EQUITABLE LIFE ASSURANCE SOCIETY

Equitable Life

Recreating Value for Policyholders

Company number 37038

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015

Contents

Chairman’s statement

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

Dear members

Every year since my first report to you in March 2010, I have made reference to the introduction of the new European regulations known as Solvency II At long last, Solvency II became law on 1 January 2016 I am able to say that we have met all the deadlines to secure compliance with these new regulations. This has been no mean feat as the regulations govern just about every aspect of running the Society

Our strategy

Notwithstanding this fundamental change in regulation, the one thing that remains at our core is the Society’s strategy of recreating policyholder value through

- Distributing all of the Society’s assets among with-profits policyholders as fairly and as soon as possible
- Carefully managing solvency to enable capital distribution, and only then seeking to maximise investment returns
- Providing the best value-for-money cost base

One key aspect of Solvency II is the requirement to assess the Society’s risks, and then work out the capital that needs to be set aside to make sure that we are able to weather events that might take place once in every two hundred years On the face of it, policyholders should take comfort from the fact that we have sufficient capital to withstand such unexpected events

Having said that, there are some events which are much less rare where the particular nature of the Solvency II calculations require higher amounts of capital to be held For example, the world economic situation, with falling stock markets and commodity prices, has very important implications for the Society In particular, continuing low interest rates with the prospect that they will stay low for a long period means that the underlying guarantees on our pensions products requires additional capital to be set aside In practice, this capital may never be needed unless policyholders change their retirement patterns

Also important is the widening in corporate bond spreads which points to an expectation of a higher level of default than hitherto. Again, there may be no default at all but more capital is required to be set aside, just in case Add to this the uncertainty in the run-up to the referendum on membership of the European Union, and there is no doubt that we are navigating some very choppy seas.

This state of affairs goes to the very heart of what is important in running the Society how to make sure that with-profits policyholders retiring over the next few years leave with their fair share of capital Achieving this, while making sure we have enough capital left for policyholders who remain long into the future, is what your Board is here to deliver

Managing risk

To help achieve fairness, our driving force is to reduce the risks of the business, thereby reducing the capital requirements and so increasing the amount available for distribution. In 2015, we made two very important steps forward in risk reduction

First, we completed the recapture of our unit-linked business from Halifax Life This led to a significant reduction in the amount of capital we are required to hold under Solvency II

Second, the sale to Canada Life of the Society's £0 9bn annuity book announced last year completed successfully in February 2016 The sale addressed the risk that annuitants live longer than anticipated As a result, capital is no longer required to protect against this risk

Both of these transactions were key to our decision to increase the level of capital distribution to 35% of policy values from 1 April 2015

We cannot guarantee that this level of capital distribution will never go down Major economic events and evolving regulatory capital requirements must be dealt with effectively, even when that means a reduction in the distribution.

As I stated earlier, investment markets are very volatile To quote the Chancellor of the Exchequer in his recent Budget statement: *Financial markets are turbulent. And the outlook for the global economy is weak.......It makes for a dangerous cocktail of risks.* Given this climate, and the new capital regulation known as Solvency II, it is not unthinkable that the capital distribution may have to reduce As economic stability returns, this will be the platform for the Society to, again, aim to increase capital distribution, whether or not there is any reduction in this period of turbulence.

Increases to policy values

Similar to recent years, we increased policy values in 2015 by 2% which reflects the long-term sustainable rate of return that we earn on the Society's assets During 2015, we reviewed whether the assets held within our investment portfolio continued to be best suited to the Society in run-off We concluded that our emphasis on Government securities, high quality corporate bonds, and cash suited our risk minimisation strategy very well

While returns on the assets as a result of our careful and conservative approach are necessarily low, this is entirely sensible in that it minimises the amount of capital required.

Predicting the future

I now turn to another important issue which is facing the Society in run-off Most of the Society's with-profits policies provide an underlying 3 5% pa guarantee. With an investment return of 2% pa, the material risk faced by the Society is that policyholders defer retirement so that the guaranteed values once again become greater than the policy value even when the latter is enhanced by capital distribution.

Today, 97 out of every 100 with-profits individual policyholders have a retirement value greater than the underlying guarantee. However, the longer the low interest rate environment continues, the greater the risk that our capital distribution strategy will no longer benefit so many policyholders

We wish to understand this risk better In particular, we wish to establish the principal influences that cause policyholders to take their benefits.

Last year's pension reforms, where policyholders can now take retirement savings in cash from age 55, are bound to have been an important factor in when and how policyholders take their retirement savings Indeed, we have seen a marked increase in policyholder departures since last April, although only to the levels experienced in 2012. Half of the retirements since last April fall in the age range of 55 to 60. We are keen to understand whether this is a new permanent phenomenon or simply a short-term reaction to the introduction of the pension reforms The better we can predict the future, the better we can plan fair and appropriate capital distribution.

Chairman's statement continued

The Society's costs

I was appointed Chairman on the same day that Chief Executive Chris Wiscarson joined the Society in September 2009 In that year, the Society's net operating expenses were £115m, of which £37m was what you might describe as business as usual In 2015, the Society's net operating expenses were £43m, of which £26m was business as usual.

As the Society becomes smaller, there must be less and less room for complexity Processes within the Society must be simplified, and such simplicity will inevitably cost less.

A good example of simplification is our approach to the Society's unit-linked business. We manage more than 100 unit-linked funds and, as unit-linked policyholders retire, the funds become smaller and the 0.5% pa administrative charge that we have historically levied is simply not enough to pay their way.

It is with-profits policyholders who pick up any shortfall, and so we decided that it is fair and proper to bring a greater degree of consistency in charging. Consequently, we are increasing the annual management charge to many unit-linked policyholders from 1 April 2016 Over the next year, we will also close a number of smaller funds. These steps will do a great deal to mitigate the subsidy from with-profits policyholders to unit-linked policyholders.

Government compensation

Last year, Government announced that it would be closing its compensation scheme at the end of 2015 It is appropriate that I pay tribute to the policyholder action groups for the considerable influence they have brought to bear on Government to achieve any compensation at all.

In this regard, we were pleased that Peter Scawen was awarded an MBE in the New Year's Honours List. Peter's campaigning on behalf of with-profits annuitants has been tireless

The Equitable Members Action Group has proved equally tireless, and they continue their campaign for Government to increase the 22p in the pound compensation paid to eligible with-profits policyholders

An uncertain world

At the same time as learning how best to manage the Society under the new Solvency II regime, we will be paying considerable attention to navigating our way through the current economic turmoil As I wrote earlier, it is not unthinkable that we might consider it prudent to reduce the level of capital distribution

The fact that we have been able to distribute capital at all is testimony to the success of our strategy over recent years. Our risk reduction programme has undoubtedly put the Society in a much better position

As we find our way to a more stable world, the Board's role will once again turn to finding the most effective means to distribute capital to with-profits policyholders; the most demonstrable evidence that policyholder value is indeed being recreated.

Ian Brimecome
Chairman

21 March 2016

Strategic report

Introduction

The Equitable Life Assurance Society is a mutual company owned by its members. The Society no longer writes any new business and is therefore in run-off We manage some £7bn of assets on behalf of approximately 150,000 individual with-profits policyholders; 155,000 with-profits policyholders in company pension schemes and 135,000 unit-linked policyholders. The vast majority are expected to take their benefits over the next 20 years

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

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

The Society's strategy

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

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

Over the last few years, we have taken material steps to reduce or eliminate key risks, thereby reducing the Society's capital requirements. For example, in March 2015, we successfully bought back the unit-linked business from Halifax Life Then, in the same month, we sold £0.9bn of annuities to Canada Life. These transactions significantly reduced the Society's capital requirements and were material to the Board's decision to increase capital distribution to 35% in 2015 The annuity sale, completed in February 2016, is described in more detail on page 53.

Our approach to capital distribution

Every year the Board assesses the impact of its risk reduction programme and decides whether an adjustment in capital distribution is warranted. To help inform the Board, extensive reviews of the capital required under a wide range of possible future economic and regulatory conditions are undertaken, using the 2015 year-end valuation as the start point.

During the first months of 2016 the Board has also considered the impact of turbulent world markets on our principal risks, in particular

- Policyholders deciding to defer their retirement in an extended period of low interest rates This would lead to an increase in the amount of capital held to ensure that the 3.5% guarantees that exist in many policies can be honoured. The more policyholders who defer taking benefits, the more likely capital distribution would need to be cut
- The divergence of gilt and swap yields used to value our assets and liabilities under Solvency II. When this happens our liabilities can increase and we have to hold more capital as a result
- The widening of corporate bond spreads, which may be an early indication of higher defaults In extremis, this could limit our ability to distribute capital

These risks are discussed further on pages 10 and 11

Strategic report continued

Following its annual review, the Board has decided that it is still fair to maintain capital distribution at 35% in 2016.

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

The Board will keep market conditions under close scrutiny in the coming months. We aim to balance the paramount need to ensure solvency coverage is kept within risk appetite, with the desire to distribute capital as fairly and as soon as possible

Key performance indicators

Key performance indicators are used by the Board to show the extent to which the strategies designed to recreate policyholder value are achieving the desired outcome

We have concluded that it is fair to increase UK with-profits pension policy values by 2% pa (1 6% pa for life assurance policies where tax is deducted).

We have also concluded that it is right to maintain at zero the Financial Adjustment when policyholders transfer their benefits on non-contractual terms The Society's key performance indicators are shown in the table below

% of policy value	2011	2014	2015	2016
Capital distribution	12 5	25	35	35
Policy value increase	2	2	2	2
Financial Adjustment	5	0	0	0

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

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

Carefully managing solvency

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

Up until the end of 2015, company solvency levels were managed under a regime which placed particular emphasis on measures such as Excess Realistic Assets and Individual Capital Assessment Both measures are described later in this report.

At the beginning of 2016, that regime was replaced by the new European regulations known as Solvency II Therefore, the accounts to be published in April 2017 will be prepared under the new regime.

As the numbers in this report are specifically focused on the Society's 2015 results, we present for the last time the measures you have become familiar with over the last few years.

The first important capital measure used at the Society in 2015 was the excess of assets (calculated on a realistic basis as used in the accounts) over policy liabilities (calculated on our best estimate of policyholder behaviour) This measure, known as Excess Realistic Assets has remained broadly the same throughout 2015

Our second important capital measure in 2015 was Economic Capital Here, we consider the impact on the Society's capital under extreme conditions, events that could occur once in every 200 years resulting from, among other things, insurance risk, liquidity risk, credit risk, market risk, operational risk and regulatory risk.

Accounting rules do not allow these extreme events to be included as liabilities in the accounts, but the capital required to support them is, nevertheless, the equivalent of non-distributable reserves

Excess Realistic Assets and Economic Capital interact as follows:

	2014 £m	2015 £m
Excess Realistic Assets - the amount of capital we hold	797	783
Economic Capital - the amount of capital we require	(235)	(187)
Surplus	562	596

The Surplus is the difference between the capital held and the capital required When policyholders leave, they receive the capital distribution prevailing at the time. In 2015, this amounted to £66m which comes out of the Excess Realistic Assets. Taking this into account, there is an underlying £100m increase in Surplus, principally due to the benefit from the annuity transaction.

Individual Capital Assessment

Under the PRA rules applying in 2015, we are required to prepare a confidential assessment of the Society's capital needs These capital requirements are met out of the Excess Realistic Assets and, in extreme situations, from non-guaranteed benefits. The Board defined a risk appetite such that the Society should hold capital at least 120% of that required under those capital rules Throughout 2015, the level was significantly in excess of 120%

In 2016, Solvency II, a generic rules-based measure replaces Individual Capital Assessment. The Board continues to calculate solvency based on the risks that directly impact the Society The Board's risk appetite remains the same as under the previous regime Coverage on both measures remains well above that appetite of 120%

Investment return

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

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

Given our strategy, the investment return needs to be seen in context of the increased capital distribution resulting from investing in relatively low risk assets The resulting return is likely to be lower than from a portfolio invested in equities and property However, and this is critical, capital distribution will be significantly higher

While it is impossible to fully mitigate the risk of credit defaults or the widening of credit spreads due to market turbulence, the Board believes that our low risk investment portfolio will provide better protection than an alternate one which carries higher risk As discussed on page 3, it is the Board's intention to continue with this investment strategy.

The return on investments in 2015 was 0.2%, which takes into account the reduction in asset values caused by interest rate movements As a result of our matching policy, the Society's liabilities have fallen by an equivalent amount to the assets Consequently, the part of the return arising from the change in asset values has been added back (1 3%) in order to arrive at the fund performance which, in 2015, was 1 5% before charges of 1.5%

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

The Board has confirmed therefore that, for 2015, policy values will increase at 2% pa for UK with-profits pension policies (1.6% pa for life assurance policies where tax is deducted).

As the with-profits fund reduces in size, the underlying investment return necessarily changes. Interest rates have been falling for more than 20 years and, since 2009, they have persisted at historically low levels. Increases to interest rates have been forecast for several years now but there has always been one development or another that has meant any expected change has not happened. The world economic turmoil at the beginning of 2016 is a case in point.

Where policyholders postpone taking retirement benefits, we have to reinvest assets at the interest rates prevailing at the time. Consequently, the underlying rate of 2% would ultimately have to reflect this potentially lower return

Subject to this uncertainty about policyholder behaviour, discussed further on page 3, our conclusion is that the underlying rate of return of 2% pa is likely to be sustainable.

Predicting the future

Lower interest rates, the existence of Guaranteed Investment Returns, and the potential for policyholders to exercise their right to remain with the Society past their contractual date, represents the most significant risk faced by members. Many policies have Guaranteed Investment Returns of 3.5% per year, so, the longer members remain, the more this guarantee has to be paid for out of capital

As discussed in the Chairman's statement, the Board is investigating these risks in more depth to better predict and prepare for future events

Unit-linked business

As the Society reduces in size, the annual management charge of 0 5% pa that has been levied on unit-linked business for many years is not sufficient to cover the administration costs of running these policies Any shortfall has to be covered by the assets belonging to with-profits policyholders who themselves already pay an annual expense charge of 1% The Board considered that it would be fair and proper to bring a greater degree of consistency between the two types of policyholders and, from 1 April 2016, the charges on many unit-linked policies will be increased This is the first increase in annual management charges in 20 years.

Not only does the increase bring a greater degree of consistency between the charges for unit-linked and with-profits policyholders, but it is much more in line with market norms

We have also concluded that the number of unit-linked funds under management, at 107, is too many Many of the smaller funds are about to be, or already are, sub-economic so the investment returns and fund administration costs are going to deviate materially from what unit-linked policyholders had expected when they selected their fund linkage.

While it is impossible to provide exactly similar alternatives, we aim to provide unit-linked policyholders whose funds are closing with an acceptable choice of funds

In consequence of these important steps in regard to unit-linked policies, this business becomes less of a capital strain to with-profits policyholders

Providing the best value-for-money cost base

We consider value-for-money to be where administrative expenses reduce in line with the run-off of policies as policyholders retire During 2015, the reduction in policies was approximately 35,000, a 7% fall over 2014 This is slightly higher than in the last two years, driven by pension freedom legislation. Administrative expenses fell by c10% from £29m to £26m. We also incur costs through the need for one-off projects. Success for such spend is to reap the benefits of the projects, which are often critical to enabling capital distribution

Total costs in 2015 have fallen to £43m, from £46m in 2014, down from £115m in 2009.

Reducing administrative expenses in line with policy run-off requires efficiency savings to be made, which more than mitigate upward pressures on the cost base such as inflation In any given year, it is not always possible to achieve this due to, for example, the exit of a group pension scheme

However, over time, the associated costs will be managed downwards. Therefore, it is fair to measure the change over the period since the current Board was constituted in 2009

% reduction between 2009 and 2015

Administrative expenses	35
Policy numbers	28

The main areas of saving continue to be from the Lean Manufacturing techniques first introduced in 2011 Lean Manufacturing promotes continuous improvement and operational excellence within the business In consequence, staff numbers, including contractors, fell from 357 in December 2014 to 318 by the end of 2015

Building on this work, the Society launched a new cost reduction programme in 2014 called Simplification, aimed at removing complexity and ensuring that the cost base is more directly aligned to policy run-off As the Society becomes smaller, some products and funds will become uneconomic and, in the case of the unit-linked funds discussed on page 8, more risky for policyholders as a result

Addressing our costs of administration in a timely manner is the most significant mitigation to expenses not reducing in line with policy run-off.

