Equitable Life Assurance Society

Solvency and Financial Condition Report

31 December 2019

Index

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 2019.

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:

    - 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

    - 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

Stephen Shone
Chief Executive Officer
Equitable Life Assurance Society

16 April 2020

Summary

The Equitable Life Assurance Society is a mutual company owned by its Members. The Society ceased writing new business in December 2000. At the balance sheet date, the Society managed some £6bn of assets on behalf of approximately 294,000 policyholders.

From 1 January 2020, following delivery of the strategy as explained below, the majority of policies transferred to Utmost Life and Pensions Ltd ("Utmost"). German and Irish business remains within the Society, which has become a subsidiary of Utmost. From this date Utmost is the sole Member of the Society.
The Society's business model seeks to continue to provide a safe home for the remaining policyholders through efficient capital and operational management.

Delivery of the strategy was the best way of securing the future for policyholders and to deliver on the promise to recreate policyholder value by distributing all of the assets among with-profits policyholders as fairly and as soon as possible.

Looking forward, the Society, a wholly-owned subsidiary of Utmost, will continue to secure the future for German and Irish policyholders.

In June 2018, the Society announced that it proposed to:

- Implement a Scheme of Arrangement to distribute the Society's available assets to eligible with-profits policyholders by removing investment guarantees, uplifting policy values and converting policies to unit-linked.

- Then, immediately afterwards, to execute a Part VII Transfer and to transfer the business to Utmost Life and Pensions Ltd (formally Reliance Life).

Throughout 2019, the Society progressed the execution of the strategy. Full details of the proposal were provided in the summer of 2019, at which point eligible with-profits policyholders were asked to vote. Policyholders overwhelmingly voted in favour and following approval from the High Court in December 2019, implementation took place on 1 January 2020, after the balance sheet date.

On 1 January 2020, all employees were transferred under TUPE legislation into Utmost Life and Pension Services Ltd.

Delivery of the strategy on 1 January 2020

Delivery of the strategy required the distribution of available assets in the with-profits fund through uplifted policy values.

This was effected by a Scheme of Arrangement in accordance with Part 26 of the Companies Act 2006 ("the Scheme").

The High Court considered the Scheme at two hearings:

- A Convening hearing to determine legal matters, including confirmation that with-profits policyholders were able to vote as a single class; and

- A Sanctions hearing that approved the Scheme.

The Scheme was sanctioned by the UK Court on 4 December 2019.

The Scheme was then made effective on 1 January 2020 and eligible with-profit policyholders received an uplift in excess of 75% of their policy value. The exact amounts have been communicated to policyholders in a Welcome Letter sent by Utmost in early 2020.

Following the uplift, with-profits policies, other than German policies, were converted to unit-linked policies with no investment guarantee. There are two types of German policies, UK-style and German-style. The UK-style German with-profits policies were not included within the Scheme because the conversion to unit-linked policies under the Scheme may not have been recognised under German law. UK-style German with-profits policies received an increase to their policy value equivalent to that under the Scheme, but remain with-profits policies, retaining their guarantees.

Immediately following the Scheme, all policies were transferred (other than those covered by German and Irish law) to Utmost by a Part VII Transfer under the Financial Services and Markets Act 2000 ("the Transfer") on 1 January 2020. The Transfer was approved by the High Court at the same time that the Scheme was sanctioned on 4 December 2019.

There were two votes: one for the Scheme (as mentioned earlier) and one to appoint Utmost as the sole Member of the Society on the basis that the proposal was approved.

Voting took place at a Policyholder Meeting and EGM on 1 November 2019, and the results were overwhelmingly in favour of the proposed changes.

The size of the uplift has been made possible by the transfer to Utmost. This, combined with the removal of almost all of the investment guarantees in with-profits policies, unlocked the capital to distribute to with-profits policyholders.

Utmost is part of the Utmost Group of Companies. Following the transfer, the Utmost Group of Companies has £36bn assets under administration and more than 600,000 customers.

Business and Performance in 2019

Delivery of the strategy is considered to be a non-adjusting post balance sheet event and therefore, this document reports the position before this happened.

The judgement that, notwithstanding the Scheme and Transfer to Utmost, the Financial Statements and SFCR should be prepared on the basis of run-off was key for 2019, as were the ensuing estimates and assumptions used in the valuation of technical provisions. The Directors judged that the Society's financial reporting is most relevant if prepared on a basis comparable with the prior year, using established valuation models. This provides relevant information on the run-off of the business over the year. Where relevant, information is provided on the implementation of the Scheme and Transfer in 2020.

Capital distribution

In 2019, the Board assessed the risks and decided that it was prudent and fair to maintain the capital distribution of 35%. Following implementation of the strategy on 1 January 2020, capital distribution is removed with capital having been distributed by means of the uplifted policy values.

Managing solvency

Under the Solvency II regime, it is necessary to assess the capital requirement of the Society. This assessment is based on Standard Formula. For most of 2019, the Board had a risk appetite such that the Society should hold capital at least 120% of that required. This was changed in September to 100% of that required following the implementation of the asset transition plan. The Society's solvency position remained above the risk appetite throughout the year.

A key policy, which is effective from 1 January 2020, is the new Capital Policy. The new Capital Policy includes reference to capital based on the Minimum Capital Requirement ("MCR"). Going forwards the Society will aim to have capital in excess of the greater of 150% of the SCR, and 125% of the MCR, immediately after the payment of any Member payments.

Investment Strategy – With-profits

To help maintain solvency in run-off, the Society's investment strategy has historically been determined by the policy of matching policyholder payments to cash flows from assets. This meant that, as interest rates rose or fell, the Society's ability to pay policy benefits was much less affected.
This strategy has necessarily led to a relatively conservative investment approach and the investment return during the year needs to be seen in context of this.

The return on investments in 2019 was 4.1%, up from 0.5% in 2018. Returns in 2019 were driven by falls in interest rates over the year which lead to an improvement in the value of the Society's corporate and government bond holdings. In considering an appropriate increase to policy values, the Society has been informed more by the underlying long-term sustainable rate of return secured when contributions were originally invested. For 2019, increases to policy values were maintained at 2% pa for UK with-profits pension policies (1.6% pa for life assurance policies where tax is deducted).

With the strategy in mind, during 2019, an asset transition plan was developed with expert support from the Society's investment managers, BlackRock. The aim of the plan was to transition almost all with-profits assets to 'cash' to help facilitate the implementation of the strategy. The only non-cash assets at the end of the year were those hypothecated to:

a. Guaranteed Minimum Pension liabilities – with-profits (c£64m);
b. German-style German with-profits (c£6m); and
c. Guaranteed Annuity Rates and other liabilities (<£5m).

Sufficient assets to back German and Irish business together with capital required under the Capital Policy remain with the future Society while other assets transferred to Utmost on 1 January 2020.

Investment strategy – Unit-linked

There have been no fund openings during 2019. With effect from 17 June 2019, the 'Fund of Investment Trusts' and the 'Property Fund' were both 'soft-closed' by the Society. From this date, no switches or new investments are now allowed into these funds, and, in the absence of policyholder instructions, future contributions have been automatically re-directed to the 'International Fund' and 'Managed Fund' respectively. Existing money invested in these funds can remain in the funds unaltered.

During the year, the Society worked in partnership with existing unit-linked investment managers, Aberdeen Standard Investments, to maintain investment performance in what continues to be a challenging financial climate. For the three-year period ending December 2019, the unit-linked fund performance was below internally set benchmarks and below the average of similar funds in the market.

With effect from 1 January 2020, the Society's existing unit-linked funds have been renamed and became Utmost funds (apart from the German and Irish funds). Aberdeen Standard Investments continue to manage some underlying investments in those funds with other fund investments being managed by J.P. Morgan Asset Management. J.P. Morgan Asset Management are the strategic investment partner for Utmost and will manage an increasing proportion of the Society's funds over time.

Costs

Under run-off, the Society has considered value for money to be where administrative expenses reduce in line with the run-off of policies as policyholders take their benefits. During 2019, administrative expenses remained level with the prior year, reflecting the need to retain operational capacity to help deliver the strategy. However, the overall percentage reduction in costs between 2009 and 2019 is 49%, which matched the reduction in policy numbers over this period.

The Society levies a charge of 1% pa on with-profits assets to cover the costs of running the business. If the Society had continued in run-off, as it reduces in size, it is likely that, at some point, the cost per policy would have risen as policy numbers fall and fixed costs remain.

The Society levied a charge of 1% pa on with-profits assets to cover the costs of running the business. If the Society had continued in run-off, as it reduced in size with fewer policy numbers, it is likely that the cost per policy would have risen due to the ongoing level of fixed costs.

Project costs increased in 2019 to £30m (2018: £22m), reflecting the significant activity associated with delivering the strategy. These costs were necessary in being able to distribute the assets of the with-profits fund to with-profits policyholders. Total costs in 2019 were £58m, up from £49m in 2018.

Key Performance Indicators

Key Performance Indicators ("KPIs") have previously been used by the Board to show the extent to which the strategies designed to recreate policyholder value have achieved the desired outcome. The implementation of the Scheme resulted in with-profits policies being uplifted by more than 75% before being converted to unit-linked. The most important indicators from recent years are shown in the table below.

% of policy value (1)	2015-2019	2014	2011-2013
Capital distribution	35	25	12.5
Policy value increase	2	2	2
Financial Adjustment (2)	0	0	5

Notes
1. Policy value: represents the smoothed investment return applied to premiums paid. The policy value does not reflect investment guarantees that may apply.
2. Financial Adjustment: a deduction to ensure surrender claims reflect the full cost of falls in asset values and there is no detriment to remaining with-profits policyholders

These KPIs illustrate how the strategy of capital distribution has clearly led to an increase in policyholder value since 2011.

Brexit

As a result of the outcome of the current negotiations between the United Kingdom and the European Union, a Part VII Transfer of the German and Irish business to a regulated subsidiary company within the European Union may be required in the future to enable the company to provide continuous service to German and Irish policyholders.

System of Governance

There have been no material changes to the Society's System of Governance in 2019.

The Board had two executive Directors throughout 2019. These were Simon Small, Chief Executive, and Martin Sinkinson, Chief Actuary. There were six non-executive Directors on the Board throughout 2019.

All standing Directors of the Society resigned on 31 December 2019.

Following the successful implementation of the strategy on 1 January, new Directors were appointed, including two executive Directors: These were Stephen Shone, Chief Executive, and Jeremy Deeks, Chief Financial Officer. There were also seven non-executive Directors appointed, three of whom were independent of the Utmost Group.

Risk Profile

The Society operates a comprehensive Risk Management Framework ("RMF"), 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 ensures that adequate capital is then held against these risks.

Risks in run-off

Prior to delivery of the strategy on 1 January 2020, the Society was in run-off, which had longer-term risks. Policyholders deferring taking their benefits in a low interest rate environment has been a particularly onerous combination. This was primarily driven by the investment guarantees within policies and resulted in the Society being required to hold back capital.

This risk was a combination of insurance and interest rate risks. 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. Interest rate risk is the risk that interest rate changes have a financial impact through any mismatching of assets and liabilities.

Delivery of the strategy was the main mitigation to this particular risk.

Risks following execution of the strategy

Having delivered the strategy on 1 January 2020, the German and Irish business remains in the Society. The main risks facing the Society at the present time are as follows:

(i) Market Risk
The Society received annual management charges on the unit-linked and with-profits business that are deducted from policies to meet the expenses of the Society. The level of these charges depends on the funds under management and is sensitive to changes in the market value of assets.

In regards to the impact of the Coronavirus outbreak, the fall in the value of equity markets will reduce the value of annual management charges. However, there has also been a slowdown in activity from customers with fewer surrenders than expected. We will continue to monitor the impacts as the Coronavirus outbreak develops.

(ii) Expense risk
The future expenses of the Society will be administration costs which are being managed through an agreement with Utmost and Utmost Life and Pensions Services Limited and investment management costs, which are on a basis point charge with the investment managers. The agreements with ULP and ULPS provide for a fixed cost per policy for administration in order to manage expense risk and are sensitive to future inflation rates.

Expenses will be met from charges made against policy values, which give rise to exposure to market risk, being the sensitivity to changes in the market value of unit-linked and with-profits assets.

(iii) Lapse risk
A reduction in lapse rates leads to a potential increased liability from the remaining GARs.

(iv) Credit risk
The risk of default by the largest reinsurer Scottish Widows remains the key credit risk faced by the Society. The credit rating of Scottish Widows is monitored closely.

(v) Operational risk
Operational resilience is the ability of a firm, and the financial services sector as a whole, to prevent, respond to, recover and learn from operational disruptions.

