The Equitable Life Assurance Society

Company number 37038

ANNUAL REPORT
AND
FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

Registered office
Walton Street
Aylesbury
Buckinghamshire
HP21 7QW
www.equitable.co.uk

Annual Report and Financial Statements

Contents

Corporate Information

Directors

Chairman	Mike Merrick
Chief Executive	Stephen Shone
Chief Financial Officer	Jeremy Deeks
Independent Non-Executive Directors	Duncan Finch Sue Kean Lord Finkelstein
Group Non-Executive Directors	Paul Thompson Ian Maidens

Company Secretary	Mark Utting
With-Profits Actuary	Louise Eldred
Chief Actuary	Rob Kerry

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside
London SE1 2RT
United Kingdom

Strategic Report

The Directors present their Strategic Report for Equitable Life Assurance Society ("the Society") and the Financial Statements for the year ended 31 December 2019. The Directors have prepared the audited Financial Statements in accordance with the UK financial reporting framework: FRS102, FRS103 and Companies Act 2006.

History and Principal Activities

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 £6bn of assets on behalf of 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.

Strategic Developments

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. While it was possible for the Society to continue in a viable run-off, 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 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).

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 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.

One change to the original proposal announced in June 2018 is that the German and Irish business would be retained in the Society. Therefore, 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.

The members of the Board who served throughout 2019 resigned at the end of the year. A new Board of Directors consisting of members from the Utmost Board is now in place, as detailed in the Report of the Directors.

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-profits policyholders received an uplift in excess of 75% of their policy value. The exact amounts have been communicated to policyholders in the 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 guarantees. There are two types of German policies, UK-style and German-style, as explained on page 8. 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.

The proposal subsequently transferred all policies (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.

Prior to the High Court approval of the Scheme and Transfer, eligible policyholders were asked to vote on the proposal. There were two votes: one for the Scheme; 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 was 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.

Delivery of the strategy is considered to be a non-adjusting post balance sheet event and therefore, the financial statements report the position before this happened. Further details of the impact of the strategy on the Society are provided in the Post Balance Sheet Events section of the Strategic Report and the post balance sheet event note (Note 20).

Results and Performance

The Financial Statements as at 31 December 2019 have been prepared on the assumption that the Society remained in run-off. The Financial Statements are therefore comparable with the prior year.

The following section highlights the performance in 2019, focusing on capital distribution, solvency, investments and costs.

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 of 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 guaranteed policyholder benefits to cash flows from assets. This means that, as interest rates rise or fall, the Society's ability to pay guaranteed 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 (c£64m);

b. German-style German with-profits (c£6m); and

c. Guaranteed Annuity Rates and other liabilities (c£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. See Note 20 for further details on the ongoing operation of the German and Irish business.

Investment strategy: Unit-linked

There were 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 were allowed into these funds, and, in the absence of policyholder instructions, future contributions have been automatically redirected 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 were 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 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 was 49%, which matched the reduction in policy numbers over this period.

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, 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.

Post Balance Sheet Event: Transfer to Utmost

The impact on the Society of the transfer to Utmost is shown below.

£m	31 December 2019	1 January 2020
Assets		
Invested assets	4,204	21
Assets held to back linked liabilities	1,761	48
Reinsurance recoverable	377	9
Current assets	26	1
Total assets	6,368	79
Liabilities		
Long term Technical Provisions	4,566	27
Technical provisions – Linked liabilities	1,763	48
Other liabilities	39	1
Member funds [1]	-	3
Total liabilities	6,368	79

Notes

[1] Solvency II Own Funds on 1 January 2020 were £4.2m, which provides 134% MCR coverage

Almost all of the Society's policies transferred to Utmost on 1 January 2020, immediately following the completion of the Scheme. Policies issued under German and Irish law did not transfer to Utmost, and remain in the Society. There are approximately 3,100 of these.

Up to 1994, German policies were written under the Society's German Business Plan and receive a defined share of surplus in respect of investment, administration and insurance profits. These are referred to as 'German-style' policies. Policies written after that date were managed in the same way as the Society's contracts in the UK. These are referred to as 'UK-style' policies.

German with-profits policies were not part of the Scheme and so were not converted to unit-linked. From 1 January 2020, they have been placed in a sub-fund ("the With-Profits Fund"), which will consist solely of policies with discretionary benefits written in Germany. The assets within the With-Profits Fund back the liabilities of the German-style policies, the guaranteed benefits of the UK-style policies and the asset shares of the UK-style policies.

The concept of 'asset share' replaces the Society's concepts of 'policy value' and 'capital distribution amount' that were used in the management of the business prior to the completion of the new strategy. For each UK-style German with-profits policy, the initial value for asset share was set on 1 January 2020 as the policy value at that time, plus an amount equivalent to the uplift that would have been applied to it had it been included in the Scheme.

The intention is that the amount payable under a UK-style German policy when benefits are taken will be 100% of the asset share, or the guaranteed minimum benefits under the policy, if higher.

The assets backing the asset share of UK-style policies are invested through J.P. Morgan Asset Management. Investments will include between 40% and 85% in return-seeking investments, such as equity and property, with the aim that the return earned will make the need for any future charges for guarantees unlikely. Currency hedges will be maintained to cover exposure in respect of sterling denominated government and corporate bonds.

The assets backing the liabilities of the German-style policies and the guaranteed annuity liabilities in respect of the UK-style policies are being managed by Goldman Sachs Asset Management and are likely to consist of government bonds, corporate bonds and cash.

Irish with-profits policies were included in the Scheme and were converted to unit-linked policies. Policyholders are able to choose between two unit-linked funds, the 'Irish Managed Fund' and the 'Irish Money Market Fund'.

Irish policies previously invested in the unit-linked 'Managed Fund' and 'Money Fund' continue to do so. These funds have been renamed 'Irish Managed Fund' and 'Irish Money Market' Fund from 1 January 2020.

German policies invested in the two available German unit-linked funds ('Managed Fund' and 'Money Fund') also continue to do so from 1 January 2020. The funds have been renamed 'German Managed Fund' and 'German Money Market Fund' respectively.

German and Irish non-profit policies, such as term assurances and annuities in payment, are unaltered.

Post balance sheet event: Coronavirus

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, and are described in the risk section below. 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.

Principal Risks and Uncertainties

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

While individual risks are important, the Board also considers certain combinations of risks. The following sets out the key risks, both on the basis of run-off and following the execution of the strategy.

a. 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 in run-off are described in Note 15.

b. 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 operational impact of the UK's exit from the EU on the Society has been assessed. All third-party supplier contracts with companies in the EU have been reviewed and updated where required, to ensure that there will be no interruption to the smooth operation of the Society.

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.

Section 172 Statement

As a mutual company, the actions of the Society over recent years have been driven entirely by the duty to promote the success of the Society for the benefit of its Members as a whole.

During 2019, decisions have been made in line with achieving the strategy to distribute all of the available assets among with-profits policyholders as fairly and as soon as possible. Key decisions have been aligned to delivering the strategy through the Scheme and the Transfer to Utmost.

During the year, the Board considered the impact of its actions on different stakeholder groups, including:

With-profits policyholders

With-profits policyholders have been engaged through extensive communications in relation to the strategy implementation during the year, as described earlier in the Strategic Report. During the early months of the year, research was undertaken in relation to the views of policyholders on the proposed strategy, and, at the Policyholder Meeting and EGM on 1 November 2019, all with-profits policyholders were able to vote on the proposals.

