of policyholder behaviour. Increasing retirement rates on average by one year would reduce best estimate liabilities by c£39,000k.

D.2 (c) Material differences to financial statements

Assets other than the reinsurer's share of technical provisions are valued consistently for solvency purposes and in the statutory financial statements. Therefore, differences arise solely from differences in the valuation of technical provisions. The material differences between the bases, methods and main assumptions used have been set out with reference to the difference between Excess of Assets over liabilities in the financial statements and Own Funds being the equivalent measure under Solvency II. This is a key measure of capital management for the Society.

The following table shows a breakdown of the material differences to the financial statements.

Description	Amount £k
Excess of Assets over liabilities in financial statements	1,005,105
Difference in valuation assumptions for with-profits business [1]	(87,953)
Difference in valuation assumptions for non-profit business (net of reinsurance)[1]	289
Other valuation differences on expense reserve [1]	(18,931)
Adjustment for expected counterparty default rates [2]	(7,807)
Risk Margin [3]	(241,424)
Transitional Measures to Technical Provisions (TMTP)[3] [6]	107,000
Own Funds - before Volatility Adjustment (VA)	756,278
Reduction to liabilities for VA [4]	75,449
Own Funds – after VA	831,727

(1) In the financial statements, liabilities are discounted using a gilt yield curve. This is based on the gross redemption yields of government fixed interest securities. Under Solvency II, however, the “risk-free” curve used to discount liabilities is based on swap yields less a Credit Risk Adjustment. The difference in discount rates is the main reason for the difference in the value placed on liabilities.

(2) This is the material difference arising from the prescribed methods used to value reinsured assets under Solvency II, primarily for non-profit business.

(3) The Risk Margin and Transitional Measures are not included in technical provisions in the financial statements and therefore have a direct impact on the difference between Excess of Assets in the financial statements and Own Funds. A further split of these items by line of business can be found in section D.2 (a).

(4) The reduction to liabilities for VA only applies to with-profit liabilities.

(5) There is no difference in the value of unit fund liabilities between the financial statements and the equivalent Solvency II Best Estimate Liabilities.

(6) Calculation of TMTP was not audited by PricewaterhouseCoopers LLP

D.2 (d) Matching Adjustment

The Society does not apply a Matching Adjustment in the calculation of Technical Provisions.

D.2 (e) Volatility Adjustment

The Volatility Adjustment (VA) is applied to with-profits business in respect to policy related liabilities. The VA is an addition to the yield curve designed to cushion the discounted value of future liabilities from short-term market volatility. A positive addition to the yield curve leads to a lower present value of liabilities, as we are discounting future liabilities at a higher rate.

The Society has received PRA approval for use of the VA. The size of the VA is calculated and provided by EIOPA. The VA is only applied to our With-Profits liabilities. The VA is not applied to expense liabilities, unit-linked liabilities or non-profit liabilities. As required by PRA, the VA is assumed to remain unchanged in all SCR stress conditions.

The impact on the Society's financial position of setting the VA to zero is as follows:

£k	Position including VA	Position excluding VA
Assets	6,915,284	6,915,284
Technical Provisions	6,083,557	6,159,006
Own Funds (1)	831,727	756,279
SCR	472,672	509,521
MCR	135,877	139,326

(1) Note that the total value of basic Own Funds is available to cover the SCR and Minimum Capital Requirement (MCR) respectively.

D.2 (f) Transitional measure on risk-free interest rates

The Society does not apply the transitional measure on risk-free interest rates.

D.2 (g) Transitional measure on technical provisions (TMTP) (1)

(1) Calculation of TMTP was not audited by PricewaterhouseCoopers LLP

The purpose of the Transitional Deduction is to smooth the transition between Solvency I and Solvency II capital requirements by helping to mitigate the impact of the Risk Margin. The Society has approval for the use of a transitional deduction to SII technical provisions based on the solvency position as at 31 December 2015.

