Equitable Life

Interim Accounts

for the half year ended 30 June 2002

The Equitable Life Assurance Society

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London
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www.equitable.co.uk

Board of Directors

Vanni Treves, Chairman (a, b, c, e)

Charles Thomson, Chief Executive (b, d)

Charles Bellringer, Chief Financial and Investment Officer (d)

David Adams, Non Executive Director (a, d)

Ron Bullen, Non Executive Director (a)

Sir Philip Otton, Non Executive Director (b, c, e)

Michael Pickard, Non Executive Director (d)

Fred Shedden, Non Executive Director (b, d)

Peter Smith, Non Executive Director (a, b, c, e)

Andrew Threadgold, Non Executive Director (d)

Jean Wood, Non Executive Director (d)

Key to membership of principal Board Committees

(a) - Audit
(b) - Legal Audit
(c) - Remuneration
(d) - Investment
(e) - Nominations

Appointed Actuary

David Murray

Legal Advisers

Lovells
Atlantic House,
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London
EC1A 2FG

Auditors

PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London
SE1 9SY

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Corporate Review

Equitable Life started 2002 facing great uncertainty over its future.

Since the adoption of the compromise scheme in February, your Board has continued to deal with many complex and challenging issues.

Volatile global stock markets

These have been exceptionally difficult and demanding times for all involved in the provision of long-term savings. 2002 has seen periods of extreme volatility in world stock markets with yet further deterioration and instability since the end of June. The life and pensions industry has been hit particularly hard as many of its assets are held in equities.

Equitable Life was not immune from these forces although it could have been much worse for the value of the Society's fund had we not taken significant action to reduce the effects of market turbulence by selling equities and moving into fixed interest investments.

In April and July this year, your Board had to announce very regrettable but necessary increases in the financial adjustment made to the value of policies at surrender and maturity.

In setting the level of the adjustment we had to take account of likely increased costs and the continuing need for cautious provisioning together with the decline in equity values. Given the turbulent equity markets, many other life and pensions offices have made similar adjustments.

These increases and the actions taken to reduce the equity holding in the with-profits fund are detailed in our Review of the Society's Current Financial Position that follows.

Securing stability and solvency

It is clear, from much of the correspondence and constructive discussions with policyholders, that one of your key concerns has been for the Board to take the appropriate action to stabilise the Society's finances.

Be in no doubt: the continued maintenance of solvency - the maintenance of the Society's ability to pay its guaranteed obligations to continuing policyholders - has been, and continues to be, the over-arching goal of your Board.

There has been speculation regarding the Society's financial position. Let us have no ambiguity. Despite the very unstable world financial climate, and the need for diligence in managing the finances, Equitable Life continues to be solvent and we fully intend to do whatever is necessary to keep it that way.

The Board is satisfied that it has adopted appropriate provisioning levels. However, there remain significant issues that need close management scrutiny. There continue to be a number of inherent risks including the state of investment markets, the uncertain nature of provisions and other potential strains on the Society's finances, as detailed in our Review of the Society's Current Financial Position. As the fund for future appropriations has reduced significantly since the year end, the possible impact of these uncertainties is more acute.

Strategic objectives

We have laid out clear business objectives to take the Society forward towards safer, more stable ground. They are to:

- Stabilise the with-profits fund;
- Ensure we meet the guarantees provided to policyholders by pursuing an appropriate investment strategy;
- Resolve outstanding claims and litigation against the fund;
- Reduce expenses and restore an efficient business model.

Fairness and financial adjustment

We wrote to policyholders on 15 April to make clear that those wishing to surrender their policies early, and those taking benefits on maturity, would be quoted a surrender value or maturity value respectively, which will not necessarily be the same as the indicative value shown on the previous annual statement. Maturity values will be set to reflect a fair share of the assets and surrender values set at values that reflect the need to protect the position of continuing policyholders.

2001 and 2002 bonus declaration

At the same time, we also informed policyholders of the non-guaranteed final bonus for all UK with-profits pension policies at a rate of 4% per annum for the second half of 2001. We also announced there would be no guaranteed bonus for 2001, except for those policies containing a Guaranteed Investment Return (GIR).

The Society also confirmed there would be no interim bonus for 2002 due to weak investment returns this year. We will wait to see how the fund performs before announcing whether an annual bonus is appropriate. We hope that policyholders will understand that your Board must take the necessary actions, however tough, needed to secure your Society's future.

Litigation issues – claims by the Society

Earlier this year, the Society began legal proceedings against the Society's former auditors, Ernst & Young, and 15 former directors of the Society. Ernst & Young and all of the former directors have now filed their defences. Based on the legal advice we continue to receive, your Board remains firm in its belief that there is a strong case to answer. The legal process must take its proper course and we are pursuing these claims as quickly as that process allows. Given the complexity of the issues, however, it is likely to be some time before we see any tangible results.

