# The Equitable Life Assurance Society

# ANNUAL REPORT
# AND
# FINANCIAL STATEMENTS

# YEAR ENDED 31 DECEMBER 2020

# Contents

# Corporate Information

### Directors

| | |
|---|---|
| Chairman | Michael J Merrick |
| Chief Executive | Stephen Shone |
| Chief Financial Officer | Jeremy S Deeks |
| Independent Non-Executive Directors | Duncan A Finch<br>Susan P Kean<br>Lord Daniel W Finkelstein<br>Feilim Mackle |
| Group Non-Executive Directors | A. Paul Thompson<br>Ian G Maidens |

### Company Secretary

C. Mark Utting

### Independent Auditors

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

### Registered Address

Walton Street
Aylesbury
Buckinghamshire
HP21 7QW
Registered in England No: 00037038

# Strategic Report

The Directors present their Strategic Report for Equitable Life Assurance Society ("the Society") for the year ended 31 December 2020. The Directors have prepared the audited Financial Statements in accordance with the UK financial reporting framework: Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and the Republic of Ireland ('FRS102') and Financial Reporting Standard 103 Insurance Contracts ('FRS103') and the Companies Act 2006.

## History and Principal Activities

The Equitable Life Assurance Society is a mutual owned by its sole Member, Utmost Life and Pensions Limited (ULP). The Society ceased writing new business in December 2000.

The Society's business model seeks to continue to provide a safe home for its policyholders through efficient capital and operational management.

## Scheme of Arrangement and Part VII Transfer

On 1 January 2020 the majority of policies were transferred to ULP, who became the sole Member of the Society on the same date. German and Irish business remained within the Society.

This was the culmination of a Scheme of Arrangement ("the Scheme") and Part VII Transfer plan announced in June 2018, whereby:

- the Society's available assets would be distributed to eligible with-profits policyholders by removing investment guarantees, uplifting policy values and converting with-profits policies to unit-linked; and immediately afterwards
- Execute a Part VII Transfer to transfer its business to ULP (formerly Reliance Life).

Following approval from the High Court in December 2019, the Scheme took effect on 1 January 2020 with eligible with-profits policyholders receiving an uplift in excess of 75% of their policy value compared to the existing uplift of 35%. Following the uplift, with-profits policies, other than German policies, were converted to unit-linked policies with no investment guarantees. Immediately after this, the Part VII transfer took place, moving business to ULP.

The Society has retained the German and Irish business. Following a change to the Articles, ULP became the sole Member of the Society. On 1 January 2020, all employees were transferred under TUPE legislation into Utmost Life and Pensions Services Limited (ULPS).

The members of the Board who served throughout 2019 resigned at the end of that year. Lord Daniel W Finkelstein was reappointed to the Board, alongside new Board Directors, consisting of members from the ULP Board, on 1 January 2020, as detailed in the Report of the Directors.

## Group Reorganisation and Structure

On 1 January 2020, ULP became the sole Member of the Society. ULP, formed in 2017, is part of the Utmost Group of Companies, a specialist life insurance group founded in 2013, with circa. £36.6 billion assets under administration and more than 510,000 customers. ULP is a wholly owned subsidiary of Utmost Life and Pension Holdings Limited ("ULPH"), whose other subsidiaries include ULPS. ULPS employs all staff for the ULPH group of companies. All of the ULPH business and corporate teams operate from our registered office in Aylesbury.

On 5 October 2020, the Utmost Group announced a reorganisation, where its two businesses, Utmost International and ULP, were brought together under a single UK holding company, Utmost Group Limited (UGL), effective 1 October 2020. UGL is a UK registered company subject to group regulation by the PRA.

## Investment Management

In January 2020, all assets previously managed by the Equitable Life's main Investment manager were transferred to ULP's strategic investment manager partners – JPMorgan Asset Management (JPMAM) for Unit-Linked and Goldman Sachs Asset Management (GSAM) for Non-Linked Assets. In addition, the remaining Equitable Life Unit-Linked funds are planned to be transferred to JPMAM in 2022.

## Strategic Report continued

### Fund Accounting and Custodian

During 2020, ULP ran a tender process to rationalise the two existing providers of fund accounting and custody services following the acquisition of Equitable Life. HSBC were chosen as the provider across the combined organisation and a project was initiated to deliver the transition. The project completed successfully in late November 2020 transferring fund accounting and custody of the Society to HSBC.

### Principal Risks and Uncertainties

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

While individual risks are important, the Board also considers certain combinations of risks. The following sets out the key risks to the Society.

**Risks following execution of the strategy**

Following the Part VII transfer on 1 January 2020, c3,000 policies remain within the Society, representing the German and Irish businesses. The main risks facing the Society at the present time are as follows:

(i) Market Risk

The Society receives annual management charges on the unit-linked business that are deducted from policies to meet the expenses of the Society. The level of these charges depends on the funds under management and is sensitive to changes in the market value of assets. Unit linked policyholders can choose to invest in non-euro based funds, resulting in exposure to currency risk.

A key factor that will affect future equity performance will be the effectiveness of the global recovery to the Covid-19 pandemic. With the recent development of vaccines to prevent Covid-19, the path that the pandemic will take is expected to be better than what has been seen over most of 2020. However, the long term impacts on financial markets and companies are expected to remain for some time. We will continue to monitor the impacts as the Covid-19 pandemic develops.

(ii) Expense risk

The expenses of the Society include administration costs and investment management costs. Administration costs, £0.1m, are managed through an agreement with ULP and ULPS. The agreements with ULP and ULPS provide for a fixed cost per policy for administration in order to manage expense risk, and are sensitive to future inflation rates. Investment management costs are calculated on a basis point charge.

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

(iii) Lapse risk

The risk of an immediate withdrawal of a significant proportion of the Society's in-force business. The Society is also exposed to the risk that the Society's best estimate assumptions for the level of Guaranteed Annuity Options ("GAOs") (or Guaranteed Annuity Rate ("GAR")) take-up are too low relative to actual experience.

(iv) Credit risk

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

(v) Operational risk

Operational resilience is the ability of a firm, and the financial services sector as a whole, to prevent, respond to, recover and learn from operational disruptions. The Society's minimum standards for the assessment, measurement, monitoring, reporting and management of operational risk are set out in the Operational Risk policy. This, together with supporting policies, frameworks, processes and controls, all of which are subject to regular review, are designed to mitigate operational risk, ensuring that the Society has appropriate levels of operational resilience, in line with its risk appetite for operational risks. Operational risk is managed through ULP.

## Strategic Report continued

### Principal Risks and Uncertainties continued

(v) Operational risk continued

The operational impact of the UK's exit from the EU on the Society has been minimal and is expected to remain so, although this is continually monitored given that the Society has policies sold in the EU. The Society is in regular dialogue with the relevant EU and UK regulations to ensure that the operational impact on customers remains minimal.

(vi) Regulatory risk

Regulatory change applicable to business remaining in the Society, announced or implemented in the future, will require management attention and appropriate resources. Changes in regulation as a result of Brexit may be one such example.

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

Brexit

From 31 December 2020, the Brexit transition period ended and EU law no longer applies in the UK. The Society, like many financial services businesses, has had to make some changes to adjust to the new regulatory requirements. The Society has contacted all relevant policyholders where required. Although Brexit is not expected to have a significant impact on the Society's operational activity, the uncertainty of ongoing discussion between the UK and EU regarding financial services, leads to a lack of clarity on how the EU and UK will interact, and the impact on financial services. It also could lead to volatility in financial markets, which can increase certain risks. The Society has in place controls to minimise the impact of any volatility. The Society is also considering the longer term impact of Brexit, which may require further review in 2021. We are in regular dialogue with the regulators in Ireland, Germany and the UK to ensure we can continue to service our customers now that the Brexit transition period has ended. The Society believes that it has adequate mitigating controls and procedures in place to address these risk areas.

### Results and Performance

The results of the Society are presented on page 24. £0.9m was transferred to the Member's Fund (included within Funds for Future Appropriation (FFA)), which has a balance of £4.3m at 31 December 2020(see Note 25).

The sections below highlight the performance in 2020, focusing on capital distribution, solvency and key performance indicators.

### Capital Distribution

Following the Part VII transfer on 1 January 2020, capital distribution to with-profit policyholders was removed, with capital having been distributed by means of the uplifted policy values.

### Capital Management

Under the Solvency II regime, it is necessary to assess the capital requirement of the Society. The Society uses the Solvency II Standard Formula to calculate its Solvency Capital Requirement.

Following the transfer to ULP, a new capital policy was introduced, effective from 1 January 2020, which includes reference to capital based on the Minimum Capital Requirement (MCR). Going forwards, the Society will aim to have capital in excess of the greater of 150% of the estimated Solvency Capital Requirement (SCR), and 125% of the MCR.

To help support the capital base of the Society, ULP injected £650,000 in the form of a Tier 2 qualifying loan into the Society in April 2020.

## Strategic Report continued

### Financial Instruments

The Society has a low appetite for liquidity risk and a medium appetite for market and credit risk driven by investment policy of the assets adopted. The fixed-income assets held are matched to the liabilities by duration and are sterling denominated, investment grade securities. The Asset Liability Committee ("ALCO") provides oversight to the monitoring, systems and controls required to manage and control the risks, and reported to the Board on a quarterly basis, within a risk based capital framework.