The amount of transitional deduction applied as at 31 December 2016 was £107,000k. If transitional deductions were not applied, total technical provisions would be £107,000k higher than stated in section D.2 (a) and correspondingly Own Funds would be £107,000k lower. The SCR and MCR are unaffected by the application of transitional deductions to technical provisions as at 31 December 2016. TMTPs of £107,000k reduce linearly every year until 2031, with the first reduction on 1 January 2017.

D.2 (h), (i) Reinsurance recoverables

Recoverables from reinsurance contracts are treated as an asset in Solvency II. The value of the Reinsurance asset is calculated to be the value of reinsured liabilities less an adjustment to allow for default risk. This adjustment means that the Solvency II balance sheet does not include the full benefit of reinsurance contracts. The adjustment is dependent upon the credit rating of the counterparty and the term of the reassurance agreement.

The amount of reinsurance recoverables is set to the value of best estimate liabilities, less an adjustment for expected counterparty default risk (around 0.25% of technical provisions). This adjustment is calculated allowing for the likelihood of default of each counterparty, in particular using a credit rating of "A" for the main counterparty, Lloyds Banking Group. A recovery rate of 50% is used, as per the simplification set out in Article 61 of the Delegated Acts.

Further detail on the valuation methodology for non-profit business can be found in section D.2 (a). All deferred annuities and most assurances are reinsured to mitigate longevity and mortality risk as per section C.2 (b) (a) of this report.

D.2 (h), (ii) Material Changes in Relevant Assumptions

Retirement and Surrender Rates

As at 31 December 2016 the retirement assumptions in respect of retirement rates for with-profits business were updated to reflect experience investigations carried out during the year. Changes to retirement and surrender assumptions over the year decreased the value of liabilities by c£70,000k.

Unit Linked Charges

Increases in unit-linked annual management charges (AMCs) in 2016 benefitted technical provisions by increasing the present value of future charges c£35,000k.

D.3 Other liabilities

The solvency and financial condition report shall include all of the following information regarding the valuation of the other liabilities of the insurance or reinsurance undertaking for solvency purposes:

(a) separately for each material class of other liabilities the value of other liabilities as well as a description of the bases, methods and main assumptions used for their valuation for solvency purposes;

(b) separately for each material class of other liabilities, a quantitative and qualitative explanation of any material differences with the valuation bases, methods and main assumptions used by the undertaking for the valuation for solvency purposes and those used for their valuation in financial statements.

Guideline 9 – Liabilities other than technical provisions – information on aggregation by class

1.22. Under section "D.3 Other liabilities" of the SFCR as defined in Annex XX of the Delegated Regulation, insurance and reinsurance undertakings should, when aggregating liabilities other than technical provisions into material classes to describe the valuation basis that has been applied to them consider the nature, function, risk and materiality of those liabilities.

1.23. Classes other than those used in the Solvency II balance sheet template as defined in the Technical Standard on the templates for the submission of information to the supervisory authorities should only be used if the undertaking is able to demonstrate to the supervisory authority that another presentation is clearer and more relevant.

Guideline 10 – Content by material classes of liabilities other than technical provisions

1.24. Under section "D.3 Other liabilities" of the SFCR as defined in Annex XX of the Delegated Regulation, insurance and reinsurance undertakings should, in relation to each material class of liability other than technical provisions, describe at least the following quantitative and qualitative information:

a) Recognition and valuation basis applied, including methods and inputs used, in particular:

i. describe in general the material liabilities arising as a result of leasing arrangements, separately disclosing information on financial and operating leases;

ii. the origin of the recognition of deferred tax liabilities and the amount and expiry date if applicable, of taxable temporary differences;

iii. the nature of the obligation and, if known, expected timing of any outflows of economic benefits and an indication of uncertainties surrounding the amount or timing of the outflows of economic benefits and how deviation risk was taken into account in the valuation;

iv. The nature of the liabilities for employee benefits and a breakdown of the amounts by nature of the liability and the nature of the defined benefit plan assets, the amount of each class of assets, the percentage of each class of assets with respect to the total defined benefit plan assets, including reimbursement rights.

b) Any changes made to the recognition and valuation bases used or on estimations during the reporting period;

c) Assumptions and judgments including those about the future and other major sources of estimation uncertainty.