The Directors at this time recognised that, although the proposed strategy was considered to be in the overall best interests of policyholders, the proposals may not be right for every individual based on their personal circumstances. The Society sought to provide all necessary information to help policyholders make an informed choice, including provision of guidance and advice services.

To ensure the Scheme was fair, it was scrutinised by the With-Profits Actuary, as well as an independent expert, the Policyholder Independent Expert, who provided a report to the High Court and to the UK Regulators, a summary of which was also sent to policyholders.

In regards to the transfer, a separate Independent Expert was appointed (the Transfer Independent Expert) to consider implications for policyholders at the Society and at Utmost. The Transfer Independent Expert also provided a report to the High Court and to the UK regulators. The report was made available on both the Society's website and the Utmost website. Reports were also prepared for the High Court and the UK regulators by both the With-Profits Actuary and the Chief Actuary.

Non with-profits policyholders

Other policyholders have also received extensive communications in relation to the strategy, primarily in relation to the impact of the transfer of business to Utmost. A key consideration for the Board was to be able to provide comfort to policyholders over the security of Utmost as a future home for their policy. The Society helped to address this by providing further information on Utmost through written communications, the website, responses to questions made to the contact centre, and the provision of a guidance service.

German and Irish policyholders

In delivering the Scheme, the Directors considered the most appropriate way to achieve a fair outcome for German and Irish policyholders, seeking to ensure polices were treated in an equivalent way, to similar UK policies. The approach was communicated as part of the same communications that were issued to all other policyholders with German translations of the communications being sent to German policyholders.

Third-Party Suppliers

The Society has an internal third-party framework and conducted regular quarterly reviews of all key suppliers. In addition, regular governance meetings were held throughout the year with each key supplier, and scorecards were maintained and shared.

During the year, the Board was mindful that the transfer to Utmost would result in some changes to ongoing suppliers and/or the novation of contracts. These changes have been closely monitored with regular dialogue with all key suppliers, both to manage the activity required to adopt the necessary change for 1 January 2020 and to involve Utmost when considering the fostering of longer-term relationships.

Regulators

Regulators were consulted throughout the strategic journey. They understandably asked many questions and provided regular feedback on implementation of the strategy. Maintaining an open and collaborative approach resulted in the regulators not objecting to delivery of the strategy through the Court processes.

Staff

The Society believes in open and fair communication with staff and, during the year, delivered this through a structured approach, including: monthly cascades to all staff; regular performance management; staff surveys; and through a staff focus group.

During 2019, the Board paid particular attention to expected staff concerns associated with the transfer of business to Utmost under the proposed strategy, which created a period of uncertainty for staff. The outcome of the strategy provided future job security for the Society's staff, with Aylesbury becoming the new head office for Utmost.

Going forward, Utmost is committed to diversity and equality, and is dedicated to empowering people to develop professionally, as well as personally. It undertakes mentoring programmes and community volunteering initiatives in order to make a positive difference.

Wider community and the environment

The Society has played an important role as a key employer within the Aylesbury area. This continues with the transfer to Utmost and facilitates the possibility for future growth within the area. Furthermore, as the Society has done in the past, we will continue to strive to contribute to the communities in which it operates through local volunteering and fundraising projects.

The transfer to Utmost enables a greater forward focus on the environment as part of its overall commitment to reduce consumption of materials and to promote reuse and recycling, including ongoing improvement in environmental performance.

Overall, the Board considers that it has given due regard to stakeholders' needs when performing its duty under section 172 (1) of the Companies Act 2006.

Conclusion

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.

S. Shone

Stephen Shone
Chief Executive

16 April 2020

Report of the Directors

The Directors have pleasure in presenting their Annual Report and audited Financial Statements for the year ended 31 December 2019.

Principal Activities

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. The Financial Statements of the Society are shown on pages 23 to 53. The operations of the Society are described in the Strategic Report, which includes reference to certain Key Performance Indicators.

Directors

The following Directors served throughout the year and resigned on 31 December 2019:

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

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	

Liability Insurance

During the year, the Society maintained directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its Directors. The Society also purchased cover for each of the Directors who resigned on 31 December 2019 for a period of six years, which is a qualifying third-party indemnity provision for the purposes of section 234 of the Companies Act 2006. From 1 January 2020, directors' and officers' liability insurance is held by the Society's UK parent undertaking Utmost Life and Pensions Holdings Ltd and covers all subsidiaries in the Group, as permitted by the Companies Act 2006.

Employees

During the year, employees of the Society have been regularly informed of, and consulted on, matters of concern to them. The Society is an equal opportunities employer. All employment applications, training opportunities, career development and promotion have been fully considered with regard to an individual's particular aptitudes and abilities. From 1 January 2020, all employees of the Society were transferred under TUPE legislation into Utmost Life and Pensions Services Ltd.

As a mutual company, the Society had no employee share scheme.

Post Balance Sheet Event

The post balance sheet event is disclosed in the Strategic Report and in Note 20 to the Financial Statements.

Statement of Disclosure of Information to Auditors

The Directors at the date of the approval of this report confirm that:

- So far as each Director is aware, there is no relevant audit information of which the Society's auditors are unaware; and

- Each Director has taken all the steps that they ought to have taken in their duty as a Director in order to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of the information.

Reappointment of Auditors

Pursuant to paragraph 44 of Schedule 3 to SI 2007 No. 2194 the Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007, the Directors have elected to dispense with the requirement to appoint auditors annually. PricewaterhouseCoopers LLP has expressed their willingness to continue as auditors.

Disclosure in the Strategic Report

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, certain matters which are required to be disclosed in the Report of the Directors have been omitted and included in the Strategic Report on pages 4 to 12. These matters relate to:

- Details of post balance sheet events;
- Future developments; and
- Indication of principal risk exposure and management including the financial risk management objectives and policies and the exposure of the Society to price risk, credit risk and liquidity risk.

By order of the Board

S. Shone

Stephen Shone
Chief Executive
16 April 2020

Statement of Directors' responsibilities

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

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

- Select suitable accounting policies and then apply them consistently;
- State whether applicable UK Accounting Standards, comprising FRS102, have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the Financial Statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Society's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors confirm that their responsibilities have been fulfilled.

Independent auditors' report to the members of The Equitable Life Assurance Society

Report on the audit of the financial statements

Opinion

In our opinion, The Equitable Life Assurance Society's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2019 and the Statement of Comprehensive Income for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

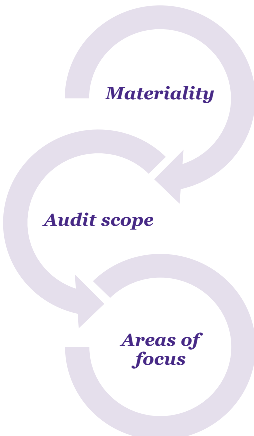
Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Context

The Society is a closed life assurance fund with business in the UK, Republic of Ireland and Germany. On 1 January 2020, the Society made changes to a majority of with-profits policies to remove investment guarantees, uplift policy values, convert with-profit policies to unit-linked policies and transfer all UK policies to Utmost Life and Pensions Limited. Under Section 32 of FRS 102, this represents a non-adjusting event after the end of the reporting period and therefore the financial statements and consequently our audit, are set against the context of the Society's continued run-off with this event disclosed as a post-balance sheet event in Note 20.