### Key Performance Indicators

We use a number of financial metrics to help the Board and senior management assess performance against our strategic vision. *These metrics are reviewed regularly to ensure that they remain appropriate.* Key Performance Indicators (KPIs) reflect the vision and mission of the Society in respect of profitability, growth and financial strength. The most important indicators are shown in the table below.
The KPIs at 31 December were as follows:

| | **2020** | **2019** |
|---|---|---|
| Capital % of MCR* | 162% | 511% |
| Member's Fund | £4.3m | £nil |
| Solvency Coverage Ratio* | 199% | 133% |

*Estimated

The estimated Solvency Coverage Ratio and Member's Fund at 31 December 2019 were prior to the transfer of the majority of the Equitable Life business to ULP on 1 January 2020. The Member's Fund, included within Fund for Future Appropriations on the Balance Sheet, on 1 January 2020 was £3.4m.

### Section 172 Statement

We report here on how our directors have performed their duty under section 172 (s172) of the Companies Act 2006. S172 sets out a series of matters to which the directors must have regard in performing their duty to promote the success of the Society for the benefit of its shareholders, which includes having regard for its other stakeholders. Where this statement draws upon information included in other sections of the Strategic Report, this is signposted accordingly.

As a mutual, the actions of the Society over recent years have been driven entirely by the duty to promote the success of the Society for the benefit of its members as a whole. In 2020, the UK business was transferred to ULP, which also became the sole member. During 2020, decisions have been made in line with achieving the Society's strategy to continue to provide a safe home for its policyholders through efficient capital and operational management.

## Strategic Report continued

### Section 172 Statement continued

*Stakeholder engagement*

During the year, the Board considered the impact of its actions on different stakeholder groups. The below sets out our approach to stakeholder engagement during the year.

| Stakeholder | How we engaged them |
|---|---|
| Customers | - The Board regularly receives, monitors and challenges customer-related reporting and details of any initiatives.<br>- The Board engages frequently with senior leadership to understand and follow up on our investment performance, which is consistently monitored.<br>- The Board oversee any material IT platform developments which allow us to better support our customers. |
| People | - The Board engages with our people through regular informal meetings and internal communications on a wide range of topics.<br>- ULP carry out regular employee surveys and act on findings.<br>- Together with our ultimate UK parent company, we sponsor mentorships and volunteering opportunities.<br>- This year, a focus for the Board included the well-being of our staff during the Covid-19 pandemic, ensuring that they could work from home successfully and that no-one was placed on the government-initiated 'furlough' schemes. |
| Strategic Partners | - Members of the Board maintain oversight of the management of our main Strategic Partners, including our asset managers and IT services provider, who help us deliver services to our customers, and our senior management regularly review and report on performance.<br>- This year the Board met with the Society's asset managers and IT services provider. |
| Communities and Environment | - We strive to contribute to all communities in which we operate.<br>- ELAS are engaged in becoming resilient against climate change, and promote a working environment which support this, including recycling. As an insurance business, our environmental impact of our operations is lower than other industries. Nonetheless, ELAS is committed to reducing and minimising the environmental impact of our operations and embedding a sustainable mindset into our corporate philosophy. |
| Regulators | - The Board maintains an open and engaging relationship with our regulators.<br>- The directors meet regularly with them, and 2020 included discussions around business changes and the impact of Brexit. |
| Member | - The Board engages regularly with ULP, its only Member, and is consistently focused on generating a successful outcome for this stakeholder. |

Overall, the Board considers that it has given due regard to stakeholders' needs and the long-term decisions which will have an overall impact on the Society when performing its duty under section 172 (1) of the Companies Act 2006.

### Looking forward

Looking forward, the Society will continue to support the future for German and Irish policyholders.

S. Shone

Stephen Shone
Chief Executive
1 April 2021

# Report of the Directors

The Directors have pleasure in presenting their Annual Report and audited Financial Statements for the year ended 31 December 2020.

**Principal Activities**
The principal activity of the Society during 2020 remained the transaction of life assurance and pension business in the form of guaranteed, participating and unit-linked contracts, relating to policies in Ireland and Germany. The Society closed to new business on 8 December 2000. The Financial Statements of the Society are shown on pages 24 to 47. The operations of the Society are described in the Strategic Report, which includes reference to certain Key Performance Indicators.

**Directors**
The following Directors served during the year to 31 December 2020 and were appointed on 1 January 2020 unless stated otherwise:

| | | |
|---|---|---|
| Chairman | Michael J Merrick | |
| Chief Executive | Stephen Shone | |
| Chief Financial Officer | Jeremy S Deeks | |
| Independent Non-Executive Directors | Seamus Creedon | (resigned 2 April 2020) |
| | Duncan A Finch | |
| | Lord Daniel W Finkelstein | (appointed 29 January 2020) |
| | Susan P Kean | |
| | Nigel A Sherry | (resigned 2 April 2020) |
| | Feilim Mackle | (appointed 29 April 2020) |
| Group Non-Executive Directors | Ian G Maidens | |
| | A Paul Thompson | |

**Directors' Interests**
As at 31 December 2020, the Directors and Secretary, and their spouses and dependent children, had no beneficial interest in the Mutual.

**Going Concern**
The financial position of the Society is presented in the primary financial statements and disclosure notes on pages 24 to 47. The Directors have made an assessment of the Society's going concern, considering both the Society's current performance and its outlook for a period of at least 12 months from the date of approval of these financial statements, which takes into account, amongst others, the impact of the Covid-19 pandemic, using the information available up to the date of issue of the Society's financial statements.

The Society manages and monitors its capital and liquidity, and various assessments and stresses are applied to those positions to understand potential impacts of market downturns. These stresses, including the additional considerations applied in response to Covid-19, do not give rise to any material uncertainties over the ability of the Society to continue as a going concern. Based upon the available information, the Directors consider that the Society has the plans and resources to manage its business risks successfully and that it remains financially strong.

The Directors have assessed the principal risks and uncertainties discussed in the Strategic Report on pages 5 to 8, both in light of Covid-19 and the current economic climate, and have taken into consideration the guidance provided by the Financial Reporting Council ("FRC") on 'Going Concern and Liquidity Risk' published in April 2016. The Directors are confident that the Society will have sufficient funds to continue to meet its liabilities as they fall due for a period of, but not limited to, 12 months from the date of approval of the financial statements. Therefore, they have considered it appropriate to continue to adopt the going concern basis of accounting when preparing the financial statements.

## Report of the Directors continued

### Review of the business

Key events during the year include:

- Sale to ULP on 1 January 2020; and
- The reorganisation of the Utmost Group, in October 2020, to bring together its two businesses, ULP and Utmost International, under one UK holding company;

Further detail on the above is included in the Strategic Report on pages 4 to 8.

### Employees

The Society has no employees. As of 1 January 2020, all employees of the Society were transferred under TUPE legislation to ULPS.

### Financial Risk Management

The Society's exposure to financial risk through its financial assets and liabilities is provided in detail in Note 18 of the Financial Statements.

### Liability Insurance

During the year, the Society maintained directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its Directors. The Society also purchased cover for each of the Directors who resigned on 31 December 2019 for a period of six years, which is a qualifying third-party indemnity provision for the purposes of section 234 of the Companies Act 2006. From 1 January 2020 to 28 February 2021, directors' and officers' liability insurance was held by the Society's UK parent undertaking Utmost Life and Pensions Holdings Limited and covered all subsidiaries in the Group, as permitted by the Companies Act 2006. From 1 March 2021, this cover was held at an Utmost Group level.

### Post Balance Sheet Event

There are no adjusting or non-adjusting post balance sheet events between 31 December 2020 and the approval of the Report and Accounts of the Society which require disclosure.

### Political and Charitable Donations

The Society made no political or charitable donations during 2020 (2019: £nil).

### SECR Reporting

Streamlines Energy and Carbon Reporting (SECR) legislation came into effect in April 2019, requiring all large and/or quoted UK companies to report on their annual energy use and energy efficiencies taken. The Society is exempt from this reporting in its individual financial statements as it is included in the SECR statement included in the consolidated financial statements of its ultimate UK parent, Utmost Group Limited.

### Independent Auditors

PricewaterhouseCoopers LLP has indicated its willingness to continue as the Society's independent auditors.

### Disclosure in the Strategic Report

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, certain matters which are required to be disclosed in the Report of the Directors have been omitted and included in the Strategic Report on pages 4 to 8. These matters relate to:

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

## Report of the Directors continued

**Statement of Directors' responsibilities**
The Directors are responsible for the preparation of the Annual Report and Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law, the Directors have prepared the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law). Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that year. In preparing the 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 United Kingdom Accounting Standards, comprising FRS102, have been followed, *subject to any material departures disclosed in the Financial Statements; and*
- Prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors confirm that their responsibilities in regard to the Mutual have been fulfilled.

**Statement of Disclosure of Information to Auditors**
The Directors at the date of the approval of this report confirm that, so far as each Director is aware, there is no relevant audit information of which the Society's auditor is unaware; and each Director has taken all the steps that they ought to have taken in their duty as a Director in order to make themselves aware of any relevant audit information and to establish that the Society's auditor is aware of the information.

On behalf of the Board

C. Mark Utting
Company Secretary
1 April 2021

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

## Report on the audit of the financial statements

### Opinion

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

- give a true and fair view of the state of the Society's affairs as at 31 December 2020 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2020; the Statement of Comprehensive Income for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

### Basis for opinion

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

#### Independence

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

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

We have provided no non-audit services to the Society in the period under audit.