D.3 Other liabilities

OTHER LIABILITIES

	At 31 December 2016 £k
Debts owed to credit institutions	6,000
Insurance & intermediaries payables	25,000
Payables (trade, not insurance)	116,000
TOTAL OTHER LIABILITIES	**147,000**

Other liabilities are valued at the amount payable and recognised when the obligation to pay arises. Payables includes £81,000k obligation to repay amounts received as collateral held against the swaption contracts.

The Society has no material liabilities arising as a result of leasing arrangements, no significant deferred tax liabilities, no liabilities relating to employee benefits (other than short term payables). There are also no significant uncertainties regarding the timing or amounts of other liabilities.

There have been no changes made to the recognition and valuations bases, or estimates used, of other liabilities during the reporting period.

There are no differences between the bases, methods and main assumptions used in the valuation of other liabilities for solvency purposes and those used for valuation in the Financial Statements. Aside from assumptions used for valuation models, as noted above, there are no significant assumptions or uncertainties regarding the valuation of assets.

D.4 Alternative methods for valuation

The solvency and financial condition report shall include information on the areas set out in Article 263 in complying with the disclosure requirements of the insurance or reinsurance undertaking as laid down in paragraphs 1 and 3 of this Article.

D.4 Alternative methods for valuation

There are no material differences between the bases, methods and main assumptions used in the valuation for solvency purposes and those used for valuation in the Financial Statements.

Please see section D1 for detail of alternative valuation methods. There are no liabilities valued using alternative valuation methods.

D.5 Any other information
The solvency and financial condition report shall include in a separate section any other material information regarding the valuation of assets and liabilities for solvency purposes.

D.5 Any other information

At this time there is no further information to disclose.

E. Article 297 - Capital Management

E.1 Own funds

The solvency and financial condition report shall include all of the following information regarding the own funds of the insurance or reinsurance undertaking:

(a) information on the objectives, policies and processes employed by the undertaking for managing its own funds, including information on the time horizon used for business planning and on any material changes over the reporting period;

(b) separately for each tier, information on the structure, amount and quality of own funds at the end of the reporting period and at the end of the previous reporting period, including an analysis of the significant changes in each tier over the reporting period;

(c) the eligible amount of own funds to cover the Solvency Capital Requirement, classified by tiers;

(d) the eligible amount of basic own funds to cover the Minimum Capital Requirement, classified by tiers;

(e) a quantitative and qualitative explanation of any material differences between equity as shown in the undertaking's financial statements and the excess of assets over liabilities as calculated for solvency purposes;

(f) for each basic own-fund item that is subject to the transitional arrangements referred to in Articles 308b(9) and 308b(10) of Directive 2009/138/EC, a description of the nature of the item and its amount;

(g) for each material item of ancillary own funds, a description of the item, the amount of the ancillary own-fund item and, where a method by which to determine the amount of the ancillary own-fund item has been approved, that method as well as the nature and the names of the counterparty or group of counterparties for the items referred to in points (a), (b) and (c) of Article 89(1) of Directive 2009/138/EC;

(h) a description of any item deducted from own funds and a brief description of any significant restriction affecting the availability and transferability of own funds within the undertaking. For the purposes of paragraph (g), the names of the counterparties shall not be disclosed where such disclosure is legally not possible or impracticable or where the counterparties concerned are not material.

Guideline 11 - Own funds – Additional solvency ratios

1.25. Under section "E.1 Own funds" of the SFCR as defined in Annex XX of the Delegated Regulation, where undertakings disclose additional ratios to the ones included in template S.23.01, the SFCR should also include an explanation on the calculation and meaning of the additional ratios.