The Lord Penrose inquiry

We continue to co-operate with Lord Penrose's inquiry and we look forward to the publication of his report, at which time the Society will consider the appropriate course of action.

B&W Deloitte review – former non-GAR policyholders

In September, the Society published the independent review requested by the FSA. This review, carried out by consulting actuaries, B&W Deloitte, aimed to determine whether certain categories of former non-Guaranteed Annuity Rate (non GAR) policyholders were financially disadvantaged by the GAR problem, in the event that policies were mis-sold to them.

In summary, the report showed that set against the average returns from other insurers' comparable products, payouts from Equitable Life policies were lower than those in the comparison group from July 2001 when the Society reduced policy values; with-profits bonds had lower pay-outs from 2000. Returns from products before these dates were broadly in line with, and sometimes higher than, those of comparable insurers' products.

We estimate that approximately 70,000 policyholders may have potential claims for redress. The Board is considering various options to deal with potential and actual claims. The Society's preferred route is a further compromise scheme under Section 425 of the Companies Act, which we are discussing with the FSA.

Our objective is to resolve the issue in a fair, cost effective and timely manner for those who may have valid claims and also for our continuing policyholders. For former policyholders a compromise scheme would provide a swift and relatively inexpensive alternative to the courts, which can be a lengthy, expensive and uncertain process and would potentially put at risk their own resources as well as those of the Society's with-profits fund.

GAR rectification

We are continuing to address the position of former policyholders who had the option of guaranteed annuity rates and who took their benefits prior to the House of Lords' decision. It is a very complex and time-consuming task and it is vital to get each case right in order to be fair to all parties. We are aware that progress towards completion has not been as rapid as policyholders and we would have hoped. We are carrying out a review of the overall administration of the scheme. This has temporarily slowed the rate at which cases can be processed, but we believe will result in more rapid resolution of all outstanding cases.

Management of complaints and mis-selling

Reviews of past sales of business, including the investigation of complaints and mis-selling, adhere to the principle that the Society has a duty to its policyholders to pay fair value and not to advantage claimants at the expense of continuing policyholders. Claimants are therefore required to establish their case for complaint or mis-selling. Any resulting settlement will be fair but will not insulate claimants from losses caused by falls in asset or with-profits policy values.

Remaining anomalies

We continue to identify and review various practices, such as certain product concessions to contractual rights, which have developed over a number of years. Given the financial position of the Society, it is appropriate to withdraw these concessions where possible. Specifically, the concessionary terms in relation to Personal and Individual Pension Plans, FSAVC Plans, Personal Investment Plans and a number of other policy types will be withdrawn from 1 January 2003. Also with effect from 1 January 2003, or as soon thereafter as the relevant contracts permit, the charges for group pension schemes will be restored to contractual rates.

Restoring customer service

The unprecedented concern about Equitable Life has inevitably resulted in continuing large demands being placed upon our customer service teams. Whilst things have improved substantially in recent months, we recognise the frustrations this has caused many policyholders and, for this, we are sorry. We will continue with our efforts to improve customer service.

Strengthened Board and management

Your Board was strengthened with the appointment on 1 May of three new Directors. Charles Bellringer joined as an Executive Director responsible for finance and investments and Ron Bullen, a former chairman of the largest policyholder action group, and Fred Shedden joined as Non-Executive Directors. In addition, the Society appointed Stephen Anderson as Chief Operating Officer. Each has wide experience and a deep understanding of the concerns of policyholders.

Memorandum and Articles

Last April, policyholders were informed of the Board's intention to review the Society's Memorandum and Articles. The objective is to develop proposals that will align the Society's Regulations with good practice in keeping with the future needs of the business.

Following a report from a Board working group, the Board is now ready, as promised, to consult with policyholders. Proposed changes are being published on the corporate section of the Society's website - www.equitable.co.uk. A copy of the consultation document may also be requested by telephoning the Customer Servicing Centre on 0870 901 0052. The Board would welcome comments by Monday December 16, 2002.

The aim is to put formal proposals to members at the time of the Annual General Meeting in May 2003.

Summary

Equitable Life has made important progress towards stability. The Board believes that it has taken the necessary and sometimes unpalatable steps required to secure the stability of the fund and to continue to meet the obligations to policyholders.

Clearly the Society continues to need careful and diligent management and there remain more challenges ahead. We aim to meet them head-on in a prompt, efficient and open manner.

The Board will seek, at all times, to protect the security of continuing policyholders.

We are grateful to all those who have shown their continuing support.

Vanni Treves

Vanni Treves
Chairman

Charles Thomson
Chief Executive

Charles Bellringer
Chief Finance and Investment Officer

Developments during the year

Significant falls in global equity markets, which have continued in 2002, have caused industry-wide problems to which the Society has not been immune.