## Our audit approach

### Context

The Society is a closed life assurance fund with business in the Republic of Ireland and Germany. On 1 January 2020, the Society made changes to a majority of with-profits policies to remove investment guarantees, uplift policy values, convert with-profit policies to unit-linked policies and transfer all UK policies to Utmost Life and Pensions Limited.

### Overview

Audit scope

- We have performed a full scope audit of the complete financial information of the entity in accordance with our materiality and risk assessment.
- In addition to forming this opinion, in this report we have also provided information on how we approached the audit, how it has changed from the previous year and details of significant matters that we have discussed with the Audit Committee. COVID-19 has meant that substantially all of our interactions were undertaken virtually, including those with our specialists and with the Society's directors, management and staff.

Key audit matters

- Valuation of Insurance liabilities - Expense assumptions
- Scheme and transfer to Utmost Life and Pensions Limited
- Actuarial model migration
- Impact of COVID-19

Materiality

- Overall materiality: £214,000 (2019: £40,300,000) based on 5% of Member's Funds (2019: 5% of Excess Own Funds).
    - Performance materiality: £160,500.
- Specific materiality for assets held to cover linked liabilities, technical provision for linked liabilities (non-insurance) and associated income statement line items: Overall materiality £458,000 (2019: there is no comparative) based on 1% of assets held to cover linked materiality.
    - Performance materiality: £343,000

### The scope of our audit

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

### Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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

- Discussions with management, Internal Audit and the Audit Committee, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations.
- Reviewing relevant meeting minutes including those of the Audit Committee, Risk and Compliance Committee and Investment Committee.
- Reviewing the Society's internal audit reports and compliance reports in so far as they related to noncompliance with laws and regulations and fraud.
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to insurance liabilities, with a specific focus on expense assumptions, and balances arising from the Scheme and transfer to Utmost Life and Pensions (see related Key Audit Matters below).
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations and those posted by unexpected users.
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.
- Reviewing the Society's register of litigation and claims, Internal Audit reports, and Compliance reports in so far as they related to non-compliance with laws and regulations and fraud.

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

## Key audit matters

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

This is not a complete list of all risks identified by our audit.

"Valuation of Insurance Liabilities - Expense assumptions" and "Impact of COVID-19" are existing KAMs that have been renamed for clarity. "Scheme and transfer to Utmost Life and Pensions Limited" and "Actuarial model migration" are new key audit matters this year. "Disclosure of the Society's strategy implementation", which was a key audit matter last year, is no longer included because of its relation to a KAM that is no longer applicable in the current period. Otherwise, the key audit matters below are consistent with last year.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Valuation of Insurance liabilities - Expense assumptions*<br><br>Refer to note 1(h) subsection (a) Long Term Business Provision, subsection (b) Technical Provisions for linked liabilities (insurance only), and note 16 Technical Provisions.<br><br>Future maintenance expenses and expense inflation assumptions are used in the measurement of the insurance contract liabilities and in addition, the methodology includes an allowance for diseconomies of scale as the business volumes decline. These all require significant judgement. | We performed the following procedures over maintenance expenses:<br><br>• We understood and tested the governance process in place to determine the maintenance expense, expense inflation assumptions and allowance for diseconomies of scale;<br>• We tested the methodology used by management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience;<br>• We tested and challenged the 2021 budget expenses by comparing the 2020 actuals against the 2020 budget, assessing the split of expenses between ongoing and one-off costs and those that are fixed or variable to supporting evidence;<br>• We tested that the assumptions appropriately reflect the expected future expenses for maintaining policies in force at the balance sheet date, which includes consideration of the allowance for project costs; and<br>• We have reviewed and challenged significant judgements and assumptions used, particularly relating to the allowance for spreading of fixed costs over the reducing portfolio of business as it runs-off.<br><br>Based on the work performed and the evidence obtained, we consider the expense assumptions to be appropriate. |
| *Scheme and transfer to Utmost Life and Pensions Limited*<br><br>Refer to note 3 Scheme and transfer to Utmost Life and Pensions Limited.<br><br>On 1 January 2020, the UK business of Equitable Life Assurance Society ("ELAS") transferred to Utmost Life and Pensions Limited under Part VII of the Financial Services and Markets Act 2000 ('FSMA'). The framework for the transfer was agreed via the Part VII sanctioned by the courts and therefore our work is focused on the correct application of the agreed framework to the policyholder balances | We have performed the following audit procedures to obtain comfort that the scheme and transfer was accounted for in accordance with FRS 102:<br><br>• We have inspected the ELAS trial balance to confirm all transferred business was correctly removed and included in the ULP trial balance.<br>• We have obtained an understanding of the governance process that management had in |

| | |
|---|---|
| immediately prior to the transaction and that these were appropriately applied to both the policies remaining within ELAS and those transferring to Utmost Life and Pensions Limited ("ULP").<br><br>There is risk that the balances transferring from and remaining in ELAS could have been reflected inappropriately.<br><br>There is a risk that the increase ("uplift") applied to the with-profit assets prior to the conversion to unit linked assets has been calculated incorrectly and not in accordance with the Scheme of Arrangement. | place to verify the uplift calculation. The uplift represented an increase in the with profit assets as a result of the scheme of arrangement;<br>• We have reviewed the business transfer agreement and the scheme of arrangement documents to identify the financial statement line items included in the transfer;<br>• We have obtained PRA communication that confirms the agreed primary uplift factor used in the uplift calculation; and<br>• On a sample basis, we have recalculated the uplift value by applying the agreed uplift factors and comparing the recalculated amount to the amount recorded in the policyholder admin system (CPAS/GPAS).<br><br>From the evidence obtained we found the accounting treatment and measurement used to be appropriate. |
| *Actuarial model migration*<br><br>Refer to note 1(h) subsection (a) Long Term Business Provision, subsection (b) Technical Provisions for linked liabilities (insurance only), and note 16 Technical Provisions.<br><br>Management uses proprietary software to calculate insurance contract liabilities and reinsurance assets for the majority of products.<br><br>During 2020, management migrated to a new model for the valuation of the insurance contract liabilities. There is a risk that the new model used as at 31 December 2020 did not calculate the liabilities accurately following migration. | Given the complexity of the calculations performed by these models, we have undertaken procedures to ensure that the model migration has been undertaken such that no material errors have arisen as a result of the migration and that the accuracy of the calculations within the model are materially appropriate for each material product. At 31 December 2020, we have undertaken the following procedures:<br>• Assessed the results between the old and new actuarial models for consistency, including reviewing key changes in methodology between models;<br>• Assessed whether subsequent developments of the new model developed over the year are appropriate;<br>• Reviewed the materiality of management's residual model limitations and concluded on the appropriateness of these limitations; and<br>• Reviewed the model baselining performed by the actuarial function for a sample of policies and product features to ensure that the cash flows generated by the model are accurate and follow management's stated methodology. We have tested the calculations performed in the sample against our expectations and the requirements of UK GAAP. |

| | |
|---|---|
| | Based upon the results of our testing, we have not identified any issues in respect of the new actuarial model. |
| *Impact of COVID-19*<br>Refer to Strategic Report and Going Concern in the Directors' Report, note 18 Financial Risk Management and note 16 Technical Provisions.<br>The impacts of the global pandemic due to the Coronavirus COVID-19 continue to cause significant social and economic disruption up to the date of reporting. We have identified the following key impacts:<br><br>*Ability of the entity to continue as a going concern*<br>There are a number of potential matters in relation to COVID-19 which could impact on the going concern status of Equitable Life Assurance Society.<br><br>Using downside scenarios driven by the required Own Risk and Solvency Assessment (ORSA) process, the Directors have considered the ability of Equitable Life Assurance Society to remain solvent with sufficient liquidity to meet future obligations.<br><br>The Directors have also considered their requirements in respect of regulatory capital under Solvency II, including severe fall in interest rates and equity . The Directors' have concluded that Equitable Life Assurance Society is a going concern.<br><br>*Impact on estimation uncertainty in the financial statements*<br>The pandemic has increased the level of estimation uncertainty in the financial statements. The Directors have therefore considered how COVID-19 has impacted the key estimates that determine the valuation of material balances, particularly insurance contract liabilities and financial investments.<br><br>*Qualitative Disclosures in the Annual Report and Financial Statements*<br>In addition, the Directors have considered the qualitative disclosures included in the Annual Report in respect of COVID-19 and the impact that the pandemic has had, and continues to have, on Equitable Life Assurance Society. | In assessing management's consideration of the impact of COVID-19 on the Society we have performed the following procedures:<br><br>• Obtained management's updated going concern assessment and considered the rationale for the downside scenarios adopted and material assumptions made using our knowledge of performance, review of regulatory correspondence and obtaining further corroborating evidence;<br>• Considered information obtained during the course of the audit to identify any evidence that would contradict management's assessment of the impact of COVID-19;<br>• Inquired and understood the actions taken by management to mitigate the impacts of COVID-19;<br>• Assessed the impact of COVID-19 on the design and operating effectiveness of the control environment;<br>• Challenged management's judgements in the valuation of the insurance contract liabilities, including expense assumptions, in light of the emerging COVID-19 experience and by comparing these relative to industry peers; and<br>• Reviewed the appropriateness of disclosures within the Annual Report and Financial Statements with respect to COVID-19 and, where relevant, considered the material consistency of this other information to the audited financial statements and the information obtained in the audit.<br><br>Based on the work performed, we:<br>• Agree with the Directors' conclusions in respect of going concern;<br>• Have audited the balances impacted by estimation uncertainty and believe the values presented in the Financial Statements to be reasonable; and<br>• Consider the disclosure of COVID-19 in the financial statements to be appropriate. |

## How we tailored the audit scope

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

The Society is a regulated insurance entity. The investment administration function is outsourced.