In setting targets to deliver a value-for-money cost base, the Board is mindful of the need to have in place strong controls. In this respect, the Society operates a robust and comprehensive risk management framework described in more detail on page 19 Service to policyholders is monitored very regularly and, throughout 2015, we have performed within the standards agreed by the Board.

Essential to the success of the Society is a motivated and engaged workforce, which is flexible, responsive and capable of living up to the Society's values of transparency, fairness, affordability and delivering for our policyholders.

Each year, staff are asked to complete a survey covering areas important to their engagement at work. In 2015, the vast majority of staff clearly understood their role in recreating value for policyholders and agreed that the Equitable Life is a good place to work This follows very similar results in previous years The Board would like to thank all staff for their contribution and commitment to delivering policyholder value.

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

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

Following successful completion of the main risk reduction initiatives, exceptional project expenditure during 2015 of £5m is significantly lower than in previous years It is planned to continue at this lower level during 2016 and beyond

The perspective of policyholders

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

We are pleased to report that the great majority of with-profits policyholders continue to consider the Board to be steering the Society in the right direction. Our staff take great pride in providing a trusted and valued service to policyholders So, it is very pleasing to know that, in the last survey conducted in October 2015, almost all policyholders who had engaged with our staff felt that they had responded positively

Principal risks

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

The main risks relevant to the Society are described below As explained on page 5, capital has to be held against these risks. Simply stated, the more risk the Society takes in managing its business, the more capital it needs to hold in case things go wrong Hence, the Board's focus on reducing these risks.

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

Insurance risk

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

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

Approximately half of individual with-profits policies and the great majority of company pension schemes' with-profits policies are entitled to a Guaranteed Investment Return of 3.5% pa.

Where policyholders defer retirement, more capital needs to be held for longer and is not therefore available for early distribution This is particularly onerous in a period of sustained low, or falling, interest rates.

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

The second material insurance risk is in regard to expenses not reducing in line with policyholder run-off. This is discussed on page 72. The risk reduced during 2015 following the introduction of the Society's Simplification programme.

Liquidity risk

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

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

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

Credit risk

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

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

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

The Society seeks to limit exposure to credit risk by setting robust selection criteria and exposure limits covering factors such as counterparty financial strength. The Society monitors against these limits so that appropriate management actions can be taken to pre-empt loss from default events No defaults occurred in 2015.

The major reinsurance treaties are with companies in Lloyds Banking Group At £0 5bn, these exposures are much reduced following the unit-linked transaction discussed on page 53.

Market risk

(i) Interest rates the risk that interest rate changes have a financial impact through any mismatching of assets and liabilities The Society closely matches the expected income from assets to the expected outgoings from policy maturities The more closely we are matched, the less capital is required against interest rate movements.

During 2015, there were two adjustments to asset duration following the year-end and half-year liability valuations. They had the impact of further strengthening cash flow matching.

(ii) Spread risk changes in the value of corporate bonds relative to gilts could have a financial impact on our Solvency II capital calculations. Credit spreads widened somewhat in 2015 and in 2016 driven by market conditions. As long as policyholders do not change their behaviour, we will hold the bonds until they mature The Society invests in a diversified portfolio of high-quality corporate bonds, thereby reducing the potential exposure

(iii) Swap basis risk Solvency II requires liabilities to be valued using swap rates, whereas our assets are primarily gilts and bonds. In 2016, we have seen divergence of swap rates from gilt rates, which is impacting the Society's solvency position

(iv) The EU referendum, potentially leading to Britain's exit, is likely to drive volatility in markets Such conditions could lead to some of our insurance, credit or market risks becoming a reality.

Operational risk

Operational risk is the potential for loss to result from inadequate or failed internal processes and systems, human error or from external events. The main sources of operational risk for the Society are: first, those related to delivery of services to our policyholders; second, the delivery of services to the Society by significant third party suppliers; and third, risks in executing strategic projects

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

Regulatory risk

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

We put great store in having an open and cooperative relationship so that our regulators fully understand our run-off strategy and how we are performing against our objectives We have arrangements in place to identify new regulatory developments, implement changes to meet these requirements, and monitor ongoing compliance.

Conclusion

Each year, the Board reviews its strategy and evaluates whether it remains fit for purpose. Our Simplification plans and policyholder behaviour analysis provide a very good foundation for the next phase of our strategy. While the Society faces a number of risks to the achievement of its strategic objectives, the Board is confident that policyholder value can continue to be created.

We have begun 2016 facing volatile and turbulent markets at exactly the same time as a change in the solvency regime Your Board is focused on ensuring the right outcomes are made for you, our policyholders, through this difficult time

Chris Wiscarson	Simon Small
Chief Executive	**Finance Director**

21 March 2016

Board of Directors

Ian Brimecome (b)(c)
Chairman

Ian Brimecome was appointed Chairman in September 2009. He joined the Board in January 2007 and is Chairman of the Nominations Committee Ian is Chairman of Axa UK plc, Tokio Millennium Re AG, Tokio Marine Kiln Group Ltd, Tokio Marine North America, Delphi Financial Group and HCC Holdings He is also Executive Chairman International of Tokio Marine Holdings, Deputy Chairman of Tokio Marine Asia and a non-executive Director of Edelweiss Tokio Life Ian has more than 30 years of experience of the financial services industry in a wide variety of roles and has advised on more than 100 merger and acquisition transactions in the insurance and asset management industries in more than 20 countries.

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

Keith Nicholson joined the Board in August 2009 He was appointed Deputy Chairman on 1 July 2012 and chairs the Audit and Risk Committee Keith left KPMG in 2009 after more than 30 years with the firm. He has a wealth of experience with financial services companies covering audit and advisory roles These included FTSE 100 companies in the UK and non-UK multinationals. Keith is Chairman of Liberty Special Markets He is also a non-executive Director of Just Retirement Group plc

Chris Wiscarson
Chief Executive

Chris Wiscarson was appointed Chief Executive in September 2009 Before that, he was a member of the Group Executive Committee at Lloyds Banking Group. He started his career with Equitable Life, before moving to South Africa in 1979 as General Manager of Southern Life In 1986, he returned to England to take up the position of Chief Executive of Save & Prosper Insurance In 1990, he joined the Lloyds Banking Group, where he held a number of senior roles including European Director and Finance Director of the Lloyds Abbey Life Group, then Chief Executive of Lloyds TSB Life At the beginning of 2000, he was appointed the Director responsible for the non-UK businesses in the Lloyds TSB Group before taking up the position of Group Integration Director

Simon Small
Finance Director

Simon Small joined the Society as Finance Director in July 2012 He is responsible for the Society's Finance, IT, Business Change, Company Secretariat and Investment functions, and takes a lead role in capital and strategic planning Simon, a qualified accountant, has particular expertise in the financial and administrative aspects of operations and IT. He had previously worked at Lloyds Banking Group for over 20 years, latterly as the Finance Director to the team responsible for delivering the synergy benefits in the merger of Lloyds TSB and HBOS. Simon's expertise extends to negotiating deals, restructuring company finances and delivering efficiency savings

Penny Avis (a)

Penny Avis joined the Board in January 2015. A Chartered Accountant, Penny is a former Deloitte corporate finance partner with wide-ranging merger and acquisition and accounting experience Penny was an elected non-executive Board member at Deloitte UK LLP responsible for oversight of executive management and acted as a mentor to partner-track directors Prior to Deloitte, Penny worked for PwC and Arthur Andersen. She is a non-executive Director, and chair of the Audit Committee at Envestors Ltd, a private corporate finance business

Ian Gibson (a)

Ian Gibson joined the Board in August 2013 Ian retired from Legal & General in 2007 after more than 35 years with the organisation He is a qualified actuary and has extensive experience of managing and advising on with-profits funds After retiring from Legal & General, Ian worked as an actuarial consultant providing advice on, among other things, Solvency II and life fund transfers He has also served on the Supervision Committee of the Life Board of the Institute and Faculty of Actuaries

Cathryn Riley (a)(b)(c)

Cathryn Riley joined the Board in August 2009 She chairs the Society's Remuneration Committee In a wide-ranging career covering customer services, IT, operations, human resources and general management, Cathryn has worked for British Coal, British Airways, Coopers & Lybrand, BUPA and latterly Aviva plc where she was Group Chief Operations Officer and a member of the company Executive Committee She is a non-executive Director of International Personal Finance plc, ACE Underwriting Agencies Ltd, ACE European Group Ltd and AA Insurance Services Ltd.

Key to membership of principal Board Committees

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

Directors' report

Principal activities

The principal activity of the Society during 2015 remained the transaction of life assurance, pension and annuity business in the form of guaranteed, participating and unit-linked contracts. The Society closed to new business on 8 December 2000. The financial statements of the Society are shown on pages 47 to 82 The operations of the Society are described in the Chairman's statement and the Strategic report, which includes reference to certain key performance indicators The Directors' remuneration report and details of the governance arrangements of the Society are given in the Corporate governance statement on pages 16 to 37

Directors

The Directors shown on the previous pages were Directors throughout the year with the exception of Penny Avis, who was appointed on 16 January 2015.

All the Society's Directors will retire at the Annual General Meeting ("AGM") and offer themselves for re-election.

Directors' indemnities

The Society maintains directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its Directors. The Society has also provided an indemnity for each of its Directors, which is a qualifying third party indemnity provision for the purposes of section 234 of the Companies Act 2006

Principal risks

The Strategic report sets down the Society's principal risks and its arrangements for managing these and holding capital against them.

Directors' responsibilities in respect of the financial statements

The Companies Act 2006 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and of the result of the Society for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent,
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business, and
- Consider whether the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy.

The Directors have complied with the above requirements. The Directors are responsible for keeping proper accounting records, which 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, as described above. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities

The financial statements are published on the Society's website The maintenance and integrity of this website is the responsibility of the Directors. Legislation in the UK governing the preparation and dissemination of financial statements may differ from the legislation in other jurisdictions.

Statement of disclosure of information to auditors

The Directors have taken all the steps that they ought to have taken in order to make themselves cognisant of any relevant audit information and to establish that the Society's auditors are aware of that information. To the best of their knowledge, Directors consider there is no relevant audit information which has not been brought to the attention of the Society's auditors.

Long-term viability statement

In accordance with the 2014 UK Corporate Governance Code, the Board has assessed the prospects of the Society over a period longer than the 12 months required under the going concern provisions.

For a number of years, a model has been used by the Board to assess the financial viability of the Society. The model projects the solvency position of the Society under 500 different economic scenarios, to determine the affordability of capital distribution. It has been designed and built and is used under approved guidelines and reflects the Solvency II regime.

The model has a number of assumptions and limitations, the most important being that it does not model changes in policyholder behaviour and other insurance-related risks. To mitigate this, asset values in each scenario are adjusted to allow for potential losses from these risks.

In addition, the Board also reviews the results of stress testing and sensitivity analysis of key variables, to ascertain what combination of events could cause solvency to fall below risk appetite. This has enabled the Board to conduct a robust assessment of the principal risks facing the Society.

While the model can project over the entire run-off period, the Board believes that it is more appropriate to consider a three year time frame for the purposes of the viability statement. This matches the period covering the Society's Business Plan, which is approved annually at the December Board meeting. Greater confidence can be placed on shorter-term projections, because the model results are less exposed to uncertainties inherent in any longer time frame, particularly those associated with policyholder behaviour and insurance risks.

Based on the above analysis, the Board has assessed the Society's prospects with reference to the principal risks, strategy and risk appetite as set out in the Strategic report. Consequently, the Board is confident of its ability to manage adverse scenarios that may arise, recognising in some scenarios that reductions to policyholder payments would be required. The Board, therefore, has a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2018.

The Board's conclusions on information to members

Having taken advice from the Audit and Risk Committee, the Board considers that the Annual Report and Accounts, taken as a whole is fair, balanced and understandable, and provides the information necessary for the Society's members to assess the Society's performance, business model and strategy.

Employees

Employees of the Society have been regularly informed, and consulted, on matters of concern to them. The Society is an equal opportunities employer. All employment applications, training opportunities, career development, and promotion are fully considered with regard to an individual's particular aptitudes and abilities. As a mutual company, the Society has no employee share scheme.

Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office, and a resolution will be proposed at the AGM.

Signed by order of the Board

Jean Fleet

Jean Fleet
Company Secretary

21 March 2016

Corporate governance statement

1. Statement from the Chairman

The Society aims to meet the highest standards in corporate governance and voluntarily adopts the relevant provisions of the 2014 UK Corporate Governance Code ("UKCGC") and the UK Stewardship Code The Society is reporting against these codes. The Board is responsible to the Society's members for good corporate governance and applies high standards to ensure that this is achieved.

I would like to give my personal confirmation of the importance the Board attaches to ensuring continuing good performance throughout the Society. More information on the processes for carrying out the reviews is given below

This report summarises the Society's governance arrangements, including reports on each of the Board Committees Personal statements from the Chair of the Audit and Risk Committee and the Chair of the Remuneration Committee are also included below

2. Governance by Directors

The Board

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

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

Board Committees

The Board formally delegates certain specific responsibilities to the three Board Committees described elsewhere in this report The Terms of Reference of the Committees are available on the Society's website www.equitable co.uk or on request

Board and Committee meetings

Details of the number of meetings of the Board and Board Committees, and attendance by Directors are set out in the following table

	Board	Audit and Risk Committee	Nominations Committee	Remuneration Committee
Number of meetings during 2015	8	5	1	3
Attendance by Directors				
Ian Brimecome[1]	7	-	1	3
Keith Nicholson	8	5	1	3
Chris Wiscarson	8	-	1	-
Simon Small	8	-	-	-
Penny Avis[2]	8	2	-	-
Ian Gibson	8	5	-	-
Cathryn Riley	8	5	-	3

Pages 12 and 13 show details of Committee membership

[1] The Chairman could not attend the meeting on 13 February 2015, which was arranged at short notice to delegate authority for the payment of certain investment transactions The Chairman had given prior approval of the sole agenda item

[2] Penny Avis joined the Audit and Risk Committee in September 2015

Taking advice

The Board and its Committees are able to take advice from professional advisers to assist them in assessing the business of the Society Each Director has access to the Company Secretary.

Subject to defined procedures, Directors may also obtain independent professional advice, at the Society's expense, about any matter concerning the Society relevant to their duties.

Directors

The Board had two executive Directors who served throughout 2015: the Chief Executive and the Finance Director. There are five non-executive Directors on the Board Penny Avis was appointed a non-executive Director on 16 January 2015 The Chairman and the Deputy Chairman are elected by the Board The current Board members are described on pages 12 and 13

The Board reviews the independence of the non-executive Directors and has concluded that Penny Avis, Ian Gibson, Keith Nicholson and Cathryn Riley should be considered to be independent.

The Directors' remuneration report on pages 25 to 37 explains the basis of remuneration of the executive and non-executive Directors

Performance evaluation

The Board reviews its own performance and that of its Committees each year In 2013, we commissioned the Board's independent advisor, Nicholas Wells, to carry out a full review of the Society's Board and its Committees This took into account the guidance in the UKCGC that an evaluation of the Board of FTSE 350 companies should be externally facilitated every three years. In 2015, the Board reviewed responses to a questionnaire completed by Directors, and agreed relevant actions It is proposed that an independent review will next be carried out in 2016

Typically, non-executive Directors spend at least 20 days on work for the Society each year, including attendance at Board and Board Committee meetings Directors regularly visit our offices in Aylesbury to spend time with our staff to understand better the key risks and controls of running our business

With assistance from the Nominations Committee, the Board reviews the performance of individual Directors annually. The non-executive Directors meet under the leadership of the Senior Independent non-executive Director to review the performance of the Chairman In conducting these reviews, the Board has regard to the guidance on performance evaluation accompanying the UKCGC The Board recognised that, in accordance with the Code, any term beyond six years for a non-executive Director should be subject to particularly rigorous review and should take into account the need for progressive refreshing of the Board

In the light of the reviews referred to above, the Board considers it has the appropriate balance of skills and experience to meet the requirements of the Society's business The diverse experience, skills and independent perspective of the Directors provide effective review of and challenge to the Society's activities.