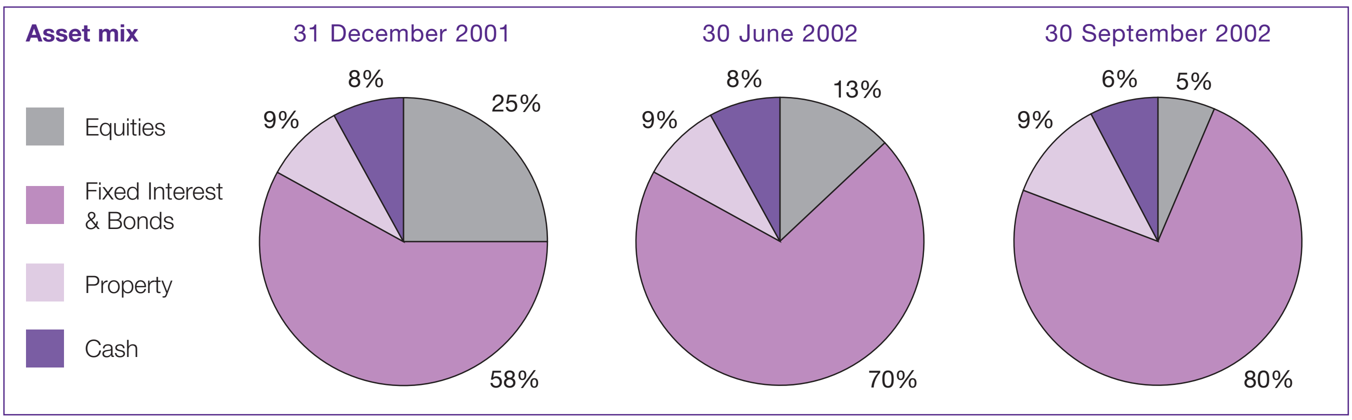
In the six months since 31 December, the Fund for Future Appropriations (FFA), which represents the Society's free reserves available to meet non-guaranteed bonuses and any additional liabilities in excess of those currently provided, has fallen from £1.1bn to £0.4bn. This fall is largely attributable to three issues – investment losses, terminal bonus payments on maturing policies and increases in two specific provisions – which are explained in more detail in this report. Further losses on equities since 30 June have been offset by gains on fixed interest investments and therefore the FFA at 30 September 2002, on a consistent reserving basis, is not materially different from the 30 June level.

The Board continued to take steps in 2002 to protect the financial position of the fund, for the benefit of continuing policyholders. On 15 April it introduced an adjustment to the maturity value of policies of 4%, which was increased on 1 July to 10%. In addition, the financial adjustment on surrendered policies was increased from 10% at last year end to 14% on 15 April and 20% on 1 July. Over the course of the second quarter it also accelerated the implementation of a more cautious investment strategy, reducing significantly the proportion of the fund held in equities. The Society was able to sell the bulk of its equities this year at FTSE levels above 4800. This strategy has substantially reduced the Society's exposure to further equity losses and to volatility in equity markets, thereby reducing the volatility of investment returns in the with-profits fund. Future discretionary bonuses are likely to reflect the low level of equity exposure. The analysis of investments at 31 December 2001, 30 June 2002 and 30 September 2002 is shown below.

As explained in the Corporate Review, a further compromise scheme, for non-GAR leavers, is being proposed and it is anticipated that the total level of compensation, for which provision has been made, will be in the range of £40m to £75m.

The Board has been concerned not to disadvantage interests of holders of with-profits annuities who cannot surrender their policies. To date, the 16% policy value cut and the 10% maturity adjustment that applies to other pension policies were being phased over a number of years. The significant fall in the FFA means that the Society can no longer afford to phase the reductions and regretfully it is necessary to advise with-profits annuitants of significant reductions in their future payments, to bring them into line with all other with-profits policyholders. Details are being sent to those affected.

In the Society's announcement to policyholders of 15 April 2002, it was stated that the Board would not announce an interim bonus for 2002 and that the Board would wait to see how the fund performed during the year before announcing whether an annual bonus is appropriate. That remains the Board's policy. Clearly, investment



markets this year have been awful, but some of the difficult decisions that have already been taken mean that the Board does not foresee the need for further substantial cuts in policy values.

Provisions at 30 June 2002

The Board has continued to review the Society's risks and potential liabilities and at 30 June 2002 has increased:

- the non-GAR leavers provision, as discussed above;
- the provision for the Society's continuing obligation to support the pension scheme for former staff who now work for HBoS.

Other provisions have remained broadly the same as at the year end, including the amount set aside against GAR rectification and managed pensions.

The Board is satisfied that the level of provisions at 30 June 2002 is appropriate in light of the most relevant experience but recognises, as discussed in Note 9 to the Interim Accounts, that there are inherent uncertainties in setting such provisions; for example, the ultimate GAR rectification cost will depend on take-up rates, among other factors, which cannot be predicted with precision. With a significantly lower FFA than at the year end, the impact of these uncertainties is potentially more acute.