Our audit work focused on the testing of transactions and balances to appropriate supporting evidence. Where required, we obtained confirmation from the relevant third parties with regards to cash and debtors balances.

In respect of the outsourced investment administration service providers, we were able to obtain appropriate evidence through a review of assurance reports on internal control that monitor the procedures carried out by the service providers.

## Materiality

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

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

| | |
|---|---|
| *Overall Society materiality* | • Overall materiality: £214,000 (2019: £40,300,000) based on 5% of Member's Funds, other than assets held to cover linked liabilities, technical provision for linked liabilities (non-insurance) and associated income statement line items. The benchmark applied in the current year has been amended from 5% of Excess Own Funds applied in the prior period to 5% of Member's Funds to respond to the changes arising from the Part VII transfer.<br>• Specific materiality for assets held to cover linked liabilities, technical provision for linked liabilities (non-insurance) and associated income statement line items: £458,000 based on 1% of assets held to cover linked liabilities. |
| *How we determined it* | 5% of Member's Funds, and for the specific materiality as described above. |
| *Rationale for benchmark applied* | Consistent with the prior year, since the Society does not report a profit or loss, we believe that Member's Funds is the most appropriate benchmark on which to base materiality, as it represents the amount available to meet liabilities in excess of those provided for at the balance sheet date, as well as to increase payouts to the member in the future.<br>Regarding specific materiality for assets held to cover linked liabilities, technical provision for linked liabilities (non-insurance) and associated income statement line items, the benchmark applied is Assets Held to Cover Linked Liabilities, which is equal to the technical provisions for linked liabilities (non-insurance only) and reflects the primary measure used by the relevant stakeholders as it is a key performance indicator of the business. |

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to:

- £160,500 for the Society financial statements;

- Also at 75% of specific overall materiality for the specific performance materiality for assets held to cover linked liabilities, technical provision for linked liabilities (non-insurance) and associated income statement line items our specific performance materiality was: £343,000.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above:

- £10,700 (2019: £2,000,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons;

- Specific de-minimis level for assets held to cover linked liabilities, technical provision for linked liabilities (non-insurance) and associated income statement line items: £22,900.

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the directors' going concern assessment and challenging the rationale for downside scenarios adopted and material assumptions made, using our knowledge of the Society's business performance, review of regulatory correspondence and obtaining further corroborating evidence;
- Considering management's assessment of the regulatory solvency coverage and liquidity position in the forward looking scenarios considered;
- Assessing the impact of severe, but plausible, downside scenarios;
- Assessing liquidity of the Society, including the Society's ability to pay policyholder obligations, suppliers and creditors as amounts fall due;
- Enquiring and understanding the actions taken by management to mitigate the impacts of COVID-19; and
- Reviewing the disclosures included in the financial statements, including the Basis of Preparation.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

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

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

### Auditors' responsibilities for the audit of the financial statements

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

### Use of this report

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

# Other required reporting

## Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

## Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 23 May 2001 to audit the financial statements for the year ended 31 May 2001 and subsequent financial periods. The period of total uninterrupted engagement is 20 years, covering the years ended 31 May 2001 to 31 December 2020.

Kirstie Hanley

Kirstie Hanley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1 April 2021

# Statement of Comprehensive Income

For the year ended 31 December 2020

## Technical Account – long-term business

| | Notes | 2020 | 2019 |
|---|---|---|---|
| | | £m | £m |
| **Earned premiums, net of reinsurance** | | | |
| Gross premiums written | 4 | **0.6** | 10.1 |
| Outward reinsurance premiums | | **(0.2)** | (4.2) |
| | | **0.4** | 5.9 |
| **Investment income** | 5 | **0.6** | 71.9 |
| **Unrealised (losses)/gains on investments** | 5 | **(320.4)** | 86.0 |
| **Realised gains on investments** | 5 | **325.8** | 262.3 |
| **Other technical income** | 9 | **-** | 3.6 |
| **Total technical income** | | **6.4** | 429.7 |
| **Claims incurred, net of reinsurance** | | | |
| Claims paid – gross amount | 6 | **(4.6)** | (131.1) |
| Reinsurers' share | | **0.3** | 20.7 |
| | | **(4.3)** | (110.4) |
| Transfer to the Fund for Future Appropriations | 25 | **(0.1)** | - |
| **Changes in other technical provisions, net of reinsurance** | | | |
| Long-term business provision – gross amount | 16 | **0.9** | (43.2) |
| Reinsurers' share | 16 | **0.3** | 11.5 |
| | | **1.2** | (31.7) |
| Technical provisions for linked liabilities – gross amount | 16 | **(2.4)** | (227.9) |
| Reinsurers' share | 16 | **-** | 0.5 |
| | | **(2.4)** | (227.4) |
| **Net operating expenses** | 7 | **(0.1)** | (52.0) |
| **Investment expenses including interest** | 5 | **(0.4)** | (4.7) |
| **Taxation attributable to the long-term business** | 10 | **(0.3)** | (3.5) |
| | | **(0.8)** | (60.2) |
| **Total technical charges** | | **(6.4)** | (429.7) |
| **Balance on the Technical Account** | | - | - |
| **Total comprehensive income for the year** | | - | - |

Note: On 1 January 2020, the majority of policies were transferred to Utmost Life and Pensions Limited. Further details are included in Note 3 Scheme and Transfer to Utmost Life and Pensions Limited continued.

# Balance Sheet

as at 31 December 2020

## Assets

| | Notes | 2020 | 2019 |
|---|---|---|---|
| | | **£m** | **£m** |
| **Investments** | | | |
| Shares and other variable yield securities and units in unit trusts | 12 | **12.0** | 0.2 |
| Debt and other fixed-income securities | 12 | **8.7** | 2,062.5 |
| Deposits and other investments | 12 | **-** | 2,141.4 |
| | | **20.7** | 4,204.1 |
| **Assets held to cover linked liabilities** | 13 | **45.8** | 1,760.5 |
| **Reinsurers' share of technical provisions** | 16 | **9.8** | 369.7 |
| **Reinsurers' share of linked liabilities** | | **-** | 7.3 |
| **Debtors** | | | |
| Debtors arising out of insurance operations | 15 | **-** | 2.3 |
| Other debtors | 15 | **0.1** | 5.1 |
| | | **0.1** | 7.4 |
| **Cash at bank and in hand** | | **1.2** | 14.5 |
| **Prepayments and accrued income** | | | |
| Accrued interest and rent | | **0.1** | 1.8 |
| Other prepayments and accrued income | | **-** | 2.7 |
| | | **0.1** | 4.5 |
| **Total assets** | | **77.7** | 6,368.0 |

# Balance Sheet
as at 31 December 2020 continued

## Liabilities

| | Notes | 2020 | 2019 |
|---|---|---|---|
| | | **£m** | **£m** |
| **Technical provisions** | | | |
| Long–term business technical provision - gross amount | 16 | **21.2** | 4,565.8 |
| Claims outstanding | | **0.6** | 22.9 |
| | | **21.8** | 4,588.7 |
| **Technical provisions for linked liabilities** | 16 | **45.7** | 1,763.4 |
| **Funds for future appropriations** | 25 | **8.6** | - |
| **Creditors falling due after more than one year** | 20 | **0.6** | - |
| **Provisions for other risks and charges** | | **0.1** | 2.5 |
| **Creditors** | | | |
| Creditors arising out of direct insurance operations | 19 | **0.1** | 0.2 |
| Amounts owed to credit institutions | 19 | **-** | 0.7 |
| Other creditors including taxation and social security | 19 | **0.3** | 5.3 |
| | | **0.4** | 6.2 |
| **Accruals and deferred income** | | **0.5** | 7.2 |
| **Total liabilities** | | 77.7 | 6,368.0 |

The Notes on pages 27 to 47 form an integral part of these Financial Statements. The Society is a mutual with no equity holders and so has not presented a Statement of Changes in Equity.

These Financial Statements were approved by the Board on 31 March 2021 and were signed on its behalf on 1 April 2021 by:

Jeremy S. Deeks
Director

The Equitable Life Assurance Society registered company number 37038

# Notes to the Financial Statements

**1. Accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. General information

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

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

b. Basis of preparation

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 Financial Statements are presented in sterling (£) which is the functional and presentational currency of the Society and rounded to the nearest £m, except where otherwise stated.

At the Balance Sheet date, the Society did not have subsidiary companies that required consolidation (Note 11), and these Financial Statements represent the results and position of the Society only.

The results of the Society are included in the group accounts of Utmost Life and Pensions Holdings Limited (ULPH). These consolidated financial statements are prepared in accordance with UK GAAP and are publicly available from Walton Street, Aylesbury, Buckinghamshire, HP21 7QW.

In these consolidated financial statements, the Society is considered to be a qualifying entity (for the purposes of this FRS). In the preparation of the individual financial statements, the Society has applied the exemptions available under FRS 102 in respect of the following disclosures:

- *The requirement to prepare a cash flow statement and related notes;*
- Related party disclosures;
- Key management compensation;
- Reconciliation of the number of shares outstanding at the beginning and end of the year; and
- Presentation of share-based payments disclosure as per FRS102 paragraphs 26.18(b), 26.19 to 26.21 and 26.23.

c. Going concern

The Society will continue in operation as a subsidiary of ULP. 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.

d. Foreign currency translation

Foreign currency monetary items are translated using the year end closing rate and any exchange differences are recognised in the income statement.

e. Investments in subsidiaries

Investments in subsidiaries are carried at fair value. Changes in carrying value are reported in the Technical Account.