The Society's minimum standards for the assessment, measurement, monitoring, reporting and management of operational risk are set out in the Operational Risk policy. This, together with supporting policies, frameworks, processes and controls, all of which are subject to regular review, are designed to mitigate operational risk, ensuring that the Society has appropriate levels of operational resilience, in line with its risk appetite for operational risks. Operational risk will be managed through Utmost

The Coronavirus outbreak has had a direct impact on our business operations. We have mobilised our Business Continuity procedures to enable staff to work from home where possible. This has reduced the impact of the outbreak on operational activity and ensured that we are able to provide essential services to our customers. We continue to be focussed on the health and well-being of our customers and staff. We follow all Public Health advice measures and are working with our outsourcers to ensure continuity of service.

(vi) Regulatory risk
Regulatory change applicable to business remaining in the Society, announced or implemented in the future, will require management attention and appropriate resources. Changes as a result of Brexit may be one such example, and, at some point, it is possible that a subsequent Part VII Transfer of the German and Irish business will be required to a regulated subsidiary company in the European Union. There is a risk that the rules around Part VII Transfers will change, preventing this subsequent transfer or making it more difficult to execute.

Regulatory risks are monitored through active scanning of the regulatory change environment and proactive engagement with Regulators and industry bodies. In doing so, the Society should be able, as far as possible, to adopt a proportionate approach to regulatory requirements and to agree with the Regulators the most appropriate way in which to respond to their requests.

Further details of risk are covered in section C.

Capital requirements and solvency coverage
The Society's Solvency II valuation has been undertaken to value Own Funds. This reflects:

- The Society's Board's decision in September 2018 to approve the removal of the Volatility Adjustment, following the sale of the Society's corporate bond holdings; and

- The annual reduction in Transitional Measure on Technical Provisions ("TMTP"), which were £61m at 31 December 2019 (2018: £65m).

The valuation of Own Funds and capital requirements for the Society, are summarised in the table below:

£m	Position including TMTP	Position excluding TMTP	Position including TMTP	Position excluding TMTP
	2019	2019	2018	2018
Assets	6,324	6,324	6,155	6,155
Technical Provisions	5,678	5,738	5,497	5,562
Own Funds	647	586	658	592
Solvency Capital Requirement (SCR)	485	485	413	413
SCR coverage %	133%	121%	159%	143%
Minimum Capital Requirement (MCR)	127	127	124	124

The Society complied with all Solvency II capital requirements throughout the current and prior year.

COVID-19

The impact on the Company of the COVID-19 outbreak in 2020 is further detailed in sections A.5, C.7, D.5 and E.6 of this report.

A Business and Performance

A.1 Business

(a) The Equitable Life Assurance Society is a mutual society registered in England No. 37038. Registered office and administrative Office: Walton Street, Aylesbury, Buckinghamshire, HP21 7QW, England.

From 1 January 2020, the Equitable Life Assurance Society, containing just the German and Irish business, became a subsidiary of Utmost, who is the sole Member.

(b) The Society is authorised and regulated by the Prudential Regulation Authority ("PRA") and regulated for conduct by the Financial Conduct Authority ("FCA") as a 'flexible portfolio' firm. The Society complies with all relevant requirements of the PRA and FCA, as set out in their respective Rulebook and Handbook.

The Society's PRA contact is:

Senior Supervisor
Prudential Regulation Authority
Bank of England
20 Moorgate
London
EC2R 6DA

Tel: 020 3461 3059

The Society's FCA contact is

Supervisor
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

Tel: 020 7066 0545

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

(d) During the reporting period, the Society was a mutual organisation owned by Members, with only one tier of capital; namely policyholders' funds. No other sources of additional capital were available.

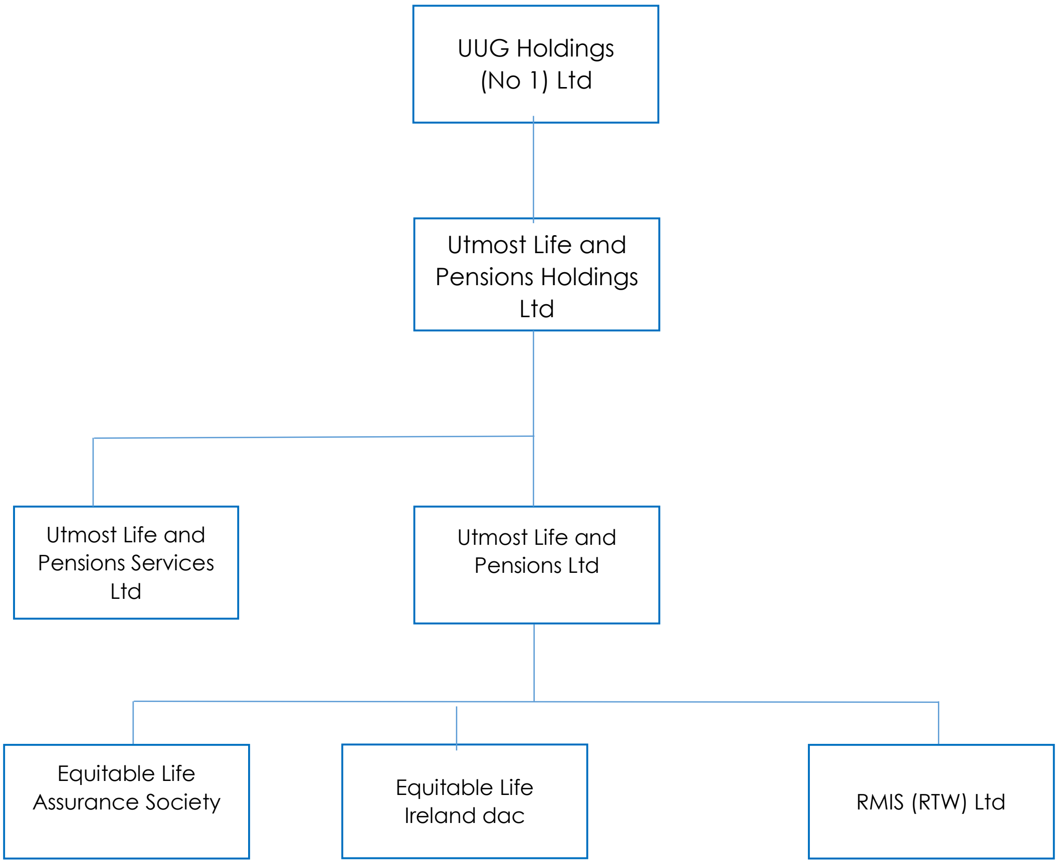
(e) The Society has two nil value subsidiary companies:

Lydiard Fields Management Company ("LFMC") holds the Society's residual freehold interest in common areas of an office and industrial development in Swindon. LFMC is held at nil value.

A new subsidiary, Equitable Life Ireland DAC, was created in preparation for Brexit, and is held at nil value.

On 1 January 2020, the Society becomes a subsidiary of Utmost Life and Pensions Ltd.

The new group structure is as follows:



(f) The principal activity of the Society during 2019 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.

At 31 December 2019, the Society managed some £6bn of assets on behalf of approximately 294,000 policyholders.

Operations of the Society from 1 January 2020 will focus on the administration of c2,170 Irish individual policies, c380 members of Irish company pension schemes and c660 German individual policies.

(g) Over the last several years, the Society successfully carried out a significant programme of de-risking, which has been a substantial driver of the distribution of capital.

In June 2018, the Society announced its new strategy to:

- Implement a Scheme of Arrangement to distribute the Society's available assets to eligible with-profits policyholders by removing investment guarantees, uplifting policy values and converting policies to unit-linked.
- Then, immediately afterwards, to execute a Part VII Transfer and transfer the Society to Utmost Life and Pensions Limited.

Throughout 2019, the Society has progressed the execution of the strategy. Full details of the proposal were provided in the summer of 2019, at which point eligible with-profits policyholders were asked to vote. Policyholders overwhelmingly voted in favour of the proposal, and, following approval from the High Court in December 2019, implementation took place on 1 January 2020, after the balance sheet reporting date.

The Society retains the German and Irish business and has become a subsidiary of Utmost, with Utmost becoming the sole Member of the Society. On 1 January 2020, all employees were transferred under TUPE legislation into Utmost Life and Pensions Services Ltd.

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, as per the Society's financial statements are shown in the following table.

	2019 £m	2018 £m
Opening Excess Assets	814	901
Investment performance net of changes in policy values	25	(32)
Variance in expenses experience and assumptions	(9)	(26)
Changes in valuation experience and assumptions	(7)	(1)
Capital distribution within claims payments	(14)	(25)
Other movements	(2)	(3)
Closing Excess Assets	**807**	**814**

The values of premium and claims, as per the Society's financial statements are shown in the following table.

	2019 £m	2018 £m
Earned premiums, net of reinsurance		
Gross premiums written	10	11
Other outward reinsurance premiums	(4)	(6)
	6	**5**
Claims incurred, net of reinsurance		
Claims paid – gross amount	131	200
Reinsurers' share	(21)	(22)
	110	**178**

A.3 Investment Performance

a) The table below shows Investment performance during the year ended 31 December 2019.

At 31 December 2019 £m	Realised gains /(losses)	Unrealised gains / (losses)	Investment income	Investment expenses	**Total return**
Fixed-income securities					
Government bonds	284.2	(136.5)	65.5		**213.2**
Index-linked	97.6	(59.7)	2.7		**40.6**
Other fixed-interest	(3.3)	2.9	0.8		**0.4**
	378.5	**(193.3)**	**69.0**		**254.2**
Other Investments					
Property & Equity	(13.6)	11.3	-		**(2.3)**
Derivatives	(125.5)	84.3	(53.7)		**(94.9)**
	(139.1)	**95.6**	**(53.7)**		**(97.2)**
Unit linked funds					
Property & Equity	5.3	22.3	2.0		**29.6**
Collective Investments Undertakings	16.9	162.0	42.9		**221.8**
Derivatives	0.3	1.0	-		**1.3**
	22.5	**185.3**	**44.9**		**252.7**
Interest	0.4	(0.7)	12.4		**12.1**
Other	-	(0.9)	(0.7)	(4.7)	**(6.3)**
TOTAL ASSETS	**262.3**	**86.0**	**71.9**	**(4.7)**	**415.5**

At 31 December 2018 £m	Realised gains /(losses)	Unrealised gains / (losses)	Investment income	Investment expenses	**Total return**
Fixed-income securities					
Government bonds	0.4	(37.7)	70.7		**33.4**
Index-linked	3.4	0.3	3.9		**7.6**
Other fixed-interest	(13.6)	(12.3)	25.6		**(0.3)**
	(9.8)	**(49.7)**	**100.2**		**40.7**
Other Investments					
Property & Equity	(3.2)	4.0	-		**0.8**
Derivatives	(11.5)	3.2	(15.8)		**(24.1)**
	(14.7)	**7.2**	**(15.8)**		**(23.3)**
Unit linked funds					
Property & Equity	7.2	(9.3)	2.2		**0.1**
Collective Investments Undertakings	21.7	(172.9)	41.0		**(110.2)**
Derivatives	(1.3)	0.2	-		**(1.1)**
	27.6	**(182.0)**	**43.2**		**(111.2)**
Interest	-	-	5.2		**5.2**
Other	-	0.4	(0.8)	(4.3)	**(4.7)**
TOTAL ASSETS	**3.1**	**(224.1)**	**132.0**	**(4.3)**	**(93.3)**

In preparation for the implementation of the Scheme and Transfer to Utmost, the majority of non-linked fixed income investments were sold, resulting in reduced investment income and the crystallisation of capital gains.

During 2019:

- Gilt yields fell, resulting in an increase in fixed-income asset values, which were then crystallised through asset transition activity; and
- Equity markets rose in value, resulting in a positive investment return on the Open Ended Investment Companies ("OEICs") that form the majority of assets backing linked liabilities

(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

Net operating expenses

	2019 £m	2018 £m
Administrative expenses	21	21
Costs of strategic initiatives	30	22
Redundancies	1	1
Total net operating expenses	**52**	**44**
Investment management expenses	5	4
Claims handling expenses	1	1
Total costs	**58**	**49**

Administrative expenses have remained stable during 2019. Administrative expenses include lease costs of less than £1m (2018: <£1m). Costs of strategic initiatives include those associated with the execution of the new strategy and preparatory costs for the UK's exit from the European Union (EU). Investment management costs increased in 2019 as a result of one-off-costs associated with the implementation of the new strategy.

Other technical income

Other technical income of £3m (2018: £5m) includes rebates received from unit-linked OEICs fund managers of £3m (2018: £3m).

A.5 Any other information

Post Balance Sheet Event - Scheme and Transfer to Utmost

As described in the Summary of this report, in June 2018, the Society announced its proposal to implement a Scheme of Arrangement to distribute the Society's available assets to eligible with-profits policyholders by removing investment guarantees, uplifting policy values and converting with-profits policies to unit-linked. Then, immediately afterwards, to execute a Part VII Transfer and to transfer the business to Utmost Life and Pensions Ltd (formerly Reliance Life).