Looking forward

The overriding priority continues to be the maintenance of the Society's ability to meet its guaranteed obligations to policyholders as they fall due. Extensive financial evaluations and modelling has provided the Board with confidence that with careful management the Society will remain solvent and accordingly will be able to meet such obligations. However, as a result of volatility in investment markets, the uncertain nature of provisions and the other potential strains on the Society's finances set out above, and even though all these issues are subject to close management scrutiny, the Board recognises the possibility that the Society may not meet its Required Minimum Margin (RMM), which is a measure of the capital that the FSA requires life assurance companies to hold *in excess* of that required to meet guaranteed obligations to policyholders, at all times in the future.

The significant issues, which need to be kept under review to ensure that the Society continues to be able to meet its obligations to policyholders, and the actions that have been taken to mitigate these issues, are set out in detail below.

Mis-selling provisions

The existing provisions have been arrived at after very careful assessments of the available data. Our actuarial advisers have assisted us by carrying out probability modelling on a range of likely outcomes for these liabilities and the results of this work support the Board's view that provisions are considered adequate at this time.

An independent study was commissioned to help identify potential further mis-selling exposures and the results of this work have been taken into account when setting provisions at 30 June 2002. The Society operates a robust but fair procedure for dealing with mis-selling claims, which has been discussed with the FSA. The Board is satisfied that, while no absolute assurance can be given on this issue, no additional provisions against mis-selling are necessary at 30 June 2002. However, there is always a risk that provisions against existing liabilities for mis-selling may prove to be insufficient and new mis-selling liabilities may come to light, both of which could require additional amounts to be set aside.

Assets

Despite the fact that a more cautious investment strategy has been adopted in relation to equities, holdings in property and unlisted investments continue to expose the Society to a degree of investment volatility, albeit at a reduced level. Valuations of these investments are based on the advice of investment specialists and the Society takes a cautious view in assessing their values.

Claims

The Society has continued to experience a high level of claims and surrenders as illustrated opposite.

Falls in equity markets and the introduction of an increased financial adjustment during the first six months of the year have meant that the decrease in claims experienced in Q1 2002 has not been sustained during Q2 2002, although the trend since July was once again downwards.

Unfounded speculation in a press article in late September regarding solvency may lead to an increase in claims in the final quarter of the year. It is essential that claims do not impair the position of continuing policyholders. The application of this principle is closely monitored and options to avoid undue 'strain' on the FFA, including changes to policy values, are kept under review.

Expenses

The level of expenses that the Society incurs, in particular from HBoS which carries out the day-to-day administration, accounting and actuarial work for the Society under the February 2001 outsourcing contract, is a significant cost to the Society. Negotiations are being held with HBoS to agree a lower cost base from 2003. This anticipates a more normal level of customer contact than that experienced over the past two years and, if achieved, should enable the Society to reduce administration costs from the current high levels. A significant proportion of our current administration costs is associated with servicing rectification and mis-selling claims, which should begin to decline during 2003.

However, significant additional management and professional costs are also being incurred as the Society continues to tackle major legacy issues and these costs are likely to continue during 2003.

Pension scheme for former staff

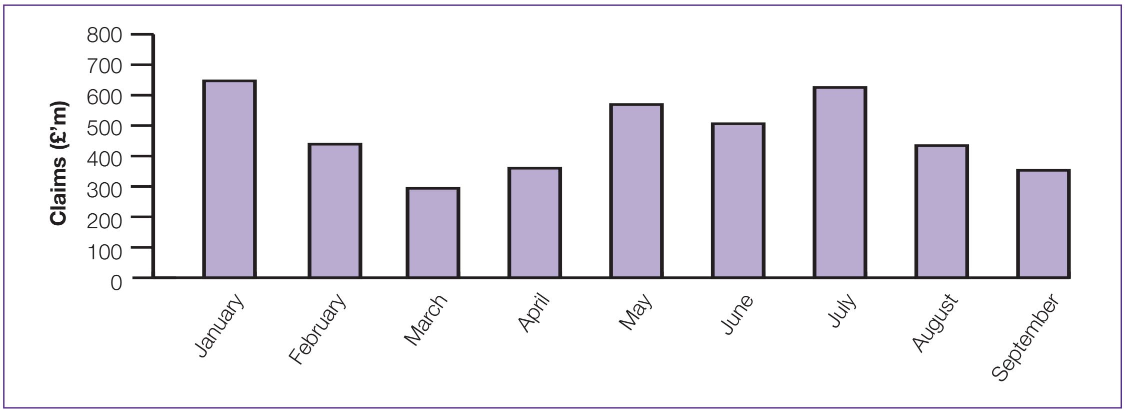
The Board is reviewing the financial position of the pension scheme for former staff now employed by HBoS and the Society's resulting financial obligations to HBoS under the February 2001 sale agreement. An actuarial investigation into the scheme's funding position has been initiated, and based on the results of this work, the Board has made provision at 30 June 2002 to cover the Society's estimated exposure. Discussions are also underway with HBoS to limit this financial burden.