## Notes to the Financial Statements continued

f. Financial investments

The Society has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement and the disclosure requirements of FRS 102.

The Society classifies its financial assets into the following categories:

- Shares and other variable yield securities – Fair Value through Profit and Loss (FVTPL);
- Units in unit trusts – FVTPL;
- Derivatives – at Held-for-Trading (HFT);
- Debt securities and other fixed-income securities – at FVTPL; and
- Deposits with credit institutions – Loans and Receivables

a. *Financial assets – Fair Value through Profit and Loss*

The fair values of financial assets traded in active markets are based on quoted bid prices on the balance sheet date.

The fair values of financial assets that are not traded in an active market are established by the directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take place between market participants. More detail is provided on these valuation models is provided in Note 5.

Net gains or losses arising from changes in the fair value of financial assets at FVTPL are presented in the Profit and Loss Account within Investment Income in the period in which they arise.

b. *Financial assets – Held for Trading*

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Net gains or losses arising from the change in fair value are presented in the Profit and Loss Account within Investment Income. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

c. *Financial assets – Loans and Receivables*

Deposits with credit institutions are initially recognised at the fair value of the consideration paid including transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently they are measured at amortised cost, using the effective interest method.

Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the Directors as being prudent with regard to the likely realisable value.

For financial assets not at FVTPL, the Society assesses at each balance sheet date, whether there is objective evidence that a financial asset is impaired. The impairment losses are incurred only if there is evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

g. Reinsurance

The Society cedes reinsurance in the normal course of business in order to limit the potential for losses and to provide financing. Such contracts are accounted for as insurance contracts, provided the risk transfer is significant.

The amounts recoverable from reinsurers, recognised as assets on the Balance Sheet, are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance receivables are reviewed for impairment at each reporting date.

## Notes to the Financial Statements continued

The reinsurers' share of claims incurred, in the Profit and Loss Account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the year.

h. Product classification – Insurance contracts

Contracts which transfer significant insurance risk to the Society at the inception of the contract are classified as insurance contracts. Any contracts not considered to be insurance contracts are classified as investment contracts (see Note 1(j)).

Some investment contracts contain a discretionary participation feature ("DPF"). This feature entitles the policyholder to additional discretionary benefits as a supplement to guaranteed benefits. Investment contracts with a DPF are recognised, measured and presented as insurance contracts.

Insurance contract liabilities are included in the Long term business provision and the Technical provisions for linked liabilities on the Balance Sheet.

a. Long term business provision

The long-term business provision is determined on the basis of recognised actuarial methods and in accordance with the regulations contained in the Prudential Regulation Authority (PRA) Rulebook, with adjustments to align to FRS 103 requirements. All relevant guidance from the Board of Actuarial Standards has been followed. The long-term provision also includes the non-unit liabilities in respect of unit-linked insurance contracts.

All long-term business technical provisions are determined in accordance with the Solvency II regulatory valuation adjusted as follows:

- The removal of the impact of Transitional Measures on Technical Provisions ("TMTPs"), if applicable;
- The use of discount rates based on swap rates with an additional margin for annuity business to allow for an illiquidity premium;
- The addition of a margin to best estimate expense, mortality and longevity assumptions as well as the take-up of Guaranteed Annuity Options ("GAOs") to ensure sufficient prudence in the provisions;
- Confirmation that, at an individual policy level, the provision calculated will not be less than the guaranteed amount immediately due (this applied primarily to unit-linked insurance policies); and
- The removal of future final bonuses from with-profit provisions because these are not guaranteed. The excess of assets over liabilities in the with-profits funds shall be used to enhance the bonuses in these funds.

b. Technical provisions for linked liabilities

Liabilities under unit-linked contracts are recognised as and when the units are created and are dependent on the value of the underlying financial assets, derivatives and/or investment property.

Unit-linked contracts which transfer significant insurance risk, including guaranteed benefits, are classified as insurance contracts and are carried in the balance sheet at an amount determined by the valuation of the related units on the valuation date.

The Technical provisions for linked liabilities also includes amounts in respect of unit-linked contracts which principally involve the transfer of financial risk (see Note 1(j)).

The change in insurance liability reflects the assumption changes relating to claims expectations, expenses, and the unwind of the previous year's expectations. It also includes the reduction in liability due to the payment of claims in the year.

Premiums, including reinsurance premiums, and consideration for annuities are recognised as income when due for payment, except for unit-linked insurance premiums, which are recognised when units are created.

Maturity claims and annuities are recognised when due for payment.

## Notes to the Financial Statements continued

h. Product classification – Insurance contracts continued

Surrenders are accounted for when paid or, if earlier, on the date the policy ceases to be included within the calculation of the long term business provision and/or the technical provision for linked liabilities.

Death claims are recognised on the basis of notifications received.

Claims payable include the related internal and external claims handling costs.

j. Product classification – Investment contracts

Contracts which transfer financial risk (e.g. Change in interest rate), but not significant insurance risk are classified as investment contracts.

Amounts received in respect of unit-linked investment contracts which principally involve the transfer of financial risk are accounted for under deposit accounting, with amounts collected credited directly to the Balance Sheet.

Financial liabilities in respect of unit-linked investment contracts are measured at fair value through profit and loss, determined by reference to the value of the underlying net asset values of the unitised investment funds at the balance sheet date. These are presented in the Balance Sheet within 'Technical provisions for linked liabilities'.

Fees receivable from unit-linked investment contracts (included in 'Other technical income') as well as investment income and interest payable on contract balances are recognised in the Profit and Loss Account in the year they are accrued.

Claims are not included in the Income Statement but are deducted from investment contract liabilities. The movement in investment contract liabilities (included in Change in other technical provisions, net of reinsurance) consists of claims incurred in the year less the corresponding elimination of the policyholder liability originally recognised and the investment return credited to policyholders.

k. Cash

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. These are valued at amortised cost.

l. Debtors

Debtor balances arise from the normal operating activities of the Society. Debtors that are expected to be received within one year of the balance sheet date are recorded at their undiscounted amounts. Balances greater than one year or which constitute financing transactions are recorded at fair value less transaction costs and subsequently at amortised cost, net of impairment.

m. Creditors

Creditors are initially recognised when due and are measured at fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

n. Investment return

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

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

## Notes to the Financial Statements continued

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

n. Investment return

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.

o. Taxation

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

p. Segmental reporting

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

q. Funds for Future Appropriation

The Funds for Future Appropriation (FFA) represent the accumulated excess funds yet to be allocated to with-profit policyholders and the member.

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

The preparation of the financial statements which conform to UK GAAP FRS 102 requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in the process of applying the Society's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reflected in the judgements made about carrying amounts of assets and liabilities that are not objectively verifiable. Actual results may differ from the estimates made. Estimates and underlying assumptions are reviewed regularly by Management and the Board, and, where necessary, are revised to reflect current conditions.

*Critical accounting estimates*

(a) Insurance and investment contract liabilities

The calculation of insurance and investment contract liabilities is a critical estimate, based on the fact that although the process for the establishment of these liabilities follows specified rules and guidelines, the provisions that result from the process are the subject of estimations. As a consequence, the eventual claims could vary from the amounts provided to cover future claims. The Society seeks to provide appropriate levels of contract liabilities taking known facts, market conditions and past experience into account but, regardless, such liabilities remain uncertain. The calculation methodology is discussed further in accounting policy Note 1(h) and 1(j), and sensitivities arising from significant non-economic assumptions are detailed in Note 18.

## Notes to the Financial Statements continued

*Critical judgements*

(a) Product classification

The Society's classification between which products are insurance contracts and which are investments contracts is a critical judgement as the classification dictates the relevant presentation and measurement that is applied to each type of contract in the financial statements.

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause the insurer to make significant additional payments. These contracts may also include the transfer of financial risk. As a general guideline, the Society defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Any contracts not considered to be insurance contracts are classified as investment contracts.

**3. Scheme and Transfer to Utmost Life and Pensions Limited**

On 1 January 2020, following delivery of the strategy detailed in the Strategic Report on page 4, the majority of policies transferred to Utmost Life and Pensions Limited (ULP). German and Irish business remained within the Society, which become a subsidiary of ULP on 1 January 2020. ULP is now the sole Member of the Society. In addition, all employees were transferred under TUPE legislation into Utmost Life and Pensions Services Limited (ULPS).

On 1 January 2020, the Society implemented the following:

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

As a result of the Implementation:

- With-profits policies, valued at £2.2bn in the Financial Statements as at 31 December 2019, had uplifted values of £4.1bn (of which German and Irish policies have an uplifted value of £41m);
- Assets worth £5.9bn and liabilities of £5.8bn associated with the 310,000 UK and international, unit-linked (both heritage and newly converted) and non-profit policies were transferred to ULP with effect from 1 January 2020; and
- Invested assets and net current assets worth £69m were retained to back the 3,210 German and Irish, unit-linked, non-profit and with-profits polices that remain in the Society.

The Society entered into an agreement with ULP and ULPS for the provision of administration services.