Appointments to the Board

Directors must retire and seek re-election at the first AGM following appointment. The Society's Articles require one third of the Directors who are subject to retirement by rotation to retire at each AGM and also that all Directors must submit themselves for re-election by rotation at an AGM at least every three years All the Society's Directors will retire and offer themselves for re-election at the 2016 AGM

The ongoing suitability of Directors is subject to annual review by the Board, as advised by the Nominations Committee The Board's policy on remuneration is set out in the Directors' remuneration report.

3. Management of the Society

The Executive team meets weekly to manage business activities Papers are prepared and presented to the Board and its Committees by the Executive team The Executive team comprises

Corporate governance statement continued

the Chief Executive; the Finance Director, the Risk Director; the Chief Actuary, the Head of Customer Service; and the Head of Human Resources.

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

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

The Finance Director is the executive responsible for the Society's Finance, IT Change, Company Secretariat and Investment functions He also runs the strategic and planning processes and monitors progress against targets.

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

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

The Head of Customer Service, Sonia Sahnan, is responsible for ensuring that the day-to-day needs of policyholders are met through the Customer Service and other operational teams.

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

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

4. Internal controls and risk management

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

The recapture of the Society's unit-linked business from Halifax Life was completed in March 2015 The operational risks associated with the end to end management of the unit-linked business, such as box management, fund pricing, and new third party relationships, are now managed and controlled by the Society In bringing back the unit-linked business, the Society took steps to ensure that appropriate processes, systems, capability and controls were in place to manage this business.

The Society has reviewed the effectiveness of its internal control environment for the unit-linked business In doing so, assistance has been sought from Ernst & Young, who have carried out independent reviews to validate the effectiveness of the operation of the Unit Pricing Committee and the Asset and Liability Committee. A report confirming the effectiveness of the controls for unit-linked business was presented to the Society's Audit and Risk Committee in September 2015.

In March 2015, we contracted with Canada Life to transfer to them the Society's £0 9bn annuity book, thereby releasing further capital for distribution to policyholders The transfer of the annuity book to Canada Life completed successfully in February 2016 The Society worked closely with Canada Life to ensure that the risks associated with the transfer were appropriately managed through to completion

On behalf of the Board, the Audit and Risk Committee has reviewed the effectiveness of the risk management and internal control systems for the year ended 31 December 2015, taking into account matters arising up to the date of this report.

The review demonstrated that the Society has in place a comprehensive set of risk management and internal control arrangements These include the identification, assessment, measurement, monitoring, reporting and management of risks A programme of internal audits and compliance monitoring takes place to provide assurance that the Society's controls are fit for purpose and that regulatory requirements are being met No material control issues arose in 2015 and there were no material risk events or breaches during the year If significant failings or control deficiencies were to be identified, the Committee would confirm whether or not appropriate remedial action had been taken The review concluded that the Society's risk management and internal control systems are operating effectively.

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

Control environment

The Society is committed to the highest standards of business ethics and conduct, and seeks to maintain these standards across all of its operations The Society regularly reviews its governance arrangements and guiding principles to ensure that these remain appropriate for its business

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

Risk management

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

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

- A risk and control self-assessment process no less frequently than half-yearly, which requires senior management to attest to the risks and associated controls in place within their area of the business;
- Risk management policies for all principal risk categories. Material changes to these policies are approved by the Board,
- The agreement by the Board of risk appetite statements which are closely linked to the achievement of the Society's strategic

objectives, and key risk indicators for monitoring against risk appetite;

- A robust and consistent approach across the Society for risk identification and risk assessment, and
- Detailed monitoring, review and reporting on material risks, including to the principal management and risk committees.

The Risk Management Framework is designed to meet the requirements and standards set by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), and under the new Solvency II requirements which applied from 1 January 2016

The Strategic report sets out the principal risks faced by the Society.

Monitoring and other assurance activities

Assurance is provided to the Audit and Risk Committee and the Board on the effectiveness of the key controls through:

- Review and recommendation to the Audit and Risk Committee of the Annual Assurance plan,
- Regular reporting by Internal Audit on findings from audits and other assurance reviews, and the management actions to address the findings,
- Annual review of effectiveness of key internal controls by the Executive team and the Audit and Risk Committee,
- Reporting on the regulatory environment and associated regulatory risks by the Society's Risk Director,
- Review of emerging risks, their implications for the Society, and identification of appropriate mitigating actions;
- Reports received from the Society's Risk and Compliance functions on specific elements of risk and their management, and
- The work of other independent advisers commissioned to report on specific aspects of internal control

The Audit and Risk Committee monitors the status of actions to improve the effectiveness of the system of internal control

Internal Audit

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

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

5. Governance Advisory Arrangement

In February 2015, the FCA set out new rules for providers operating workplace pension plans to take effect from 6 April 2015 From that date, those providers had to have set up an Independent Governance Committee or have appointed a Governance Advisory Arrangement ("GAA"), whose principal function would be to

- Act solely in the interests of the members of those pension plans, and
- Assess the 'value for money' delivered by the pension plans to those members

Pitmans Trustees Limited were appointed to provide the Society's GAA for our workplace pension plans, which were all grouped personal pension plans at commencement. The GAA is required to produce an annual report on a number of matters, including an assessment of the value delivered by these pension plans A copy of their report, dated March 2016, is available on our website In the report, they conclude that our grouped personal pension plans "represent reasonable to good value for money, taking into account the benefits offered to members."

6. Policyholder communications

The Board is committed to open communications with policyholders. We continue to simplify our processes and written material, dispensing with jargon as much as possible

In January 2015, we wrote to individual policyholders about the forthcoming pension changes

In March, we wrote to policyholders to advise them about the transfer of our annuity book of business to Canada Life This was followed by a mailing in October giving details of the transfer as well as the Court process for the approval of the transfer.

During the summer, focus groups were held with unit-linked policyholders to obtain feedback on topics, including their view of the Society and how we communicate with them, including the information available on the website

The October mailing drew attention to. the information available on the website for with-profits and unit-linked policyholders, and the impending review of our unit-linked business In December, details of changes to fund charges and our plans for simplifying the range of funds available were sent to unit-linked policyholders

Notice of the 2015 AGM was sent to all Members of the Society, together with the Summary Annual Report We advised in October 2015 that, as the Society's Report and Accounts are published on our website, copies would only be provided to those who have requested to receive a paper version

Simplified Annual Statements were issued to all with-profits and unit-linked policyholders in April 2015.

In October, quantitative research was undertaken among a large group of policyholders. This research provided valuable feedback and, most importantly, the great majority of policyholders researched considered the Board to be steering the Society in the right direction

At the AGM, members of the Board are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration Resolutions are dealt with on a show of hands unless a poll is called The Society counts all proxy votes and indicates the level of proxies lodged on each resolution, after it has been dealt with on a show of hands The proxy form specifically provides for members to be able to abstain on a resolution or resolutions if they wish Written feedback on their view of the Society was invited from those who attended the AGM.

The Society produces a document setting out its Principles and Practices of Financial Management In 2015, there were no changes to the principles There were some changes to the practices There is also a simplified version of this document. "A guide to how we manage the with-profits fund". The latest versions of these are available on the Society's website, together with information about with-profits bonus rates Any material changes in these documents are drawn to the attention of policyholders

Each year, reports are produced by the Board and by the With-Profits Actuary on how the with-profits fund has been managed. These documents are available on the Society's website and on request for members without Internet access

7. Board Committees

The Audit and Risk Committee

Statement from the Audit and Risk Committee Chair

The Board's approach to governance over audit and risk is to delegate responsibility to a single committee the Audit and Risk Committee. This means that we have an efficient and effective oversight of both the risk and control frameworks of the Society as well as taking responsibility for both internal and external audit. Naturally, this does mean that the Committee has to ensure an appropriate balance of discussion between risk and audit at its meetings throughout the year Therefore, in planning the agendas, they continued to be structured in a manner so that risk and audit alternate as the first item in our meetings.

While the Board has delegated oversight in relation to risk matters to the Committee, there are still occasions when it is more appropriate for detailed discussions on risks relating to specific events or transactions to be considered by both the Committee and the Board Such matters in the last year included the risks around: taking back our unit-linked business from Halifax Life, the sale of our annuity book of business, cyber security; implementing the April 2015 pension reforms; and capital distribution The Committee took account of these activities in planning its work on risk for the year.

The Committee invited to its meetings members of the Executive and other senior managers as appropriate so that they provide their reports at first hand It enabled them to hear and respond to the constructive challenges made by members of the Committee, who draw on their own experience and wider industry knowledge This approach results in the Committee reaching agreement on appropriate outcomes for the Society. In addition, we held meetings separately with each of the Finance Director, the Risk Director, the Chief Actuary and the Head of Internal Audit without any other executives present. There were no issues or concerns raised by them in regard to discharging their responsibilities.

The Committee meets with Marcus Hine, our PricewaterhouseCoopers LLP Audit Partner, in private session once a year This session is held at the beginning of our meeting to consider the Annual Report and Accounts so as to inform the Committee in its deliberations There were no matters arising that the Committee had to follow up with the Executive prior to making its recommendations to the Board on the Annual Report and Accounts .

The report that follows gives a high level overview of the matters covered during the year

Penny Avis joined the Committee in September 2015 Her wide-ranging experience will be a valuable contribution to the Committee.

Keith Nicholson
Chair, Audit and Risk Committee

21 March 2016

Audit and Risk Committee report

Throughout 2015, the Committee comprised Keith Nicholson (Chair); Ian Gibson, and Cathryn Riley. Penny Avis joined the Committee in September 2015. All members of the Committee are non-executive Directors.

The Committee met five times last year and it paid particular attention to the Society's

- Fair, balanced and understandable financial reporting,
- Compliance with the UKCGC,
- Risk management systems, risk appetite and the identification and management of key risks,
- Arrangements for ensuring compliance with regulatory requirements, in particular, implementation plans for Solvency II,
- Control environment,
- Internal and external audit processes,
- Resourcing of the risk, compliance and internal audit functions as the business runs off,
- Business continuity arrangements, and
- Procedures for handling allegations from whistleblowers

The Committee assisted the Board in fulfilling its responsibilities in regard to the Society's Financial Statements and Annual Regulatory Returns to the PRA The Chairman reported to the Board meeting that followed each Audit and Risk Committee meeting, with the minutes of the meetings being subsequently circulated to the Board

Internal Audit prepared a draft Assurance plan, for review and challenge by the Committee at its meeting in September The final plan reflecting the outcome of the review and challenge was approved at the December meeting

Reports were provided by the Risk Director throughout the year on the management and identification of risks The Committee reviewed and discussed the risk assessments, the risk appetite statements and the mitigating actions prior to submission to Board for approval. Matters considered by the Committee included

- Cyber security. this is an increasing threat and the Committee received assurance on the effectiveness of the Society's controls and the plans in place for dealing with potential attacks;
- The implications of the outcome of the UK General Election;
- The implications of a UK exit from the European Union,
- The arrangements in place following the recapture of our unit-linked business We received assurance that the controls were operating effectively; and
- The Committee received regular progress reports from management on the Society's preparedness for Solvency II during the year and reviewed the Own Risk and Solvency Assessment prior to the Board's strategy meeting PricewaterhouseCoopers LLP ("PwC") were engaged to undertake an independent review on the application of the standard formula to the Society's business The Committee was satisfied that the Society would be ready for the implementation of Solvency II reporting

In relation to the financial statements for 2015, the following significant issues were considered by the Committee:

- The methodologies and assumptions used in the valuation of the Society's liabilities were presented to the Committee by the Chief Actuary and his team. PwC commented on the reasonableness of the assumptions, drawing on their own knowledge and experience. The Committee's review focused on the methodology and data underlying the principal assumptions of policyholder behaviour and expenses The Committee considered the longevity assumptions and noted that this risk had been reassured to Canada Life pending full transfer of the annuity book of business to them in 2016;
- During 2015, the Committee and the Board regularly reviewed policyholder behaviour in light of the pension reforms implemented in April 2015 and the increase in the level of capital distribution As the Chairman mentions in his report, we need to develop our understanding of the influences that cause policyholders to take their benefits, and work to address this issue will start in 2016. The Committee considered carefully policyholder behaviour assumptions for 2015. We agreed with management's recommendation that the assumptions should remain fundamentally unchanged from 2014 They continue, therefore, to be based on the Society's existing longer-term experience of policyholder behaviour, with appropriate sensitivity disclosures,
- The Committee reviewed the assumptions recommended by management in applying the budgeted expenses approved by the Board to the valuation of the liabilities The Committee considered the run-off plans of management in concluding the approach recommended by management, and
- The valuation of the Society's invested assets Reports from the Finance Director were submitted to the Committee providing information on the valuation processes followed for invested assets, including how these provided a fair value.

The Committee considered whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provided the information necessary for members to assess the Society's performance, business model and strategy and how these judgements were reached

In arriving at their conclusion, the Committee reviewed the Board and Audit and Risk Committee papers and minutes to satisfy itself that the Annual Report and Accounts did meet these criteria and could be recommended to the Board for approval

The Committee kept the relationship between the Society and its external auditors under review and considered their independence, including the extent, if any, of their fees from non-audit services As part of the review, the Committee obtained confirmation that, in PwC's opinion, their independence as auditors has not been compromised The Committee approved the terms of engagement and the remuneration to be paid to the external auditors in respect of audit services

The Society's general principle is that our external auditors should not provide non audit-related services for the Society In 2015, the exceptions to this were in relation to the provision of regular regulatory updates in relation to policies sold in Germany, induction training for the Society's Risk Director; and assurance activities in regard to our preparation for Solvency II

The Audit and Risk Committee has primary responsibility for recommending to the Board the appointment, reappointment and removal of the external auditors. In considering this, the Committee takes into account the firm's independence and whether it would be appropriate to invite tenders for the role of external auditors.

PwC have acted as the Society's external auditors since 2001 The Committee reviewed the appointment of external auditors during 2012 as there was a mandatory rotation of the Audit Partner at PwC during 2013. In recommending the reappointment of PwC as the Society's external auditors and not making the role subject to tender at that time, the Committee considered the need for continuity of experience in the external auditor, in particular, during periods of significant change The Board agreed the Committee's recommendation to submit the role of external auditor to formal tender process at the time the next rotation of Audit Partner is due (expected to be in 2018), subject to continued satisfactory performance by PwC until that time The Committee continues to monitor the implementation in the UK of European regulations in relation to audit tendering and rotation

The Committee reviewed the effectiveness of the external audit process at its meeting on 17 March 2016, utilising input from the Chair and the Finance Director. The Committee concluded that PwC's performance had been effective and recommended to the Board that they be reappointed for 2016.

The UKCGC states that the Board should satisfy itself that at least one member of an Audit Committee has recent and relevant financial experience The Board has agreed that Keith Nicholson should be regarded as the member having recent and relevant financial experience

The UKCGC states that no one other than the Committee Chair and members should be entitled to be present at a meeting of an Audit Committee, but others may attend at the invitation of the Committee The Audit and Risk Committee has indicated that any Director may attend its meetings if he or she wishes.

The With-Profits Committee

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

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

Details of how this is achieved are documented in the Society's Principles and Practices of Financial Management and 'Guide to how we manage the with-profits fund' published on our website The Committee is responsible for the maintenance of these documents

The Committee works closely with, and obtains the opinion and advice of, the Society's With-Profits Actuary. It advises the Board on matters affecting with-profits policyholders

The Society has concluded that it is appropriate for the Board as a whole to carry out the duties of the With-Profits Committee In order to ensure appropriate focus is given to these duties, the Board forms a With-Profits Committee to consider relevant items at Board meetings

The Nominations Committee

During 2015, the Nominations Committee comprised two non-executive Directors· Ian

Brimecome (Chair), and Keith Nicholson; and the Chief Executive, Chris Wiscarson. The Committee assists the Board in ensuring that the Society meets the relevant principles and provisions of the UKCGC

The UKCGC states that the Board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively

In relation to the Committee's review of the appropriateness and suitability of Board members, Directors are required to provide feedback to the Chairman both on their own performance and that of their colleagues

The feedback was discussed at the March Nominations Committee meeting, following which the Chairman provided specific feedback to each Board member.