Mortality

Improving mortality within the population has a direct impact on the amounts that have to be set aside to cover annuity payments. The Board has made provisions based on the best currently available data and trends, and has made allowance for expected future mortality improvements.

Subordinated debt

The Society has a commitment to pay interest and capital in respect of a subordinated loan from its subsidiary, Equitable Life Finance plc (ELF). Payment of interest to ELF is dependent upon the Society meeting RMM in the annual regulatory return at the valuation date (31 December) prior to each interest payment falling due. As indicated above, there is a possibility that the Society will not meet RMM at all such future dates and therefore, there is uncertainty as to whether bondholders will be repaid, since their interests are subordinated to those of policyholders, as set out in Note 8.2 to the Interim Accounts.



The Board's conclusions on provisions and going concern

The Board is required to consider whether the level of provisions, which are disclosed in Note 7 to the Interim Accounts, is adequate. As explained above, even though the Board has made provisions which it considers to be appropriate, the methodology involved relies on the use of assumptions and estimation techniques in light of the available information, and there will therefore always be a residual level of uncertainty. The degree of confidence around the levels of the individual provisions has improved since the year end. However, because the FFA has fallen significantly since the year end, the potential impact of the uncertainty has increased to the extent that it is significant enough to draw to the attention of the policyholders in these Interim Accounts.

The Board is also responsible for making a formal assessment as to whether the going concern basis is appropriate for preparing the Interim Accounts. The going concern basis presumes that the Society will continue to be able to meet its guaranteed obligations to policyholders and other creditors as they fall due. To do this, the Society must have sufficient assets not only to meet the payments associated with its business but also to withstand the impact of other events that might reasonably be foreseen.

Considerable time has been spent by the Board in examining the issues relevant to the going concern basis, which in summary are the exposure to: increases in provisions, investment losses, impact of discretionary bonus payments, future expense levels (including the costs of the continuing obligations to the pension scheme for former staff) and mortality.

In addition, the financial position of the Society has been projected under a very wide range of economic scenarios and asset values. The Board has also considered the level of contingent liabilities (that is liabilities not recorded in the accounts but which could conceivably arise) in its modelling of the Society's financial position. The results of this work show that the probability, over the foreseeable future, of the Society being unable to meet its guaranteed obligations to policyholders, is not significant. The Board is confident of its ability to manage adverse scenarios that may arise (but there cannot be absolute assurance), although this may require painful actions such as increasing the financial adjustment to address investment losses and the pattern of claims mix and, if claims create unsustainable costs on the FFA, reducing discretionary bonus, which will mainly impact on non-GIR policyholders.

The Board has given due consideration to all the potential risks and actions set out above and has concluded that it is appropriate to prepare the Interim Accounts on a going concern basis.

Nevertheless the Society will continue to need very diligent management of the risks referred to above and the Board will take appropriate action against all circumstances which jeopardise the fund's ability to meet guaranteed obligations to policyholders.

Profit and Loss Account
for the period ended 30 June 2002

Technical account – long-term business

	Notes	Half year ended 30 June 2002 £m	Half year ended 30 June 2001 Restated £m	Full year to 31 December 2001 Restated £m
Earned premiums, net of reinsurance				
Gross premiums written		383	772	1,406
Outward reinsurance premiums [1]		(214)	(4,331)	(4,607)
		169	(3,559)	(3.201)
Investment income	3	1,164	2,547	4,306
Other technical income - including reassurance commission and profit on the sale of operations	2	1	431	681
		1,334	(581)	1,786
Claims incurred, net of reinsurance				
Claims paid – gross amount	5	3,281	2,833	6,928
Reinsurers' share		(465)	(189)	(566)
		2,816	2,644	6,362
Change in provision for claims		(5)	(150)	(87)
		2,811	2,494	6,275
Changes in other technical provisions, net of reinsurance	7			
Long-term business provision – gross amount		(1,737)	(1,319)	(5,010)
Reinsurers' share		9	(346)	(387)
		(1,728)	(1,665)	(5,397)
Technical provisions for linked liabilities – gross amount		(406)	(190)	(507)
Reinsurers' share		405	(3,688)	(3,335)
		(1,729)	(5,543)	(9,239)
Net operating expenses	4	75	139	309
Investment expenses and charges	3	29	36	72
Unrealised losses on investments	3	863	3,473	5,497
Taxation attributable to the long-term business		10	(20)	(8)
Transfers from the fund for future appropriations		(725)	(1,160)	(1,120)
		252	2,468	(4,750)
		1,334	(581)	1,786
Balance on the Technical Account		-	-	-

All significant recognised gains and losses are dealt with in the Profit and Loss Account. Exchange gains and losses arising on retranslation of overseas operations are taken directly to the fund for future appropriations. All the amounts above are in respect of continuing operations.

[1] The initial premium on the reinsured business with HBoS included above at 30 June 2001 and 31 December 2001 was £4,127m.