Delivering the following:

- The Scheme, which made changes to the majority of with-profits policies. These changes removed investment guarantees, uplifted policy values and converted with-profits policies to unit-linked policies;
- The Change to the Articles which made Utmost the Society's only Member; and
- The Transfer, which transferred almost all of the Society's business to Utmost.

As a result of the Implementation:

- With-profits policies, valued at £2.2bn in the Financial Statements, have uplifted values of £4.1bn (of which German and Irish policies have an uplifted value of £41m);
- Assets worth £5.9bn were transferred to Utmost with effect from 1 January 2020, and liabilities of £5.8bn associated with the 310,000 UK and international, unit-linked (both heritage and newly converted) and non-profit policies that transferred; and
- Invested assets and net current assets worth £69m have been retained to back the 3,100 German and Irish, unit-linked, non-profit and with-profits polices that remain in the Society.

The following table compares the statutory Balance Sheet with the 1 January 2020 position, to show the assets and liabilities that remain in the Society.

	31 December 2019	1 January 2020
Assets	**£m**	**£m**
Invested assets[1]	4,204	21
Assets held to back linked liabilities[2]	1,761	48
Reinsurance recoverables		
Non-profit	370	9
Heritage unit-linked	7	-
Current assets	26	1
Total assets	**6,368**	**79**
Liabilities		
Technical provisions		
Non-profit	373	10
Heritage with-profits	3,193	17
Converted unit-linked[3]	-	31
Heritage unit-linked	1,763	17
Other long-term liabilities[4]	193	-
Excess assets	807	-
Total technical provisions	**6,329**	**75**
Current liabilities	39	1
Member funds	-	3
Total liabilities	**6,368**	**79**

Notes as at 1 January 2020

[1] Includes assets backing non-profit and German with-profits business
[2] Assets backing heritage and newly converted unit-linked business
[3] Irish with-profits policies in the Scheme converted to unit-linked
[4] Future expenses of the German and Irish business will be covered by charges deducted from policies

Post Balance Sheet Event – Coronavirus (COVID19)

The outbreak of COVID-19 is having a significant impact in the UK. We have sought to ensure the safety of our people and so, in line with Government advice, the majority of our people are now set up and are working from home. The COVID-19 outbreak has also caused a high degree of volatility in the financial markets.

The Society considers the COVID-19 outbreak to be a non-adjusting post balance sheet event. The Society continues to monitor the market movements and their impact on the Society and remains focused on supporting its customers and staff. Given the inherent uncertainties, it is not practicable to determine the impact of COVID-19 on the Society's future financial performance. However, as a closed book life company, we are not reliant on new business for generating the majority of our earnings. The Society's largest exposure to downgrades is through a reassurance agreement with a large UK regulated insurance counterparty. The COVID-19 outbreak has not caused any interruption to the operation of this reinsurance and we continue to monitor the financial strength of all our reinsurers. The Society entered 2020 with a strong Balance Sheet and as at the date of approving these accounts the Society is still above required capital levels. The risks facing the Society at this time have been assessed, The Society has continued to meet its solvency requirements since the reporting date and we are confident it will continue to be able to do so in the stressed scenarios that we have modelled.

B. System of Governance

B.1 General Information on the system of governance

(a), (b)

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 for good corporate governance and applies high standards to ensure that this is achieved.

The Board of Directors as at 31 December 2019:
The following Directors served throughout the year and resigned on 31 December 2019:

Chairman	Ian Brimecome (b)(c)
Chief Executive	Simon Small
Deputy Chair and Senior Independent Director	Keith Nicholson (a)(b)(c)
Chief Actuary	Martin Sinkinson
Independent Non-Executive Directors	Penny Avis (a)
	Lord Finkelstein (b)
	Ian Gibson (a)
	Cathryn Riley (a)(b)(c)

Key to membership of principal Board Committees
(a) Audit and Risk
(b) Remuneration
(c) Nominations

During 2019 six Board meetings, six With-Profits Committees meetings, five Audit and Risk Committee ("ARC") meetings, one Nominations Committee meeting and three Remuneration Committee meetings were held. In addition to the six regular With-Profits Committee meetings there were a further six meetings of the With-Profits sub-Committee.

New Directors were appointed on 1 January 2020, (unless otherwise stated below):

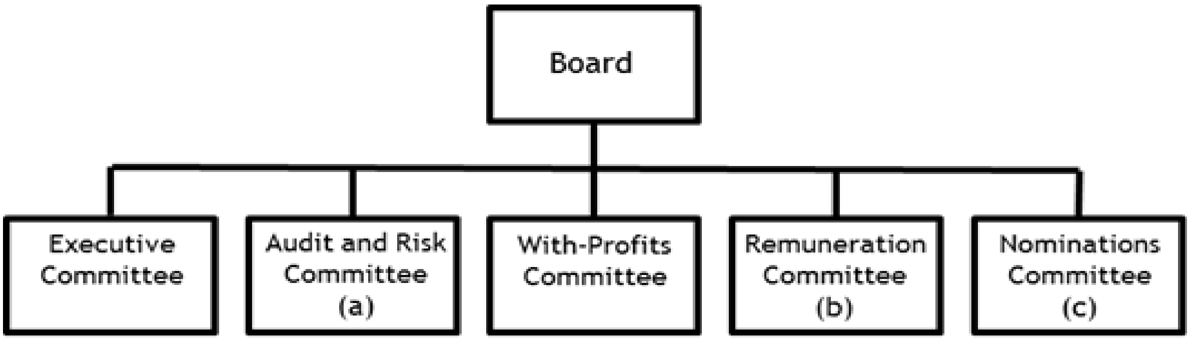
Chairman	Mike Merrick	
Chief Executive	Stephen Shone	
Chief Financial Officer	Jeremy Deeks	
Independent Non-Executive Directors	Seamus Creedon	Resigned 2 April 2020
	Duncan Finch	
	Lord Finkelstein	Appointed 29 January 2020
	Sue Kean	
	Nigel Sherry	Resigned 2 April 2020
Group Non-Executive Directors	Ian Maidens	
	Paul Thompson	

The Society's Board during 2019
The Society's Board met regularly during 2019, to lead, control and monitor the overall performance of the Society. The Board's principal functions were: 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 considered and decided on all major matters of Society corporate strategy and ensured that the strategy was consistent with its appetite for risk, using a formal schedule of matters reserved for the Board's decision. Members of senior management supplied the Board with appropriate and timely information and were available to attend meetings and answer questions. Authority was delegated to the CEO for implementing strategy and managing the Society.

The roles of the Chairman and CEO were separate and the Chairman had primary responsibility for the effective functioning of the Board.

Board Committees:

The Society's Board Committee structure during the reporting period was as follows:



Management of the Society

During 2019, the Executive team met weekly to manage business activities. Papers were prepared and presented to the Board and its Committees by the Executive team. The Executive team comprised: the Chief Executive; the Chief Actuary; the Risk Director; the Chief Financial Officer; the Customer Service Director; and the Company Secretary.

In 2019, the Chief Actuary, advised on the Society's ability to meet obligations to policyholders. He identified and assessed the risks that could have a material impact on meeting these objectives as well as the capital needed to support the business. He also advised the Board on the methodologies and assumptions to be used for the assessment of the valuation of the Society's liabilities, and reported on the results. The Society's With-Profits Actuary, advised 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. During 2019 these responsibilities were discharged through the Society's Asset and Liability Committee ("ALCo"), which was chaired by the Chief Actuary. The Committee took advice from the Chief Investment Officer, and regularly liaised with the investment advisers to oversee day-to-day investment matters.

The Chief Financial Officer was responsible for: the Society's Finance and IT Change functions, and for overseeing delivery of the Society's strategy by ensuring that appropriate infrastructure and resources were in place while complying with regulatory and legislative requirements.

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

Each year, the Society (and now Utmost) prepares a 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 Customer Service Director was responsible for ensuring that the Society met the day-to-day needs of the policyholders.

The Society's Risk Director was responsible for: providing the framework of risk policies; processes and approaches to be followed by staff; support and challenge to line management in regard to the management of risks; and reporting to the ARC and the Board on the key risks facing the Society and how those risks were controlled and managed. This responsibility passed to Utmost's Chief Risk Officer on 1 January 2020.

The Company Secretary was responsible for the proper functioning of the Board, Board Committees and Executive Committees; overseeing the Society's governance arrangements; and advising the Board on corporate governance matters.

Many of these roles will continue from 1 January 2020.

Board Committee responsibilities

During 2019, the Board formally delegated specific responsibilities to the four Board Committees.

Audit and Risk Committee ("ARC")

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

With regard to audit matters:

- The accounting systems provided accurate and up to date information on the financial position of the Society, and that the published Annual Report and Accounts represented 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 into account those internal controls and other activities carried out by third parties in relation to their provision of services to the Society.
- The Society met, in all material respects, the provisions relating to Principles C1, C2 and C3 of the UKCGC appended to the Listing Rules of the FCA and the Guidance on Audit Committees, except where the Board did not consider that the guidance was appropriate or relevant to the Society.
- The Society complied 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; and
- Key risks are identified and managed.

On behalf of the Board, the Audit Committee reviewed the effectiveness of the risk management and internal control systems for the year ended 31 December 2019, both in regard to the execution of the Society's strategy and the delivery of business-as-usual activities.

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 System of Governance requirements under Solvency II. There have been no material changes to the Society's System of Governance in 2019.

Nominations Committee

The objectives of the Committee were:

- To assist the Board in ensuring that the Board had 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 were 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 UKCGC published by the Financial Reporting Council ("FRC"), in relation to membership of the Board.

Remunerations Committee

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

- The overall terms and conditions of employment of all Directors (including Executive Directors) were satisfactory; and
- Remuneration policy and practice for the Society complied with the remuneration requirements of Articles 275 of the Solvency II regulations and with the European Insurance and Occupational Pension Authority's ("EIOPA") 'Guidances on system of governance' finalised on 14 September 2015, and wherever possible, met the standards set out in the UKCGC published by the FRC.

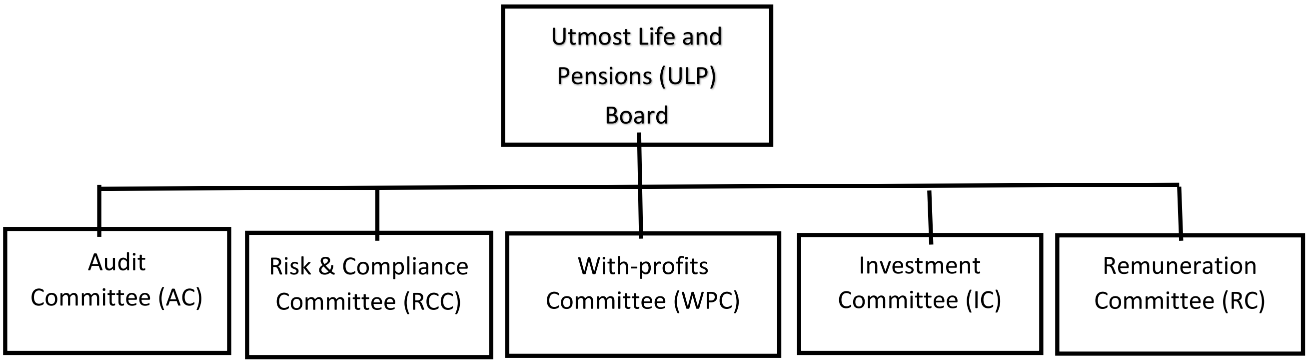
With Profits Committee
The Committee considered matters affecting with-profits policyholders such that the interests of all, or, where relevant, specific groups of, policyholders were appropriately considered. Its primary objective was to ensure the fair treatment of with-profits policyholders, having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

- Appropriate risk and capital management;
- Fair pay-outs when benefits are taken;
- Appropriate investment strategies for the Society's fund; and
- Clear and timely policyholder communications.

The Committee worked closely with and obtained the opinion and advice of the With-Profits Actuary as appropriate.

From 1 January 2020 and under Utmost, the Board Committee structure for the Society will follow that of Utmost, and the Board and Board Committees for Utmost will have their terms of reference extended to include responsibility for the Society, to ensure that the appropriate governance structures are in place.

The diagram below gives the structure for Utmost:



The Remuneration, With-Profits and Nomination Committees will continue to perform a majority of the activities as they did during 2019. A brief description of the other committees is given below.

Audit Committee
The Audit Committee is a sub-committee of the Board of Directors and has been delegated responsibility for monitoring the integrity of the Society's financial statements and the adequacy and effectiveness of internal controls and the risk management system. This includes responsibility for the review of disclosures to the supervisory authority, including the SFCR, in addition to its UK Generally Accepted Accounting Principles ("GAAP") statutory financial reporting and accounts disclosures.