Guideline 12 - Own funds – Information on the structure, amount, quality and eligibility of own funds

1.26. Under section "E.1 Own funds" of the SFCR as defined in Annex XX of the Delegated Regulation, insurance and reinsurance undertakings should, regarding their own funds, describe at least the following information:

a) for each material own fund item set out in Article 69, Article 72, Article 74, Article 76 and Article 78, as well as for items that received supervisory approval as per Article 79 of the Delegated Regulation the information required in Article 297 (1) of the Delegated Regulation, distinguishing between basic and ancillary own fund items;

b) for each material own fund item, the extent to which it is available, subordinated, as well as its duration and any other features that are relevant for assessing its quality;

c) an analysis of significant changes in own funds during the reporting period, including the value of own fund items issued during the year, the value of instruments redeemed during the year, and the extent to which the issuance has been used to fund redemption;

d) in relation to subordinated debt, an explanation of the changes to its/ their value;

e) when disclosing the information required in Article 297 (1) (c) of the Delegated Regulation, an explanation of any restrictions to available own funds and the impact of limits on eligible Tier 2 capital, Tier 3 capital and restricted Tier 1 capital;

f) details of the principal loss absorbency mechanism used to comply with Article 71 (1)(e) of the Delegated Regulation , including the trigger point, and its effects;

g)	an explanation of the key elements of the reconciliation reserve;	
h)	for each basic own fund item subject to the transitional arrangements:	
i.		the tier into which each basic own fund item has been classified and why;
ii.		the date of the next call and the regularity of any subsequent call dates, or the fact that no call dates fall until after the end of the transitional period.
i)	when disclosing the information required in Article 297(1)(g) of the Delegated Regulation, information on the type of arrangement and the nature of the basic own funds item which each ancillary own fund item would become on being called up or satisfied, including the tier, as well as when the item was approved by the supervisory authority and, where a method was approved, for how long;	
j)	where a method has been used to determine the amount of a material ancillary own fund item, undertakings should describe:	
i.		how the valuation provided by the method has varied over time;
ii.		which inputs to the methodology have been the principal drivers for this movement;
iii.		the extent to which the amount calculated is affected by past experience, including the outcome of past calls.
k)	Regarding items deducted from own funds:	
i.		the total excess of assets over liabilities within ring-fenced funds and matching adjustment portfolios, identifying the amount for which an adjustment is made in determining available own funds;
ii.		the extent of and reasons for significant restrictions on, deductions from or encumbrances of own funds.

E.1 Own funds

Assets other than the reinsurer's share of technical provisions are valued consistently for solvency purposes and in the statutory financial statements. Therefore, all differences in the value of own funds arise from differences in the valuation of technical provisions.

Own funds consists entirely of the excess of assets over liabilities and is entirely Tier 1. The Society does not have any ordinary share capital, ancillary own funds or any other own fund items other than the reconciliation reserve.

The Society's approach to capital distribution and capital management is set out in the respective sections of the introduction to this report. [1]

Section D.2 (c) sets out the material differences between Own Funds and Excess Assets in the financial statements.

The Society does not apply any transitional measures in respect of own fund items, only in respect of the Transitional measures on technical provisions. The amount of eligible own funds (Tier 1) to cover the SCR and MCR as at 31 December 2016 is £831,727k as per **S.23.01.** Details of own funds can be found in **S.23.01**. (Appendix1)

[1] Calculation of Economic Capital was not audited by PricewaterhouseCoopers LLP

E.2	**Solvency Capital Requirement and Minimum Capital Requirement**

The solvency and financial condition report shall include all of the following information regarding the Solvency Capital Requirement and the Minimum Capital Requirement of the insurance or reinsurance undertaking:

(a) the amounts of the undertaking's Solvency Capital Requirement and the Minimum Capital Requirement at the end of the reporting period, accompanied, where applicable, by an indication that the final amount of the Solvency Capital Requirement is still subject to supervisory assessment;

(b) the amount of the undertaking's Solvency Capital Requirement split by risk modules where that undertaking applies the standard formula, and by risk categories where the undertaking applies an internal model;

(c) information on whether and for which risk modules and sub-modules of the standard formula that undertaking is using simplified calculations;

(d) information on whether and for which parameters of the standard formula that undertaking is using undertaking- specific parameters pursuant to Article 104(7) of Directive 2009/138/EC;