Balance sheet
as at 30 June 2002

Assets

	Notes	30 June 2002 £m	30 June 2001 Restated £m	31 December 2001 Restated £m
Investments				
Land and buildings	6	1,866	2,092	2,082
Investments in group undertakings		76	59	65
Other financial investments	6	18,397	24,000	20,582
		20,339	26,151	22,729
Assets held to cover linked liabilities		637	602	638
Reinsurers' share of technical provisions				
Long-term business provision		384	352	393
Technical provisions for unit linked liabilities		2,930	3,688	3,335
		3,314	4,040	3,728
Debtors				
Debtors arising out of direct insurance operations		70	66	59
Debtors arising out of reinsurance operations		8	2	44
Other debtors		73	477	53
		151	545	156
Other assets				
Cash at bank and in hand		7	1	18
		7	1	18
Prepayments and accrued income				
Accrued interest and rent		228	204	197
Deferred acquisition costs		38	100	45
Other prepayments and accrued income		6	19	255
		272	323	497
		24,720	31,662	27,766

Balance sheet
as at 30 June 2002

Liabilities

	Notes	30 June 2002 £m	30 June 2001 Restated £m	31 December 2001 Restated £m
Subordinated liabilities	8.2	346	346	346
Fund for future appropriations		382	1,065	1,105
Technical provisions				
Long-term business provision - gross amount	7	19,870	25,280	21,592
Claims outstanding		58	-	63
Linked liabilities	7	3,567	4,290	3,973
		23,495	29,570	25,628
Provisions for other risks and charges		-	50	8
Creditors				
Creditors arising out of direct insurance operations		124	59	153
Amounts owed to credit institutions		173	297	353
Other creditors including taxation and social security		166	235	108
		463	591	614
Accruals and deferred income		34	40	65
		24,720	31,662	27,766

Notes on the Accounts

1 Basis of preparation

The Equitable Life Assurance Society's (the Society's) Interim Accounts do not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The results for the six month period to 30 June 2002 are unaudited, but have been reviewed by the Society's auditors PricewaterhouseCoopers, as set out in their report on page 17.

Comparative figures for the period ending 30 June 2001 have been extracted from the 2001 Interim Accounts and restated in respect of deferred tax. The comparatives for the Society for the full year ended 31 December 2001 are consistent with the Society data included in the consolidated Annual Report and Accounts for 2001, which have been filed with the Registrar of Companies, except as stated below.

The Interim Accounts are not consolidated and therefore represent the results of the Society only (and not its subsidiaries). The Group figures are not materially different from those of the Society. The Interim Accounts are intended to provide information to the members of the Society on its assets and liabilities and the fund for future appropriations. The Interim Accounts were approved by the Board of Directors on 1 November 2002.

The Directors have considered the appropriateness of the going concern basis used in the preparation of these Interim Accounts, 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 Interim Accounts continues to be appropriate.

The Interim Accounts have been prepared on a modified statutory basis and in accordance with the accounting policies set out in the Annual Report and Accounts as at 31 December 2001 other than in the following instances:

Valuation of investments

Freehold and leasehold properties are individually valued by qualified surveyors on the basis of open market value, account being taken of the cost of disposal, on an annual basis. For interim reporting purposes the properties have been revalued in line with appropriate property index movements.

Long-term business provision

A full valuation of the provisions in the long-term fund is carried out annually for the Annual Report and Accounts. The majority of provisions in the Interim Accounts have been calculated using the same methodology. Some elements of the provisions have been calculated using an approximate method that adjusts the year-end reserves for changes in the period.

Deferred tax

Financial Reporting Standard 19 - Deferred Tax, ('FRS19') has been adopted for the first time in the Interim Accounts and full provision for deferred tax has been made. The adoption of FRS19 represents a change in accounting policy, which has been accounted for as a prior year adjustment.

In previous periods deferred tax was provided for only where an amount was likely to become payable in the foreseeable future.

Consequently, the comparatives in the Interim Accounts have been restated to reflect the position had the Society always calculated deferred tax on a full provision basis. Deferred tax is included within provisions for other risks and charges, which have been revised from £1m in both the prior year comparative at 30 June 2001 and the December 2001 year-end comparative to £50m and £8m respectively.

Releasing the additional provision has caused the taxation charge in the technical account to be revised from £15m and £69m in the prior year comparative and year-end comparative to credits of £20m and £8m respectively.

The adoption of FRS19 in the Interim Accounts for the six month period to 30 June 2002 has resulted in a deferred tax asset of £1m being recognised within other debtors.

2 Other technical income

2.1 Other technical income (including reinsurance commission and profit on sale of operations) comprises:

	Half year ended 30 June 2002 £m	Half year ended 30 June 2001 £m	Full year to 31 December 2001 £m
Reinsurance commission	-	300	300
Profit on sale of operations	-	132	129
Other income arising from transactions with Halifax	-	-	250
Loss on sale of Permanent	-	(3)	(3)
Other commission	1	2	5
	1	431	681

On 16 February 2001, the Society sold Permanent Insurance Company Limited to Liverpool Victoria Friendly Society for £150m.