## Notes to the Financial Statements continued

**3. Scheme and Transfer to Utmost Life and Pensions Limited continued**

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

| | 31 December 2019 | 1 January 2020 |
|---|---|---|
| **Assets** | **£m** | **£m** |
| Invested assets[1] | 4,204.0 | 20.1 |
| Assets held to back linked liabilities[2] | 1,760.5 | 47.7 |
| Reinsurance recoverables | | |
| Non-profit | 369.6 | 9.4 |
| Heritage unit-linked | 7.4 | - |
| Current assets | 26.5 | 1.9 |
| **Total assets** | **6,368.0** | **79.1** |
| | | |
| **Liabilities** | | |
| Technical provisions | | |
| Non-profit | 373.1 | 9.8 |
| Heritage with-profits[3] | 3,192.3 | 17.5 |
| Converted unit-linked[4] | - | 31.1 |
| Heritage unit-linked | 1,763.4 | 16.6 |
| Other long-term liabilities[5] | 193.3 | - |
| Excess assets | 807.1 | - |
| **Total technical provisions** | **6,329.2** | **75.0** |
| Current liabilities | 38.8 | 0.7 |
| Member funds[6] | - | 3.4 |
| **Total liabilities** | **6,368.0** | **79.1** |

[1] Includes assets backing non-profit and German with-profits business
[2] Assets backing heritage and newly converted unit-linked business
[3] This is includes a Fund for Futute Appropriations of £5.1m'
[4] Irish with-profits policies in the Scheme converted to unit-linked
[5] Future expenses of the German and Irish business will be covered by charges deducted from policies
[6] Included in Funds for Future Appropriations in 2020 Balance Sheet.

## Notes to the Financial Statements continued

### 4. Earned premiums

Premiums received in respect of investment contracts without discretionary participation features are not included in the Technical Account or in the table below, as stated in Note 1(j). The total of these deposits received in 2020 was £0.1m and represents linked pension business (2019: £5m). There were no new premium deposits in the year and no corresponding 'annual premium equivalent' (2019: £nil).

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

| | 2020 £m | 2019 £m |
|---|---|---|
| **Gross premiums written comprise:** | | |
| Direct insurance | **0.6** | 10.1 |
| **Gross direct premiums written in respect of insurance contracts and with profits investment contracts** | | |
| Periodic premiums | **0.5** | 9.8 |
| Single premiums | **0.1** | 0.3 |
| | **0.6** | 10.1 |
| **Gross premiums written comprise:** | | |
| Life insurance contracts | **0.4** | 5.6 |
| Pensions contracts | - | 4.3 |
| Annuity contracts | **0.2** | 0.2 |
| | **0.6** | 10.1 |
| **Gross premiums written comprise:** | | |
| With-profit insurance contracts | **0.3** | 5.9 |
| Unit linked insurance contracts | **0.1** | 0.6 |
| Non-profit insurance contracts | **0.2** | 3.6 |
| | **0.6** | 10.1 |
| **Geographical analysis** | | |
| UK | - | 9.4 |
| Overseas | **0.6** | 0.7 |
| | **0.6** | 10.1 |

The Society closed to new business on 8 December 2000. The Society only recognises new business premiums and deposits where it is contractually obliged to do so.

## Notes to the Financial Statements continued

### 5. Total investment return

| | 2020 £m | 2019 £m |
|---|---|---|
| **Investment return: long-term business technical account** | | |
| Income from financial assets at fair value through profit or loss | **0.6** | 71.9 |
| Net gains on the realisation of investments | **325.8** | 262.3 |
| | **326.4** | 334.2 |
| **Investment expenses and charges:** | | |
| Other investment management expenses | **(0.4)** | (4.7) |
| **Investment expenses** | **(0.4)** | (4.7) |
| **Net unrealised (losses)/gains on investments** | **(320.4)** | 86.0 |
| **Investment gains retained in the long-term business technical account** | **5.6** | 415.5 |

On 1 January 2020, as part of the Part VII transfer, assets were sold in order to transfer cash to ULP. This realised minimal net gains, presented above as Net gains on the realisation of investments, £325.4m less Net unrealised losses on investments, £(325.4)m.

### 6. Claims incurred

| | 2020 £m | 2019 £m |
|---|---|---|
| Claims paid - gross claims | **4.6** | 131.1 |

### 7. Net operating expenses

| **a. Net operating expenses** | 2020 £m | 2019 £m |
|---|---|---|
| Administration expenses | **0.1** | 20.8 |
| Costs of strategic initiatives | **-** | 30.4 |
| Redundancies | **-** | 0.8 |
| **Total net operating expenses** | **0.1** | 52.0 |
| Investment management expenses (Note 5) | **0.4** | 4.7 |
| Claims handling expenses (Note 6) | **-** | 0.7 |
| **Total costs** | **0.5** | 57.4 |

## Notes to the Financial Statements continued

### 7. Net operating expenses continued

The Society has no employees, and all services are undertaken by employees seconded to ULP and the Society by ULPS under a Secondment Agreement, which was amended to incorporate the ELAS subsidiary from 1st January 2020. ULPS makes a management charge to ULP for secondment services in accordance with the Agreement.

Equitable life bears a per policy charge in consideration of the administration services provided by the Secondees and other infrastructure costs such as IT systems and premises costs ULP makes payment for.

Audit fees of £100k have been paid by ULP in accordance with the cost agreement.

**b. Services from auditors**
During the year, the Society received the following services from the Society's auditors:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Fees payable for the audit of the Society's statutory Financial Statements | **100** | 365 |
| Fees payable to the Society's auditors for other services | - | 65 |
| | **100** | 431 |

Fees shown are net of VAT.

### 8. Employees and Directors

**a. Staff costs**

| | 2020 £m | 2019 £m |
|---|---|---|
| Wages and salaries | - | 11.7 |
| Social security costs | - | 1.5 |
| Pension costs | - | 0.7 |
| | - | 13.9 |

The Society has no employees. As of 1 January 2020, all employees of the Society were transferred under TUPE legislation into ULPS. Please see Note 3 for further detail.

In 2020, Staff costs are incurred via a management charge from the Society's holding company, ULP, and are included in administrative expenses in Net operating expenses (Note 7). The staff costs cannot be split out from the total management charge.

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 nil (2019:197). The total staff number at the end of 2020 including contractors was nil (2019: 208).

## Notes to the Financial Statements continued

**8. Employees and Directors continued**

**b. Emoluments of Directors**

| | 2020 £m | 2019 £m |
|---|---|---|
| Aggregate remuneration | - | 3.1 |
| Highest paid Director (included in above figures) | - | 1.6 |

Directors' emoluments relate to Directors who held office during the year. 2019 Directors' emoluments include a retention amount payable on successful implementation of the Scheme of Arrangement and Part VII transfer.

In 2020, Executive Directors who are employees of ULPS and independent non-executive Directors have been remunerated by ULPS; the cost for which is recharged to the Society and included within administrative expenses (Note 7). An allocation has been made according to the percentage of policies ELAS administers, resulting in an allocation of remuneration to ELAS of £11k.

No incremental emoluments were paid to any Group Non-executive Directors in respect of services to the Society (2019: £nil).

**9. Other technical income**

Other technical income of £49k (2019: £3.6m) includes rebates received from unit-linked OEICs fund managers of £nil (2019: £3m).

**10. Taxation attributable to the long-term business**

| | 2020 £m | 2019 £m |
|---|---|---|
| Balance on the technical account | - | - |
| Income at main rate of corporation tax of 19% (2019: 19%) | - | - |
| Giving rise to: | | |
| UK tax charge arising on transfer to Member Funds | **0.2** | - |
| UK tax charge arising on returns attributable to policyholders | - | 3.5 |
| Irish tax charge arising on investment returns attributable to policyholders | **0.1** | - |
| **Total charge** | **0.3** | 3.5 |

## Notes to the Financial Statements continued

**10. Taxation attributable to the long-term business continued**

Since 1 January 2020 the Society has no longer been subject to UK corporation tax at the policyholder rate of 20% on investment income and gains arising. This is because the Society no longer has any UK resident life policyholders. However the Society is potentially subject to UK tax at the standard UK corporation tax rate of 19% (2019: 19%) with respect to transfers to Member Funds. It is also subject to Irish tax at the Irish policyholder rate of 20% (2019: 20%) with respect to investment income and gains accruing for the benefit of certain Irish resident policyholders.

At the end of 2019 the Society had a deferred tax liability of £2.5m in respect of unrealised gains, largely relating to a potential liability in respect of UK tax. Of this balance, £7k related to Irish tax. The UK liability was transferred to ULP as a result of the Part VII transfer, with the £7k liability being retained in the Society. As at 31 December 2020 the latter Irish liability had increased to £0.1m as a result of investment gains during the year.

On 3 March 2021 the UK Government announced that Finance Bill 2021 will increase UK corporation tax from its current rate of 19% to 25% with effect from April 2023. The legislation implementing the latter change had not been substantially enacted at the balance sheet date of 31 December 2020 and, accordingly, no account of the proposed rate increase was made in calculating the Society's tax charge. However, if the rate increase had been enacted prior to the balance sheet of 31 December 2020, then it would have had no impact on the Society's closing deferred tax liability.

**11. Investments in subsidiaries**

Equitable Life Ireland DAC ("ELI") was transferred to ULP as part of the acquisition on 1 January 2020. Lydiard Fields Management Society, a wholly owned subsidiary, is held at nil fair value (2019: £nil).