(e) where applicable, a statement that the undertaking's Member State has made use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC;

(f) unless the undertaking's Member State has made use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC, the impact of any undertaking-specific parameters that undertaking is required to use in accordance with Article 110 of that Directive and the amount of any capital add-on applied to the Solvency Capital Requirement, together with concise information on its justification by the supervisory authority concerned;

(g) information on the inputs used by the undertaking to calculate the Minimum Capital Requirement;

(h) any material change to the Solvency Capital Requirement and to the Minimum Capital Requirement over the reporting period, and the reasons for any such change.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The PRA concluded the initial review of the appropriateness of the standard formula to calculate the Solvency Capital Requirement (SCR) for firms in September 2015. The review did not identify any necessary modifications needed for the standard formula Solvency Capital Requirement to reflect the current risk profile of Equitable Life Assurance Society. Details of the SCR can be found in **S.25.01** and details of the MCR in **S.28.01**. (Appendix 1).

There are no undertaking specific parameters or capital add-ons to report.

Details of the SCR can be found in **S.25.01** and details of the MCR in **S.28.01**. (Appendix 1)

Simplifications

The impact of the catastrophe stress has been estimated based on the sums at risk as per Article 96 of the Delegated Acts.

The impact of the lapse stress has been calculated based on homogenous risk groups rather than policy by policy, a temporary adjustment has been made to allow for the potential increased capital requirement when performing a more granular approach.

Changes to the SCR over the reporting period

The SCR has increased over the reporting period. The majority of this change can be attributed to the increase in Lapse Risk. Lapse Risk is the risk of loss due to a change in surrender rates. For the Society, the ability of policyholders to choose their retirement dates is an option and is, therefore, allowed for in the lapse stress under Solvency II. The lapse stress consists of a decrease in surrender rates and a decrease in retirement rates. This results in an increased cost of guarantees for with-profits business with 3.5% GIR and an increased expense cost to the business in run-off. The fall in the risk free yield curve over the period increased the impact of the lapse stress leading to a higher capital requirement.

E.3	**Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement**
The solvency and financial condition report shall include all of the following information regarding the option set out in Article 304 of Directive 2009/138/EC:	
(a)	an indication that that undertaking is using the duration-based equity risk sub-module set out in that Article for the calculation of its Solvency Capital Requirement, after approval from its supervisory authority;
(b)	the amount of the capital requirement for the duration-based equity risk sub-module resulting from such use.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Society does not use the duration based equity sub-module.

E.4	**Differences between the standard formula and any internal model used**
Where an internal model is used to calculate the Solvency Capital Requirement, the solvency and financial condition report shall also include all of the following information:	
(a)	a description of the various purposes for which that undertaking is using its internal model;
(b)	a description of the scope of the internal model in terms of business units and risk categories;
(c)	where a partial internal model is used, a description of the technique which has been used to integrate any partial internal model into the standard formula including, where relevant, a description of alternative techniques used;
(d)	a description of the methods used in the internal model for the calculation of the probability distribution forecast and the Solvency Capital Requirement;
(e)	an explanation, by risk module, of the main differences in the methodologies and underlying assumptions used in the standard formula and in the internal model;
(f)	the risk measure and time period used in the internal model, and where they are not the same as those set out in Article 101(3) of Directive 2009/138/EC, an explanation of why the Solvency Capital Requirement calculated using the internal model provides policy holders and beneficiaries with a level of protection equivalent to that set out in Article 101 of that Directive;
(g)	a description of the nature and appropriateness of the data used in the internal model.
Guideline 13 - Differences between the standard formula and internal models used	
1.27.	Under section “E.4 Differences between the standard formula and any internal model used” of the SFCR as defined in Annex XX of the Delegated Regulation, insurance and reinsurance undertakings should, when disclosing the main differences in methodologies and underlying assumptions used in the standard formula and in the internal model, describe at least the following:
a)	Structure of the internal model;
b)	Aggregation methodologies and diversification effects;
c)	Risks not covered by the standard formula but covered by the internal model.