Overview



- Overall materiality: £40.3 million (2018: £40.7 million), based on 5% of Excess Assets.

- The Society consists of one legal entity in the UK, and we performed a full scope audit of the Society's financial statements.

- Valuation of long-term business provision
- Disclosure of the Society's strategy implementation
- Impact of the COVID-19 virus

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to inappropriate journal entries to reduce expenditure of the Society and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of the long-term business provision. Audit procedures performed by the engagement team included:

- Discussions with the Board, management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with and reports to the Prudential Regulation Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the With-Profits Committee and Audit and Risk Committee;
- Reviewing the Society's internal audit reports and compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of long-term business provision described in the related key audit matters below;
- Identifying and testing journal entries, in particular any journal entries to reduce expenditure; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*

Valuation of long-term business provision
Refer to page 29 (Accounting Estimates) and pages 38 to 43 (Notes)
 	
We focused on the Directors' assessment of the valuation of the long-term business provision of £4,566m at 31 December 2019 for settlement of future benefits because it involves complex and subjective assumptions about future events, both internal and external to the business. Small changes in these assumptions can result in significant impacts to the valuation of the long-term business provision (see Note 13).
 	
Those assumptions to which the long-term business provision is most sensitive include future administrative expenses and persistency (being the rate at which policies are retained over time). This includes how the Guaranteed Investment Return ("GIR") and strategic announcements made by the Society affect policyholder behaviour, particularly with respect to persistency.
	With the support of our actuarial specialists, we assessed the Directors' valuation of the long-term business provision by:
	
	• testing the Society's internal controls over assumption setting, including:
	    • assessing the effectiveness of the process by which the assumptions were set, including the degree of rigour, challenge and oversight provided by senior management and the Directors; and
	    • examining evidence that shows there was adequate authorisation and explanation for changing assumptions, and the input of assumptions into valuation models;
	
	• testing the appropriateness of the assumptions used in the calculation of the long-term business provision, including:
	    • testing that the assumptions, including the reasons for any changes, were supportable based on observed experience over previous periods;
	    • assessing the reasonableness of future administrative expense forecasts against the Society's strategic business plans and evaluating the accuracy of previous forecasts against actual expenditure; and
	    • assessing the reasonableness of assumptions made in relation to future policyholder behaviour in light of recent strategic activities undertaken by the Society.
	
	• testing the consistency of data used in the valuation with the Society's books and records; and
	• comparing the methods used by the Directors in establishing their valuation against recognised actuarial practices.
	
	We performed sensitivity analyses on the impact of change in policyholder persistency assumptions on the long-term business provision and used this information

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td></td><td>to set our own independent expectation to be able to conclude that the impact from the change in assumptions is appropriate.

From the evidence obtained we found the assumptions and methodology used to be appropriate.</td></tr>
<tr><td>Disclosure of the Society’s strategy implementation
Refer to page 5 (Strategic Report) and pages 52 to 53 (Notes)

On 1 January 2020, as part of the Society’s strategy implementation, changes were made to a majority of with-profits policies to remove investment guarantees, uplift policy values, convert with-profit policies to unit-linked policies and transfer the UK policies to Utmost Life and Pensions Limited. This represents a non-adjusting event after the reporting period and given the significance of this strategy to the Society, the appropriate reflection of this in the Annual Report and Accounts is fundamental to an understanding of the basis on which the financial statements have been prepared.</td><td>We have considered the appropriateness of the disclosure of the Society’s strategy implementation. Specifically:

• the classification of the strategy implementation (changes to policies and transfer of policies to Utmost Life) as a non-adjusting event and the consequent presentation in a separate post balance sheet event note;
• the continued appropriateness of the going concern basis of reporting for the Society; and
• the appropriateness of other narrative disclosures in relation to this strategy throughout the Annual Report and Accounts and whether they are fair, balanced, understandable and in accordance with accounting standards.

We have concluded that the disclosure of the Society’s strategy implementation is appropriate.</td></tr>
<tr><td>Impact of the COVID-19 virus
As disclosed on page 9 of the Strategic report and in Note 21, since the first case of an unknown virus was reported to the World Health Organisation on 31 December 2019, the COVID-19 virus has spread across the world, being declared a pandemic on 11 March 2020. The virus has caused mass disruption to all aspects of public life and measures to prevent transmission of the virus have begun to adversely impact the UK and global economy including those territories from which the Society's current policy holders reside. These measures have included limiting the movement of people and the temporary closure of businesses and schools, with the Bank of England warning of a very sharp reduction in economic activity. Management have considered and determined these subsequent events do not provide additional information about the situation as at the 31 December 2019 and therefore represent a non-adjusting event. As such, the measurements of assets and liability reflects only the conditions that existed at the reporting date. Subsequent to the reporting date, management have considered the financial and operation impacts of COVID-19 which include:</td><td>We assessed management's approach to the impact of COVID-19 on the Society and the financial statements by performing the following procedures:

• evaluated management’s stress and scenario testing and challenged management’s key assumptions. We considered its consistency with other available information and our understanding of the business;
• evaluated management’s assessment of the risks facing the Society including liquidity risk, asset credit risk and operational matters
• assessed the mitigating actions management have put in place and further plans they have if required due to further deterioration of the wider UK and Global economy;
• assessed the disclosures made by management in the financial statements and checked consistency of the disclosures with our knowledge of the Society based on our audit.

Based on the work performed and the evidence obtained, we consider the disclosure of the potential impact of COVID-19 in the financial statements to be appropriate.</td></tr>
</table>

Key audit matter	*How our audit addressed the key audit matter*
• modelling of the capital surplus under stress scenarios and having plans for certain management actions if the Society falls outside its approved risk appetite; • frequent monitoring of the Society's solvency coverage rate. Through this, management have concluded that the Society has continued to meet its solvency requirements since the reporting date and are confident it will continue to be able to do so in the stressed scenarios that they have modelled. This supports the going concern basis of preparation that management have adopted. This assessment requires management judgement and the consideration of a range of factors that may impact the Society.	

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£40.3 million (2018: £40.7 million).
How we determined it	5% of Excess Assets.
Rationale for benchmark applied	Consistent with the prior year, since the Society does not report a profit or loss, we believe that Excess Assets is the most appropriate benchmark on which to base materiality, as it represents the amount available to meet liabilities in excess of those provided for at the balance sheet date, as well as to increase payouts to policyholders in the future.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.0 million (2018: £2.0 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 15, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 23 May 2001 to audit the financial statements for the year ended 31 December 2001 and subsequent financial periods. The period of total uninterrupted engagement is 19 years, covering the years ended 31 December 2001 to 31 December 2019.

Sue Morling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
17 April 2020

Statement of Comprehensive Income

For the year ended 31 December 2019

Technical Account – long–term business

	Notes	2019		2018	
		£m	£m	£m	£m
Earned premiums, net of reinsurance					
Gross premiums written	4	10		11	
Outward reinsurance premiums	3	(4)		(6)	
			6		5
Investment income	5		334		135
Unrealised gains on investments	5		86		-
Other technical income	9		3		5
Total technical income			**429**		**145**
Claims incurred, net of reinsurance					
Claims paid – gross amount	6	131		200	
Reinsurers' share		(21)		(22)	
			110		178
Changes in other technical provisions, net of reinsurance					
Long–term business provision – gross amount	13d	43		(208)	
Reinsurers' share	13d	(12)		35	
			31		(173)
Technical provisions for linked liabilities – gross amount	13d	228		(129)	
Reinsurers' share	13d	-		(1)	
			228		(130)
Net operating expenses	7		52		44
Investment expenses including interest	5		5		4
Unrealised losses on investments	5		-		224
Taxation attributable to the long–term business	10		3		(2)
			60		270
Total technical charges			429		**145**
Balance on the Technical Account			-		-
Total comprehensive income for the year			-		-

The results for 2019 and 2018 are not consolidated, as explained in Note 1a. All amounts relate to continuing operations and those included within the Disposal Group (see Note 20). The Notes on pages 26 to 53 form an integral part of these Financial Statements.