2.2 Transactions with Halifax Group plc (Halifax)

On 1 March 2001, the Society sold to Halifax its administrative and sales operations, systems, Equitable Investment Fund Managers Limited and Equitable Services and Consultancy Limited for a cash consideration of £200m.

At this time the Society also entered into reinsurance contracts with Halifax in respect of certain of its unit-linked and non-profit business, the effect of which was to realise an amount broadly equivalent to the embedded value of that business of £300m.

At the time of the sale to Halifax the Society entered into a loan facility with Halifax under which the Society could immediately draw down loans of up to £250m. Under the terms of that loan facility, if the Society achieved the compromise scheme before 1 March 2002, Halifax would unconditionally waive the repayment of £249m of loans advanced (or to be advanced) to the Society and a further £1m would be waived in 2005.

Amendments to the facility agreement were agreed on 25 January 2002, and a further £50m was drawn down. Under the terms of the amended facility agreement, on 8 February 2002, Halifax waived the repayment of the full £250m. Income of £250m was accrued in the Profit and Loss Account to 31 December 2001 in respect of this waiver.

3. Analysis of investment return

	Half year ended 30 June 2002 £m	Half year ended 30 June 2001 £m	Full year to 31 December 2001 £m
Interest and dividend income	568	605	1,194
Realised investment gains	596	1,942	3,112
Investment income	1,164	2,547	4,306
Movement in unrealised investment losses	(863)	(3,473)	(5,497)
	301	(926)	(1,191)
Investment management expenses and charges	(29)	(36)	(72)
Investment return for the period	272	(962)	(1,263)

4. Net operating expenses

	Half year ended 30 June 2002 £m	Half year ended 30 June 2001 £m	Full year to 31 December 2001 £m
Acquisition and administrative expenses (including exceptional administrative expenses)	68	51	166
Change in deferred acquisition costs (including exceptional deferred acquisition costs)	7	88	143
	75	139	309

5. Analysis of claims

	Half year ended 30 June 2002 £m	Half year ended 30 June 2001 £m	Full year to 31 December 2001 £m
Contractual claims			
Death	33	40	77
Maturities	1,033	1,120	2,418
Surrenders	177	331	741
	1,243	1,491	3,236
Non-contractual claims			
Surrenders	1,163	598	2,233
	2,406	2,089	5,469
Periodic payments	398	398	794
Claims expenses	7	7	12
	2,811	2,494	6,275

All claims presented above are net of reinsurance.

6. Investments

	30 June 2002 £m	30 June 2002 %	30 June 2001 £m	30 June 2001 %	31 December 2001 £m	31 December 2001 %
a) Land and buildings	1,866	9	2,092	8	2,082	9
b) Other financial investments						
Shares and other variable yield securities and units in unit trusts[1]	2,634	13	11,511	44	5,703	25
Debt and other fixed-income securities[2]	14,113	70	11,371	44	13,113	58
Loans	8	-	11	-	9	-
Deposits with credit institutions	1,642	8	1,097	4	1,757	8
Other investments	-	-	10	-	-	-
	18,397	91	24,000	92	20,582	91
	20,263	100	26,092	100	22,664	100

[1] Includes listed investments of £1,952m (31 December 2001: £4,989m) at current value.
[2] Includes listed investments of £14,070m (31 December 2001: £13,032m) at current value.

7. Technical provisions

7.1 The long-term business provision

The long-term business provision for the Society has been calculated using the gross premium method of valuing the long-term, non-linked liabilities. The provisions are based on guaranteed benefits only and do not include non-guaranteed final bonuses.

The principal assumptions used in valuing the main classes of business of the Society were the same as those used in the last valuation at the year-end, except where stated below:

(i) The rates of interest have been updated to 30 June 2002. The impact of any changes has not been material.

(ii) The level of recurring expenses allowed for in the provisions over the next twelve months is £66m (31 December 2001: £71m). In future years this amount moves with both inflation and an overall decrease in the size of the fund.

(iii) The technical provisions include an amount of £198m (31 December 2001: £116m) for anticipated additional expenses, (not included in 7.1(ii)), over future years. It includes provisions in respect of the obligations to the pension scheme for former staff; contractual charges payable to Halifax for advice to the Society's clients; future anticipated development costs; anticipated legal fees; additional one-off costs for servicing policies and Rectification Scheme administration costs.

(iv) The technical provisions include an amount of £420m (31 December 2001: £420m) which is an estimate of the compensation payments or adjustments to future benefits which will be payable under the Rectification Scheme to policyholders who had policies with guaranteed annuity options which matured prior to the House of Lords' decision and an assessment of the likely level of compensation pertaining to managed pension policies.