Internal and External Audit shall have direct access to the Committee as appropriate.

Risk and Compliance Committee
The Risk and Compliance Committee is a sub-committee of the Board of Directors and has been delegated responsibility for assisting the Board in its oversight of the risk management and compliance culture and ensuring compliance of the undertaking with all legal and administrative requirements.

Investment Committee

The Investment Committee is a sub-committee of the Board of Directors and has been delegated responsibility for recommending the overall strategic investment policy for the Board's consideration, and oversight and control of investment activities.

B.1 (c)
Remuneration Policy and Practices
The Society's Remuneration Committee, is responsible for reviewing and making recommendations to the Board in respect of the Remuneration Policy and, within policy, overseeing all the elements of remuneration payable to the Executive Directors. The Committee also reviews and, if thought fit, approves

recommendations from the Chief Executive regarding remuneration of the Executive Committee ("ExCo") and Solvency II Identified Staff.

The Board is responsible, within policy, for reviewing and approving the approach to remuneration of all other staff.

Performance Bonuses

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

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

The Society's 2019 balanced scorecard was as follows:

Objective	Measure	Performance required
Policyholders	Payments to policyholders Vote regarding Scheme of Arrangement and EGM	Policyholders recognise value in strategy Vote in favour
Financial	Solvency ratios Expense levels	Ratios to be within agreed limits Not to exceed budget
Risk	Manage risk within agreed appetite and strong control environment maintained	Detailed operational risk indicators in place, monitored and action taken
Strategy	Key indicators delivered	Base uplift satisfies set criteria Scheme and Part VII executed to plan Operationally ready for transition on Day 1
People	Staff survey	Staff say that they are properly communicated with

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

The Society's scorecard and the scorecards of the Executive Directors are approved by the Remuneration Committee.

The maximum bonus payable, for exceeded performance, does not exceed 80% of any individual's total pay. Accordingly, a fully flexible policy can be operated including the payment of no bonus in a particular year, should that be an appropriate course of action.

Retention Bonuses

The Remuneration Policy approved by Members at the 2016 AGM allowed for the introduction of a retention bonus arrangement. In 2017, a retention bonus arrangement was put in place, as disclosed in the Annual Report and Accounts.

During 2019, a clear priority of the Society's Remuneration Committee was to ensure successful final completion of the Society's plans by retaining the executive Directors and paying them appropriately. To meet the Society's strategic needs, individual retention arrangements were in place for members of ExCo during the reporting period. The Chief Executive was paid a retention payment of £620,000; and the Chief

Actuary was paid a retention payment of £518,766. Both payments were made in December 2019, following confirmation from the Chairman that the Scheme and Transfer were each being effected in accordance with their terms on the Implementation Date. (Successful Implementation Notice). Other outstanding retention payments for ExCo members will be payable three months after the successful transfer to Utmost.

Other Benefits, including pension schemes
In 2019, all staff benefited from life assurance cover. The Society paid other 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. Under the contribution structure until 31 March 2019, the Society made a minimum contribution of 6% of basic salary, notwithstanding whether the individual makes a contribution into the plan. From 1 April 2019, the Society's minimum contribution increased to 7.5% and individuals are required to contribute a minimum of 1.5%. The Society further matched contributions by individuals up to a maximum of 10% of basic salary.

This pension scheme continues from 1 January 2020 after the transfer to Utmost.

Non-executive Directors received only fees and were 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 was provided in lieu

Following the transition of the ELAS business to Utmost on 1 January 2020, the Society no longer has any direct employees.

B.1(d)

There were no material related party transactions during 2019. (2018: £nil).

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 Senior Management Function Holders, Notified Non-Executive Directors and Certification Function Holders. An appropriate Fit and Proper Policy is therefore imperative for ensuring that the right people are in place, to enable the sound and prudent management of the business.

The Society seeks to recruit and appoint Senior Management Function Holders, Notified Non-Executive Directors and Certification Function Holders 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); and
- Past business conduct.

B.2 (b)

The Policy specifically requires that;

- The Board is satisfied that the fitness and propriety of any Senior Management Function Holder or Notified Non-Executive Director has been established before they are appointed into role.
- ExCo is satisfied that the fitness and propriety of any Certification Function Holder has been established before they are appointed into the role.

Compliance and HR procedures set out requirements for the recruitment and ongoing assessment of Senior Manager Function Holders and Certification Function Holders. These procedures cover the checks that must be undertaken, references to be obtained, arrangements for ongoing performance management, and the 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 six 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; and
- Past business conduct.

The FCA and PRA require that, where an individual is or was employed by a regulated firm, 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 Head of Compliance. Regulatory references are also required from organisations where the individual is, or was during the last six years, a non-executive Director.

A competency assessment will normally be performed by:

- The CEO for Senior Management Function Holders (except non-executive directors);
- The Chairman for non-executive Directors; or
- The hiring manager in other cases such as the Money Laundering Reporting Officer ("MLRO")

The competency assessment for Certification Function Holders 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.

For all other staff captured by the requirements, the annual fitness and propriety assessments are embedded within the Society's performance management process and staff complete an annual declaration and self-assessment form.

B.3 Risk management system

B.3 (a)

The Society's Risk Management Policy sets out the minimum standards for the Society's arrangements for ensuring that 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 the 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 the strategic objectives.

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

The Society follows the widely recognised 'three lines of defence' approach to governance. With this approach, 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, with independent assurance provided by Internal Audit as the third line of defence.

During 2019, the ARC had 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. From 2020, these responsibilities are delegated to the Audit Committee and Risk and Compliance Committee.

The Society has an effective and well-documented Enterprise-wide Risk Management Framework ("RMF"), including:

- A Risk and Control Self-Assessment process ("RCSA"), performed quarterly, 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 setting 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 the Solvency II requirements.

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, the Board or the Board Committees could propose a Top Risk, as could the Risk function. During 2019, the Risk Director and ExCo agreed that a particular risk be treated as a Top Risk, before putting it to ARC and the Board for review and approval. Top Risks were reported monthly to ExCo and the Board, and reviewed quarterly by ARC.

From 1 January 2020, there is a process in place for the Chief Risk Officer and ExCo to agree on the risks posed to the Society and to then discuss these at the Risk and Compliance Committee.

While individual risks are important, the Board also considers certain combinations of risks.

B.3 (b)

The Society calculates the SCR following Standard Formula and does not use an internal model.

The Risk Director was a member of ExCo which ensured that the Risk function was well informed about the strategy and business plans of the Society and the manner in which these are being implemented. From 1 January 2020, the Chief Risk Officer takes over the responsibilities of the Risk Director and is also a member of ExCo.

ExCo also had a key role in providing oversight over the adequacy of risk management arrangements in respect of all risk categories.

The Risk Management function itself was carried out by a team located within the Risk and Compliance Department.

The roles and responsibilities of the teams within Risk and Compliance were as follows:

- To develop and maintain the ERM Framework and risk management policies;

- To develop and distribute a set of risk management tools, techniques, methodologies, analysis and reporting to support the embedding of the ERM Framework;
- To ensure that risk management arrangements for the Society were, suitable, proportionate and effective, and that they are consistent with regulatory requirements and expectations;
- To support business units in implementing risk policies, tools and mitigants, including through provision of suitable communications and training to ensure that the ERM framework is embedded and effective;
- To challenge risk registers and other information received from business units ;
- To consider the relevant category, area and potential accumulation and interactions of risks, including the indirect effect of risks that can occur;
- To review regular attestations provided by strategic third-party providers and ensure that they are operating within the boundaries of the Society's Risk Management Policies and that any issues identified within the attestations are remediated in a timely manner;
- To provide expert advice and guidance to the Board, Board Committees and ExCo on risk management and regulatory compliance matters to inform strategy setting, decision making and the determination of appetite for risk;
- To lead the production of the Own Risk and Solvency Assessment ("ORSA") report;
- To facilitate risk assessment workshops on key areas of risk and provide templates, training and guidance to support Core Process Risk Assessments;
- To produce timely and relevant risk reporting, including reporting on risk events, mitigating and corrective actions proposed/taken, and on emerging risks;
- To review the basis for assessment of capital attributable to operational risk at least annually, for recommendation to ExCo and Board;
- To monitor the Society's approach to conduct risk, providing advice, guidance and challenge as appropriate; including review and challenge of the Conduct Report;
- To provide oversight of the design, development, testing and use of the ORSA and SCR capital models;
- To review and challenge Solvency II, ORSA and other financial reporting assumptions and methodologies;
- To create and update the scenarios to be included in the Society's sensitivity analysis and reverse stress testing, and to review the results;
- To consider as part of the annual review the continued appropriateness of the Standard Formula approach, having regard to the risk profile of the Society;
- To review ongoing compliance with the Solvency II Directive, delegated regulations and the System of Governance Guidelines; and
- To be responsible for day to day relationships with the PRA and FCA, including leading the Society's response to regulatory developments and initiatives, and reporting any matters of significance, including reportable breaches.

Methods through which the Risk function implement their risk strategy

The Society has a documented ERM Framework which describes the processes that are in place to deliver effective risk management and met 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 its business objectives.

The Society's risk appetite is set annually as part of the Board's 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 ExCo and ALCo. All risks must be managed in accordance with the risk appetite set by the Board and in line with Key Risk Indicators ("KRI").

As per the Risk Management Policy, during 2019, the Risk Director was 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 were then jointly responsible for the recommendation of risk appetite to ExCo and the Board.

The risk appetite of the Society was cascaded throughout the Society via policies and frameworks, which will continue from 1 January 2020. Risk appetite is critical because it acts as the ultimate constraint on the Society's activities and so it needs to be embedded into everything that the Society does.

Risk strategy and plans

The Society's Risk Management Strategy is to:

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

The Risk function's strategy and functional operating model are reviewed annually by ExCo in the context of the annual planning cycle.

Risk Identification and Assessment

The key tool for risk identification and assessment is the quarterly RCSA, which is the process used by management to identify their functions' risks and controls, and to 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 the Society / Utmost level impact). Emerging risks will also be highlighted.

The Risk function provides challenge to management to ensure that both function and project risks have been identified and that effective controls are in place. Risk reporting is then provided to the risk committees, to ExCo, ARC and the 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, including the analysis of a combination of events are used to inform management and the Board about the robustness of the Society's strategy to adverse foreseeable events. This process will continue.

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 KRIs by management and committees.

A range of tools and processes is 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 want 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

B.4 (a)

The Own Risk and Solvency Assessment ("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 ExCo and the 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 business as usual 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,
- Collating records of all processes involved in the ORSA;
- Producing the ORSA report, and appendices; and
- Quality assurance/audit/independent review of the ORSA process.

The above components led to an ORSA report that was 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 Risk function leads the preparation of the ORSA Report, coordinating inputs from across the business and ensuring a coherent end-product. The 2019 report, was presented to the December Board meeting for discussion and approval.

Throughout 2019, regular risk assessments were performed in regard to the detailed development and execution of the strategy. In addition, consideration was regularly given to rollback to run-off and associated risks and risk appetite, in the event that it had not been possible to successfully complete the execution of the strategy.

During 2019, the Society's SCR and ORSA models were used as the principal measures of solvency. The methodologies and assumptions in the ORSA solvency model reflect the Society's best view of the risks it faces. These methodologies and assumptions were approved every six months by the Board.

Throughout the year, 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 ExCo and ALCo also pay specific regard to the risks described in the ORSA report, to ensure that they are being appropriately managed.

Consideration of the ORSA process is a fundamental part of the Society's annual strategy process. This is to ensure that business planning is consistent with risk appetite, with due consideration given to the current and future risks, including how these will be addressed

Should the risk profile of the company materially change, an out-of-cycle ORSA report, would be prepared.

The ORSA report is used by ExCo and the Board as an input into the Society's strategic decision making for the forthcoming period, and the setting of appropriate risk appetite statements. The ORSA report is considered before the Society makes any major decisions.

The ORSA Report is one of the key sources of information used to produce this Solvency and Financial Condition Report and the Regular Supervisory Report, required under Solvency II.

During 2019, 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; and
- Monthly reporting of the ORSA and SCR solvency position.

B.4 (b)

The Board is 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 the PRA.

B.4 (c)

Unlike Standard Formula where many assumptions are specified by EIOPA, the assumptions and methodologies under the 2019 ORSA solvency basis best reflected the Society's view of its risks.

The Society is required by the Regulator to hold solvency capital. Capital Management is a fundamental element of the Society's risk management system because it aims to meet its objectives.

The Society's strategic objectives related to capital management was 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 made the following Key Risk Appetite Statement during 2019:

- Sufficient capital to meet economic and regulatory requirements.