E.4 Differences between the standard formula and any internal model used

The Society calculates the SCR following standard formula and does not use an internal model.

E.5	**Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement**
The solvency and financial condition report shall include all of the following information regarding any non-compliance with the Minimum Capital Requirement or significant non-compliance with the Solvency Capital Requirement of the insurance or reinsurance undertaking:	
(a)	regarding any non-compliance with that undertaking's Minimum Capital Requirement: the period and maximum amount of each non-compliance during the reporting period, an explanation of its origin and consequences, any remedial measures taken, as provided for under Article 51(1)(e)(v) of Directive 2009/138/EC and an explanation of the effects of such remedial measures;
(b)	where non-compliance with the undertaking's Minimum Capital Requirement has not been subsequently resolved: the amount of the non-compliance at the reporting date;
(c)	regarding any significant non-compliance with the undertaking's Solvency Capital Requirement during the reporting period: the period and maximum amount of each significant non-compliance and, in addition to the explanation of its origin and consequences as well as any remedial measures taken, as provided for under Article 51(1)(e)(v) of Directive 2009/138/EC and an explanation of the effects of such remedial measures;
(d)	where a significant non-compliance with the undertaking's Solvency Capital Requirement has not been subsequently resolved: the amount of the non-compliance at the reporting date.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

There was no non-compliance with either the MCR or SCR over the reporting period.

E.6	**Any other information**
The solvency and financial condition report shall include in a separate section any other material information regarding the capital management of the insurance or reinsurance undertaking	

E.6 Any other information

At this time there is no other material information to disclose

APPENDIX 1: Quantitative Reporting Template Disclosures

General information

Undertaking name	Equitable Life Assurance Society
Undertaking identification code	549300WH4MO7YSR34G34
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using local GAAP (other than IFRS)
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	Use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	Use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet

S.05.01.02 - Premiums, claims and expenses by line of business

S.05.02.01 - Premiums, claims and expenses by country

S.12.01.02 - Life and Health SLT Technical Provisions

S.22.01.21 - Impact of long term guarantees measures and transitionals

S.23.01.01 - Own Funds

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

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	4,749,007
R0080	*Property (other than for own use)*	4
R0090	*Holdings in related undertakings, including participations*	29,865
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	4,261,033
R0140	*Government Bonds*	3,227,217
R0150	*Corporate Bonds*	1,033,816
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	381,632
R0190	*Derivatives*	76,472
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	1,846,388
R0230	Loans and mortgages	275
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	275
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	424,425
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	411,802
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	411,802
R0340	*Life index-linked and unit-linked*	12,623
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	1,090
R0370	Reinsurance receivables	1,788
R0380	Receivables (trade, not insurance)	12,635
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	24,986
R0420	Any other assets, not elsewhere shown	2,106
R0500	**Total assets**	7,062,701

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	4,172,476
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	4,172,476
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	4,039,636
R0680	*Risk margin*	132,840
R0690	Technical provisions - index-linked and unit-linked	1,911,081
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	1,909,498
R0720	*Risk margin*	1,583
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	31
R0790	Derivatives	110
R0800	Debts owed to credit institutions	5,809
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	24,698
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	116,768
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	6,230,973
R1000	**Excess of assets over liabilities**	831,727

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross		-5,943	-100	6,569				222	748
R1420	Reinsurers' share		747	140	4,474				0	5,361
R1500	Net		-6,690	-240	2,095				222	-4,613
	Premiums earned									
R1510	Gross		-5,943	-100	6,569				222	748
R1520	Reinsurers' share		747	140	4,474				0	5,361
R1600	Net		-6,690	-240	2,095				222	-4,613
	Claims incurred									
R1610	Gross		451,951	15,458	30,191				279	497,879
R1620	Reinsurers' share		539	88	28,549				0	29,176
R1700	Net		451,412	15,370	1,642				279	468,702
	Changes in other technical provisions									
R1710	Gross		0	0	0				0	0
R1720	Reinsurers' share		0	0	0				0	0
R1800	Net		0	0	0				0	0
R1900	**Expenses incurred**		19,947	9,150	2,376				0	31,472
R2500	**Other expenses**									4,796
R2600	**Total expenses**									36,268