Balance Sheet as at 31 December 2019

Assets

	Notes	2019	2018
		£m	£m
Investments			
Investment in Group undertakings	11a	-	-
Shares and other variable yield securities and units in unit trusts	11a	-	134
Debt and other fixed-income securities	11a	2,063	3,356
Deposits and other investments	11a	2,141	820
		4,204	**4,310**
Assets held to cover linked liabilities	11b	**1,761**	**1,630**
Reinsurers' share of technical provisions			
Long–term business provision	13c,d	370	358
Technical provisions for linked liabilities	13c,d	7	8
		377	**366**
Debtors			
Debtors arising out of direct insurance operations	12	-	1
Debtors arising out of reinsurance operations	12	2	-
Other debtors	12	5	3
		7	**4**
Other assets			
Cash at bank and in hand		**14**	**6**
Prepayments and accrued income			
Accrued interest and rent		2	23
Other prepayments and accrued income		3	1
		5	**24**
Total assets		**6,368**	**6,340**

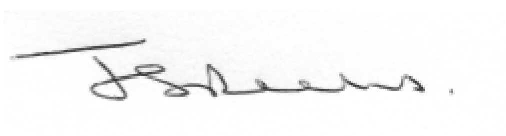
The Notes on pages 26 to 53 form an integral part of these Financial Statements.

Balance Sheet as at 31 December 2019 continued

Liabilities

	Notes	2019	2018
		£m	£m
Technical provisions			
Long–term business technical provision - gross amount	13a,d	4,566	4,523
Technical provisions for linked liabilities	13b,d	1,763	1,634
		6,329	**6,157**
Provisions for other risks and charges	10	3	-
Creditors			
Creditors arising out of direct insurance operations	16	23	21
Amounts owed to credit institutions	16	1	2
Other creditors including taxation and social security	16	5	143
		29	**166**
Accruals and deferred income		**7**	**17**
Total liabilities		**6,368**	**6,340**

These Financial Statements were approved by the Board on 8 April 2020 and were signed on its behalf on 16 April 2020 by:



Jeremy Deeks
Chief Financial Officer

The Equitable Life Assurance Society registered company number 37038

The Notes on pages 26 to 53 form an integral part of these Financial Statements.

The Society is a mutual company with no equity holders and so has not presented a Statement of Changes in Equity.

Notes on the Financial Statements

1. Accounting policies

a. Statement of compliance

The Equitable Life Assurance Society is a UK private unlimited life assurance company without share capital.

The Society's registered office and policyholder administration office is at Walton Street, Aylesbury, Buckinghamshire, HP21 7QW, England.

The Financial Statements have been prepared in compliance with United Kingdom Accounting Standards, including 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ("FRS 102"), 'Insurance Contracts' ("FRS 103") and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

At the balance sheet date, the Society did not have subsidiary companies that required consolidation (Note 17), and these Financial Statements represent the results and position of the Society only.

The Society will continue in operation as a subsidiary of Utmost Life and Pensions Ltd ("Utmost"). The Directors have considered the appropriateness of the going concern basis used in the preparation of these Financial Statements, having regard to the ability of the Society to be able to meet its liabilities as and when they fall due, and the adequacy of available assets to meet liabilities. As described in Note 21, special consideration has been given to the post balance sheet impact of COVID-19. In the opinion of the Directors, the going concern basis adopted in the preparation of these Financial Statements continues to be appropriate.

b. Change in accounting policies

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

c. Contract classification

The Society has classified its Long Term Assurance business in accordance with FRS 103. Insurance contracts are contracts that transfer significant insurance risk. Investment contracts are those contracts where no significant insurance risk is transferred. Investment contracts that contain a discretionary participation feature entitling the policyholder to receive additional bonuses or benefits, such as with–profits contracts, are classified as investment contracts with discretionary participation feature. Those investment contracts that do not have this feature are classified as investment contracts without discretionary participation feature, and are almost entirely unit-linked contracts.

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

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

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

d. Insurance contracts and investment contracts with discretionary participation feature

Earned premiums

Premiums earned are accounted for when the liability is established, in respect of single premium business and recurrent single premium pension business, and when payment is due in respect of all other business.

Claims

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

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

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

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

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

f. Investment return
Investment return comprises all investment income, realised gains and losses, and movements in unrealised gains and losses, net of investment expenses.

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

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

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

g. Valuation of investments
The Society's debt instruments are managed and performance is evaluated on a fair value basis.

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

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

The Society's derivatives have comprised interest rate swaptions, gilt total return swaps, futures and forward contracts. Hedge accounting has not been used for these instruments. Collateral received to back derivative positions is recognised in the Balance Sheet if the Society is exposed to the risk and rewards of ownership. Collateral received as cash is reinvested in cash equivalents and is recognised, along with a corresponding liability in 'Other creditors'. There is potential for collateral received in other forms, for example, gilts. This was not the case at the balance sheet date. Such collateral would not be recorded on the Balance Sheet, but would be disclosed in Note 15d.

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

h. Investments in Group undertakings

Investments in Group undertakings are carried at fair value, being net asset value. Changes in carrying value are reported in the Technical Account.

i. Impairment policy

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

j. Technical provisions — long–term business provision and provision for linked liabilities

The long–term business provision is determined for the Society, following an investigation of the long–term funds, and is calculated in accordance with the regulations contained in the Prudential Regulation Authority ("PRA") Rulebook, with certain adjustments to align to FRS103 requirements. The investigation is carried out as at 31 December. All long-term business technical provisions are determined in accordance with the Solvency II regulatory valuation adjusted to:

- Use discount rates derived from gilt yield curves;
- Calibrate economic models to government bond yield curves;
- Remove the impact of Transitional Measures on Technical Provisions ("TMTP");
- Remove the allowance for reinsurer default risk;
- Remove the Risk Margin; and
- Add a margin to best estimate mortality and longevity assumptions to ensure sufficient prudence.

All other inputs and assumptions are the same as those used in the Solvency II regulatory valuation of liabilities.

Liabilities include guaranteed bonuses and an estimate of non–guaranteed benefits, including future discretionary increases to policy values, and provision for any guaranteed values which are in excess of policy values. With-profits policy liabilities do not include an allowance for capital distribution.

With-profits technical provisions include an amount representing the excess of assets over other valuation liabilities. This amount represents funds yet to be allocated to policies and provides solvency capital. As a mutual, all unallocated funds belong to Members and are referred to as Excess Assets in these Financial Statements. Excess Assets is a key measure of the Society's capital, as described in the Strategic report.

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

k. Taxation

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

l. Foreign currency translation

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

m. Segmental reporting

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

2. Statement of critical accounting judgements and sources of estimation uncertainty

The preparation of the Financial Statements requires management to make judgements in the process of applying the Society's accounting policies.