**12. Financial investments**

| | 2020 Market Value £m | 2020 Cost £m | 2019 Market Value £m | 2019 Cost £m |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | |
| Designated upon initial recognition | **20.7** | **20.8** | 2,062.7 | 2,061.2 |
| | **20.7** | **20.8** | 2,062.7 | 2,061.2 |
| Loans and receivables | - | - | 2,141.4 | 2,141.4 |
| **Total financial assets** | **20.7** | **20.8** | 4,204.1 | 4,202.6 |

| | 2020 Market Value £m | 2020 Cost £m | 2019 Market Value £m | 2019 Cost £m |
|---|---|---|---|---|
| Shares and other variable yield securities and units in unit trusts | **12.0** | **12.5** | 0.2 | 1.8 |
| Debt securities and other fixed income securities | **8.7** | **8.3** | 2,062.5 | 2,059.4 |
| Other loans | - | - | 0.1 | 0.1 |
| Deposits with credit institutions | - | - | 2,141.3 | 2,141.3 |
| | **20.7** | **20.8** | 4,204.1 | 4,202.6 |

## Notes to the Financial Statements continued

### 13. Assets held to cover linked liabilities

| | 2020 Market Value £m | 2020 Cost £m | 2019 Market Value £m | 2019 Cost £m |
|---|---|---|---|---|
| Shares and other variable yield securities and units in unit trusts | **45.8** | **41.8** | 1,757.3 | 1,430.5 |
| Deposits with credit institutions | - | - | 1.0 | 1.0 |
| Cash and cash equivalents | - | - | 0.5 | 0.5 |
| Current assets | - | - | 1.7 | 1.7 |
| | **45.8** | **41.8** | 1,760.5 | 1,433.7 |

'Assets held to cover linked liabilities' is stated gross of £0.1m (2019: £2.1m) relating to tax accrued on linked fund investment return within Provision for deferred taxation and £nil (2019: £2.4m) relating to investments in the process of settlement within 'Other creditors including taxation and social security' (Note 19).

### 14. Fair value hierarchy

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.

**Analysis of investments according to fair value hierarchy as at 31 December 2020:**

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Financial assets at fair value through profit or loss:** | | | | |
| Shares and other variable-yield securities and units in unit trusts | **12.0** | - | - | **12.0** |
| Debt securities and other fixed income securities | **8.7** | - | - | **8.7** |
| Derivative financial investments | - | - | - | - |
| | **20.7** | - | - | **20.7** |
| Financial assets held to cover linked liabilities | **45.8** | - | - | **45.8** |
| | **66.5** | - | - | **66.5** |

## Notes to the Financial Statements continued

**Analysis of investments according to fair value hierarchy as at 31 December 2019:**

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Financial assets at fair value through profit or loss:** | | | | |
| Shares and other variable-yield securities and units in unit trusts | - | - | - | - |
| Debt securities and other fixed income securities | 2,062.5 | - | - | 2,062.5 |
| Deposits | 2,141.2 | - | - | 2,141.2 |
| | 4,203.7 | - | - | 4,203.7 |
| Financial assets held to cover linked liabilities | 1,758.7 | - | - | 1,758.7 |
| | 5,962.4 | - | - | 5,962.4 |

In 2019, Total Financial assets held to cover linked liabilities (£1,760.5m) include £1.7m cash and current assets.

**15. Debtors**

| | 2020 £m | 2019 £m |
|---|---|---|
| Debtors arising out of direct insurance operations | - | 0.2 |
| Debtors arising out of reinsurance operations | - | 2.1 |
| Current tax receivable | - | 2.6 |
| Other debtors | **0.1** | 2.5 |
| | **0.1** | 7.4 |

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

## Notes to the Financial Statements continued

### 16. Technical provisions

| | Gross | Re-insurance | Net |
|---|---|---|---|
| | £m | £m | £m |
| **At 1 January 2020** | **4,565.8** | **(369.7)** | **4,196.1** |
| Scheme and Transfer | (4,535.2) | 360.2 | (4,175.0) |
| Reclassification following Scheme [1] | (8.5) | - | (8.5) |
| Premiums received | 0.5 | 0.2 | 0.7 |
| Claims paid | (2.4) | (0.3) | (2.7) |
| Model changes | (3.2) | 1.0 | (2.2) |
| Change in demographic assumptions | (0.5) | 0.7 | 0.2 |
| Change in expense assumptions | 0.1 | - | 0.1 |
| Change in economic assumptions and Other | 4.6 | (1.9) | 2.7 |
| **At 31 December 2020** | **21.2** | **(9.8)** | **11.4** |

| | Unit linked investment contracts | | Unit linked insurance contracts [2] | | Total | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | £m | £m | £m | £m | £m | £m |
| **At 1 January** | **1,663.1** | 1,533.3 | **100.3** | 100.4 | **1,763.4** | 1,633.7 |
| Scheme and Transfer | **(1,624.1)** | - | **(91.5)** | - | **(1,715.6)** | - |
| Deposits / premiums received | **0.1** | 5.3 | **0.1** | 0.6 | **0.2** | 5.9 |
| Payments made to policyholders | **(4.4)** | (103.5) | **(2.2)** | (16.8) | **(6.6)** | (120.3) |
| Annual management charges | **(0.2)** | - | **(0.1)** | - | **(0.3)** | - |
| Change in technical provision | **(1.2)** | 228.0 | **5.8** | 16.1 | **4.6** | 244.1 |
| **At 31 December** | **33.3** | 1,663.1 | **12.4** | 100.3 | **45.7** | 1,763.4 |

Note:
[1] On 1 January 2020 £8.5m was reclassified as Fund for Future Appropriation on the balance sheet (Note 25).
[2] The Change in Technical Provisions for linked liabilities in the P&L Technical Account, £2.4m (2019: £227.9m) includes deposits/premiums received, payments made to policyholders, annual management charges under linked insurance contracts and changes in technical provisions.

Financial liabilities in respect of unit linked investment contracts are carried in the balance sheet at fair value.

## Notes to the Financial Statements continued

**17. Capital management**

The Society is required to hold capital at a level of financial resources that do not fall below a minimum as determined in accordance with the PRA regulations and EU directives for insurance and other PRA regulated business.

For the purposes of determining its Regulatory Capital, the Society uses the Solvency II Standard Formula without adjustment. The appropriateness of the Standard Formula approach has been reviewed by management and actuarial functions and approved by the Board.

The capital of the Society comprises loan capital and retained earnings. The loan capital from the immediate parent company, qualifies as Tier 2 capital under Solvency II.

In order to reconcile capital or available financial resources on a UK GAAP accounting basis to a Solvency II basis, a number of adjustments are required. In addition to Solvency II restrictions applicable to Tier 2 capital, adjustments include deductions for valuation differences on policyholder liabilities, including prudent margins required on a regulator basis. The following table sets out the reconciliation.

| | Available own funds £m | Restricted own funds £m | Eligible own funds £m |
|---|---|---|---|
| **Member's Fund[1] under UK GAAP at 31 December 2020** | **4.3** | **-** | **4.3** |
| Add: Tier 2 Loan Capital | **0.7** | **-** | **0.7** |
| Add: Fund for Future Appropriations (With-profits) | **4.3** | **-** | **4.3** |
| Difference in the measurement of technical provisions[2] | **(3.9)** | **-** | **(3.9)** |
| Difference in net deferred taxation liabilities arising from above | **-** | **-** | **-** |
| **Solvency II Eligible Own Funds at 31 December 2020** | **5.4** | **-** | **5.4** |

[1] Member's Fund is included in Funds for Future Appropriations (see Note 25).
[2] Unaudited

The level of capital (at both a sub-fund and overall Society level) required to maintain alignment with the Society's solvency related risk appetite limits provides a direct link between risk appetite and capital management. If the current level of capital cover falls below the target solvency cover ratios, this will indicate that the Society is outside risk appetite.

The approach to capital management is closely linked to the Society's risk appetite, since many of the most material risk exposures have the potential to lead to significant adverse capital impacts on its balance sheet. The Society considers its risk appetite in context of the Solvency II regulatory regime by maintaining a capital buffer above its Solvency II regulatory Solvency Capital Requirement ('SCR'). The SCR reflects a level of financial resources that enable insurance undertakings to absorb significant losses and provide reasonable assurance to its policyholders that payments will be made as they fall due.

The Society aims to have a Solvency Capital Ratio (own funds/SCR) of at least 150% and Minimum Capital Ratio of 125%.

## Notes to the Financial Statements continued

**17. Capital management continued**

The Society continually manages and monitors its capital position from a regulatory perspective, by reference to the performance of its assets and liabilities and by giving due consideration to:

(i) Its internal view of the operational and financial risks to which it is exposed (Note 18), both now and over the business planning period;
(ii) The capital needed to support delivery of the business plan and make progress towards the Society's long-term strategic objectives; and
(iii) Its regulatory capital requirements.

For further information on the Society's approach to risk and capital management and on its regulatory capital, see the 'Solvency & Financial Condition Report (SFCR)', which is available on the Society's website www.equitable.co.uk.

**18. Financial Risk Management**

The Society is exposed to both insurance and financial risk as a consequence of its business activities. These are managed in accordance with ULP's, of which the Society is a subsidiary, Enterprise Risk Management (ERM) Framework which sets out the overall strategy towards and appetite for risk. This has been approved by the Board of Directors. The principal risks in the light of the Covid-19 are discussed in the Strategic report.

The principal risks faced by the Society are:

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

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

The most material insurance risks for the Society in run-off were expense risk and persistency risk.