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400			DE	IE	GG	JE		
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	-235	488	308	224	-38		748
R1420	Reinsurers' share	4,899	139	249	73	0		5,361
R1500	Net	-5,134	349	59	151	-38	0	-4,613
	Premiums earned							
R1510	Gross	-235	488	308	224	-38		748
R1520	Reinsurers' share	4,899	139	249	73	0		5,361
R1600	Net	-5,134	349	59	151	-38	0	-4,613
	Claims incurred							
R1610	Gross	484,502	2,710	6,440	4,269	-43		497,879
R1620	Reinsurers' share	27,316	245	1,144	462	9		29,176
R1700	Net	457,186	2,464	5,296	3,807	-51	0	468,702
	Changes in other technical provisions							
R1710	Gross	0	0	0				0
R1720	Reinsurers' share	0	0	0				0
R1800	Net	0	0	0	0	0	0	0
R1900	**Expenses incurred**	30,270	178	801				31,248
R2500	**Other expenses**							4,796
R2600	**Total expenses**							36,043

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**	0	0			0				0	0						
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0	0			0				0	0						
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	3,585,487		1,781,332	128,165		453,467	0		682	5,949,133						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	229		12,623	0		411,573	0		0	424,425						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	3,585,258		1,768,709	128,165		41,894	0		682	5,524,708						
R0100	**Risk margin**	186,807	36,583			18,007				27	241,424						
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole	0	0			0				0	0						
R0120	Best estimate	0		0	0		0	0		0	0						
R0130	Risk margin	-70,900	-35,000			-1,100				0	-107,000						
R0200	**Technical provisions - total**	3,701,394	1,911,081			470,374				709	6,083,557						

S.22.01.21

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	6,083,557	107,000	0	75,449	0
R0020	Basic own funds	831,727	-107,000	0	-75,449	0
R0050	Eligible own funds to meet Solvency Capital Requirement	831,727	-107,000	0	-75,449	0
R0090	Solvency Capital Requirement	472,672	0	0	36,849	0
R0100	Eligible own funds to meet Minimum Capital Requirement	831,727	-107,000	0	-75,449	0
R0110	Minimum Capital Requirement	135,877	0	0	3,359	0

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	831,727	831,727			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	831,727	831,727	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	831,727	831,727	0	0	0
R0510	Total available own funds to meet the MCR	831,727	831,727	0	0	
R0540	Total eligible own funds to meet the SCR	831,727	831,727	0	0	0
R0550	Total eligible own funds to meet the MCR	831,727	831,727	0	0	
R0580	**SCR**	472,672				
R0600	**MCR**	135,877				
R0620	**Ratio of Eligible own funds to SCR**	175.96%				
R0640	**Ratio of Eligible own funds to MCR**	612.12%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	831,727
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	831,727
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	101,549		
R0020	Counterparty default risk	19,109		
R0030	Life underwriting risk	410,009		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-78,461		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	452,206		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	20,466
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	472,672
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	472,672
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.01.01

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

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

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	0
R0060	Other motor insurance and proportional reinsurance	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	0	0
R0090	General liability insurance and proportional reinsurance	0	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	0
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

		C0040
	Linear formula component for life insurance and reinsurance obligations	
R0200	MCR_{L} Result	135,877

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	3,469,736	
R0220	Obligations with profit participation - future discretionary benefits	115,522	
R0230	Index-linked and unit-linked insurance obligations	1,896,875	
R0240	Other life (re)insurance and health (re)insurance obligations	0	
R0250	Total capital at risk for all life (re)insurance obligations		322,373

		C0070
	Overall MCR calculation	
R0300	Linear MCR	135,877
R0310	SCR	472,672
R0320	MCR cap	212,702
R0330	MCR floor	118,168
R0340	Combined MCR	135,877
R0350	Absolute floor of the MCR	3,332
R0400	**Minimum Capital Requirement**	135,877