Significant in the Financial Statements are:

- The classification of contracts as investment or insurance, as described in Note 1c;
- The choice of measurement model of invested assets. As described in Note 1g, the Society values all invested assets according to the fair value model; and
- The methodologies used to value technical provisions, as described in Note 13f-g.

The preparation of the Financial Statements also requires the use of estimates and assumptions. These are based on management's best knowledge of current circumstances and expectation of future events. Actual results may differ from those estimates made, in particular in relation to assumptions about future policyholder behaviour and expenses. Sensitivities to reasonably possible alternative assumptions are included in Note15b.

The judgement that, notwithstanding the Scheme and Transfer to Utmost, the Financial Statements 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 Financial Statements are most relevant if they are 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. The Strategic report and post balance sheet event disclosures provide information on the implementation of the Scheme and Transfer in 2020.

3. Reinsurance

a. Reinsurance with Scottish Widows

The majority of the Society's non-profit and some unit-linked business is reinsured with Scottish Widows.

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

The reinsurance contracts with Scottish Widows represent the Society's largest reinsurance arrangement and create an asset on the 31 December 2019 Balance Sheet of £377m; being the entitlement for the Society to recover from them the claims paid under reinsured business (Note 13c). In the event of the insolvency of the reinsurer, the Society would be liable for any shortfall between the obligations under the policies and the amounts recovered.

b. Other outward reinsurance

The Society has several other outward reinsurance contracts, which include the reinsurance of almost all mortality risk.

4. Earned premiums

Premiums received in respect of investment contracts without discretionary participation feature are not included in the Technical Account or in the table below, as stated in Note 1e. The total of these deposits received in 2019 was £5m and represents linked pension business (2018: £7m). There were no new premium deposits in the year (2018: £nil).

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

	2019 £m	2018 £m
Analyses of gross premiums:		
Individual premiums	**10**	**11**
Regular premiums	**10**	**11**
Premiums from non–profit contracts	3	4
Premiums from with–profits contracts	6	6
Premiums from linked contracts	1	1
	10	**11**
Premiums from life business	6	7
Premiums from pension business	4	4
	10	**11**
Premiums from UK business	9	10
Premiums from overseas business	1	1
	10	**11**

Classification of new business

The Society closed to new business on 8 December 2000. The Society only recognises new business premiums and deposits where it is contractually obliged to do so. There was no new premium income in the year and no corresponding 'annual premium equivalent' (2018: £nil).

5. Total investment return

	2019 £m	2018 £m
a. Total investment return		
Investment income comprises income from:		
Investments held at fair value	72	132
Net gains on realisation of investments	262	3
Investment income and net realised gains	**334**	**135**
Investment management expenses	(5)	(4)
Unrealised gains/(losses) on investments	**86**	**(224)**
Investment return on assets at fair value	**415**	**(93)**

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;
- 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. Interest income and expense not included in the investment return

Contracts classified as investment with discretionary participation feature are measured as described in Note 1j. The interest income and expense in respect of such contracts is included within the Technical Account under the heading 'Changes in other technical provisions'.

6. Claims incurred

	2019 £m	2018 £m
Claims paid - gross claims	131	200
Investment contract claims which are deposit accounted for and therefore not included in the Technical Account	104	123

Claims paid include claims handling expenses of £1m (2018: £1m). Included in the above payments are capital distribution amounts and attributable final and interim bonuses for the Society of £19m (2018: £32m).

7. Net operating expenses

a. Net operating expenses	2019 £m	2018 £m
Administration expenses	21	21
Costs of strategic initiatives	30	22
Redundancies	1	1
Total net operating expenses	**52**	**44**
Investment management expenses (Note 5a)	5	4
Claims handling expenses (Note 6)	1	1
Total costs	**58**	**49**

Administration expenses have remained stable during 2019. Administration expenses include lease costs of less than £1m (2018: <£1m). Costs of strategic initiatives include those associated with the execution of the new strategy outlined in the Strategic report 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.

b. Services from auditors

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

	2019 £m	2018 £m
Fees payable for the audit of the Society's statutory Financial Statements	0.4	0.4
Total fees payable for audit	**0.4**	**0.4**
Fees payable to the Society's auditors for other services:		
Principally arising from non-audit work related to review of actuarial models not associated with the Financial Statements	0.1	0.2
	0.5	**0.6**

8. Directors and employees

	2019 £m	2018 £m
a. Staff costs		
Wages and salaries	10	10
Social security costs	2	1
Pension costs	1	1
	13	**12**

The monthly average number of employees employed by the Society during the year, including executive Directors, required to be disclosed in accordance with the Companies Act 2006, was 197 (2018: 211). The Society engages the services of a number of contractors, mainly to work on strategic initiatives. The total staff number at the end of 2019 including contractors was 208 (2018: 231).

Throughout 2019, a group personal pension plan with Legal & General has been made available to employees. With effect from 1 July 2014, staff have been automatically enrolled in this scheme in line with Workplace Pensions legislation. Pension costs represent the employer contribution to this plan and are based on a percentage of salary.

b. Emoluments of Directors

	2019 £m	2018 £m
b. Aggregate Directors' emoluments		
Executive Directors		
Salaries	0.6	0.7
Performance related bonus	0.5	0.3
Compensation for loss of office	0.3	0.5
Retention	1.1	-
Other benefits	0.1	0.2
Non-executive Directors salaries	0.5	0.5
	3.1	**2.2**

Directors' emoluments relate to Directors who held office during 2019 and include a retention amount payable on successful implementation of the strategy. The highest paid Director's emoluments were £1.6m (2018: £1.1m).

9. Other technical income

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

10. Taxation attributable to the long-term business

	2019 £m	2018 £m
Investment return for the year (Note 5)	415	(93)
Other technical income (Note 9)	3	5
Net operating expenses (Note 7a)	(52)	(44)
Net income / (expenses)	**366**	**(132)**
Of which attributable to UK life business	5	-
Giving rise to:		
Current corporation tax charge at 20%	1	-
Deferred tax charge (credit) at 20%	2	(2)
Total charge / (credit)	**3**	**(2)**

The UK corporation tax charge is provided at 20% (2018: 20%), computed in accordance with the rules applicable to life assurance companies, whereby the fund is required to meet the tax liabilities on investment income and gains attributable to UK life business policyholders, but no tax is charged on the profits or investment returns attributable to pension business or policies written for overseas residents. The investment return earned in 2019 was higher than 2018, resulting in a tax charge for the year.

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.

11. Investments

	Cost		Fair Value	
	2019	2018	2019	2018
	£m	£m	£m	£m
a. Non-linked investments				
Investments in Group undertakings	-	-	-	-
Shares and other variable yield securities and units in unit trusts				
Shares and units in unit trusts	2	19	-	6
Other variable yield securities	-	198	-	128
	2	**217**	**-**	**134**
Debt and other fixed–income securities				
Gilts, index-linked and government approved bonds	2,059	3,099	2,063	3,298
Corporate bonds	-	61	-	58
	2,059	**3,160**	**2,063**	**3,356**
Deposits and other investments	**2,141**	**820**	**2,141**	**820**
	4,202	**4,197**	**4,204**	**4,310**
b. Assets held to cover linked liabilities				
Shares and units in unit trusts	1,432	1,483	1,758	1,626
Deposits and other investments	3	4	3	4
	1,435	**1,487**	**1,761**	**1,630**
Total value of investments	**5,637**	**5,684**	**5,965**	**5,940**

'Investments in Group undertakings' include two subsidiary companies: Equitable Life Ireland DAC ("ELI"); and Lydiard Fields Management Company.