(v) The technical provisions include an amount of £30m (31 December 2001: £87m) held in respect of the Society's potential liability for compensation relating to the pension transfers and opt-outs review and the review of Free Standing Additional Voluntary Contributions.

(vi) The technical provisions include an amount of £212m (31 December 2001: £120m) for other mis-selling liabilities. The change is due principally to additional provisions in respect of non-GAR policyholders who left the Society prior to the GAR compromise scheme, and who may retain claims for non-GAR mis-selling. Rather than dealing with such claims on an individual basis, the Society is developing a further compromise scheme for these policyholders. This amount also covers liabilities in respect of GAR endorsements, individual claims with the Financial Ombudsman and other miscellaneous costs.

7.2 Gross technical provisions movements

	30 June		31 December
	2002	2001	2001
	£m	£m	£m
Opening balance	25,628	31,241	31,241
Retranslation of opening foreign branch technical provisions	15	(12)	(9)
Change in long-term business provision	(1,737)	(1,319)	(5,010)
Change in provision for claims	(5)	(150)	(87)
Change in technical provisions for linked liabilities	(406)	(190)	(507)
Closing balance	23,495	29,570	25,628
Analysed as follows:			
Long-term business provision	19,870	25,280	21,592
Claims outstanding	58	-	63
Provisions for linked liabilities	3,567	4,290	3,973
	23,495	29,570	25,628

8. Commitments

8.1 Investment commitments

Property investment commitments in relation to property development programmes not provided for in the Interim Accounts amount to £176m (31 December 2001 £269m). Commitments in respect of uncalled capital on private equity fund interests amount to £169m (31 December 2001 £209m).

8.2 Subordinated debt

The Society has a commitment to pay interest and capital in respect of a loan from its subsidiary, Equitable Life Finance plc (ELF). The repayment is subordinated to the interests of policyholders. Payment of interest to ELF is dependent upon the Society meeting Required Minimum Margin (RMM) in the annual regulatory return at the valuation date (31 December) prior to each interest payment falling due. The ability of the Society to meet required minimum margin at each valuation date is dependent on the development of a number of aspects of the Society's affairs, inter alia investment performance and resolution of claims of former and current policyholders, the outcome of which cannot be predicted with certainty. There is therefore the possibility that the Society will not meet RMM at all such future dates.

9. Contingent liabilities

The Society has made appropriate provisions for mis-selling and other risks based on currently available information. During the period, as more information has become available, the range of potential outcomes in relation to these issues has continued to narrow the overall uncertainty, and therefore the degree of confidence around the levels of the individual provisions has improved since 31 December 2001. Furthermore, an independent review has been commissioned by the Society into other potential mis-selling issues. The findings of this review at this time indicate no potential mis-selling claims above the level of existing provisions. However, as discussed in the Review of the Society's Current Financial Position, because of the reduction in the size of the fund for future appropriations, the potential uncertainty has increased to the extent that it has become significant. Even though there exists a significant uncertainty in relation to the amounts of provisions, the Directors do not consider that this extends to the going concern basis of preparation of the Interim Accounts.

Independent review report to The Equitable Life Assurance Society

Introduction
We have been instructed by the Directors of The Equitable Life Assurance Society ('the Society') to review the financial information, which comprises the Profit and Loss Account for the six months ended 30 June 2002, the Balance Sheet at 30 June 2002 and related Notes 1 to 9. We have read the other information contained in the Interim Accounts and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities
The Interim Accounts, including the financial information contained therein, are the responsibility of, and have been approved by, the Directors. The Directors are responsible for preparing the Interim Accounts using accounting policies and presentation which are consistent with those applied in preparing the preceding Annual Report and Accounts except where any changes, and the reasons for them, are disclosed.

Review work performed
We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Fundamental uncertainty
In arriving at our review conclusion we have considered the adequacy of the disclosures in Note 7.1 (iii), (iv) and (vi) and Note 9 in respect of the uncertainties regarding the:

- estimates of anticipated additional expenses, as detailed in Note 7.1(iii);
- estimates of compensation payments or adjustments to future benefits which will be payable under the Rectification Scheme to policyholders who had policies with guaranteed annuity options which matured prior to the House of Lords' decision and an assessment of the likely level of claims pertaining to managed pension policies, as detailed in Note 7.1 (vi); and
- estimates of other mis-selling liabilities, including those in respect of non-GAR policyholders who left the Society prior to the compromise scheme, GAR endorsements, individual claims with the Finanacial Ombudsman and other miscellaneous costs, as detailed in Note 7.1 (vi).

In the context of the current level of the fund for future appropriations, there is fundamental uncertainty as to whether the provisions will prove to be overstated or understated when compared with the actual cost of anticipated additional expenses, GAR rectification and other mis-selling liabilities.

Review conclusion
On the basis of our review, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2002.

PricewaterhouseCoopers
Chartered Accountants
London
13 November 2002

Equitable Life