KRIs were set for this statement in terms of the probability of ORSA or SCR coverage falling below certain levels.

From 1 January 2020, the capital risk appetite statement for the Society will be reflective of the Society's Capital Policy.

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 to ensure 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;
- Regularly reviewing material regulatory risks and conduct risks against risk appetite and considering the adequacy of controls and other mitigating actions in place;
- Maintaining a breach log and monitoring breaches and actions to resolve these, considering root causes and undertaking 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 Persons with training on regulatory matters;
- Managing the relations with the PRA and FCA, together with other Regulators, including co-ordinating responses to information and other requests;
- Ensuring those undertaking Senior Management Functions have been approved by the PRA and 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 Persons, during recruitment and on an annual basis;
- Monitoring, analysing and reporting on regulatory developments;
- Reviewing and advising on policyholder communications, providing sign-off in line with the client output sign off process
- Producing an annual Compliance Plan and an annual Risk Plan setting out priorities for the coming year; and
- Maintaining an up to date set of Compliance procedures.

B.6 Internal Audit function

The Society's Internal Audit function provides assurance over the operation of governance, risk management and the system of internal control. During 2019, the Internal Audit function comprised a Head of Internal Audit seconded from BDO LLP and drew on technical audit support from the same specialist third party. From 1 January 2020, the Society entered into an agreement with Utmost and Utmost Life and Pensions Services for the provision of administration services, including Internal Audit. The Internal Audit function will comprise in-house full-time employees.

The Internal Audit function is an independent, effective and objective function established by the Board to examine and evaluate the adequacy, functioning, effectiveness and efficiency of the internal control system and all other elements of the system of governance, with a view to improving the efficacy and efficiency of the internal control system, of the Society and of the governance processes. This is set out in the Internal Audit policy, Internal Audit charter and Audit Committee terms of reference.

Internal Audit supports the Board in identifying the strategies and guidelines on internal control and risk management, ensuring that they are appropriate and valid over time, and provides the Board with analysis, appraisals, recommendations and information concerning the activities reviewed. IAF also carries out assurance and advisory activities for the benefit of the Board, ExCo and other departments.

Internal Audit's authority is enshrined in the Internal Audit charter which is reviewed and approved annually by the Audit Committee and Board. Through this charter, Internal Audit has full, free, unrestricted and timely access to any and all the organisation's records, physical properties, and personnel pertinent to carrying out any engagement, with strict accountability for confidentiality and safeguarding records and information.

Internal Audit governs via the Society's Internal Audit methodology. This methodology is aligned with the Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing ("the Standards"). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of auditing and for evaluating the effectiveness of the audit activity's performance. Given the delicate and important nature of the assurance role carried out within the business, all Internal Audit staff must have specific fit and proper requirements as requested by the Society's fit & proper policies.

The activity of Internal Audit remains free from interference by any element in the Society, including matters of audit selection, scope, procedures, frequency, timing, or report content, in order to permit maintenance of a necessary independent and objective mental attitude. On an annual basis the incoming in-house Head of Internal Audit will confirm his/her independence and that of Internal Audit function to the Audit Committee. Independence and objectivity from the activities that Internal Audit reviews is achieved by ensuring that:

- There is a direct reporting line from Internal Audit to the Audit Committee;
- All Internal Audit activities are free of influence from anyone in the organisation, including matters of audit selection, scope, procedures, frequency, timing or report content;
- Members of Internal Audit are able to meet with the Audit Committee in private session if required;
- Internal Audit has the resources and necessary skills required to deliver the Audit Plan, both in general audit and technical areas, and support facilities;
- Internal Audit has the authority to audit all parts of the organisation; and
- The Internal Audit function has full and complete access to all information, records, facilities and personnel relevant to the performance of an audit.

On an annual basis, the Head of Internal Audit presents a proposed 12-month Internal Audit plan to the Audit Committee requesting approval. This plan is developed based on an audit universe using a risk-based methodology, taking into account all past audit activities, the complete system of governance output, the expected developments of activities and innovations and including input from ExCo and the Board. The Head of Internal Audit reviews the plan on an ongoing basis and adjusts it in response to changes in the Society's business, risks, operations, programs, systems, controls and findings. This review is informal and any change to the IA plan is first approved by the Chair of the Audit Committee.

Following the conclusion of each Internal Audit engagement, a written audit report is prepared and issued to the auditee and the auditee's hierarchy. The Head of Internal Audit, on a quarterly basis, provides the Audit Committee with a report on activities, status of open and overdue audit issues, any significant issues and audit reports issued during the period. However, in the event of any particularly serious situation, such as the emergence of a conflict of interest, the Head of Internal Audit will immediately inform the Audit Committee and the Board.

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 Committee The delivery of the Internal Audit plan and the activities to report and track audit findings are reported to, and reviewed by, ExCo and the Audit Committee.

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, 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 Institute of Actuaries' 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 100 and TAS 200, respectively. Internal checklists provide evidence of compliance with professional standards for all actuarial material referred to the Board and its committees.

As at 31 December 2019, the Actuarial function was structured as follows:

- Reporting team specialising in stochastic valuations, Solvency II SCR results and ORSA results;
- Actuarial Services team providing data analysis and experience analysis;
- Actuarial Improvements team providing a controlled and separate area for model, and other, developments;
- Actuarial Strategic Model Development team developing models to support the strategy;
- Actuarial Strategic Model Production team producing actual results for strategy implementation; and
- Actuarial Strategy team providing strategic project support.

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 (for example, data analysts and 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.

From 1 January 2020, the Society entered into an agreement with Utmost and Utmost Life and Pensions Services for the provision of administration services, including the Actuarial function.

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:

- End of Year System: extracts policy valuation data from the administration systems;
- Model Point Creation System: puts policy data into a format suitable for valuation models.
- 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.

IT resources are sufficient to enable calculations to be performed at the required level of homogeneous risk group 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, the 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 Technical Actuarial Standards and regulatory compliance of reports and calculations;

- Risk assessment of calculation processes;

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

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

- 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; and

- Regular Internal Audit reviews.

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 a 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 Technical Actuarial Standards and documenting any approximations or assumptions applied; and
- 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 a report 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 in order to identify, categorise and document key risks. The register supports the quarterly RCSA submission.

B.8 Outsourcing

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

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; and
- 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 team 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 not only manage counterparty risk but to also minimise exposure to operational service, regulatory, compliance and reputational risks.

B.9 Any other information

On behalf of the Board, throughout 2019 the Audit Committee has reviewed the effectiveness of the risk management and internal control systems through the information presented to the committee including reviews of policies and functional plans.
This 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. There has also been a review to confirm that the Society is compliant with the Systems of Governance requirements under Solvency II. There were no material changes to the Society's System of Governance in 2019.

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 2019 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.

C. Risk Profile

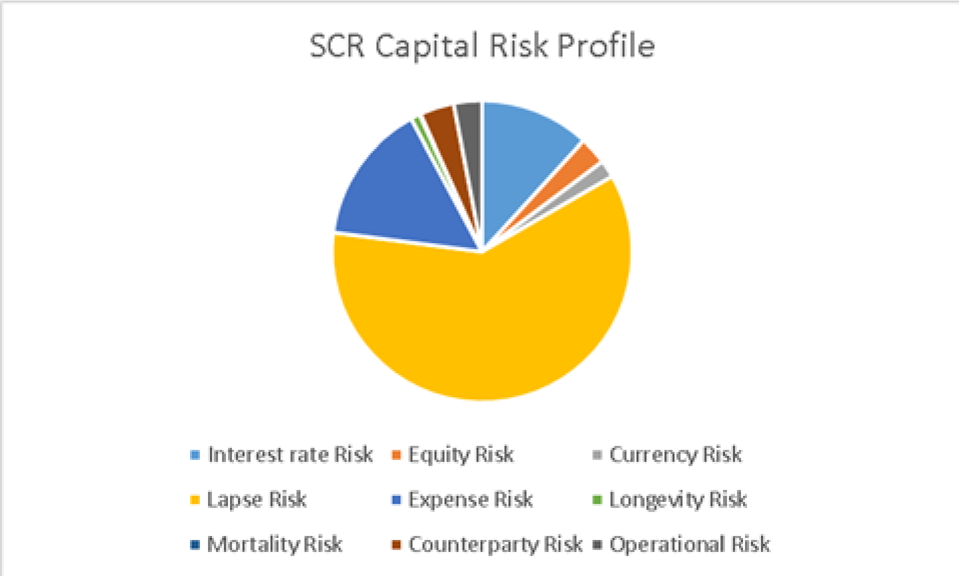
Risk Profile

The Society manages risk and risk exposures through a well-defined Enterprise Risk Management ("ERM") Framework detailed in Section B3. It 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 ensures that adequate capital is held against these risks.

This report has been prepared based on the risk profile as at 31 December 2019. It is worth noting however that a number of the Society's risk exposures at this point are mitigated by the with-profit conversion to unit linked and the subsequent Part VII transfer to Utmost Life and Pensions ("Utmost").

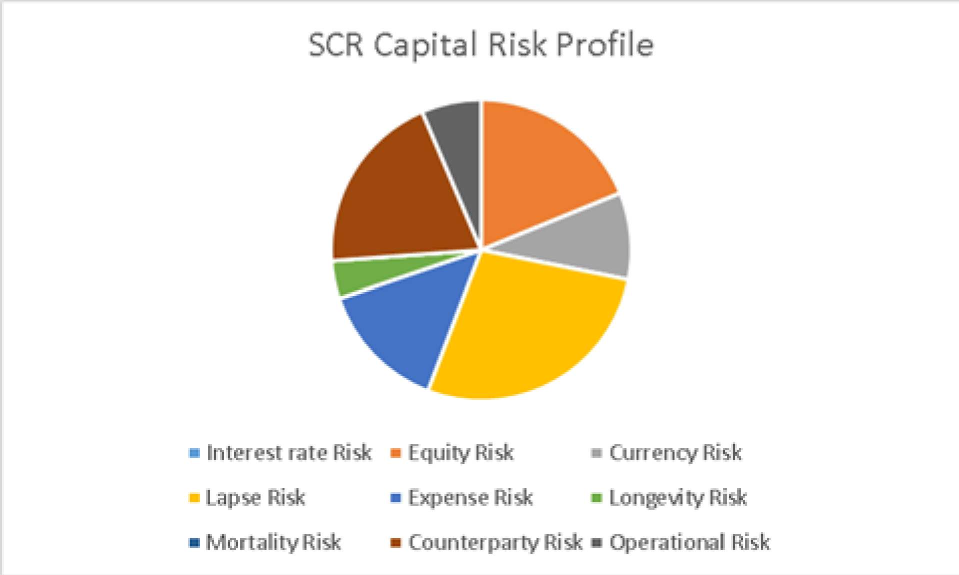
Risk Profile, at 31 December 2019:

The chart below shows the risk profile of the Society as at 31 December 2019, before the completion of the Scheme of Arrangement and the Part VII Transfer of the majority of the Society's business to Utmost Life and Pensions.



Note that following the completion of the transfer to Utmost, the Society became a subsidiary of Utmost, containing only those policies subject to German and Irish law. The risk profile will change materially from that point, as shown in the following chart.

Risk profile following transfer in January 2020.



Detailed Risk Profiles at the Balance Sheet Date:
Descriptions of the categories of risks to which the Society is exposed at the balance sheet date are detailed below, together with the measurement, management and mitigation followed.

C.1 Underwriting risk

Underwriting, or Insurance risk is the risk that the actual timing, frequency and severity of insured events differ from that assumed in policy valuations. The Society is closed to new business and does not take on new insurance risk.

The Society's most material underwriting risks in run-off were expense risk and persistency risk. Technical provisions are sensitive to the assumptions used in respect of these risks, which are set periodically by the Board.

As the Society is closed to new business, it does not take on new underwriting 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 the future timing of policyholder claims.

The key underwriting risks are measured using Key Risk Indicators ("KRIs"). KRIs are maintained by the Actuarial function. Exceptions are reported to the ExCo and the Board.

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

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.

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

Technical provisions include amounts representing the expected value of all future expenses of administration and investment management, net of charges made to policy values to pay for these costs. Expense risk is the risk that expenses are higher than those assumed.

The main sources of risk at the balance sheet date were:

- 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.

Over time 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 that it can take to directly control expenses in severe business scenarios.

Most of the Society's expenses were expected to be linked in some way to UK price inflation. To mitigate the risk of higher than expected rates of inflation, the Society held a portfolio of index-linked assets to match the inflation-linked nature of expenses. In preparation for the uplift of with-profits policies, these assets have been sold and the expense inflation risk sensitivity has increased.

Risks relating to future expenses were monitored by:

- Comparing actual expenses against plan; and,
- 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. The appropriateness of the benchmark in relation to the actual expense liabilities is reviewed on an annual basis by Asset and Liability Committee ("ALCo").