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 Guaranteed Annuity Rates 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 ("TRS") and US dollar to sterling forward exchange contracts, all valued on a mark-to-model basis.

'Debt and other fixed–income securities' includes listed investments of £2,063m (2018: £3,356m) at fair value.

'Assets held to cover linked liabilities' is stated gross of £5m (2018: £4m) relating to linked fund investments in the process of settlement, which is included within 'Other creditors including taxation and social security' (Note 16).

During the year, the Society stopped stock lending. At the 2018 balance sheet date, investments of £1,000m were lent in the normal course of business to authorised money brokers on a secured basis, and investments of £1,032m were received as collateral from brokers. Stock lending was not reflected on the Balance Sheet because the beneficial ownership of assets lent remained with the Society. Income earned on stock lending during the year, net of fees paid, was £0.5m (2018: £0.6m).

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

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

c. Fair value hierarchy

(i) In accordance with FRS 102, investments carried at fair value have been categorised into a fair value hierarchy:

Assets valued at quoted market prices from active markets ("Level 1")
Inputs to Level 1 fair values are unadjusted quoted prices in active markets for identical assets.

Prices substantially based on market observable inputs ("Level 2")
Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset either directly or indirectly. Level 2 inputs include the following:

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

Prices based on unobservable inputs where observable inputs are not available ("Level 3")
Inputs to Level 3 fair values are unobservable inputs for the asset, for example, assets valued by a model or securities for which no recent market observable price is available.

At the 2018 balance sheet date, the Society held gilt TRS and interest rate swaptions, which were valued based on industry-recognised models, which were calibrated to market observable data where possible. Significant inputs to the models include interest rate curves and interest rate volatility, and, for the TRS, the underlying gilt values. The sensitivity of the models to changes in assumptions was assessed and indicated that changing one or more of the assumptions to reasonably possible alternative assumptions would not significantly change the fair value of financial assets.

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

31 December 2019 Asset category	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Investments in Group undertakings	-	-	-	**-**
Shares and units in unit trusts	1,758	-	-	**1,758**
Debt securities and other fixed-income securities	2,063	-	-	**2,063**
Deposits and other investments	2,142	-	2	**2,144**
Total invested assets	**5,953**	**-**	**2**	**5,965**
Total invested assets	**100%**	**-**	**-**	**100%**

31 December 2018 Asset category	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Investments in Group undertakings	-	-	-	**-**
Shares and units in unit trusts	1,626	-	5	**1,631**
Other variable yield securities	-	-	128	**128**
Debt securities and other fixed-income securities	3,227	126	3	**3,356**
Deposits and other investments	823	-	2	**825**
Total invested assets	**5,676**	**126**	**138**	**5,940**
Total invested assets	**96%**	**2%**	**2%**	**100%**

The change in asset mix in the year reflects the transition of assets described above, in preparation for the implementation of the new strategy, and the reclassification of assets to Level 2 noted above.

12. Debtors

	2019 £m	2018 £m
Debtors arising out of direct insurance operations		
Amounts owed by policyholders	-	1
Debtors arising out of reinsurance operations	2	-
Other debtors		
Corporation tax asset	3	1
Other debtors	2	2
	7	**4**

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

13. Technical provisions

As stated in Note 2, 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. These are disclosed in the post balance sheet event disclosures (Note 20).

a. Gross long–term business technical provisions	2019 £m	2018 £m
Non-profit technical provisions		
Non-profit insurance technical provisions	357	345
Index-linked annuities	16	14
	373	**359**
With-profits technical provisions		
With-profits insurance technical provisions		
Policy values	107	105
Cost of guaranteed annuity option	1	2
Cost of investment guarantees	61	59
Future charges	(7)	(7)
	162	**159**
With-profits investment technical provisions		
Policy values	2,142	2,153
Cost of investment guarantees	1,015	969
Future charges	(126)	(141)
	3,031	**2,981**
Other long-term liabilities	**193**	**210**
Excess Assets	**807**	**814**
Total with-profits technical provisions	**4,193**	**4,164**
Total long–term business technical provisions	**4,566**	**4,523**

b. Gross linked liabilities

	2019 £m	2018 £m
Other linked insurance liabilities	100	100
Other linked investment liabilities	1,663	1,534
Total linked liabilities	**1,763**	**1,634**

c. Reinsurers' share of technical provisions

	2019 £m	2018 £m
Insurance technical provisions		
Non–profit policies	354	344
Index-linked annuities	16	14
	370	**358**
Investment technical provisions		
Unit-linked policies	**7**	**8**
Total reinsurers' share	**377**	**366**

d. Movement in technical provisions

	Gross technical provisions				Reinsured technical provisions	
	Non-linked £m	Excess Assets £m	Sub total £m	Linked £m	Non-linked £m	Linked £m
2019 opening positions	3,709	814	4,523	1,634	358	8
Change arising from new deposits[1]	-	-	-	5	-	-
Change arising from withdrawals[1]	-	-	-	(104)	-	(1)
Change in Technical Account	50	(7)	43	228	12	-
2019 Closing positions	**3,759**	**807**	**4,566**	**1,763**	**370**	**7**

Note:
[1] Premiums (Note 4) and claims (Note 6) in respect of investment contracts without discretionary participation feature are not included in the Technical Account but are reported as deposits to and withdrawals from technical provisions.

e. Movement in Excess Assets

The principal movements in the Excess Assets during the year 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**

f. Valuation inputs and assumptions

(i) Factors affecting a number of components of technical provisions

Factors such as policyholder retirement rates, surrenders and mortality experience, and economic assumptions affect a number of the above components.

Retirements

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

An investigation of the actual retirement ages for the Society's with–profits policyholders, analysed by type of contract, has been carried out based on experience 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 be expected to 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, his 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 shows 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.

Mortality

The Society's valuation has been carried out principally using published mortality tables, supplemented by an investigation into the Society's actual mortality experience. The Society continues to make allowance for future improvements in the longevity of annuitants. The mortality assumptions are detailed in the table below.

Mortality assumptions by class of business	2019	2018
Non–profit and index-linked annuities in payment		
	82.5% PNML08 cmi2017 (U=2019)* for males	82.5% PNML08 cmi2017 (U=2018)* for males
	80.0% PNFL08 cmi2017 (U=2019)* for females	80.0% PNFL08 cmi2017 (U=2018)* for females
Temporary assurances	57.5% TMC00 for males 72.5% TFC00 for females	57.5% TMC00 for males 72.5% TFC00 for females
Other Life and Pension business		
Conventional business: non-profit and with-profits	82.5% AMC00 ultimate for males	82.5% AMC00 ultimate for males
	82.5% AFC00 ultimate for females	82.5% AFC00 ultimate for females
Recurrent Single Premium business: with-profits and unit-linked	50% AMC00 ultimate for males	50% AMC00 ultimate for males
	55% AFC00 ultimate for females	55% AFC00 ultimate for females

Note:
* The allowance for future mortality improvements is based on the mortality improvements as per cmi2017 tables (2018: cmi2017 tables) (with a long-term improvement rate of 1.5% pa for males; 1.25% pa for females).

There were no changes in mortality assumptions in 2019 (2018 changes increased Excess Assets by £2m).