UKCGC principles also specify that there should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.

On joining the Board, new Directors receive an extensive bespoke induction programme Meetings take place with Directors and senior management to share and explain the Society's internal and external reports on important aspects of its business

The Board is committed to appropriate diversity, including gender diversity. The Board's clearly stated intention in its 2013 Annual Report and Accounts was to have at least two women Directors This we have achieved

It is our intention to have a leadership team that brings different skills and perspectives as well as different experiences and backgrounds By the end of 2015, we had achieved our aim to have an equal number of women and men in senior management positions with 50% women and 50% men in such positions This compares with 34% women and 66% men two years ago At the end of 2015, the Society's workforce comprised 69% women and 31% men Currently, two of the six members of the Executive team are women, as is the With-Profits Actuary, the Head of IT, the Head of Legal Services and the Company Secretary

Directors' remuneration report

Statement from the Remuneration Committee Chair

As the Chairman has set down in his statement at the beginning of this report, the Society made further good progress in 2015 It is in this light that the remuneration of the Chief Executive, the Finance Director and the Executive team has been assessed Our driving force as a Remuneration Committee is to ensure that executive remuneration fairly and effectively rewards good performance for the year immediately past as well as having a clear eye to doing what is necessary to secure the future success of the Society

Review of 2015

During 2015, the Committee made the following decisions, full details of which are set out in the Directors' remuneration report

- Assessing Executive Director performance against the 2015 targets;
- Agreeing the final vesting under the Finance Director's Long-Term Incentive Plan ("LTIP"),
- Approving performance targets for 2016,
- Agreeing to make no change to the Chief Executive's and Finance Director's base salaries in 2016,
- Increasing the Chairman's fee; and
- Agreeing the revised remuneration policy, which is now tabled for members' approval.

New remuneration policy

Last year, the Remuneration Committee decided that that there was no need to introduce a new LTIP upon its expiry in 2015 The Committee proposed a new annual bonus scheme with a higher bonus opportunity and a substantial deferred portion subject to clawback and malus, as defined on page 27 I said that we would seek views before bringing forward our final proposals for members' approval at the AGM in May 2016

Our principal way of obtaining members' feedback was through four focus groups held in London and

Corporate governance statement continued

Cardiff. I am very grateful to attendees for so clearly articulating their views In summary, attendees asserted that. arrangements must be simple; there must be a strong link between pay and performance; and there should be no increase in the overall level of executive Director remuneration

The Committee wholeheartedly concurs with these views We are now seeking formal endorsement of the proposals we put forward last year.

The new remuneration policy • One bonus scheme with a higher bonus opportunity • No LTIP • 50% of sum awarded deferred for up to three years • Clawback and malus

In putting this policy forward, we have certainly simplified things by not replacing the LTIP and by having just one bonus scheme. The objectives for payment under the scheme are clearly set down in the policy Since 2014, 30% of the bonus awarded has been deferred for one year Under the new policy, from January 2016, 50% of the bonus awarded will be deferred for up to three years

In addition, the entire discretionary bonus will be subject to clawback and the deferred portion of the bonus will also be subject to malus Both of these terms are defined on page 27.

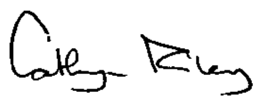
While these changes affect executives, I wish to make it clear that we propose no change to the current Chief Executive's bonus arrangement His maximum opportunity will remain at 25% of base salary, although he has never taken a bonus or pay increase. The Chief Executive has no LTIP arrangements.

In making recommendations to adopt a new remuneration policy, the Remuneration Committee considered the merit of doing away with any sort of bonus We concluded that such a practice would not be in the best interests of the Society. It would lead to fixed salaries above our appetite, and be a disincentive to staff to 'go the extra mile'. Such a unique stance would not only be potentially demotivating to our staff but would also provide a substantial barrier to good people joining the Society as and when the need arises

I want to reassure members that removal of the LTIP does not mean that the Society is no longer focused on the long term I hope it is clear from the business strategy that we place proper emphasis on what is needed to provide policyholder value both now and in the future.

In writing this report, I am mindful that the Society remains a substantial business managing £7bn savings for more than 450,000 policyholders It is essential to have the right people running the organisation and they must be paid properly. In setting the level of reward, we have made our approach simpler, with a stronger link between pay and performance, and have put in place safeguards, including a higher proportion of deferred pay and the introduction of malus and clawback.

In closing, I repeat my words from last year it is a very firm principle that this new policy does not lead to greater levels of overall remuneration through the back door You have my commitment on this. I commend the Society's new remuneration policy to members.



Cathryn Riley
Chair, Remuneration Committee

21 March 2016

Definitions

Base salary

Fixed amount; reviewed annually and paid monthly in twelve equal instalments

Bonus

The annual discretionary bonus rewards achievement of key deliverables in the relevant financial year The maximum possible bonus is expressed as a percentage of base salary.

Long-Term Incentive Plan

The Long-Term Incentive Plan ("LTIP"), introduced in 2012, expired in 2015. There is no replacement

Clawback

Clawback allows for the recovery of sums already paid to executive Directors Clawback applies to bonus and LTIP awarded after 1 January 2015, for a period of two years following award in any of the following circumstances: a misstatement of the Society's financial accounts deemed material by the Remuneration Committee, or a failure of risk management deemed material by the Remuneration Committee, or gross misconduct by the executive Director

Malus

Malus allows for the forfeiture of bonus in the deferred period before it has been paid to the executive Director in any of the following circumstances a restatement of the Society's financial accounts as a result of an error; or failure by the executive Director to comply with the rules, policies or procedures of the Society, or those of our regulators, deemed to be significant by the Remuneration Committee; or any adverse post-implementation review findings relating to a project or task, deemed to be significant by the Remuneration Committee, for which the executive Director is accountable, or dismissal of the executive Director.

About the Remuneration Committee

The Remuneration Committee is responsible for recommending remuneration policy to the Board. The Committee comprises three non-executive Directors Cathryn Riley, Ian Brimecome and Keith Nicholson. The Committee reviews remuneration policy annually and sets the terms of employment and remuneration of executive Directors

The Committee operates to the standards set out in the UKCGC and by the Association of British Insurers ("ABI").

The Committee's formal annual review of its approach and processes found them to be appropriate and effective

During 2015, the Society received remuneration survey information from Towers Watson This survey is an important reference source in understanding the levels of remuneration within the UK insurance sector

In considering matters relating to Directors' remuneration the Society received advice and services from the following

Firm	Services	Fees, excl. VAT £000
Tidden Services Ltd	Expert analysis	33
Penn Schoen Berland UK	Focus group management	16
Towers Watson Ltd	Remuneration survey	3
Ashursts LLP	Legal advice	2
Total		**54**

In 2015, these firms also provided other services to the Society additional to those provided to the Remuneration Committee

Corporate governance statement continued

Executive Directors' remuneration policy

<table>
<tr><td>

Base salary

Purpose and link to strategy
Fixed amount to attract and retain executives of suitably high calibre to manage the Board's strategic plans and lead the Society

Value
Chief Executive £450,000 pa
Finance Director £229,500 pa

Reflects the individual's skills and experience

Reviewed annually with changes, if applicable, usually effective from 1 January Promotion or an increase in responsibility could lead to a higher increase than that made to other staff at the Society

Total remuneration is referenced to Towers Watson survey data We may pay higher salaries and total remuneration for strongly performing individuals or to attract and retain executives of the right calibre

Operation
Paid monthly in twelve equal instalments

Performance metrics
None, although overall performance of the individual is considered by the Committee when setting and reviewing salary annually

</td></tr>
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Benefits

Purpose and link to strategy
The Society does not provide an occupational pension scheme for Directors A cash allowance is provided in lieu

The Society also pays the premiums on behalf of Directors relating to private medical insurance, income protection and life assurance, particulars of which may be obtained from the Company Secretary The Committee may alter benefits from time to time and, where this occurs, an explanation will be provided in the subsequent annual Directors' remuneration report

London is the principal place of work for executive Directors When Directors are required to travel to the Society's Aylesbury office, the associated costs are covered by the Society

Maximum potential value
Cash allowance in lieu of pension Chief Executive £70,000 pa, other executive Directors 10% of base annual salary

Insurance premiums vary year by year The current annual cost is shown in the executive Directors' emoluments table The costs of travel to Aylesbury vary year by year in line with business needs

Operation
The cash allowance in lieu of pension is paid monthly in twelve equal instalments
The costs of travel to Aylesbury are taxable benefits, and paid by the Society on a 'grossed up' basis

Performance metrics
None

</td></tr>
</table>

Discretionary Annual Bonus

Purpose and link to strategy
Rewards achievement of key deliverables in the relevant financial year

Maximum potential value
80% of base salary

For the remainder of his employment with the Society the current Chief Executive is eligible for consideration for a bonus of up to 25% of his basic salary for exceptional performance

Operation
Performance is monitored throughout the year, and a formal assessment is presented to the Remuneration Committee at the half year and year end

Where performance is on target, typically 75% of the maximum bonus is paid but, in some circumstances, it may be lower Where performance is assessed as exceeded, bonus of up to the maximum is payable Where performance does not reach on target level, no bonus is payable

50% of the sum awarded is deferred, with effect from the 2016 financial year, and subject to malus, with the deferred amount being paid in equal instalments on the three anniversaries following initial payment

Up to 100% of the gross sum is subject to clawback

Performance metrics
A scorecard is agreed each year setting out specific performance objectives Objectives are determined so that the interests of bonus scheme participants and of policyholders are aligned In particular, there is a strong focus on ensuring that executives act in ways that achieve business stability through, for example, treating customers fairly and prudently managing risk

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

LTIP

The Society no longer operates a LTIP The discretionary annual bonus scheme is designed to incentivise both short and longer-term performance

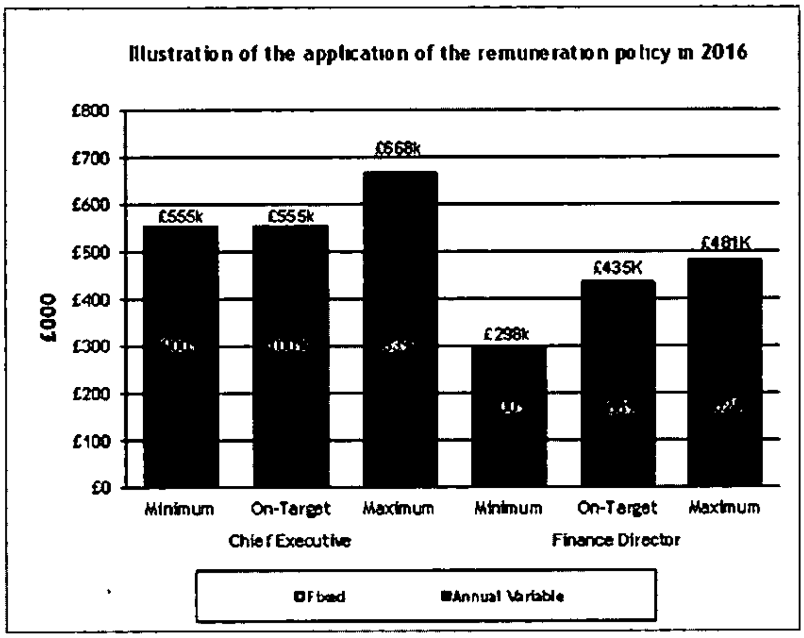
Corporate governance statement continued

Application of the remuneration policy

We estimate that the level of remuneration received by each of the two executive Directors for the 2016 financial year will be, indicatively, at three different levels of performance

1. Minimum where only fixed pay (salary, benefits and cash in lieu of pension) is payable and no bonus accrues,
2. On target: fixed pay plus, annual discretionary bonus at on target level, and
3. Maximum fixed pay plus maximum bonus

The chart below shows the value and composition of the remuneration package of the Chief Executive and Finance Director under the three levels of performance described above.



The basis of calculation and key assumptions used to compile the chart are·

- Salary, benefits in kind and cash in lieu of pension, as described in the remuneration policy table, are shown at the estimated cash cost to the Society
- On-target bonus reflects the position where the corporate and personal metrics in the scorecard are achieved.
- Maximum bonus maximum reflects the position where overall performance is exceeded and represents the amount at which the bonus payment is capped

Approach to recruitment of Directors

The remuneration components for new Directors would be the same as those for existing Directors, that is: base salary, discretionary annual bonus with a maximum opportunity of 80% of base salary, 10% of base salary cash payment in lieu of a pension contribution, and payment of medical insurance, income protection and life assurance premiums Exceptionally, the Remuneration Committee may make a payment towards the cost of relocation. The specific individual circumstances of the joining Director will be the basis for determining whether any such costs will be met

As a consequence of joining the Society, new Directors may lose the right to payments from their previous employer While we would not compensate a Director for this upon arrival, we may choose to recognise such loss through the discretionary annual bonus, should performance justify this We may also similarly recognise preparation by the Director in readiness for joining the Society.

Payment for loss of office

The notice period for the Chief Executive is twelve months and, for other executive Directors, six months. These time periods have been put in place to safeguard the Society, in recognition that it typically takes several months to appoint successors to these positions

The Society has the right to terminate any Executive Director's employment by making a payment in lieu of the whole or unexpired part of the notice period

Executive Directors are not eligible for a redundancy payment. Termination payments will be calculated on the following basis

- Base salary due in respect of the notice period remaining;
- Benefits in respect of the same period; and
- Discretionary annual bonus relating to the period worked For example, a 'good leaver' with a leaving date halfway through the financial year could receive a bonus relating to half a year's work A good leaver is defined as an individual ceasing to hold office or employment with the Society by reason of death, injury, ill health, redundancy or retirement

Service contracts

There are no obligations on the Society in the Directors' service contracts which could give rise to, or impact on, remuneration payments or payments for loss of office which are not disclosed elsewhere in this report No legacy matters arise from previous contracts. The contracts are available for inspection at the Society's registered office.

Use of discretion

The Committee has discretion to increase base salary. This would typically take place at the time of the annual pay rise, on promotion or following an increase in responsibility

The Remuneration Committee exercises discretion regarding payments under the discretionary annual bonus up to the maxima disclosed in this report and in determining whether a Director ceasing employment is defined as a good leaver

Such discretion is necessary not only to evaluate the annual bonus but also to reduce payments where appropriate. Such flexibility is considered to be in the best interests of the Society and, other than in respect of increases to base salary and the discretionary annual bonus scheme, is only exercised exceptionally

Directors' remuneration in the context of pay and employment in the Society

The Society applies the same remuneration principles to all staff, ensuring there is alignment with business strategy throughout the Society As well as salary, pension and other benefits, staff have the opportunity to receive a discretionary annual bonus

The Remuneration Committee takes into account any annual pay increase for Society staff when determining the levels of pay for Directors

Corporate governance statement continued

Succession planning

The Society identifies and prepares successors capable of filling senior management positions to ensure continuity of management, and this work is subject to twice yearly review by the Remuneration Committee. This approach has proven effective when addressing changes at executive level.