The main mitigation to this risk is the execution of the strategy, as the transfer to Utmost Life and Pensions on 1 January 2020 enabled expenses to be more effectively managed.

Going forwards, the future expenses of the Society will be administration costs, which will be managed through an agreement with Utmost and Utmost Life and Pensions Services Ltd, and investment management costs which are set as a basis point charge with the investment managers. The agreements with Utmost and Utmost Life and Pensions Services Ltd provide for a fixed cost per policy for administration in order to manage expense risk.

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 considers that the main mitigation to persistency risk is the execution of the strategy, as the Scheme of Arrangement removed the investment guarantees from with-profits policies and converted them to unit-linked policies. Only the small number of with-profits policies governed by German law were not included in the Scheme which reduces this risk. However, for the Society from 1 January 2020, this will be one of the most material risks.

Longevity Risk
Longevity risk is the risk that policyholders live longer than currently expected, giving rise to the payment of more benefits than currently reserved for.

The Society's existing exposures to longevity risk have been all but eliminated through reinsurance. The taking-on of additional longevity risk has been eliminated by no longer offering retiring pension policyholders an Equitable Life annuity, providing them instead with a Canada Life annuity illustration and emphasising their option to seek annuities on the open market.

Mortality Risk
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. The Society's existing exposures to mortality risk have been all but eliminated through reinsurance.

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

While individual risks are important, the Board also considers certain combinations of risks.

Prior to delivery of the strategy on 1 January 2020, the Society was in run-off, which had longer-term risks. Policyholders deferring taking their benefits in a low interest rate environment is a particularly onerous combination.

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.

For the purposes of the sensitivities below, the SCR has been adjusted to take account of management actions that could be taken to mitigate the impact of the SCR stress events. The sensitivities are for the business that was in force during 2019 and before the Scheme of Arrangement. These sensitivities will change post 1 January 2020 due to the changes to the business.

Expense
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:

	Net impact on solvency coverage ratio	
Sensitivity scenario	**Q2 2019 no VA %**	**Q2 2018 with VA %**
10% increase in assumed level of expenses	(18)	(4)
0.5% increase in assumed rate of UK expense inflation	(14)	(3)

Note: In September 2018, the Society's Board approved the removal of the Volatility Adjustment ("VA") following the sale of the majority of the Society's corporate bond holdings.

Timing of Insured Events

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

	Net impact on solvency coverage ratio	
Sensitivity scenario	**2019 %**	**2018 %**
With-profits retirement rates Decrease [1]	(19)	(3)
With-profits retirement rates Increase [2]	1	-

Notes:
[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 one 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.

While individual risks are important, the Board also considers certain combinations of risks.

C.2 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 exposure to property and equity risk is currently immaterial and arises solely through the impact of changes in property and equity values on unit-linked fund charges.

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.

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

The main responsibility for monitoring these risks lies with the Society's ALCo.

Market risk is considered by looking at its three elements:

i) Interest rate risk;
ii) Corporate bond spread risk; and
iii) Currency risk.

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

- The quarterly RCSA process;
- Bi–monthly reporting of insurance and financial risks to ALCo; and
- ALCo receives monthly reporting from the investment managers against the Investment Guidelines.

(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.

The Society measures its exposure to interest rate risk by the duration mismatch between assets and the liabilities. This is monitored 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.

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

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

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

There was a further risk for the Society in respect of the Guaranteed Investment Return ("GIR") on with-profits policies, which were 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.

The Society is exposed to the risk that increases in interest rates result in a fall in the capital available to distribute to policyholders.

The sensitivity of the capital position is monitored through regular solvency estimates reported to ExCo, the Board and the PRA, and a twice-yearly solvency sensitivity analysis is reported to ALCo. The available capital resources are sensitive to both market conditions and changes to a number of non–economic assumptions that affect the valuation of the liabilities of the fund.

At the 2018 balance sheet date, the Society's investment policy was to match assets and liabilities. The Society's investments were mostly gilts, with a number of derivative assets held to mitigate particular risks. The receiver swaption portfolio, held to mitigate the impact of policyholders with 3.5% GIR deferring retirement in low interest rate environments, reduced the impact of low interest rates on policy liabilities. The portfolio of payer swaptions and spread-locks mitigated the risk that increases in interest rates reduced asset values, and hence the capital available to distribute. The gilt-swap spread-locks were held to mitigate exposure to changes in swap rates.

At the 2019 balance sheet date, the Society holds mostly cash-like investments, with specific pools of fixed-interest assets to back specific policy liabilities. In preparation for the uplift to with-profits policies on 1 January 2020, all derivative positions have been closed out. Therefore, the capital position of the Society is temporarily sensitive to changes in interest rates. However, following the implementation of the Scheme and Transfer to Utmost, the policy of holding assets to match liabilities has been restored.

In preparation for the implementation of the new strategy, the Society developed a plan to transition almost all with-profits assets to short-term Treasury bills ("T-bills") and BlackRock Money Market Funds. Portfolios of fixed-income investments bonds were maintained to back specific liabilities not impacted by the new strategy, such as Guaranteed Minimum Pension and GAR liabilities, and German-style German with-profits policies.

Derivatives were used to protect the value of the uplift while maintaining the matching of with-profits liabilities. All derivative positions, apart from forward foreign exchange contracts, were closed out prior to the year end. Non-linked 'Other variable yield securities' in the 2018 Balance Sheet comprise interest rate swaptions, gilt Total Return Swaps ("TRSs") and US dollar to sterling forward exchange contracts, all valued on a mark-to-model basis.

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

UK with-profits assets mix	**2019 %**	**2018 %**
Gilts	50	76
Corporate bonds	-	2
Short-term gilts and cash	50	19
Other	-	3
	100	100

The change in asset mix in 2019 reflects the disposal of assets in preparation for the Scheme and Transfer in 2020.

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.

We consider that the main mitigation to interest rate risk is the execution of the strategy, as the Scheme of Arrangement removed the investment guarantees from with-profits policies on 1 January 2020 and converted them to unit-linked policies. Only the small number of with-profits policies governed by German law were not included in the Scheme.

(ii) Corporate bond spread risk
The exposure to corporate bond spread risk was almost entirely eliminated in 2018 through the sale of the Society's corporate bonds. The remaining holdings matured in 2019, and so at the year end there was no exposure to corporate bond risk.

Accordingly, the capital requirement for credit spread risk was removed by the year end, due to the sale of bond holdings.

(iii) Currency risk
The Society's principal liabilities were defined in pounds sterling, and its exposure to the risk of movements in foreign exchange rates is limited.

The Society's financial assets were 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 holding assets denominated in Euros in excess of the value of insurance and investment contract liabilities. The Society is exposed to the risk that movements in foreign exchange rates reduce the value of charges levied on unit-linked business.

Sensitivities and stress testing

Interest rate risk
The following table shows the sensitivity of solvency coverage to reasonably possible changes in interest rates, assuming run off.

Scenario	**Impact on solvency coverage ratio**	**Impact on solvency coverage ratio**
Interest rates, at all terms	**2019**	**2018**
	%	**%**
Fall by 0.5% pa	(35)	(13)
Rise by 1.25% pa	42	76

The Society monitored the interest rate volatility risk arising from the swaptions and spread-locks. As these were sold or expired before the year end, this risk was eliminated.

The following table shows this.

Scenario	**Impact on Excess Assets**	**Impact on Excess Assets**
	2019	2018
	£m	£m
10% increase in interest rate volatility	Nil	12
10% decrease in interest rate volatility	Nil	(12)

Corporate Bond Spread risk
Given that there was no corporate bond exposure as at 31 December 2019, there is no sensitivity for corporate bond spreads.

Currency Risk
The impact of a change of 10% in foreign exchange rates at the reporting date would have changed the Excess Assets by £5m (2018: £4m after allowing for the mitigating impact of the US dollar forward exchange contract.)

C.3 Credit risk

Credit risk is the risk that a counterparty will fail to pay amounts in full when due. The disposal of assets in the latter part of the year means that the most material credit risk faced by the Society is the risk of default by any of its reinsurers. On 31 December 2018, the Society was also exposed to the risk of default on its portfolio of fixed interest investments, especially corporate bonds and by derivative contract counterparties.

The sale of the derivative contracts, the expiry of the spread-lock, the sale of all remaining corporate bonds, and the conversion of gilts into cash, accounts for the change to the Society's exposure to credit risk in 2019.

The key measures of credit risk arising from counterparties are 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 to 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 manager 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 was reported monthly by the with-profits Investment Manager. It was also calculated by the Actuarial function and was monitored against limits provided in the Investment Guidelines. The sale of the remainder of the corporate bonds means that this measure is no longer relevant.

As part of the asset transition plan, all collateral was returned to counterparties in 2019. In 2018, the potential credit risk exposure from default of the gilt TRS counterparties, and by both payer and receiver swaption counterparties, was mitigated by the receiving of collateral. At the end of 2018, collateral of £123m was received in cash, and was invested in pooled deposit funds. The value of these assets at the end of 2018 was £123m.
There have been no material changes to the measures used to assess this risk over the reporting period.

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's, Standard & Poor's, and Fitch.

2019 **Credit ratings**	**AAA** **£m**	**AA** **£m**	**A** **£m**	**BBB** **£m**	**Other** **£m**	**Total** **£m**
Debt and other fixed-income securities	7	2,056	-	-	-	2,063
Deposits and other investments	2,132	-	9	-	-	2,141
Cash at bank and in hand	-	-	-	14	-	14
Other financial assets	-	-	-	-	12	12
Reinsurers' share of technical provisions and liabilities[1]	-	-	377	-	-	377
	2,139	2,056	386	14	12	4,607

2018 Credit ratings	AAA £m	AA £m	A £m	BBB £m	Other £m	Total £m
Debt and other fixed-income securities	109	3,199	14	34	-	3,356
Deposits and other investments	803	-	17	-	-	820
Cash at bank and in hand	-	-	-	6	-	6
Other financial assets	2	20		1	5	28
Reinsurers' share of technical provisions and liabilities	-	-	366(1)	-	-	366
	914	3,219	397	41	5	4,576

Note

(1) The amount of reinsurers' share of technical provisions in the table above is based on technical provisions in the 2019 financial statements.

The largest single credit risk exposure amounts to £377m for business reinsured with Scottish Widows (2018: £364m). In the event of the insolvency of the reinsurer, if not honoured by the Lloyds Banking Group ("LBG") parent company, the Society would be liable for any shortfall between the obligations under the policies and the amounts recovered. This remains the largest credit risk for the Society in the future. The Society does not hold any investments with LBG.

The large holding in BlackRock's Money Market Funds at the 2019 year end gives rise to indirect credit risk exposure to the underlying counterparties. However, European regulations on Money Market Funds limits both counterparty and liquidity risk. The fund holds a diversified portfolio of short-term financial instruments and the Society's largest exposure was £72m in Scotiabank Europe PLC (2018: fund invested in short-term UK gilts).

In January 2020 these Money Market funds were sold as part of the transition to unit linked. Some unit-linked funds invest in corporate bonds and the policyholders investing in these funds will be exposed to the risk of defaults.

Management and monitoring of risk:

Credit risk is monitored by the Society's ALCo.

At the reporting date, no material financial assets were past due nor impaired (2018: £nil). 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 Scottish Widows. Because reinsurance does not remove the primary liability of the Society to its policyholders, the credit rating of Scottish Widows is monitored closely in order to manage the risk.

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 during the year was carried out by BlackRock, Aberdeen Standard Investments Limited 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 was delivered through reports submitted by the Risk function to 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 were reported to the Society monthly.

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 were reported to the Board, ARC and ALCo.

ALCo also received a monthly investment report from the with-profits investment managers and a detailed Stock Lending Report from Northern Trust (the Stock Lending Agent). Unit linked Pricing Committee ("UPCo") received a monthly investment report from the unit-linked investment managers.

Monitoring processes are used by management to identify their functions' risks and controls, and to assess the impact and likelihood of each of these.

Sensitivities

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

C.4 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 main source of liquidity 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.

Analysis of the Society's activities and its associated sources of liquidity risk is carried out as appropriate by the Finance and Actuarial functions. ALCo reviews the investment policy in the light of any internal or external changes and considers the liquidity risk implications of any material changes. UPCo reviews and approves unit-linked fund mandates to ensure that appropriate levels of liquidity are maintained.

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 the prior year. It remains very low.

Monitoring and mitigation

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.

The Society has held 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.

Assets backing linked liabilities were 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, for 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 applied in order to maintain fairness.
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.

Sensitivity
The Society's investment strategy and reinsurance arrangements mean that it has a very low exposure to liquidity risk. The disposal of assets in the latter part of the year has reduced the exposure to liquidity risk. All of the invested assets (2018; 93%) backing insurance and investment liabilities were held in liquid assets such as gilts and cash, which can normally be quickly realised. Therefore, there is no exposure to liquidity risk at the balance sheet date.