Economic assumptions

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

The economic model used by the Society in the valuation was supplied by Moody's Analytics. The model used is market consistent and has been calibrated to government bond yield curves at the valuation date, and this determines the risk-free rates used in the projections. For all with-profits policies and other policies written in sterling, discount rates are taken from UK government bond yield curves. Discount rates from equivalent local government bond yield curves are used for with-profits policies written in other currencies.

The effect of the change in yield curves from 2018 to 2019 was to increase the Excess Assets by £29m (2018: £nil decrease). This was mainly due to yields increasing after with-profits assets had been sold in preparation for implementing the Scheme. Assumptions are also required for the volatility of the asset values for different asset categories. Interest rate volatilities vary by term and duration and are calibrated to those implied by swaption volatilities obtained from market sources.

(ii) Cost of options and guarantees

Financial options represent the value of the option within a small number of policies to take their benefits in annuity form. The options are valued at £2m (partly reported in non-profit technical provisions, 2018: £2m) and are included in policyholder liabilities.

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

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

The Society has in issue two principal types of with–profits policy: RSP policies and Conventional With-Profits ("CWP") policies. These policies represented 98% and 2%, respectively, of the total policy values at 31 December 2019 (98% and 2%, respectively, of the total policy values at 31 December 2018). For the majority of RSP policies issued before 1 July 1996, each premium (after charges) secures a Guaranteed Investment Return ("GIR"), typically at the rate of 3.5% pa. For the majority of RSP policies issued after 1 July 1996, the GIR is nil%. For CWP policies, guarantees are payable at specified dates or on the occurrence of specified events.

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

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

For policies where the guaranteed value at contractual termination exceeds the policy value at that date, the excess would be paid, and estimates of such excess form part of the Technical provisions (Note 13a). In calculating the amount payable to policyholders, account is taken of any management actions, such as making changes to policy values in response to changes in market conditions. The cost of these guarantees has increased from £1,028m in 2018 to £1,076m at 31 December 2019, principally as a result of a fall in interest rates.

There is inherent uncertainty in calculating the cost of these guarantees, as the value depends on future economic conditions, policyholder actions (such as early or late retirement and surrenders) and mortality. Information on retirement, surrender and mortality assumptions is included in section (i) above. For economic assumptions, prices for relevant quoted and non–quoted derivatives are used to confirm market consistency.

g. Other long-term liabilities

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

Other long-term liabilities	2019 £m	2018 £m
Policy administration costs		
With-profits	31	34
Non-profit and index-linked	6	6
Unit-linked	25	27
Investment management and administration costs	40	43
Other administration and support costs	314	329
Present value of total future expenses	**416**	439
1% with-profits expense charge	(133)	(148)
Unit-linked annual management charge	(86)	(87)
Administration cost recovery from reinsurer	(4)	(4)
	(223)	(239)
Regular expense provision	**193**	200
Exceptional expense provision	**-**	10
Other long-term liabilities	**193**	210

The future administration and support costs of the Society in run-off are estimated as part of the business planning process. An assessment of each expense category is undertaken to estimate the extent to which they can reasonably be expected to reduce in line with the run-off of the business. Future administration and support costs are increased in line with expected inflation.

Future investment management and investment administration expenses are based on the terms agreed with the third parties that provide these services, and projections of the value of investments under management.

Assumptions for retirements, surrenders and mortality affect the estimation of future costs of running the business, and are described in section (i) above.

Future expenses are met from a charge of 1% pa (2018: 1% pa) deducted from the return passed on to with-profits policyholders and annual management charges on unit-linked funds ranging from 0.5% pa to 1.0% pa (2018: 0.5% pa to 1.0% pa). Allowance is made for the recovery of administration expenses under reinsurance agreements with Scottish Widows.

The resultant expected cash flows are discounted at a risk-free gilt rate to determine the regular expense provision of £193m (2018: £200m). This provision is intended to provide sufficient reserves to enable the Society to meet future costs while maintaining a stable expense charge as the business declines.

The exceptional expense provision in 2018 represented the present value of the anticipated additional exceptional expenses over future years; namely, costs associated with finalising preparations for the UK's exit from the EU (£0.3m) and work to progress the strategic change (£10m).

14. Regulatory Valuation Capital Statement

a. Analysis of capital

This note presents the capital position of the Society, as reported in the Society's Solvency and Financial Condition Report, available to view on the Society's website in April 2020.

As part of regulatory valuation reporting, each life assurance company must retain sufficient capital to meet capital requirements, as specified in the PRA Rulebook. Each life assurance company calculates the available capital resources, known as Own Funds. The Society's Own Funds are the value of the assets less the value of the liabilities calculated using the Solvency II valuation basis, and includes a Risk Margin. Each company is required to hold a level of capital, determined by one of two measures: the Minimum Capital Requirements ("MCR") is a minimum level for all companies, and is set by the Regulator; the Solvency Capital Requirement ("SCR") is calculated individually for each company based on the risk associated with their business. At the balance sheet date, the Society had defined a risk appetite such that the Society should hold capital at least 100% of SCR. With effect from 1 January 2020, the Society policy's is 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.

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

	2019 £m	2018 £m
Excess assets per Financial Statements	807	814
Adjustments to Solvency II basis	(160)	(156)
Standard Formula Own Funds	647	658

b. Movement in available capital resources

The available capital resources for the Society amount to £647m. The table below shows the effect of movements in the total amount of available capital of the Society during the year.

Movement in Own Funds	2019 £m	2018 £m
Opening position	658	762
Removal of Volatility Adjustment	-	(39)
Investment performance net of changes in policy values	28	-
Other valuation assumptions changes	(7)	(2)
Variance in expenses experience and assumptions	(9)	(26)
Change in Risk Margin	(3)	26
Capital distribution within claims payments	(14)	(25)
Transitional Measures on Technical Provisions ("TMTP")[1]	(4)	(35)
Other movements	(2)	(3)
At 31 December	**647**	**658**

Note
[1] TMTP are not required to be audited and so were not audited by PwC.

c. Restrictions on available capital resources

It is the Society's aim to manage its business in a sound and prudent manner for the benefit of all policyholders. The Society closed to new business in 2000 and new policies are only issued where there is a regulatory or contractual obligation to do so. The Society has no shareholders and until the implementation of the Scheme on 1 January 2020 all surpluses and deficits belonged to the with–profits policyholders. The Society seeks to ensure that it can meet its contractual obligations to both policyholders and creditors as they fall due.

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

The sensitivity of the capital position is monitored through regular solvency estimates reported to the Executive Committee, the Board and the PRA, and a twice-yearly solvency sensitivity analysis is reported to the Asset and Liability Committee. 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 (Note 15d). 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 (Note 11). 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 at this point (Note 15e). However, following the implementation of the Scheme and Transfer to Utmost, the policy of holding assets to match liabilities has been restored.

The Risk Margin, being the cost of holding capital against insurance risk, increases markedly when interest rates are low.

Defaults on fixed-interest assets directly reduce the available capital resources, as does any increase in non-policy-related provisions.

The Society had 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 as they mostly relate to business transferred to Utmost.

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

15. Management of Risk

a. Risk Management Framework

The Society operates a comprehensive Risk Management Framework, including having risk management policies for all principal risks, and the setting and monitoring of appropriate risk appetites.

The principal risks faced by the Society in run-off were

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

There have been no material changes to the measures used to assess these risks over the reporting period. The Society uses scenario testing to model the impact of these risks, individually and in aggregate, under stress conditions on the adequacy of its financial resources and the capital it needs to hold.