The Society manages these risks by:
- Setting and monitoring appropriate risk appetite limits through a controlled governance framework;
- Monitoring the amount of economic capital it holds;
- Use of reinsurance;
- Assumption setting;
- Claims underwriting; and
- Cost control and budget reforecasting.

*Sensitivity*
The long term business provisions are sensitive to the assumptions used in respect of these risks, which are set periodically by the Board of Directors, with appropriate levels of prudence based on analysing actual experience.

While the impact of a short-term variation in the experience may not be material, if these assumptions were to be changed, this would impact on the long term business provisions, which would generate a profit or a loss in the calendar year in which the change to assumptions was applied.

## Notes to the Financial Statements continued

**18. Financial Risk Management continued**

The table below illustrates the impact of the increase in long term business provisions assumptions:

| Sensitivities | Loss |
|---|---|
| 5% increase in GAO take-up rates | £40k |
| 10% decrease in annuitants mortality rates | £76k |

b. Market risk
Market risk is the adverse financial impact from changes in fair values or cash flows of the Society's assets and liabilities from fluctuations in interest rates, movement in credit spreads and changes due to equity risk.

It is recognised that market risk is part of managing the portfolios and that a certain level of market risk is acceptable. The Society is exposed to market risk from owning a portfolio of invested assets and has a low/medium appetite for this type of risk. The Society does not actively pursue a trading strategy in financial instruments that are vulnerable to gains or losses from fluctuations in interest rates or other economic values.

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk.

A variety of risk management techniques are utilised to control and mitigate the market risks to the business is exposed to, including:

- Asset liability matching strategy. The Society's investment portfolio is managed in such a way that the maturities have a duration that is matched to the estimated liability cash out flow profile, Matching is achieved in total by portfolio and fund.
- Regular review of the Sector diversification of the portfolio.
- Solvency monitoring though regular reviews of unrealised gains and losses.
  Timely market updates and forecasts from the investment advisors covering interest rates, credit spreads and market development by sectors.

c. Credit risk
The Society has exposure to credit risk, which is the risk, that a counterparty will be unable to pay amounts in full when due. The Society is exposed to the following credit risks:

- Amounts due from debt securities;
- Amounts due from insurance and other receivables; and
- Reinsurers' share of insurance liabilities and of claims paid.

The Society manages these risks by:

- Setting and monitoring appropriate risk appetite limits;
- Monitoring the amount of economic capital it holds;
- Investment guidelines/limit structures;
- Asset optimisation; and
- Collateral arrangements.

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| **Non-linked assets subject to credit risk** | | |
| Sovereign debt | **8.7** | 2,062.5 |
| A | **9.2** | 377.0 |
| BB and below or not rated | **0.6** | 0.2 |
| **Total assets bearing credit risk** | **18.5** | 2,439.7 |
| | | |
| Debt securities | **8.7** | 2,062.7 |
| Assets arising from reinsurance contracts held | **9.8** | 377.0 |
| **Total assets bearing credit risk** | **18.5** | 2,439.7 |

## Notes to the Financial Statements continued

**18. Financial Risk Management continued**

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

Reinsurance has been included with those non-linked assets with a credit rating of A or unrated.

The Investment Committee sets exposure limits and assesses them periodically. The Investment Committee is also responsible for reviewing actual exposure against limits on a regular basis and for monitoring the performance of the Investment Managers. Reinsurance credit risk is managed by the RCC, which operates under direction from the Board and approves new reinsurance agreements. There are no financial assets that are either past due or impaired during the year.

The key area where the Society is exposed to credit risk is through its investment in corporate bonds. The Society manages the level of risk via sector and rating analysis and uses this analysis to help define the optimal balance between the risk taken and the returns earned on the underlying assets.

A quarterly database is prepared analysing the Society's invested assets by market value, issuer, credit rating, sector and geographical region, in order to assess the risk of concentration within the portfolio. This database allows the Society to regularly monitor exposure to the default risk of a given issuer and performance of an individual sector.

Through regular meetings with the Society's Investment Managers and monthly watch lists, the risk of a fall in the value of fixed-interest securities from changes in the perceived credit worthiness of the issuer is considered. In addition, sector and geographical exposure is monitored to ensure diversification and that there is no concentration in either sector or geographical region. In cases where the Society is particularly exposed to credit risk (e.g. sector concentration), this risk is actively managed through the investment guidelines.

(d) Liquidity risk
The Society's liquidity risk stems from the need to have sufficient liquid assets to meet policyholder and third party payments as they fall due. This is managed by weekly cash forecasts and also by holding sufficient cash and other assets in investments which are readily marketable in a sufficiently short timeframe to be able to settle liabilities as they fall due.

The Society has internal sources of liquidity, which are sufficient to meet all our expected cash requirements for a period of 12 months from approval date, without having to resort to external sources of funding.

The uses and sources of liquidity are reviewed by ALCO on a quarterly, on a base and stressed basis. The Society has various mitigation of liquidity risk in place, as follows:

- Our liquidity risk policy;
- Access to Group short term loans;
- Risk appetite, triggers levels and limits in place;
- Weekly formal cash reporting; and
- Regular stress testing.

The table below provides a maturity analysis of the Society's financial liabilities.

| **2020** | **On demand £m** | **Up to 1 year £m** | **Between 1-5 years £m** | **>5 years £m** | **Total £m** |
|---|---|---|---|---|---|
| Financial liabilities under non-profit investment contracts | **33.3** | - | - | - | **33.3** |
| Creditors | - | **0.4** | - | **0.6** | **1.0** |
| Financial liabilities at amortised cost | **33.3** | **0.4** | - | **0.6** | **34.3** |
| Financial liabilities under with profits investment contracts included in long term business provision | **9.1** | - | - | - | **9.1** |
| **At 31 December 2020** | **42.4** | **0.4** | - | **0.6** | **43.4** |

## Notes to the Financial Statements continued

### 18. Financial Risk Management continued

| 2019 | On demand £m | Up to 1 year £m | Between 1-5 years £m | >5 years £m | Total £m |
|---|---|---|---|---|---|
| Financial liabilities under non-profit investment contracts | - | - | - | - | - |
| Creditors | - | 6.2 | - | - | 6.2 |
| Financial liabilities at amortised cost | - | 6.2 | - | - | 6.2 |
| Financial liabilities under with profits investment contracts included in long term business provision | 3,031.0 | - | - | - | 3,031.0 |
| **At 31 December 2019** | 3,031.0 | 6.2 | - | - | 3,037.2 |

### 19. Creditors: amounts falling due within one year

| | 2020 £m | 2019 £m |
|---|---|---|
| Creditors arising out of direct insurance operations* | **0.1** | 0.2 |
| Amounts owed to credit institutions | - | 0.7 |
| Other creditors including taxation and social security | **0.3** | 5.3 |
| | **0.4** | 6.2 |

* Outstanding claims, presented in Creditors arising out of direct insurance operations in 2019, have been represented as a separate line item on the face of the Balance Sheet. This change has no impact on the any previously reported financial information.

### 20. Creditors falling due after more than one year

| | 2020 £m | 2019 £m |
|---|---|---|
| Tier 2 loan[1] | **0.6** | - |
| | **0.6** | - |

[1]The Society's immediate parent granted a Tier 2 loan of £650k on 21 April 2020. Interest at 7% is payable twice yearly provided the Society has a Solvency Capital Ratio of at least 150% immediately after payment. The loan is redeemable on 21 April 2031.

### 21. Related Party Transactions

There were no material related party transactions during 2020 (2019: £nil).

### 22. Commitments

The Society has no material operating lease or other commitments.

## Notes to the Financial Statements continued

### 23. Post Balance Sheet Events

There are no events which have occurred after the reporting date but before the signing of these Financial Statements, which requirements amendment of any balances or further disclosure.

### 24. Ultimate controlling party

The Society's immediate parent is Utmost Life and Pensions Limited (ULPH), an indirect subsidiary of Utmost Group Limited (UGL), which is the Society's ultimate UK holding company.

The ultimate parent company which maintains a majority controlling interest in the Society is recognised by the Directors as OCM LCCG Holdings Limited: a Cayman Islands incorporated entity. Advantage has been taken of the exemption under section 33 of FRS 102 not to disclose transactions between entities wholly-owned within the Utmost UK Group Holdings (No 1) Ltd group of companies. OCM LCCG Holdings Limited is an investment vehicle owned by funds which are managed and advised by Oaktree Capital Management, L.P., a subsidiary of the ultimate controlling party, Oaktree Capital Group LLC.

The smallest set of financial statements into which ELAS is consolidated is ULPH Group and the largest set is UGL Group. Copies of these consolidated reports are available at Walton Street, Aylesbury, Buckinghamshire, HP21 7QW and Sadlers House, 44 Gutter Lane, London, EC2V 6BR respectively.

### 25. Funds for Future Appropriations

| | 2020 £m | 2019 £m |
|---|---|---|
| With Profits Fund | **4.3** | - |
| Member's Fund | **4.3** | - |
| | **8.6** | - |

The Funds for Future Appropriation (FFA) represent the accumulated excess funds yet to be allocated to with-profit policyholders and the member. This has been apportioned, on a best estimates basis, between policyholder obligations and an ultimate balancing obligation due to the member, ULP (Member's Fund). As at 1 January 2020, the FFA was £8.5m (With Profits Fund: £5.1m; Member's Fund: £3.4m (see Note 3)).