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 2019 is £1.8bn. (2018: £1.6bn)

With-profits policies with a contractual payment date prior to 31 December 2019 have a contractual value no lower than total guaranteed benefits, and equalled £1.4bn at 31 December 2019 (2018: £1.3bn). The liquid assets previously referred to include £4.1bn to back with-profits policies (2018: £4.0bn). This is more than sufficient to meet the value of these guaranteed with-profits benefits.

C.5 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 during 2019 were:

- 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.

The Board is particularly aware that cyber-attacks on companies are a growing threat and 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 that the Society is as prepared as it can be.

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.

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 the Risk team, who will review performance against these appetites.

On behalf of the Board, throughout the year ARC reviewed the effectiveness of the risk management and internal control systems through the regular reporting that went to the committee.

Managing and monitoring

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 including those undertaken by approved persons;
- 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, remuneration and performance management;
- Training and Competence framework; and
- 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, internal controls, financial crime, complaint handling, conflicts of interest, data protection and whistleblowing

Systems

- An IT strategy which is approved annually by ExCo and the Board;
- An Information Security policy, framework and related guidance;
- Information Security Cyber action plan;
- End User Computing ("EUC") guidelines; and
- 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; and
- Periodic crisis management scenario tests.

Routine monitoring will be conducted by management and via the Risk team 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.

Stress testing

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.6 Other material risks

Regulatory risks

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

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.

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

Function holders 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 and Industry Developments Committee ("RIDCo") 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 (Board Committees, ExCo and RIDCo).

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.

Function heads are responsible for ensuring that all relevant regulatory risks are captured on the Society's risk register. These are reviewed and attested to quarterly in accordance with the RCSA Guide. The Risk function are responsible for reviewing areas of concern highlighted as a result of this process and for bringing any regulatory matters to the attention of Compliance.

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

Sensitivity

The Society does not perform sensitivity tests for regulatory risks. The potential impact of regulatory risks is 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.

Investment Risk

Prudent Person Principle

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 were monitored by the Asset & Liability Management Committee, during 2019, through monthly reporting received from our investment managers, BlackRock and, for unit linked funds, Aberdeen Standard Investments Limited (ASI). The Committee monitored the performance of the investment managers against the Investment Guidelines and objectives set for each portfolio. BlackRock and ASI were 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.7 Coronavirus (COVID-19)

The outbreak of COVID-19 has the potential to impact the Society both operationally and financially.

Operational impacts

Following government guidance, new measures and controls have been put into place for Utmost, making the safety and well-being of our staff a priority; by stopping all non-essential business travel, and providing IT support to enable staff to work from home. We follow all Public Health advice measures and are working with our outsourcers to ensure continuity of service.

Financial impacts

The Coronavirus outbreak has resulted in a fall in the value of equity markets, which will reduce the value of annual management charges. However, there has also been a slowdown in activity from customers with fewer surrenders than expected. We will continue to monitor the impacts as the Coronavirus outbreak develops

The Society is paying close attention to its solvency positions in this time of uncertainty. Risks to Solvency relate to falls in asset values reducing annual management charges as noted above, and exposure to downgrades and defaults. The Society's largest exposure to downgrades is through a reassurance agreement with a large UK regulated insurance counterparty. The COVID-19 outbreak has not caused any interruption to the operation of this reinsurance and we continue to monitor the financial strength of all our reinsurers. Going forward, our exposure to equity risk will increase as ex-with-profits policyholders move into Unit Linked Funds in the second half of 2020. However, at present the majority of ex-with-profits policyholders are still in the Secure Cash Fund which is highly liquid.

The Society complied with all Solvency II capital requirements throughout the current and prior year, and in the post balance sheet period.

Liquidity is a key consideration at this time. The majority of invested assets held are highly liquid. Therefore, liquidity is not currently an issue and the Society expects to be able to continue to pay claims and expenses as they fall due.

D. Valuation for Solvency Purposes

D.1 Assets

Assets valuation basis, methods and main assumptions

The table below sets out the Society's assets at 31 December 2019, other than reinsurance recoverables (section D.2). These have been recognised and valued in accordance with UK GAAP statutory accounts and Solvency II Regulations as applicable. Explanations of reclassifications are included in this section.

	Solvency II 31/12/19 £m	Reclass (Notes) £m	**R&A 31/12/19 £m**	R&A 31/12/18 £m
Fixed income securities				
Government bonds (incl index linked)	**2,063**		**2,063**	3,298
Corporate bonds				58
	2,063	**-**	**2,063**	**3,356**
Other Investments				
Derivatives				128
Collective Investments Undertakings	**2,132**	(2,132)[1]	**-**	6
	2,132	**(2,132)**	**-**	**134**
Assets held for index-linked and unit linked funds				
Collective Investments Undertakings	**1,608**		**1,608**	1,625
Derivatives	**1**		**1**	
Cash & equivalents	**1**		**1**	3
Other assets including current liabilities	**146**	5[(2)]	**151**	2
	1,756	-	**1,761**	**1,630**
Cash & equivalents	**24**	2,132	**2,156**	826
Total invested assets	**5,975**	**-**	**5,980**	**5,946**
Other current assets	**12**		**12**	28
	12	**-**	**12**	**28**
TOTAL ASSETS	**5,987**	**5**	**5,992**	**5,974**

Notes:

(1) Most non-unit linked Collective Investments Undertakings ("CIUs") are cash funds and are classified as 'cash & equivalents' in the Report and Accounts (£2,132m)

(2) Liability positions held for unit-linked funds are classified as current liabilities in statutory accounts and as invested assets for Solvency II reporting

The table above is as per the 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 2019 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
The Society's investments comprise government bonds, regulated CIUs, derivatives, private equity holdings, deposits other than cash equivalents and other assets.

Investments are classified into three tiers of fair value hierarchy based on the characteristics of inputs available in the marketplace. The following valuation hierarchy is used:

- Level 1: Quoted market prices from active markets for identical assets;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset either directly or indirectly; and
- Level 3: Inputs for the asset that are not based on observable market data, that is, unobservable inputs.

Except as noted below, all assets are classified as Level 2 under the fair value hierarchy because they have quoted, observable and publicly available market values.

- Level 1: UK government bonds and CIU investments backing linked liabilities, as trades occur regularly and daily pricing is available.
- Level 3: Derivative contracts and private equity holdings are classified as Level 3 as there are no observable prices for them.
- The Society has one subsidiary, Equitable Life Ireland DAC, created in preparation for Brexit, and held at nil value.
- Other assets comprise a portfolio of loans held against policies, tax recoverables and amounts due from policyholder, reinsurers and other receivables valued at recoverable amount.

The Society has no material intangible assets, leases or deferred tax.

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.

Deferred taxation
In 2019, there were unrealised gains on which a provision for future tax of £2.2m (2018: £3.3m) has been recognised in the Balance Sheet. Increasing the Balance Sheet provision from £0.3 to £2.5m.

D.2 Technical provisions

The valuation of technical provisions has been prepared on a run-off valuation basis, and so does not reflect the impact of the Scheme and Transfer to Utmost.

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.12.01.02** (see Appendix 1)

December 2019:

£m	With-profits participation	Unit-linked insurance	Other life insurance	Accepted reinsurance	Total
Technical provisions calculated as a whole	-	1,763	-	-	1,763
Best estimate liabilities (gross)	3,339	35	406	1	3,781
Risk Margin	151	28	15	-	194
Transitional measures on technical provisions (TMTP)	(38)	(21)	(1)	-	(60)
Technical provisions	3,452	1,805	420	1	5,678
Reinsured liabilities	(-)	(8)	(364)	-	(372)
Technical provisions net of reinsured liabilities	3,452	1,797	56	1	5,306

Methodology for with-profits business

Technical provisions for Recurrent Single Premium ("RSP") 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").

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 1,000 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. No allowance for surrenders is made. 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 2019, all unit liabilities were non-reassured except for c£8m reassured with Scottish Widows.

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

As at 31 December 2019, the weighted average of the Society's Annual Management Charge ("AMC") across all funds was 0.72% pa.

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, allowing for terminations using a multiple decrement approach.

Based on the ratio of the average Aberdeen Standard Investments Limited fund management charge to the average 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 best estimate liabilities are calculated on a projected cash flow basis, allowing for any escalation in payment or deferment, 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 Limited Price Indexation ("LPI") annuities i.e. index-linked annuities with a specified maximum increase rate, the average liability across 1,000 stochastic simulations is used, with inflation capped at 5% pa in each simulation for each year of the projection.

Methodology for expense reserves

Expense reserves are derived by considering the run-off total expenses rather than building up a picture of the future cost of administering each policy.

The expense model takes the budget for regular expenses in the next year and a forecast of annual expenses in the years in which: the total number of benefits in force has reduced by half; by three quarters; and the year in which the total number of policies in force has reduced to c1,000. Customer service costs are modelled separately from other administration and support costs.

The budget for customer service costs in the next year is split by product based on the results of an activity cost analysis. Future customer service costs for each product are assumed to run off at a proportion of the reduction in the number of benefits each year. The same proportion is used across all products and in all future years. The proportion is set such that modelled total customer service costs are in line with the forecast of customer service costs in the three years described above.

A similar method is used to model other administration and support costs. They are modelled in aggregate based on the run-off of the total number of benefits.

For reporting purposes, customer service costs 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 yield curves at the valuation date.

Allowance is made for the charges made to Scottish Widows for administering the reinsured 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 reinsured at each future date. These costs are increased from the date of the 2009 agreement in line with an agreed sub-index of national average earnings, as published by the 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 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.

An additional provision is held for future project costs not allowed for in department budgets, for example, for future regulatory change. Expected inflation is applied to future costs as described above.

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

Assumptions

In the calculations for with-profits 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; and

- 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, as has been the case since 1999.

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
Pension and purchased life annuities	92.5% PNML08 cmi2017 (U=2019)* for males	92.5% PNML08 cmi2017 (U=2018)* for males
	90% PNFL08 cmi2017 (U=2019)* for females	90% PNFL08 cmi2017 (U=2018)* for females
Permanent assurances	75% AMC00 males	75% AMC00 males
	75% AFC00 for females	75% AFC00 for females
Temporary assurances	52.5% TMC00 for males	52.5% TMC00 for males
	65% TFC00 for females	65% TFC00 for females
Pensions in deferment	55% AMC00 for males	55% AMC00 for males
	62.5% AFC00 for females	62.5% AFC00 for females

* The allowance for mortality improvements is based on the CMI 2017 improvements model with a long-term rate of improvement of 1.5% p.a. for males and 1.25% pa for females.

Policy Administration expenses are assumed to run-off at a fixed percentage of the projection of the total number of benefits within a specified product grouping. This was set at 71% as at 31 December 2019 (December 2018: 71%).

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 58% as at 31 December 2019 (December 2018: 56%).

Future premiums for with-profits business (contract boundaries)

The Society is closed to new business and premiums into with-profits 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 with-profits 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. The Society's 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-profits 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 the Society's 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 Dynamic Financial Analysis ("DFA") to calibrate the results to the EIOPA risk-free curve. 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 uncertainties in technical provisions are in respect of:
Policyholder behaviour:

- Decreasing retirement rates on average by one year would decrease Excess Assets by c£41m (2018: c£31m).

Future expenses:

- Increasing assumed level of future expenses by 5% would decrease Excess Assets by c£17m (2018: c£19m); and
- Increasing future inflation of expenses by 1% would decrease Excess Assets by c£34m (2018: c£9m).

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 2019 £m**	**Amount 2018 £m**
Excess of Assets over liabilities in financial statements	807	814
Difference in valuation assumptions for with-profits business [1]	(16)	(17)
Difference in valuation assumptions for non-profit business (net of reinsurance) [1]	-	-
Other valuation differences on expense reserve [1]	(5)	(7)
Adjustment for expected counterparty default rates [2]	(6)	(6)
Risk Margin [3]	(194)	(191)
Transitional Measures to Technical Provisions (TMTP) [3]	61	65
Own Funds	647	658

Notes

(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 CRA. 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).

D.2(d) Matching Adjustment

The Society does not apply a Matching Adjustment in the calculation of technical provisions.

D.2(e) Volatility Adjustment

In September 2018, the Society's Board approved the removal of the Volatility Adjustment following the sale of the majority of the Society's corporate bond holdings.

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)

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 had approval for the use of a transitional deduction to Solvency II technical provisions based on the solvency position as at 31 December 2015. The PRA gave permission for the recalculation of the transitional deduction, which were £61m as at 31 December 2019 (2018: £65m). TMTPs were set to zero from 1 January 2020 as they mostly relate to business transferred to Utmost.