The Society's new strategy was undertaken to enable available assets to be distributed to with-profits policyholders fully and fairly. Once there was sufficient certainty that the Scheme and Transfer would be implemented, an asset transition plan was implemented so that:

- The level of the uplift was protected from changes in economic factors, such as gilt yields; and
- The assets held facilitated the investment in new unit-linked funds from 1 January 2020.

The change in the mix of investments resulted in increased sensitivity to changes in interest rates and expense inflation. The potential impacts of financial risks for the whole of the Society's business at the Balance sheet date are discussed further below.

With the implementation of the Scheme and Transfer, the policy of matching assets and liabilities has been restored and the risk exposures reduced. The principal risks facing the Society after implementation of the Scheme and Transfer and in the light of the Coronavirus outbreak are discussed in the Strategic report.

b. Insurance risk

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

The most material insurance risks for the Society 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.

(i) Expense risk

Description

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.

Management of risk

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 in order 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.

Sensitivity
The following table shows the sensitivity to reasonably possible scenarios.

Sensitivity scenario	Mitigated by	Net impact on Excess Assets 2019 £m	2018 £m
5% increase in assumed level of expenses		(17)	(19)
1% increase in assumed rate of UK price inflation	2018: Impact of index-linked portfolio	(34)	9

(ii) Persistency risk
Description
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.

Management of risk
The Society reviews its recent claims experience and combines it with industry-wide data (standard tables of mortality rates) in order to derive expectations about future timing of policyholder claims.

Sensitivity
The assumptions made for the timing of insured events and the impact of changes to those assumptions are disclosed in Note 13f. The following table shows the sensitivities to reasonably possible future changes.

Sensitivity scenario	Net impact on Excess Assets 2019 £m	2018 £m
With-profits surrender rates decrease 1% pa	(41)	(39)
With-profits retirement rates decrease[1]	(41)	(31)

Note:
[1] A change in retirement rates that is approximately equal to policyholders changing retirement by an average of one year.

The risk of with-profits policyholders surrendering less frequently and deferring retirement beyond the ages assumed is significant due to the impact on the cost of guarantees. The interaction of this with interest rates is discussed under 'Interest rate risk' in Note 15e.

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

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

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

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.

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 (see Note 11) 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 almost 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.

With-profits policies with a contractual payment date prior to 31 December 2019 and so are payable on demand, 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.

d. Credit risk

Description

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 (see Note 11) 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.

Management of risk

Credit risk is monitored by the Society's Asset and Liability Committee. 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 (Note 13c)	-	-	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 (Note 13c)	-	-	366	-	-	366
	914	**3,219**	**397**	**41**	**5**	**4,576**

Other financial assets comprise Debtors, and Prepayments and accrued income.

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 and is included in 'Deposits and other investments' in Note 11a.

At the reporting date, no material financial assets were neither 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.

Sensitivity
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 LBG parent company, the Society would be liable for any shortfall between the obligations under the policies and the amounts recovered. 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 regulation 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).

At the end of 2018, the largest single credit exposure after LBG was £14m, relating to an investment in Daimler International Finance; a regulated financial company.

e. Market risk

Description
Market risk is the risk of adverse changes in asset values or values of future cash flows of investments.

Market risk is monitored by the Society's Asset and Liability Committee. The Society's most material market risk is interest rate risk.

The Society's with-profits assets were mainly in gilts and cash equivalents, as follows:

UK with-profits assets mix	2019 %	2018 %
Gilts	50	76
Corporate bonds	-	2
Cash and cash equivalents	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.

i) Interest rate risk

Description

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

As mentioned under 'Insurance risk' above, there was a further risk for the Society in respect of GIR on with-profits RSP 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.

In preparation for the uplift of policy values, and as explained in Note 11, the Society's fixed-interest and index-linked assets have been sold, resulting in a temporary unmatched position and a higher level of interest rate risk exposure at the balance sheet date. However, the changes to the asset mix were made to mitigate the risk that increases in interest rates result in a fall in the capital available to distribute to policyholders.

The interest rate risk exposure has been resolved by the implementation of the Scheme and Transfer in January 2020.

Management of risk

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

Ordinarily, the Society operated an investment policy so that assets and liabilities were matched. Specifically, the Society holds fixed-interest assets to produce income and redemption proceeds that closely match the expected guaranteed outgoings from with-profits policies and non-profit policies each year. Index-linked gilts were held to match the expected outgoings from regular expenses. In addition, throughout 2018 and much of 2019, a number of derivatives were held to mitigate risk associated with investment guarantees in some with-profits policies.

Sensitivity

The following table shows the sensitivity to reasonably possible scenarios.

Scenario	**Impact on Excess Assets**	
Interest rates, at all terms	2019	2018
	£m	£m
Fall by 0.5% pa	(118)	19
Rise by 0.5% pa	109	18

Note: 2018 sensitivity included the mitigating impact of derivatives held at the balance sheet date

ii) Currency risk

Description

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

Management of risk

At the balance sheet date 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.

Sensitivity

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).

16. Creditors

	2019 £m	2018 £m
Creditors arising out of direct insurance operations	23	21
Amounts owed to credit institutions	1	2
Other creditors including taxation and social security		
Derivatives positions		
- Obligation to return swaptions variation margin to counterparties	-	123
- Total Return Swaps	-	14
Other creditors	5	6
Total creditors	**29**	**166**

17. Subsidiary Undertakings

	Share class	2019 Percentage held	2019 Fair value £m	2018 Percentage held	2018 Fair value £m
Subsidiary companies					
Lydiard Fields Management Company Ltd 1 London Wall Place, London, EC2Y 5AU	Ordinary 'A' GBP 1	100%	-	100%	-
Equitable Life Ireland DAC 25-28 North Wall Quay, Dublin 1, D01 H104	Ordinary EUR 1	100%	-	100%	-

None of the subsidiary companies materially affects the results or net assets of the Society. All investments are included in the Balance Sheet at fair value. Equitable Life Ireland DAC became a subsidiary of Utmost on 1 January 2020.

18. Related Party Transactions

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

19. Commitments

The Society has no material operating lease commitments.

The Society has no material commitments in respect of uncalled capital on private equity fund interests

20. Post Balance Sheet Event - Scheme and Transfer to Utmost

As described on page 5 in the Strategic 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).

The key milestones achieved in 2019 were:

- 23 July 2019: High Court gave the Society permission to hold the Policyholder meeting;
- 1 November 2019: Policyholder Meeting, at which policyholders approved the Scheme; and
- 4 December 2019: High Court approved the Scheme and Transfer.

On 1 January 2020, the Society implemented 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.

The Scheme and Transfer constitute a non-adjusting post balance sheet event and a disposal group under FRS 102.

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 3,210 German and Irish, unit-linked, non-profit and with-profits polices that remain in the Society.

The Society's investment management for non-linked assets will be provided by J.P. Morgan Asset Management and Goldman Sachs Asset Management. Investment management for linked assets will be provided by a combination of Aberdeen Standard Investment and J.P. Morgan Asset Management.

In addition, the Society has entered into an agreement with Utmost and Utmost Life and Pensions Services for the provision of administration services. All employees of ELAS were transferred to Utmost Life and Pensions Services Ltd on 1 January 2020 in accordance with TUPE legislation.

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

21. 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 staff 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.