The relatively small size of the Society means that it is not always possible to fill senior positions internally Options include identifying external candidates or the use of contractors in specialist functions such as Risk and Finance. In some cases, responsibilities can be passed to other senior managers, rather than making a replacement appointment

Non-executive Director remuneration policy

Non-executive Directors receive only fees and are not eligible to receive benefits, pension or any annual or long-term incentives Non-executive Directors' remuneration, other than that for the Chairman, is set by the Board. The Chairman's remuneration is set by the Remuneration Committee

Fees are set by reference to market data, and the Board has discretion to increase fees periodically. Fees were increased from 1 January 2016, the first such increase for non-executive Directors since 2012, and for the Chairman since 2013

Fees for the non-executive Directors are as follows:

	Annual fee	Effective from
Chairman	£150,000 pa	1 January 2016
Senior Independent Director and Chair of Audit and Risk Committee	£60,000 pa	1 January 2016
Other non-executive Directors including Chair of Remuneration Committee	£50,000 pa	1 January 2016

There is a one month notice period under non-executive Directors' service agreements

Annual report on remuneration

Decisions in regard to executive Director remuneration in 2015, have been made in accordance with the Directors' remuneration policy approved by members on 19 May 2014 and effective from that date. The total emoluments of the Directors were as follows

Executive Directors' emoluments

	Salary		Performance related bonus		Benefits		LTIP		Total	
	2014 £	2015 £	2014 £	2015 £	2014 £	2015 £	2014 £	2015 £	2014 £	2015 £
C M Wiscarson	450,000	450,000	-	-	100,669	105,020	-	-	550,669	555,020
S A Small	229,500	229,500	86,063	114,750	65,919	68,229	135,000	135,000	516,482	547,479
Total	679,500	679,500	86,063	114,750	166,588	173,249	135,000	135,000	1,067,151	1,102,499

Notes

London is the principal place of work for executive Directors When they are required to travel to the Society's Aylesbury office, the associated costs are covered by the Society The Society pays the tax on these benefits The amount in 2015 for C M Wiscarson was £23,436 (2014 £19,491) and for S A Small £40,245 (2014 £38,345), and these sums are included under Benefits above

Executive Directors' emoluments have been audited by PricewaterhouseCoopers LLP

Relative importance of spend on pay

A reduction in the number of the Society's employees has led to spend on pay reducing to £16m (2014: £18m) The table below compares spend on pay to the amount of capital distribution enhancing policy values of £976m (2014 £751m) Total spend on pay is very small compared with capital distribution enhancing policy values While Executive Director pay has remained stable at £1m, it has increased to 7.7% of all employee remuneration (2014. 6 7%) as a consequence of the reduction in employee numbers

	2014 £m	2015 £m
Remuneration of Executive Directors	1	1
Remuneration of employees other than Executive Directors	14	12
Other including social security and pension costs	3	3
Total spend on pay	18	16
Capital distribution enhancing policy values	751	976
Total spend on pay as a percentage of capital distribution enhancing policy values	2 4%	1.6%
Remuneration of Executive Directors as a percentage of remuneration of all employees	6.7%	7.7%

Benefits

As the Society does not provide an occupational pension scheme for Directors, C M Wiscarson and S A Small have no accrued pension entitlements (2014 no accrued pension entitlements) Other benefits relate to travel, and premiums for medical insurance, permanent health insurance and life assurance

Performance-related bonus

The performance of C M Wiscarson against the objectives in his balanced scorecard was as follows

Objective	Measure	Performance
Policyholders	Payments to policyholders within agreed timescales	Achieved
	Policyholder views regarding direction of the Society	Achieved
Financial	Solvency ratios	Achieved
	Expenses budget	Exceeded
Risk	Manage risk within agreed limits	Achieved
	Solvency II preparation	Achieved
Projects	Strategic projects	Exceeded
People	Staff survey	Achieved

In considering C M Wiscarson's performance in 2015, the Board concluded that the Society's positive momentum in run-off has seen no let-up The preferred strategy has been set, the sale of the annuity book has exceeded the benefits anticipated for policyholders, costs are extremely well controlled, staff numbers are strongly and persistently downward, while good levels of morale have been maintained Given this performance, C M Wiscarson would have merited a bonus, but the Remuneration Committee accepted his wish not to be considered for a bonus No bonus payments have been made to C M Wiscarson since joining in 2009 Paying no bonus is not the norm for Chief Executives and a different approach is likely to be adopted at some point in the future.

Corporate governance statement continued

The remuneration of the Society's Chief Executive since 2009 has been as follows:

Year	Chief Executive	Chief Executive's total remuneration	Annual bonus as % of maximum opportunity	Long-term vesting as % of maximum opportunity
2015	C M Wiscarson	£555,020	0%	0%
2014	C M Wiscarson	£550,669	0%	0%
2013	C M Wiscarson	£551,712	0%	0%
2012	C M Wiscarson	£540,896	0%	0%
2011	C M Wiscarson	£533,788	0%	0%
2010	C M Wiscarson	£537,623	0%	0%
2009*	C M Wiscarson	£177,472	0%	0%
2009*	C G Thomson	£1,388,153	85%	100%

* C G Thomson resigned on 26 August 2009 and C M Wiscarson became Chief Executive from 2 September 2009.

The remuneration of the Chief Executive increased by 0.8% compared with 2014, following an increase in the cost of benefits. By comparison, employees of the Society received a 2% increase in base salary effective from 1 January 2015, and most staff received an annual discretionary bonus.

The performance of S A Small against his objectives was as follows

Objective	Measure	Performance
Policyholders	Investment management Policyholder views regarding direction of the Society	Achieved Achieved
Financial	Solvency ratios Expenses budget Cost targets in Business Plan Simplification	Achieved Exceeded Exceeded Exceeded
Risk	Third party management Solvency II readiness in the Finance function IT key performance indicators	Achieved Exceeded Achieved
Projects	Transfer and embedding the unit-linked business Other strategic projects	Exceeded Achieved
People	Finance staff survey IT organisation design	Exceeded Achieved

The Committee determined that S A Small performed strongly in 2015. In particular, his work on cost management, recapturing the unit-linked business, Solvency II preparation in the Finance function and Simplification were of a very high standard The Committee considered that S A Small's performance merited an exceeded bonus of 50% of base salary (£114,750) Of this, £34,425 is deferred and is payable in January 2017, subject to malus

LTIP

The final instalment of S A Small's LTIP vested in December 2015 The principal performance criteria necessary for the plan to vest were company-wide delivery of the Society's Solvency II implementation plan by the end of 2015, expense reduction in line with long-term targets; and prompt identification and mitigation of risks. These performance criteria are discrete from those used in respect of determining payment of the annual discretionary bonus This ensures that recipients are not rewarded under two different incentive schemes for the same achievements

The Remuneration Committee undertook a detailed review of performance against the objectives set, drawing on the Society's Internal Audit team's independent assessment that the criteria had been met The Committee determined that S A Small's LTIP should vest at 80% of the maximum.

The plan has now expired and will not be replaced C M Wiscarson did not participate in the LTIP.

Corporate governance statement continued

Performance targets for 2016

The 2016 balanced scorecard set for C M Wiscarson is as follows:

Objective	Measure	Performance required
Policyholders	Payments to policyholders With-profits policyholder views regarding direction of the Society Policyholder behaviour research	Issue within agreed timescales Percentage of positive views less percentage of negative views to be greater than 50% Establish new forecasting methodology
Financial	Solvency ratios Expense levels	Ratios to be within agreed limits Not to exceed budget
Risk	Manage risk within agreed appetite Solvency II	Key risk indicators in place, monitored and action taken Embed Solvency II
Projects	Strategic projects Unit-linked business Simplification	Complete projects to time, cost and quality Deliver 2016 plan Deliver target cost savings
People	Staff survey	Positive scores to exceed 70% on all questions

The 2016 balanced scorecard set for S A Small is as follows

Objective	Measure	Performance required
Policyholders	Investment management With-profits policyholder views regarding direction of the Society	Deliver agreed investment strategy Percentage of positive views less percentage of negative views to be greater than 50%
Financial	Solvency ratios Expense levels	Ratios to be within agreed limits Not to exceed budget
Risk	Third party management Solvency II IT key performance indicators	Set and deliver against supplier scorecards Embed Solvency II Achieve service targets
Projects	Strategic projects Unit-linked business Simplification	Complete sponsored projects to time, cost and quality Deliver 2016 plan Deliver target cost savings
People	Staff survey Organisational design	Positive scores to exceed 70% on all questions Structure Finance and IT so they are more closely aligned to run-off profile

2016 pay award

It is the Society's practice to review basic salaries for all staff towards the end of each financial year, taking into account affordability, changes in pay within the insurance sector and the external economic environment. In 2015, following such review, it was decided to award a 2% increase in basic annual salary, from January 2016 (January 2015 2%). No increase was applied to the salaries of the Chief Executive and the Finance Director.

Payments made to non-executive Directors

Total payments to non-executive Directors are set out below. No other payments were made

Non-executive Directors	2014 £	2015 £
I Brimecome, Chairman	140,000	140,000
Other non-executive Directors		
P J Avis*	n/a	43,154
I A Gibson	45,000	45,000
K Nicholson	55,000	55,000
D I W Reynolds **	45,000	n/a
C Riley	45,000	45,000
Total for non-executive Directors	330,000	328,154

* P J Avis was appointed on 16 January 2015

** D I W Reynolds resigned on 31 December 2014

The above payments have been audited by PricewaterhouseCoopers LLP

Consideration of member views

The proxy votes received, excluding abstentions, in respect of Directors' remuneration report at the Society's AGM held on 23 May 2015, were as follows:

	2014		2015	
For	60,539	(93%)	59,990	(94%)
Against	4,760	(7%)	3,867	(6%)

Approval

This report was approved by the Board of Directors on 21 March 2016 and signed on its behalf by

Cathryn Riley
Chair, Remuneration Committee

8. Statement of compliance with the UK Corporate Governance Code

The Board considers that the Society has applied the relevant principles of the UK Corporate Governance Code. The Society complied with the Code and associated guidance throughout the year, other than in respect of a majority of members on the Nominations Committee being independent non-executive Directors, and that the Remuneration Committee should consist of at least three non-executive Directors The membership of Nominations Committee has been revised so that the Society will comply in 2016. With regard to the Remuneration Committee, the Board believes it is sufficient that two independent non-executive Directors are members of the Committee

Signed on behalf of the Society's Board of Directors

Ian Brimecome
Chairman

21 March 2016

Independent Auditors' report

to the members of The Equitable Life Assurance Society

Report on the financial statements

Our opinion

In our opinion, The Equitable Life Assurance Society's financial statements (the "financial statements")

- give a true and fair view of the state of the Society's affairs as at 31 December 2015 and of its result for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise

- the Balance sheet as at 31 December 2015,
- the Statement of comprehensive income for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law (United Kingdom Generally Accepted Accounting Practice).

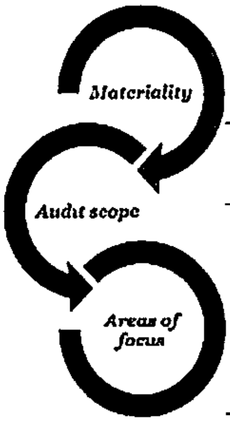
Our audit approach

Context

The Society is a closed life-assurance fund and our audit is set against the context of its continued run-off Its primary objective is to maintain a solvent run-off in order to be able to fairly distribute its Excess Realistic Assets over liabilities ("ERA") to its members over time. During the year the Society undertook two significant strategic transactions, which impacted on our audit

- The reinsurance of substantially all of its annuity liabilities with effect from 1 January 2015 and the agreement and subsequent transfer, on 19 February 2016, of this business to the reinsurer. In response to this, we removed the longevity assumptions from our area of focus on the valuation of the long-term business provision as the Society's ERA is no longer sensitive to fluctuations in that assumption; and
- The recapture of its portfolio of unit-linked business that was previously ceded to Halifax Life. As this represents a significant non-routine transaction, we included it as an area of focus for our 2015 audit

Overview



- Overall materiality. £39.1m (2014: 39.5m), which represents 5% of ERA

- 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
- Valuation of unquoted financial investments
- Recapture of unit-linked business

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)")

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements In particular, we looked at where the Directors made subjective judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context This is not a complete list of all risks identified by our audit.

<table>
<tr><th>Area of focus</th><th>How our audit addressed the area of focus</th></tr>
<tr><td>Valuation of long-term business provision
We focused on the Directors' assessment of the valuation of the long-term business provision £6,108m at 31 December 2015 for settlement of future benefits because it involves complex and subjective judgements about future events, both internal and external to the business, for which small changes 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, expected credit default rates and persistency (being the rate at which policies are retained over time) including how the Guaranteed Investment Return ("GIR") affects policyholder behaviour, particularly with respect to persistency</td><td>We assessed the Directors' valuation of the long-term business provision by
• Testing the Society's internal controls over assumption setting, including
- testing the process by which the assumptions were set, including the degree of rigour, challenge and oversight provided by senior management and the Directors, and
- testing whether 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, and
- 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,
• 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 the GIR on policyholder persistency

Finally, we compared the assumptions used for credit default with those adopted by other insurers using our in-house industry benchmarking data

We found that the Directors' process was rigorous. With respect to credit default, the assumptions were in line with industry benchmarks The valuation assumptions are inherently subjective, however, we considered, based on the results of our testing, that the assumptions used were appropriate in the context of the Society's products</td></tr>
</table>

Area of focus	How our audit addressed the area of focus
Valuation of unquoted financial investments The Society uses derivative investments to hedge the risk of movement in the GIR liability and the investment portfolio includes a material amount of unquoted financial investments (See Note 11d) These investments were valued using significant non-observable inputs, sometimes involving the use of complex valuation models, and their valuation is therefore inherently uncertain. These investments represent approximately 4% of the total invested assets on the Society's Balance sheet	We examined the basis on which the Directors and the Society's investment manager determined the fair valuation of these financial investments, and, where valuation models were used, we checked that the Directors/management had appropriate oversight over the development and use of those models We examined the work performed by management to obtain prices for the Society's investments from independent sources to corroborate those provided by its external investment manager and found that no discrepancies were identified. We tested the valuation of a sample of unquoted financial investments by comparing the valuation applied by the Directors to independent pricing sources or our independent valuation models as appropriate In performing this testing we did not identify any material misstatements in the valuation of unquoted financial investments
Recapture of unit-linked business During 2015 the Society recaptured (effectively a cancellation of a reinsurance contract purchased in the past) its portfolio of unit-linked business that it previously ceded to Halifax Life. This resulted in the Society recognising £1,953m of linked assets directly on its Balance sheet on the day of the transaction in place of the reinsurance asset that was previously recognised As this was a significant non-routine transaction, there was a risk that the accounting treatment and presentation in the financial statements was not accordance with UK GAAP (See Note 3a).	We read the relevant legal agreements and examined the accounting treatment and disclosures presented in the Society's financial statements in respect of this transaction and found them to be appropriate We also tested the Directors' validation work on the completeness of the assets transferred from Halifax Life to the Society and did not identify any material unexplained differences Subsequent to the recapture, we tested the Society's year-end valuation of linked assets by comparison to independent pricing sources and did not identify any material exceptions We also tested the Society's controls over the valuation process and did not identify any deficiencies.

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 geographic structure of the Society, the accounting processes and controls, and the industry in which the Society operates

The Society consists of a single legal entity and one closed life assurance fund operating out of a single location The Society outsources its investment management and investment administration function and hosting of IT infrastructure to third parties

In order to gain appropriate audit evidence we performed a combination of testing the Society's internal controls over financial reporting and testing transactions and balances to supporting evidence. In respect of the outsourced investment management and administration service providers we were able to gain appropriate audit evidence through a combination of evaluating the providers' published assurance reports on internal control and testing controls operated by the Society that monitor the procedures carried out by the service providers In respect of the outsourced IT service provider we were able to gain appropriate audit evidence by testing internal controls operated by the Society over IT systems and processes. This gave us the evidence we needed for our opinion on the Society's financial statements as a whole

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 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	£39 1m (2014: £39 5m)
How we determined it	5% of Excess Assets over Realistic Liabilities
Rationale for benchmark applied	Consistent with the prior year, since the Society does not report a profit or loss, we believe that the ERA is the most appropriate benchmark on which to base materiality This is because 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 and Risk Committee that we would report to them misstatements identified during our audit above £1 9m (2014 £1 9m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons

Going concern

The Directors have voluntarily complied with Listing Rule 9 8 6(R)(3) of the Financial Conduct Authority, and provided a statement in relation to going concern, set out on page 50, required for companies with a premium listing on the London Stock Exchange

The Directors have requested that we review the statement on going concern as if the Society were a premium listed company We have nothing to report, having performed our review

The Directors have chosen to voluntarily comply with the UK Corporate Governance Code (the "Code") as if the Society were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements We have nothing material to add or to draw attention to.