The amount of transitional deduction applied as at 31 December 2019 was £61m. If transitional deductions were not applied, total technical provisions would be £61m higher than stated in section D.2 (a) and correspondingly Own Funds would be £61m lower. The SCR and MCR are unaffected by the application of transitional deductions to technical provisions as at 31 December 2019.

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, Scottish Widows. 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.1(2b) of this report.

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

Retirements

An investigation of the actual retirement ages for the Society's with–profits policyholders, analysed by type of contract, has been carried out based on experience between 2014 and 2017 and used to set underlying retirement assumptions. A separate review of retirement experience in 2018 and 2019 showed a deferral by policyholders, following communication about the Society's new strategy. Were the Society to continue in run-off, the deferral would have been expected to persist through 2019 and then reverse in 2020, such that, the combined effect of the three years together is consistent with the longer-term assumptions adopted. The underlying retirement assumptions and assumed temporary deferral have been converted to best estimate retirement rates using judgement about future retirement patterns.

A corresponding investigation of unit-linked policyholders has been carried out and used to set retirement rates. During 2019 some deferral of retirement was observed, and were the Society to continue in run-off this would be expected to reverse in 2020, and has been allowed for in the unit-linked retirement assumptions.

Surrenders

An investigation of the actual surrender rates for the Society's with-profits and unit-linked business, analysed by type of contract, has been carried out based on experience between 2014 and 2017. The results of that investigation have been used to set assumed underlying surrender rates for the valuation. Surrender experience in 2018 and 2019 showed a similar pattern to that seen for retirements, showing a decrease that would be expected to reverse in 2020 if the Society continued in run-off, such that, the combination of the three years together is consistent with the underlying surrender assumptions.

Effect of changes in retirement and surrender assumptions

In 2019, retirement and surrender assumptions for unit-linked business were aligned to those for with-profits business, with a catch-up in 2020 for the assumed temporary deferrals seen in 2018 and 2019. The effect of the change in unit-linked assumptions was to decrease Excess Assets by £4m. The approach for with-profits business has not changed in 2019. The effect of making a corresponding change for with-profits business in the 2018 assumptions was a decrease in Excess Assets of £6m.

As at 31 December 2019 assumed future expenses were updated to reflect business forecasts, resulting in a decrease in the value of liabilities of c£19m (2018: decrease in the value of liabilities of c£8m).

D.3 Other liabilities

	At 31 December 2019 £m	At 31 December 2018 £m
Other provisions (deferred tax)	2.5	0.3
Debts owed to credit institutions	0.7	1.4
Insurance & intermediaries payables	23.1	21.3
Derivatives	-	48.3
Payables (trade, not insurance)	8.0	142.5
TOTAL OTHER LIABILITIES	**34.3**	**213.8**

In 2019, there were unrealised gains on which a provision for future tax of £2.2m has been recognised in the Balance Sheet, increasing the Balance Sheet provision from £0.3m to £2.5m.

The deferred tax provision relates to UK corporation tax, and so transferred to Utmost on 1 January 2020. Tax law means that the provision will reverse over a six year period, and the reversal in 2020 will be a charge of £0.5m. This will be just one element of the Utmost corporation tax charge for 2020.

Other liabilities are valued at the amount payable and recognised when the obligation to pay arises.

Derivatives with negative values at the balance sheet date in 2018 were sold in 2019.

Payables in 2018 included £123m obligation to repay amounts received as collateral held against derivative contracts.

The Society has no material liabilities arising as a result of leasing arrangements. 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.

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

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.

Please see section D.1 for details of alternative valuation methods. There are no liabilities valued using alternative valuation methods.

D.5 Any other information

The Society has approval from the PRA to include TMTP of £61m (2018: £65m). These are a transitional reduction in technical provisions, helping to mitigate the impact of the Risk Margin on available capital. TMTPs were set to zero from 1 January 2020.

The coronavirus outbreak has resulted in a fall in asset values in 2020. The valuation of assets and liabilities as at 31 December 2019 remains valid.

E. Capital Management

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.

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 ("TMTPs"). The amount of eligible Own Funds (Tier 1) to cover the Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR") as at 31 December 2019 was £647m (31 December 2018: £658m) as per **S.23.01.** Details of Own Funds can be found in **S.23.01.01**. (see Appendix1).

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The Society calculates the SCR following Standard Formula and does not use an internal model.

Details of the SCR can be found in **S.25.01** and details of the MCR in **S.28.01**. (see 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**. (see 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. An 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 by £72m over the reporting period, as shown in the table below.

Change in SCR	£m
Change in individual risks	
Interest rate risk	64
Lapse risk	49
Credit spread Risk	17
Counterparty default risk	8
Expense Risk	(8)
Other Risks	(2)
	128
Change in Diversification Benefits	(56)
Change in SCR in the year	72

The main reasons for the increase in SCR of £72m are:

- A £64m increase in the capital requirement for interest rate risk, due to the sale of assets in preparation for the implementation of the Scheme of Arrangement and transfer to Utmost Life and Pensions;
- A £49m increase in the capital requirement for lapse risk. This was largely due to a fall in swap yields;
- Increases of £17m and £8m in credit spread risk and counterparty default risk. These increases are mainly due to investing the proceeds from the sale of with-profit assets in a liquidity fund.
- As a result of these increases and other changes in individual risks there was an increase of £56m in diversified benefits.

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

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

There was no non-compliance with either the MCR or SCR over the reporting period.

E.6 Any other information

Additional voluntary information

The Society's new Capital Policy became effective from 1 January 2020 and aims to maintain capital in excess of the greater of 150% of the SCR and 125% of the MCR. In reality, the capital is determined by reference to the MCR, as this exceeds the SCR for the Society. The Solvency II Own Funds of ELAS on 1 January 2020 were £4.2m, resulting in an MCR coverage of 132%, in excess of the required 125% of MCR agreed with the PRA in 2019. The Society entered 2020 with a strong Balance Sheet and the Society has continued to meet its regulatory solvency requirements throughout the post balance sheet period. As at the date of approving the SFCR the Society is still above required capital levels and we remain in a strong and resilient position.

Glossary

Abbreviation or Technical Term	Long Form / Explanation
ALCo	Asset and Liability Committee
AMC	Annual Management Charge
ARC	Audit and Risk Committee
ASI	Aberdeen Standard Investments Limited
CEF	Claims Enhancement Factor
CIU	Collective Investment Undertaking
CRA	Credit Risk Adjustment
DDM	Dynamic Distribution Model
DFA	Dynamic Financial Analysis
ECAI	External Credit Assessment Institutions
ECD	Earliest Contractual Date
EIOPA	European Insurance and Occupational Pension Authority
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
GAAP	Generally Accepted Accounting Principles
GAR	Guaranteed Annuity Rate
GIR	Guaranteed Investment Return
KPI	Key Performance Indicator
KRD	Key Rate Duration
KRI	Key Risk Indicator
LBG	Lloyds Banking Group

LPI	Limited Price Indexation
MCR	Minimum Capital Requirement
MLRO	Money Laundering Reporting Officer
OEIC	Open Ended Investment Company
ORSA	Own Risk and Solvency Assessment
Pa	per annum
PRA	Prudential Regulatory Authority
RCSA	Risk and Control Self-Assessment
RIDCo	Regulatory and Industry Developments Committee
RMF	Risk Management Framework
RSP	Recurrent Single Premium
RSR	Regular Supervisory Report
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
T-bills	Treasury bills
TMTP	Transitional Measure on Technical Provisions
TRS	Total Return Swap
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
UPCo	Unit-linked Pricing Committee

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 2019
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	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.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)	4,195,208
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	2,062,895
R0140	*Government Bonds*	2,062,895
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	2,132,286
R0190	*Derivatives*	27
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	1,756,015
R0230	Loans and mortgages	152
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	152
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	372,155
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*	364,593
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	364,593
R0340	*Life index-linked and unit-linked*	7,563
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	169
R0370	Reinsurance receivables	2,160
R0380	Receivables (trade, not insurance)	5,069
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	23,580
R0420	Any other assets, not elsewhere shown	4,156
R0500	**Total assets**	6,358,665

		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)	3,872,572
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)*	3,872,572
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	3,745,353
R0680	*Risk margin*	127,219
R0690	Technical provisions - index-linked and unit-linked	1,805,195
R0700	*TP calculated as a whole*	1,763,382
R0710	*Best Estimate*	35,556
R0720	*Risk margin*	6,257
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	2,517
R0790	Derivatives	1
R0800	Debts owed to credit institutions	745
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	23,071
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	8,029
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**	5,712,130
R1000	**Excess of assets over liabilities**	646,535

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		5,947	5,930	3,360				194	15,432
R1420	Reinsurers' share		488	122	3,595					4,205
R1500	Net		5,459	5,809	-234				194	11,227
	Premiums earned									
R1510	Gross		5,947	5,930	3,360				194	15,432
R1520	Reinsurers' share		488	122	3,595					4,205
R1600	Net		5,459	5,809	-234				194	11,227
	Claims incurred									
R1610	Gross		93,350	120,290	20,840				175	234,656
R1620	Reinsurers' share		679	1,257	19,990					21,927
R1700	Net		92,671	119,033	850				175	212,728
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net		0	0	0				0	0
R1900	**Expenses incurred**		16,515	7,146	2,216				0	25,877
R2500	**Other expenses**									31,240
R2600	**Total expenses**									57,117

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**		1,763,382							0	1,763,382						
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		7,367							0	7,367						
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	3,339,212		35,057	500		405,416	193		532	3,780,909						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	183		196	0		364,217	193		0	364,788						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	3,339,029		34,861	500		41,199	0		532	3,416,121						
R0100	**Risk margin**	151,099	27,626			15,344				20	194,089						
	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	-38,594	-21,369			-650				0	-60,613						
R0200	**Technical provisions - total**	3,451,717	1,805,195			420,302				553	5,677,767						

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	5,677,767	60,613	0	0	0
R0020	Basic own funds	646,535	-60,613	0	0	0
R0050	Eligible own funds to meet Solvency Capital Requirement	646,535	-60,613	0	0	0
R0090	Solvency Capital Requirement	485,121	7	0	0	0
R0100	Eligible own funds to meet Minimum Capital Requirement	646,535	-60,613	0	0	0
R0110	Minimum Capital Requirement	126,538	25	0	0	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	646,535	646,535			
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**	646,535	646,535	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	646,535	646,535	0	0	0
R0510	Total available own funds to meet the MCR	646,535	646,535	0	0	
R0540	Total eligible own funds to meet the SCR	646,535	646,535	0	0	0
R0550	Total eligible own funds to meet the MCR	646,535	646,535	0	0	
R0580	**SCR**	485,121				
R0600	**MCR**	126,538				
R0620	**Ratio of Eligible own funds to SCR**	133.27%				
R0640	**Ratio of Eligible own funds to MCR**	510.94%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	646,535
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**	646,535
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	0
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0
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	C0090	C0120
R0010	Market risk	104,823		
R0020	Counterparty default risk	22,452		
R0030	Life underwriting risk	425,940		105763.1236
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-82,896		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	470,318		

USP Key

For life underwriting risk:
1- Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1- Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	18,641
R0140	Loss-absorbing capacity of technical provisions	-3,838
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**	485,121
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	485,121
	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

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	0

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	0
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

S.28.01.01

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

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

		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		
R0030	Income protection insurance and proportional reinsurance		
R0040	Workers' compensation insurance and proportional reinsurance		
R0050	Motor vehicle liability insurance and proportional reinsurance		
R0060	Other motor insurance and proportional reinsurance		
R0070	Marine, aviation and transport insurance and proportional reinsurance		
R0080	Fire and other damage to property insurance and proportional reinsurance		
R0090	General liability insurance and proportional reinsurance		
R0100	Credit and suretyship insurance and proportional reinsurance		
R0110	Legal expenses insurance and proportional reinsurance		
R0120	Assistance and proportional reinsurance		
R0130	Miscellaneous financial loss insurance and proportional reinsurance		
R0140	Non-proportional health reinsurance		
R0150	Non-proportional casualty reinsurance		
R0160	Non-proportional marine, aviation and transport reinsurance		
R0170	Non-proportional property reinsurance		

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	126,538

		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	3,220,384	
R0220	Obligations with profit participation - future discretionary benefits	119,337	
R0230	Index-linked and unit-linked insurance obligations	1,791,375	
R0240	Other life (re)insurance and health (re)insurance obligations	41,731	
R0250	Total capital at risk for all life (re)insurance obligations		248,023

	Overall MCR calculation	C0070
R0300	Linear MCR	126,538
R0310	SCR	485,121
R0320	MCR cap	218,304
R0330	MCR floor	121,280
R0340	Combined MCR	126,538
R0350	Absolute floor of the MCR	3,187
R0400	**Minimum Capital Requirement**	126,538