As noted in the Directors' report, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements The going concern basis presumes that the Society has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed As part of our audit, we have concluded that the Directors' use of the going concern basis is appropriate

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Society's ability to continue as a going concern

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting	
Arising from the Directors' decision to voluntarily comply with the Code as if the Society were a premium listed company, under ISAs (UK & Ireland) we are required to report to you if, in our opinion	
• Information in the Annual Report is – materially inconsistent with the information in the audited financial statements, or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Society acquired in the course of performing our audit, or – otherwise misleading	We have no exceptions to report
• The statement given by the Directors on page 15, in accordance with provision C 1 1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and that it provides the information necessary for members to assess the Society's performance, business model and strategy, is materially inconsistent with our knowledge of the Society acquired in the course of performing our audit.	We have no exceptions to report.
• The section of the Annual Report on pages 22 to 24, as required by provision C.3 8 of the Code describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee	We have no exceptions to report

Independent Auditors' report

to the members of The Equitable Life Assurance Society continued

The Directors' assessment of the prospects of the Society and of the principal risks that would threaten the solvency or liquidity of the Society

Arising from the Directors' decision to voluntarily comply with the Code as if the Society were a premium listed company, we are required under ISAs (UK & Ireland) to report to you if, in our opinion.	
• the Directors' confirmation in the Annual Report, in accordance with provision C 2.1 of the Code that they have carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity	We have nothing material to add or to draw attention to
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated	We have nothing material to add or to draw attention to.
• the Directors' explanation in the Annual Report, in accordance with provision C 2 2 of the Code, as to how they have assessed the prospects of the Society, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.
The Directors have voluntarily complied with Listing Rule 9.8.6(R)(3) of the Financial Conduct Authority and provided a statement that they have carried out a robust assessment of the principal risks facing the Society and a statement in relation to the longer-term viability of the Society, set out on pages 14 and 15 The Directors have requested that we review these statements as if the Society were a premium listed company. Our review was substantially less in scope than an audit and only consisted of. making enquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code, and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report, having performed our review.	

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006, we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility

Other voluntary reporting

Matter on which we have agreed to report by exception

Corporate governance statement

The Society voluntarily prepares a Corporate governance statement in accordance with the provisions of the Code In accordance with our instructions from the Society, we review the parts of the Corporate governance statement relating to the Society's compliance with the ten further provisions of the Code specified for auditor review by the Listing Rules. We have nothing to report having performed our review

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' responsibilities in respect of the financial statements as set out on page 14, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Society'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

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of·

- whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the Directors, and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Marcus Hine

Marcus Hine (Senior Statutory Auditor)
for and on behalf of **PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
London

21 March 2016

Statement of comprehensive income

For the year ended 31 December 2015

Technical account – long-term business

	Notes	2014 £m	2014 £m	2015 £m	2015 £m
Earned premiums, net of reinsurance					
Gross premiums written	4	36		16	
Annuity business reinsurance initial premium	3	-		(850)	
Insurance business element of buy-back	3	-		180	
Other outward reinsurance premiums	3	(11)		(6)	
			25		(660)
Investment income	5		280		308
Unrealised gains on investments	5		466		-
Other technical income	9		3		22
Total technical income			**774**		**(330)**
Claims incurred, net of reinsurance					
Claims paid – gross amount	6	386		459	
Reinsurers' share		(33)		(71)	
			353		388
Changes in other technical provisions, net of reinsurance					
Long-term business provision – gross amount	13d	437		(418)	
Reinsurers' share	13d	(114)		(543)	
			323		(961)
Technical provisions for linked liabilities – gross amount	13d	121		21	
Reinsurers' share	13d	(74)		(223)	
			47		(202)
Net operating expenses	7		39		35
Other technical charges	9		-		34
Investment expenses including interest	5		6		7
Unrealised loss on investments	5		-		369
Taxation attributable to the long-term business	10		6		-
			51		445
Total technical charges			**774**		**(330)**
Balance on the Technical Account			-		-
Total comprehensive income for the year			-		-

The results for 2015 and 2014 are not consolidated, as explained in Note 1a All amounts relate to continuing operations The Notes on pages 50 to 82 form an integral part of these financial statements

Balance sheet

as at 31 December 2015

Assets

	Notes	2014 £m	2015 £m
Investments			
Land and buildings	11a	5	-
Investments in Group undertakings	11b	23	26
Shares and other variable yield securities and units in unit trusts	11b	134	88
Debt and other fixed-income securities	11b	5,235	5,083
Deposits and other investments	11b	328	328
		5,725	**5,525**
Assets held to cover linked liabilities	11c	**310**	**1,788**
Reinsurers' share of technical provisions			
Long-term business provision	13c,d	488	1,031
Technical provisions for linked liabilities	13c,d	1,925	349
		2,413	**1,380**
Debtors			
Debtors arising out of direct insurance operations	12	4	3
Debtors arising out of reinsurance operations	12	3	6
Other debtors	12	5	5
		12	**14**
Other assets			
Cash at bank and in hand		**5**	**10**
Prepayments and accrued income			
Accrued interest and rent		56	53
Other prepayments and accrued income		3	3
		59	**56**
Total assets		**8,524**	**8,773**

The Notes on pages 50 to 82 form an integral part of these financial statements.

Liabilities

	Notes	2014 £m	2015 £m
Technical provisions			
Long-term business technical provision - gross amount	13a,d	6,108	5,690
Technical provisions for linked liabilities	13b,d	2,235	2,137
		8,343	**7,827**
Creditors			
Creditors arising out of direct insurance operations	16	20	23
Deposit received from reinsurer - secured	3,16	-	796
Amounts owed to credit institutions	16	3	3
Other creditors including taxation and social security	16	147	112
		170	**934**
Accruals and deferred income		**11**	**12**
Total liabilities		**8,524**	**8,773**

These financial statements were approved by the Board on 21 March 2016 and were signed on its behalf by:

Simon Small
Finance Director

The Equitable Life Assurance Society registered company number 37038

The Notes on pages 50 to 82 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 mutual life assurance company.

The Society's registered office is at 20-22 Bedford Row, London, WC1R 4JS The policyholder administration office is at Walton Street, Aylesbury, Buckinghamshire, HP21 7QW

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) The provisions of the FRS102 amendment for fair value hierarchy disclosures have been adopted early The adoption of FRS 102 and FRS 103 with effect from 1 January 2014 has resulted in no restatement of comparatives or changes in accounting policy

The Society does not have subsidiary companies that require consolidation, and these accounts represent the results and position of the Society only.

The Directors have considered the appropriateness of the going concern basis used in the preparation of these financial statements, having regard to the ability of the Society to be able to meet its liabilities as and when they fall due, and the adequacy of available assets to meet liabilities In the opinion of the Directors, the going concern basis adopted in the preparation of these financial statements continues to be appropriate

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 Halifax Life a company in Lloyds Banking Group ("LBG") reinsures non-profit business, and until March 2015 also reinsured 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. The reinsurance of annuities with Canada Life from 1 January 2015 until the Part VII transfer in 2016 has been classified as insurance business Changes in reinsurance arrangements in 2015 are described in Note 3

d. Insurance contracts and investment contracts with discretionary participation feature

Earned premiums

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

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

Claims

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

Claims payable include interest and direct costs of settlement

Reinsurance contracts

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

Liabilities

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

e. Investment contracts without discretionary participation feature

Unit-linked and non-profit investment contracts classified as investment without discretionary participation feature are classified as financial instruments 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, including interest payable on financial liabilities

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

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

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

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

g. Valuation of investments

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

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

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

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

h. Property

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

i. 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

Notes on the financial statements continued

1. Accounting policies (continued)

j. Impairment policy

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

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

The long-term business provision is determined for the Society, following an investigation of the long-term funds, and is calculated in accordance with the rules contained in the combined Financial Conduct Authority ("FCA")/Prudential Regulation Authority ("PRA") Handbook of Rules and Guidance The investigation is carried out as at 31 December For the with-profits business of the Society, the liabilities to policyholders are determined in accordance with the PRA realistic capital regime and in accordance with the requirements of FRS 103. These liabilities include guaranteed bonuses and an estimate of non-guaranteed benefits, including future discretionary increases to policy values, and provision for any guaranteed values which are in excess of policy values With-profits policy liabilities do not include an allowance for capital distribution

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

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

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

l. Taxation

The charge for taxation in the 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, and is only recognised to the extent that recovery is probable at a later date

m. Foreign currency translation

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

n. Segmental reporting

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

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

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

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 and assumptions made in valuing technical provisions, as described in Note 13f-h Areas of significant focus in 2015 were the review of longevity assumptions following the reinsurance with Canada Life and assumptions about future policyholder behaviour and expenses

3. Reinsurance

a. Reinsurance with Halifax Life

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

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

As described in the Strategic report, in 2014 the Society entered into a further contract with Halifax Life, to buy back £1.9bn of previously reinsured unit-linked business £1 7bn of the recaptured business relates to investment business and so is not reflected within reinsurance premiums in the Technical Account The balance of £180m is recorded within reinsurance premiums The 2014 contract was conditional on transferring the assets to the Society, which occurred in March 2015, and the Society now directly manages the assets backing the majority of unit-linked policies The insurance and expense risk associated with the recaptured business has returned to the Society and the concentration of counterparty risk with LBG has significantly reduced.

The remaining reinsurance contracts create an asset on the Balance sheet of £492m, being the entitlement for the Society to recover from LBG 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.

On 31 December 2015, LBG transferred all the business of Halifax Life to Scottish Widows

b. Annuity reinsurance with Canada Life

On 2 March 2015, the Society entered into an agreement with Canada Life to reassure the non-profit annuity business, under which Canada Life bore substantially all the risks and rewards of this business with effect from 1 January 2015. The initial premium of £850m for the reassurance is included in outward reinsurance premiums

In order to protect policyholders from counterparty credit risk, the initial premium was deposited back with the Society This deposit was held in assets with a similar investment mix to that previously held by the Society. Canada Life held a secured charge over these assets, (reported in non-linked investments in Note 11). The investment returns from the secured assets were attributed to Canada Life, and payments in respect of related annuity payments deducted from the deposited assets. At the balance sheet date, the effect of this deposit back arrangement was to increase the Society's total assets (Reinsurers' share of technical provision insurance contracts Note 13c) and liabilities (Deposits received from reinsurer - secured Note 16) by the deposited amount.

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

c. Other outward reinsurance

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

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 2015 was £57m and represents linked pension business (2014 £29m) New premium deposits were £33m (2014 £5m)

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

	2014 £m	2015 £m
Analyses of gross premiums:		
Individual premiums	34	16
Premiums under group contracts	2	-
	36	**16**
Regular premiums	19	15
Single premiums	17	1
	36	**16**
Premiums from non-profit contracts	10	9
Premiums from with-profits contracts	24	6
Premiums from linked contracts	2	1
	36	**16**
Premiums from life business	12	11
Premiums from pension business	24	5
	36	**16**
Premiums from UK business	34	14
Premiums from overseas business	2	2
	36	**16**

Classification of new business

The Society closed to new business on 8 December 2000 The Society continues to recognise very small amounts of new business premiums and deposits where it is contractually obliged to do so.

Of the £16m gross premiums reported in the Technical Account and analysed in the table above, less than £1m was new premium income in the year (2014 £17m)

The majority of new business recognised in 2014 was transfers from group to individual contracts, and was included in both premiums and claims

Annual equivalent premiums in respect of new business received during the year were £nil (2014 £2m) New premiums in respect of reinsured business during the year were £nil (2014 £2m)

5. Total investment return

	2014 £m	2015 £m
a. Total investment return		
Investment income comprises income from:		
Other investments	182	198
Net gains on realisation of investments	98	110
Investment income and net realised gains	**280**	**308**
Investment expenses including interest comprise:		
Investment management expenses	(6)	(7)
Unrealised gains/(losses) on investments	**466**	**(369)**
Investment return on assets at fair value through the Profit and Loss Account	**740**	**(68)**

The small increase in both yields and credit spreads over the year suppressed invested asset values and offset investment income earned Realised gains include £40m from a restrike of the swaption portfolio.

The gross return on with-profits assets and the adjustments made to the return on invested assets to derive the return net of charges are shown in the table below and discussed in the Strategic report

	2014 %	2015 %
Return on investments	13 7	0 2
Adjusted for		
Movements affecting liabilities	(11.2)	1 3
Expenses	(1.0)	(1.0)
Guarantees	(0 5)	(0 5)
Tax and changes in provision	(0.1)	-
Return net of charges	0.9	-

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

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

Notes on the financial statements continued

6. Claims incurred

	2014 £m	2015 £m
Claims paid - gross claims	386	459
Investment contract claims which are deposit accounted for and therefore not included in the Technical Account	139	176

The increase in the value of claims paid reflects the Government pension reforms that came into effect in April 2015 Claims paid include claims handling expenses of £1m (2014 £1m) Included in the above payments are capital distribution amounts and attributable final and interim bonuses for the Society of £83m (2014 £48m)

7. Net operating expenses

	2014 £m	2015 £m
Administration expenses	29	26
Costs of strategic initiatives	9	5
Redundancies	1	4
Total net operating expenses	**39**	**35**
Investment management expenses (Note 5a)	6	7
Claims handling expenses (Note 6)	1	1
Total costs	**46**	**43**

Administration expenses have fallen in 2015 as a result of lower staff numbers following a review of ongoing resource requirements and continued efficiency savings Costs of strategic initiatives include those associated with the transfer of annuities to Canada Life, activity relating to simplifying business processes and ongoing unit-linked business strategy. Investment management costs are higher in 2015 due to additional costs following the buy-back of unit-linked business

a. Services from auditors

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

During the year, the Society received the following services from the Society's auditor.

	2014 £m	2015 £m
Fees payable for the audit of the Society's statutory accounts	0 3	0 3
Fees payable for the audit of the Society's regulatory return	0 2	0 2
Fees payable to the Society's auditor for other services·		
Assurance work related to implementation of Solvency II	-	0.2
	0.5	**0.7**

Note The Society's subsidiary, Equitable Private Equity Holdings Limited (EPEHL) is audited by PwC and paid £8k for audit services in 2015 (2014 £9k)

8. Directors and employees

	2014 £m	2015 £m
a. Staff costs		
Wages and salaries	15	13
Social security costs	2	2
Pension costs	1	1
	18	**16**

Wages and salaries decreased in 2015 largely due to the reduction in staff numbers. 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 305 (2014: 337). Staff numbers reduced during 2015 due to efficiencies made in the year and the review of IT and Customer Service ongoing resourcing The Society engages the services of a number of contractors. The total staff number at the end of 2015 including contractors was 318 (2014: 357)

Throughout 2015, a group personal pension plan with Legal & General has been made available to employees With effect from 1 July 2014, staff have been automatically enrolled in this scheme in line with Workplace Pensions legislation Pension costs represent the employer contribution to this plan and are based on a percentage of salary.

b. Emoluments of Directors

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

9. Other technical income and charges

Other technical income of £22m (2014 £3m) includes rebates received from unit-linked Open Ended Investment Company ("OEIC") fund managers (£9m; 2014 £nil), and investment return on assets over which Canada Life held a secured charge (£10m; 2014 £nil).

Other technical charges of £34m (£2014 £nil) is a payment to LBG in connection with buying back unit-linked business, and some associated non-profit business.

10. Taxation

	2014 £m	2015 £m
Investment return for the year (Note 5)	740	(68)
Other technical income	3	22
Other technical charges	-	(34)
Net operating expenses	(39)	(35)
Net income	**704**	**(115)**
Of which attributable to UK life business	30	(2)
Current corporation tax charge at 20%	6	-
Total charge	**6**	**-**

The UK corporation tax charge/(credit) is provided at 20% (2014. 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 2015 result is a tax credit of less than £1m, reflecting the fact that investment losses exceeded income and gains earned in the year

The Society has £9.3m of unused tax losses (2014: £4 2m) from realised losses on the disposal of land and buildings A deferred taxation assets has not been recognised in this regard due to uncertainty of recovery.

11. Investments

	Cost		Current Value	
	2014	2015	2014	2015
	£m	£m	£m	£m
a. Land and buildings				
Leasehold	9	-	2	-
Freehold	3	-	3	-
	12	**-**	**5**	**-**
b. Non-linked investments held at fair value through the Profit and Loss Account				
Investments in Group undertakings				
Shares	**21**	**21**	**23**	**26**
Shares and other variable yield securities and units in unit trusts				
Shares and units in unit trusts	66	51	10	9
Other variable yield securities	72	113	124	79
	138	**164**	**134**	**88**
Debt and other fixed-income securities				
Short-term gilts	569	566	565	564
Gilts, index-linked and government approved bonds	3,027	3,018	3,326	3,202
Corporate bonds	1,262	1,292	1,344	1,317
	4,858	**4,876**	**5,235**	**5,083**
Deposits and other investments	**328**	**328**	**328**	**328**
	5,357	**5,389**	**5,725**	**5,525**
c. Linked investments held at fair value through the Profit and Loss Account				
Shares and units in unit trusts	-	1,809	-	1,733
Gilts, index-linked and government approved bonds	241	-	301	-
Deposits and other investments	9	55	9	55
	250	**1,864**	**310**	**1,788**
Total value of investments	**5,607**	**7,253**	**6,035**	**7,313**

11. Investments (continued)

In line with the Society's property disinvestment strategy, the last property assets were sold in 2015.

The Society's group undertaking is a majority investment in Equitable Private Equity Holdings Limited ("EPEHL"), a Guernsey registered company. EPEHL's investment is Knightsbridge Integrated Holdings V L.P., which invests in North American equity and venture capital projects EPEHL made a loss in 2015 of £31,000 ($45,000) (2014: £30,000 ($46,000)) and its total net asset value is £26m ($37m) (2014: £24m ($37m))

Other variable yield securities comprise interest rate swaption derivatives, valued on a mark-to-model basis

Debt and other fixed-income securities includes listed investments of £5,082m (2014: £5,234m) at fair value

During the year, the Society has undertaken stock lending but this is not reflected on the Balance sheet because the beneficial ownership of assets lent remains with the Society. At the balance sheet date, investments of £347m (2014 £299m) were lent in the normal course of business to authorised money brokers on a secured basis, and investments of £357m (2014: £308m) were received as collateral from brokers. Income earned on stock lending during the year, net of fees paid, was £0 2m (2014: £0 1m)

Collateral received from brokers is UK government bonds and is not less than 102% of the market value of borrowed fixed-income securities.

The reassurance agreement with Canada Life described in Note 3 included the reassurance of non-profit annuities with a deposit back arrangement The value of assets deposited with the Society, as at the balance sheet date, was £796m These assets are included in the table above The charge over deposit assets was released after the transfer of assets to Canada Life under the Part VII Transfer on 19 February 2016.

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

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

d. Fair value hierarchies

(i) In accordance with FRS 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

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

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

31 December 2015 Asset category	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Other assets £m	Balance sheet total £m
Land and buildings	-	-	-	-	-	-
Investments in Group undertakings	-	-	26	**26**	-	**26**
Shares and units in unit trusts	1,733	-	9	**1,742**	-	**1,742**
Other variable yield securities	-	-	79	**79**	-	**79**
Debt securities and other fixed-income securities	3,630	1,292	161	**5,083**	-	**5,083**
Deposits and other investments	383	-	-	**383**	-	**383**
Total invested assets	**5,746**	**1,292**	**275**	**7,313**	-	**7,313**
Total invested assets	**78%**	**18%**	**4%**	**100%**	-	**100%**

31 December 2014 Asset category	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Other assets £m	Balance sheet total £m
Land and buildings	-	-	-	-	5	**5**
Investments in Group undertakings	-	-	23	**23**	-	**23**
Shares and units in unit trusts	-	-	10	**10**	-	**10**
Other variable yield securities	-	-	124	**124**	-	**124**
Debt securities and other fixed-income securities	4,038	1,283	215	**5,536**	-	**5,536**
Deposits and other investments	328	-	-	**338**	-	**338**
Total invested assets	**4,375**	**1,283**	**372**	**6,030**	**5**	**6,035**
Total invested assets	**73%**	**21%**	**6%**	**100%**	-	**100%**

The change in the distribution of assets between Level 1 and Level 2 during the year reflects the transfer to the Society of unit-linked asset from Halifax Life During the year, the classification of with-profits deposits was reviewed and determined to be Level 1 (2014 restated)

12. Debtors

	2014 £m	2015 £m
Debtors arising out of direct insurance		
Amounts owed by policyholders	4	3
Debtors arising out of reinsurance	3	6
Other debtors		
Corporation tax asset	-	-
Debtors other than Group and related companies	5	5
	12	**14**

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

a. Gross long-term business technical provisions

	2014 £m	2015 £m
Non-profit technical provisions		
Non-profit insurance technical provisions	1,117	1,031
Non-profit investment technical provisions	7	(12)
	1,124	**1,019**
With-profits technical provisions		
With-profits insurance technical provisions		
Policy values	163	145
Cost of guarantees	80	70
Future charges	(27)	(24)
Other long-term liabilities	18	26
	234	**217**
With-profits investment technical provisions		
Policy values	2,841	2,643
Cost of guarantees	1,108	1,016
Future charges	(221)	(201)
Other long-term liabilities	225	213
	3,953	**3,671**
Excess Realistic Assets	**797**	**783**
	4,984	**4,671**
Total long-term business technical provisions	**6,108**	**5,690**

b. Gross linked liabilities

	2014 £m	2015 £m
Index-linked annuities	323	316
Other linked insurance liabilities	149	141
Other linked investment liabilities	1,763	1,680
Total linked liabilities	**2,235**	**2,137**

13. Technical provisions (continued)

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

	2014 £m	2015 £m
Non-profit insurance technical provisions	481	1,025
Non-profit investment technical provisions	7	6
	488	**1,031**
Index-linked annuities	13	316
Other linked insurance liabilities	149	-
Other linked investment liabilities	1,763	33
	1,925	**349**
Total reinsurers' share	**2,413**	**1,380**

d. Movement in technical provisions

	Gross technical provisions				Reinsurers' share of technical provisions	
	Non-linked £m	ERA £m	Sub total £m	Linked £m	Non-linked £m	Linked £m
Opening positions	5,311	797	6,108	2,235	488	1,925
Unit-linked recapture new deposit[1]	-	-	-	-	-	(1,780)
Change arising from new deposits[1]	-	-	-	57	-	8
Change arising from withdrawals[1]	-	-	-	(176)	-	(27)
Net deposits and withdrawals				(119)		(1,799)
Valuation change from non-profit and unit-linked recapture (Note 3)	-	-	-	-	(7)	(173)
Valuation change from annuity reinsurance (Note 3)	-	-	-	-	587	301
Other changes reported in Technical Account	(404)	(14)	(418)	21	(37)	95
Net change in Technical Account	(404)	(14)	(418)	21	543	223
Closing positions	**4,907**	**783**	**5,690**	**2,137**	**1,031**	**349**

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 Realistic Assets

The principal movements in the ERA during the year are shown in the following table

	2014 £m	2015 £m	2015 Key movements include:
Opening Excess Realistic Assets	691	797	
Investment performance net of changes in policy values	83	(24)	Increase in policy values beyond the investment return earned in the year
Variances in expenses and provisions	21	9	
Unit-linked strategic project		(26)	Buy back of unit-linked business from LBG
Annuity reinsurance		77	Reinsurance with Canada Life
Changes in valuation experience and assumptions	41	11	Variance in claims experience following pension reforms
Capital distribution within claims payments	(35)	(66)	Capital distribution paid at 35% on higher level of claims
Other movements	(4)	5	
Closing Excess Realistic Assets	**797**	**783**	

f. With-profits technical provisions

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

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

- Policy values: for recurrent single premium ("RSP") policies, the policy value represents a smoothed investment return (net of charges for expense, taxation, the cost of guarantees and other factors) applied to premiums paid. Other types of with-profits policies are valued to achieve an equivalent result;
- Cost of guarantees the cost of meeting contractual guarantees in excess of the policy values, now and in the future Further information is provided in section (ii) below,
- Future charges. the margin assumed to be retained each year from the return earned on with-profits assets, before making future increases to policy values. A charge of 1% pa (2014 1% pa) is assumed to be retained to provide capital to meet the expected cost of guarantees, without allowance for capital distribution, and
- Other long-term liabilities, including miscellaneous provisions, less a deduction for the present value of future profits from non-profit business Further information is provided in section (iii) below

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

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

Economic assumptions

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

13. Technical provisions (continued)

f. With-profits technical provisions (continued)

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

The economic model used by the Society in the valuation was supplied by Barrie & Hibbert The model used is market consistent and has been calibrated to the gilt yield curve at the valuation date, and this determines the risk-free rates used in the projections The effect of the change in yield curve from 2014 to 2015 was to decrease the ERA by £1m (2014: decrease £8m) Assumptions are also required for the volatility of the asset values for different asset categories Bond volatilities vary by term and duration and are calibrated to those implied by swaption volatilities obtained from market sources For equity values, the model produces a 10 year volatility of 23% (2014 22%). For property values, the model uses an assumed volatility of 13% (2014 13%)

Retirements

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

An investigation of the actual retirement ages for the Society's with-profits policyholders, analysed by type of contract, has been carried out, based on experience between 2012 and 2015 The results of that investigation have been used to set the assumed retirement ages for the valuation.

The retirement assumptions vary between different product types The ranges of retirement dates assumed vary between policyholders being assumed to retire at ECD (2014 at ECD) and up to 13 years (2014 13 years) later than ECD

Surrenders

An investigation of the actual surrender rates for the Society's with-profits business, analysed by type of contract, has been carried out based on experience between 2012 and 2015 The results of that investigation have been used to set the assumed surrender rates for the valuation

Non-contractual surrender rates are assumed to fall steadily over the next few years to a long-term rate of 1.5% pa (2014 1.5% pa). The effect of the change in the surrender rates has resulted in an increase in the ERA of £1m (2014· no change)

Mortality

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

Mortality assumptions by class of business	2014	2015
Endowment assurances (with-profits)		
Conventional With-Profits business	90 0% AMC00 ultimate for males 92.5% AFC00 ultimate for females	90 0% AMC00 ultimate for males 92.5% AFC00 ultimate for females
Recurrent Single Premium business	80 0% AMC00 ultimate for males 87 5% AFC00 ultimate for females	72 5% AMC00 ultimate for males 80 0% AFC00 ultimate for females

The changes in mortality assumptions in the year have had an immaterial impact on ERA (2014 immaterial) Mortality assumptions for other classes of business are not material and, for this reason, are not shown above

(ii) Cost of guarantees

Guarantees are features of life assurance contracts that confer potentially valuable benefits to policyholders They expose the Society to two types of risk insurance (such as mortality and morbidity) and financial (such as market prices and interest rates) The value of a guarantee comprises two elements the intrinsic value and the time value. The intrinsic value is the amount that would be payable if the guarantee was exercised immediately. The time value is the additional value that reflects the possibility of the intrinsic value increasing in future, before the expiry of guarantee 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 2015 (98% and 2% of the total policy values at 31 December 2014) For the majority of RSP policies issued before 1 July 1996, each premium (after charges) secures a Guaranteed Investment Return ("GIR"), typically at the rate of 3.5% pa. For the majority of RSP policies issued after 1 July 1996, the GIR is nil% For CWP policies, guarantees are payable at specified dates or on the occurrence of specified events.

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

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

For policies where the guaranteed value at contractual termination exceeds the policy value at that date, the excess would be paid, and estimates of such excess form part of the realistic liabilities In calculating the amount payable to policyholders, account is taken of any management actions such as making changes to policy values in response to changes in market conditions The cost of these guarantees has decreased from £1,188m in 2014 to £1,086m at 31 December 2015, principally as a result of rising government bond yields. This amount is included within 'Technical provisions' (Note 13a)

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

13. Technical provisions (continued)

f. With-profits technical provisions (continued)

(iii) Other long-term liabilities

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

Other long-term liabilities	2014 £m	2015 £m
Regular expense provision	228	215
Miscellaneous provisions		
Exceptional expense provision	10	10
Financial options	7	5
Present value of non-profit business	(2)	9
Other long-term liabilities	**243**	**239**

In addition to the 1% pa (2014: 1% pa) future charge to provide capital to meet the cost of guarantees previously described, a further charge of 1% pa (2014: 1% pa) is deducted from the return earned on assets each year and is available to meet the cost of running the with-profits business This amount is not expected to be sufficient to meet business running costs in the future and so a regular expense provision of £215m (2014 £228m) is held in 'Other long-term liabilities', with the aim of maintaining a stable expense charge as the business declines Assumptions for retirements, surrenders and mortality affect the estimation of future costs of running the business and are described in section (i) above

The exceptional expense provision represents the anticipated additional exceptional expenses of £10m (2014 £10m) over future years

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

The present value of non-profit business represents the future profits and losses expected from cash flows of the in-force non-profit and index-linked annuity business, less an amount to meet the cost of holding capital in respect of this business These amounts have been deducted as a capitalised amount from the technical provisions in accordance with the requirements of FRS103 The resulting anticipated present value of non-profit business is a loss of £9m (2014. £2m profit).

g. Non-profit technical provisions

Annuities in payment and deferred annuities comprise most of the Society's gross non-profit technical provisions Net of reinsurance, the majority of the non-profit technical provision is in respect of temporary assurances Non-profit technical provisions have been calculated using the gross premium method, where the provision equals the present value of the future benefits and expenses. The principal inputs to the valuation for these types of contract are

- Interest rates based on yields on the assets held, with reductions for credit risk;
- Future expenses; and
- Annuitant longevity and assured life mortality

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

(i) Interest rates

Valuation interest rates are based on the yields on the assets held, reduced for risk Reductions from the yield for risk for corporate fixed-interest securities are based on credit ratings, and these reductions have been reviewed in light of latest experience data Following the reinsurance of annuities with Canada Life in 2015, the remaining net technical provision for non-profit annuities is less than £2m The technical provisions for temporary assurances are not materially impacted by interest rates. Therefore, the changes to the valuation interest rates in aggregate have not materially impacted technical provisions net of reinsurance

	Valuation interest rate %	
Class of business	2014	2015
Non-profit annuities in payment		
Basic Life and General Annuity business – pre 1992	2 00	2.00
Basic Life and General Annuity business – post 1991	1 80	1.80
Pension business	2.00	2.00
Index-linked annuities in payment		
Basic Life and General Annuity business – pre 1992	(0 67)	(0.62)
Basic Life and General Annuity business – post 1991	(0 60)	(0 56)
Pension business	(0 67)	(0 62)
Non-profit deferred annuities	1 50	1 70

(ii) Future expenses

Future expenses are allowed for in two ways: an explicit per policy allowance and an expense allowance for fund management The per policy expense allowance in the valuation basis reflects an assessment of future variable administration costs and has been assumed to increase at 2.9% pa (2014. 3.2% pa).

	Future per policy expense allowance	
Class of business	2014	2015
Non-profit and index-linked annuities in payment		
Basic Life and General Annuity business – pre 1992	£12 00 pa	£12 00 pa
Basic Life and General Annuity business – post 1991	£12 00 pa	£12 00 pa
Pension business	£12 00 pa	£12 00 pa
Deferred annuities	£8 00 pa	£8 00 pa
Temporary assurances	£6 00 pa	£6.00 pa

The expense allowance for fund management, expressed as a percentage of the value of the fund, is 0.083% pa (2014 0 083% pa)

(iii) Annuitant longevity and assured lives mortality

The Society's valuation has been carried out using published mortality tables and an investigation into the Society's actual mortality experience. The Society continues to make allowance for future improvements in the longevity of annuitants The assumption for future improvements in annuitant longevity remains unchanged However, following reinsurance of annuities to Canada Life during 2015, the remaining net technical provision for non-profit annuities is less than £2m and hence is not materially sensitive to annuitant longevity assumptions

13. Technical provisions (continued)

g. Non-profit technical provisions (continued)

(iii) Annuitant longevity and assured lives mortality (continued)

Mortality assumptions by class of business	2014	2015
Non-profit and index-linked annuities during payment		
Basic Life and General Annuity business	75% IML00 cmi2011 (U=2014)* for males	80% IML00 cmi2011 (U=2015)* for males
	77 5% IFL00 cmi2011 (U=2014)* for females	77 5% IFL00 cmi2011 (U=2015)* for females
Pension business	75% PNML00 cmi2011 (U=2014)* for males	80% PNML00 cmi2011 (U=2015)* for males
	65% PNFLA00 cmi2011 (U=2014)* for females	65% PNFLA00 cmi2011 (U=2015)* for females
Temporary Assurances	62 5% TMC00 for males 82.5% TFC00 for females	62 5% TMC00 for males 82 5% TFC00 for females

Note:

* The allowance for future mortality improvements is based on the mortality improvements as per cmi2011 tables (with a long-term improvement rate of 1.5% pa for males, 1 25% pa for females)

h. Gross linked liabilities

Index-linked annuities are valued in the same way as non-profit annuities, as described in Note 13g The technical provision in respect of other linked business is equal to the value of the assets to which the contracts are linked.

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

14. Regulatory valuation capital statement

a. Analysis of capital

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

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

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

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

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

The capital statement in respect of the Society's life assurance business at 31 December 2015 is set out below.

	2014 £m	2015 £m
Available capital resources	486	542
Long-Term Insurance Capital Requirement (LTICR)	(223)	(191)
With-Profits Insurance Capital Component (WPICC)	(263)	(351)
Total regulatory Capital Resource Requirement (CRR)	**(486)**	**(542)**
Excess of available capital resources over CRR	-	-

b. Movement in available capital resources

The available capital resources for the Society amount to £542m (31 December 2014 £486m). The table below shows the effect of movements in the total amount of available capital of the Society during the year

Movement in available capital resources	2014 £m	2015 £m
At 1 January	450	486
Investment return and interest rate movements	79	1
Other valuation assumptions	(14)	(8)
Expense reductions	5	16
Strategic projects		66
Other movements	(34)	(19)
At 31 December	**486**	**542**

c. Restrictions on available capital resources

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

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

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

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

15. Management of risk

a. Risk management framework

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

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

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

b. Insurance risk

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

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

- Longevity risk;
- Mortality risk, and
- Persistency risk.

(i) Expense risk

Description

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

The main sources of risk are

- The assumed future cost base of the business is higher than expected,
- 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

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

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

Sensitivity

The exceptional expense provision is described in Note 13. The following table shows the sensitivity to reasonably possible scenarios

		Net impact on ERA	
Sensitivity scenario	Mitigated by	2014 £m	2015 £m
5% increase in assumed level of expenses		(23)	(21)
1% increase in assumed rate of UK price inflation	Impact of index-linked portfolio	8	18

Sensitivity to expense risk has increased following the recapture of unit-linked business Strategic projects to review the level of charges on unit-linked funds and to rationalise the range of funds offered will reduce the Society's exposure to expense risk The active management of expenses using Lean Manufacturing and Simplification techniques continue to be a key focus for the Society

(ii) Timing of insured events risk

Description

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

The Society's mortality risk exposure arises principally on non-profit assurance policies. Assurance benefits are payable only when the policyholder dies Liabilities in respect of these policies are based on current expectations of future survival rates Mortality risk is the risk that policyholders die sooner than currently expected, giving rise to the payment of more death benefits than currently reserved for. A further exposure to mortality risk exists on conventional with-profits policies, but, as stated in Note 13, these represent only 2% of with-profits policy values

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

Practically all annuities, all deferred annuities and most assurances are reinsured The taking-on of additional longevity risk has been eliminated by providing retiring pension policyholders with a Canada Life annuity illustration and emphasising their option to seek annuities in the open market As explained in the Strategic report, Note 3 and the Post balance sheet event note, the Society transferred substantially all annuities policies to Canada Life on 19 February 2016

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

15. Management of risk (continued)

b. Insurance risk (continued)

Sensitivity

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

	Annuitant mortality	Assured lives mortality	With-profit surrender rates	With-profit retirement timing	With-profit retirement timing
	Decrease 10%	Increase 10%	Decrease 1% pa	1 year later	1 year earlier
Impact on ERA	£m	£m	£m	£m	£m
2014	46	-	(65)	(25)	26
2015	4	2	(54)	(21)	22

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

The risk of with-profits policyholders surrendering less frequently and deferring retirement beyond those assumed are significant due to the impact on the cost of guarantees The interaction of this with interest rates is discussed under interest rate risk

c. Credit risk

Description

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

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

Management of risk

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

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

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

2015 Credit ratings	AAA £m	AA £m	A £m	BBB £m	Other £m	Total £m
Debt and other fixed-income securities	290	3,582	624	583	4	5,083
Deposits and other investments	306	-	22	-	-	328
Cash at bank and in hand	-	-	10	-	-	10
Other financial assets	7	26	9	11	17	70
Reinsurers' share of technical provisions and liabilities (Note 13c)	-	-	1,380	-	-	1,380
	603	**3,608**	**2,045**	**594**	**21**	**6,871**

2014 Credit ratings	AAA £m	AA £m	A £m	BBB £m	Other £m	Total £m
Debt and other fixed-income securities	421	3,962	612	537	4	5,536
Deposits and other investments	318	-	19	-	-	337
Cash at bank and in hand	-	-	5	-	-	5
Other financial assets	8	30	10	9	14	71
Reinsurers' share of technical provisions and liabilities (Note 13c)	-	-	2,413	-	-	2,413
	747	**3,992**	**3,059**	**546**	**18**	**8,362**

The totals of debt and other fixed-income securities and deposits with credit institutions for 2014 included £310m of assets held to back linked liabilities (2015: £nil) Other financial assets comprise Debtors and Prepayments and accrued income

The potential credit risk exposure from default by swaption counterparties is mitigated by the receiving of collateral. Collateral of £89m (2014 £125m) has been received in cash and has been invested in assets similar in nature to cash. The value of these assets at the year-end was £89m and is included in 'Deposits and other investments' in Note 11b.

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

At the reporting date, no material financial assets were past due nor impaired (2014: £nil) and management expects no significant losses from non-performance by any counterparties.

With regard to reinsurance, steps are taken, wherever possible, to limit counterparty risk. The recapture of £1 8bn of unit-linked business in 2015 has materially reduced the exposure from reinsurance treaties with companies in LBG Because reinsurance does not remove the primary liability of the Society to its policyholders, the credit rating of LBG and certain of its group companies are monitored closely in order to manage the risk

On 2 March 2015, the Society reassured substantially all annuity business with Canada Life In order to protect policyholders from counterparty credit risk, the initial premium was deposited back with the Society This deposit was held in assets with a similar investment mix to that previously held by the Society. Canada Life held a secured charge over these assets The credit risk exposure to Canada Life is fully mitigated. On 19 February 2016, the reassurance was terminated, and the policies and secured assets transferred to Canada Life, thereby removing the risk (Note 3).

Sensitivity

Given the full mitigation of the potential counterparty risk with Canada Life, the largest single credit risk exposure amounts to £494m for business reinsured with companies in LBG (2014 £2,413m) In the event of the insolvency of the reinsurer, if not honoured by the LBG parent company, the Society would be liable for any shortfall between the obligations under the policies and the amounts recovered The Society holds a further £4m (2014. £23m) of investments (credit rating AAA) with LBG

After LBG, the next largest single credit exposure is £44m, relating to an investment in Bayerische Motoren Werke AV (BMW)

15. Management of risk (continued)

d. Market risk

Description

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

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

UK with-profits assets mix	2014 %	2015 %
Gilts	57	55
Corporate bonds	23	24
Short-term gilts and cash	17	19
Other	3	2
	100	**100**

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

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

i) Interest rate risk,

ii) Equity and property price risk,

iii) Corporate bond spread risk, and

iv) Currency risk.

(i) Interest rate risk

Description

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

As mentioned under Insurance risk above, there is a further risk for the Society is in respect of GIR on with-profits RSP policies, which are typically 3.5% pa In the current low interest rate environment, the cost of providing these guarantees would increase if interest rates fall further, if policyholders defer their retirement beyond the dates assumed, or if both scenarios occurred together

Management of risk

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

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

To mitigate the impact of with-profits policyholders with a 3 5% pa GIR deferring retirement when interest rates fall, the Society holds a series of derivatives called swaptions that increase in value when interest rates fall The effectiveness of the swaption portfolio is reviewed periodically to ensure that it provides adequate protection against a fall in interest rates.

Sensitivity

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

	Scenario		**Impact on ERA**	
Interest rates, at all terms	Relative assumption for 3 5% pa GIR policyholder retirement	Asset basis	2014	2015
			£m	£m
Fall by 0 5% pa	No change	Excluding swaptions	20	16
Fall by 0.5% pa	Defer retirement by 1 year	Excluding swaptions	(19)	(16)
Fall by 0 5% pa	Defer retirement by 1 year	Including swaptions	24	14
Rise by 0 5% pa	No change	Excluding swaptions	(20)	(17)
Rise by 0 5% pa	No change	Including swaptions	(52)	(38)

(ii) Equity and property price risk

Description

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

Following the recapture of unit-linked business from LBG in 2015, the Society is exposed to the risk that falls in equity prices, and to a lesser extent property prices, reduce the value of the charge for expenses levied on unit-linked business

Management of risk

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

Sensitivity

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

	With-profits asset value impact	
	2014 £m	2015 £m
Equity prices decrease by 10%	(£2m)	(£6m)
Property prices decrease by 10%	(£1m)	-

15. Management of risk (continued)

d. Market risk (continued)

(iii) Corporate bond spread risk

Description

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

Management of risk

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

During 2015, the potential impact of falls in corporate bond prices was reduced by replacing approximately £100m of long-term corporate bonds with shorter-term corporate bonds that are less sensitive to changes in spread Changes were made to gilt holdings to ensure that policy liabilities remained matched. The reinsurance and subsequent transfer of annuities to Canada Life has removed the exposure to bond spread risk from assets backing those policies.

Sensitivity

The following table shows the sensitivity to reasonably possible scenarios and illustrates the reduction of risk exposure during the year

Scenario	Impact on ERA	
Change in corporate bond spreads	2014 £m	2015 £m
Rise 0 5% pa	(34)	(21)
Fall 0 5% pa	38	23

(iv) Currency risk

Description

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

Management of risk

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

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

Following the recapture of unit-linked policies from LBG in 2015, 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 ERA by £2m (2014 £3m) after allowing for the mitigating impact of the US dollar forward exchange contract

e. Liquidity risk

Description

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

Management of risk

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

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

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

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

Sensitivity

The Society's investment strategy and reinsurance arrangements mean that it has a very low exposure to liquidity risk Even in a scenario such as corporate bonds becoming illiquid, 74% of investment assets held backing insurance and investment liabilities are held in liquid assets such as gilts and cash, which can normally be quickly realised.

Unit-linked contracts, with the exception of unit-linked annuities, can be terminated at any time, resulting in a cash flow in the category '0-1 year' The value of unit-linked polices, net of reinsurance, that could be terminated at 31 December 2015 is £1.6bn

With-profits policies with an ECD prior to 31 December 2015 have a contractual value no lower than total guaranteed benefits, and equalled £1.4bn at 31 December 2015 (2014 £1 4bn) The liquid assets previously referred to include £3 5bn to back with-profits policies (2014 £3 8bn). This is more than sufficient to meet the value of these guaranteed with-profits benefits

As noted in Note 13f (i), the majority of RSP benefits can be taken on contractual terms at a range of ages. The following table details the cash flows using retirement assumptions based on recent experience that vary between different product types The range of retirement dates assumed varies between policyholders being assumed to retire at ECD (2014 at ECD) and up to 13 years (2014: 13 years) later than ECD

15. Management of risk (continued)

e. Liquidity risk (continued)

2015	0-1 year	2-5 years	6-10 years	11 years and over	No term	Total	Carrying value
Estimated cash flows (undiscounted)	£m	£m	£m	£m	£m	£m	£m
Unit-linked investment contracts	139	497	508	849	-	1,993	1, 680
Other non-profit investment contracts	-	1	2	4	-	7	(12)
With-profits investment contracts	263	572	1,292	1,805	-	3,932	3,671
Other financial liabilities (Creditors)	934	-	-	-	-	934	934
Total financial liabilities	**1,336**	**1,070**	**1,802**	**2,658**	**-**	**6,866**	**6,273**
Of which reinsured	4	14	12	15	-	45	39
Total net financial liabilities	**1,332**	**1,056**	**1,790**	**2,643**	**-**	**6,821**	**6,234**
Net insurance liabilities	75	122	77	205		479	364
Excess Realistic Assets	-	-	-	-	783	783	783
Total net liabilities	**1,407**	**1,178**	**1,867**	**2,848**	**783**	**8,083**	**7,381**

2014	0-1 year	2-5 years	6-10 years	11 years and over	No term	Total	Carrying value
Estimated cash flows (undiscounted)	£m	£m	£m	£m	£m	£m	£m
Unit-linked investment contracts	133	464	524	953	-	2,074	1,763
Other non-profit investment contracts	7	-	-	-	-	7	7
With-profits investment contracts	256	594	1,357	1,977	-	4,184	3,953
Other financial liabilities (Creditors)	170	-	-	-	-	170	170
Total financial liabilities	**566**	**1,058**	**1,881**	**2,930**	**-**	**6,435**	**5,893**
Of which reinsured	140	464	524	953	-	2,081	1,770
Total net financial liabilities	**435**	**624**	**1,384**	**2,009**	**-**	**4,452**	**4,123**
Net insurance liabilities	106	243	272	902	-	1,523	1,180
Excess Realistic Assets	-	-	-	-	797	797	797
Total net liabilities	**541**	**867**	**1,656**	**2,911**	**797**	**6,772**	**6,100**

16. Creditors

	2014 £m	2015 £m
Creditors arising out of direct insurance operations	20	23
Deposit received from reinsurer - secured	-	796
Amounts owed to credit institutions	3	3
Other creditors including taxation and social security		
Balances with Group undertakings	17	19
Corporation tax	4	-
Derivatives positions		
Obligation to return swaptions variation margin to Morgan Stanley and Goldman Sachs	125	89
Forward US$/GBP exchange contract[1]	-	-
Other creditors	1	4
Total creditors	**170**	**934**

Note

1 The fair value of the forward US dollar and sterling currency exchange contract was £0 4m liability (2014 0 1m liability) If the Balance sheet position is held to maturity in March 2016 the Society will be obliged to pay $23 9m and will receive £15 8m

17. Subsidiary and associated undertakings

	Country of incorporation	2014 Percentage held	2014 Current value £m	2015 Percentage held	2015 Current value £m
Subsidiary companies					
Equitable Private Equity Holdings Ltd	Guernsey	100%	23	100%	26
Basinghall Street Investment Ltd	UK	100%	-	100%	-
Significant holdings - equity shares					
Putnam Private Equity LN	Ireland	22.73%	1	22 73%	1
Pantheon Europe Fund	Guernsey	24 76%	1	24 76%	1
Permira UK Fund IV	Guernsey	22 27%	-	27 27%	-
Significant holdings - limited partnership interest					
Apax Europe IV - D LNG	UK	21 95%	-		-
Emerging Euro LP	USA	22 22%	1	22.22%	1

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

Notes on the financial statements continued

18. Related party transactions

There were no material related party transactions during 2015 (2014 £nil).

19. Commitments

The Society has no material operating lease commitments

Commitments in respect of uncalled capital on private equity fund interests, not provided for in the financial statements, amounted to £6m (2014 £10m) for the Society

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

20. Post balance sheet events

Annuity business

On 2 March 2015, the Society entered into a contract with Canada Life for the reinsurance and subsequent transfer of substantially all of the annuity business. Application has been made to the High Court and the policies were novated to Canada Life under a Part VII Transfer under the Financial Services and Markets Act 2000 on 19 February 2016 Investments and cash to the value of £848m were transferred to Canada Life to match the liabilities of the business at that date

Capital distribution and the cost of guarantees

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

	Capital Distribution		
	Nil%	35% unchanged	35% increasing
	£m	£m	£m
Total with-profits assets	5,617	5,617	5,617
less:			
Technical provisions			
Policy values	2,788	2,788	2,788
Cost of guarantees	1,086	460	152
Future charges	(225)	(120)	(120)
Impact of early surrenders	-	-	-
Future capital distributions	-	1,304	1,612
Other long-term liabilities	239	239	239
Other liabilities	946	946	946
Working capital for fund (ERA)	783	-	-

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