Equitable Life

Interim Accounts

for the half year ended 30 June 2005

The Equitable Life Assurance Society

Registered office

20-22 Bedford Row
London
WC1R 4JS
www.equitable.co.uk

Policyholder administration

Walton Street
Aylesbury
Buckinghamshire
HP21 7QW

Board of Directors

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

Peter Smith, Deputy Chairman (a, b, c, e)

Charles Thomson, Chief Executive (b, d, e)

David Adams OBE, Non-executive Director (a, d)

Ron Bullen, Non-executive Director (a)

Michael Pickard, Non-executive Director (a, d)

Fred Shedden, Non-executive Director (b, d)

Andrew Threadgold, Non-executive Director (d)

Jean Wood, Non-executive Director (c, d)

Key to membership of principal Board Committees

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

With-Profits Actuary and Head of Actuarial Function

Tim Bateman

Legal Advisers

Lovells
Atlantic House
Holborn Viaduct
London
EC1A 2FG

Auditors

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Contents

Corporate and Financial Review

Dear Members,

Over the past 18 months, we have informed you of the solid headway that has been made to improve the overall corporate health of your Society and prospects for policyholders.

It is once again pleasing to report that your Society continues to make steady progress. The business is stable and meets the financial requirements of the Financial Services Authority.

Your Society's financial position has strengthened substantially during the past six months with the Fund for Future Appropriations - the key measure of our solvency - now standing at £713m, an increase of £166m since December 2004 and £181m higher than at June 2004. Moreover, surrenders in the first half of the year again reduced substantially from £251m in 2004 to £137m.

Your Board has reviewed the Society's financial position and, taking into account the stronger solvency position arising during the period, considers that future prospects for policy value increases have improved sufficiently for the level of non-guaranteed interim bonus to be added to policy values to be increased. Accordingly, from 1 October 2005 and until further notice, the non-guaranteed interim bonus added to policy values will be increased by 1% to 3.5% per annum for UK with-profits pension policies and by 0.8% to 2.8% per annum for UK with-profits life policies.

Moreover, as explained in greater detail in the financial section below, we have reviewed the financial adjustment applied to the surrender proceeds of with-profits policies. This adjustment can be varied at any time and any change would reflect the financial position of the Society at that time. Accordingly, after consideration of the Society's current financial circumstances, your Board has decided that it is appropriate to reduce the adjustment from 11.1% to 8%, with effect from 1 October 2005.

Policyholder reviews

We have now substantially completed both the Rectification Scheme for individual policyholders and the Managed Pensions reviews. Taken together, over 80,000 individual and group administered policies have been reviewed and, where appropriate, compensation offered and paid. We have made significant progress with the group rectification review and, where appropriate, have made offers to trustees. In largely finishing these reviews and making appropriate payments, a significant financial uncertainty relating to the Society's past has been substantially reduced and the provisions attached to these reviews have been reduced by £90m.

In March 2005, the Financial Ombudsman Service (FOS) announced a different compensation approach from the Society's in relation to non-GAR policyholder complaints lodged with FOS. Having reviewed FOS's decision - and though we have challenged its methodology on redress - we have concluded it is in the best interests of the Society and continuing policyholders that we are pragmatic and accept FOS's ruling and direction and, if and where appropriate after reviewing the basis of particular claims, pay compensation to eligible claimants on the basis proposed by FOS.

Parliamentary Ombudsman and other investigations

The Parliamentary Ombudsman's (PO) second investigation into the regulation of the Society is continuing. The PO has chosen lead policyholder cases to review and your Society's Board is offering her inquiry team as much co-operation as we are able. If the PO finds maladministration on the part of the regulators, she has the power to recommend compensation to be paid by the government. We must wait and see if this is the case. However, we believe that this independent inquiry's report should bring finality to the matter. We look forward to the publication of her report, expected to be in spring next year.

Two submissions have been made (by a policyholder and an action group) to the European Parliament in relation to the standards of regulation by the UK Government (these are not claims against the Society). The EU Parliament's Petitions Committee in Brussels met on 13 September 2005 and agreed that action should be taken to try to establish an EU Parliamentary Committee of Inquiry to carry out a formal investigation. We shall continue to monitor developments.

The Serious Fraud Office (SFO) continues to consider certain issues in the Penrose Report. We do not expect the SFO to make any announcement until completion of the Society's litigation against certain former directors and its previous auditors, referred to below.

Litigation matters

We wrote to policyholders on 22 September 2005 to let you know that we had settled the Society's legal claims against Ernst & Young (E&Y), the Society's former auditors. Settlement was on the basis that the Society discontinued its claims and each side paid its own costs. As a consequence of that agreement, the Society is to refund to E&Y a payment of £795,616 that they had previously paid to the Society in relation to our costs associated with a part of the claim, which was withdrawn.

After having taken expert audit and actuarial guidance and after receiving legal advice, we believed that the Society had credible and cost effective claims against the defendants and a duty to pursue those claims. The Board, accordingly, commenced legal action against E&Y. Following the evidence of the former directors and following further legal advice, the Board concluded with great sadness and frustration that it must end the E&Y litigation. Claims against former directors continue and as the trial is in progress, it is inappropriate to make any further comment at this stage.

Last year, we reported that a group of 873 with-profits annuitants had commenced proceedings against the Society. As a result of approximately half of the original number

Corporate and Financial Review

continued

dropping out of the action, an amount of £75,000 in recoverable costs was paid to the Society by certain of those annuitants. In a pre-trial hearing in June, the representatives of the claimants were directed by the judge to provide a witness statement or affidavit by 18 November 2005 that the claimants all have suitable funds to continue the action through to its conclusion and meet the Society's likely costs, if the Society successfully defends the claim. The Society has estimated these costs at over £5m. We have now served the Society's master defence to this claim by the remaining 415 litigants. There is likely to be another pre-trial hearing later this year and the trial itself will probably be heard in late 2006 or early 2007.

Corporate governance for mutual insurers

On 13 July 2005, and with the backing of the Treasury and the FSA, the annotated Combined Code for mutual life offices was published by the Association of Mutual Insurers (AMI), of which your Society is a member. Publication of the Code by the AMI followed recommendations by Paul Myners who was commissioned by the Government, following the publication of the Penrose Report, to review the corporate governance of mutuals. We welcome and support the AMI's proposals. The Society already largely complies with the Code, as followed by public companies, or makes relevant disclosures where it does not.

New pensions legislation

On 6 April 2006, new rules in relation to pensions come into force. The new rules will affect anyone who is making provision for their retirement. We will write to relevant policyholders later this year setting out the major changes and any likely actions to be considered by policyholders.

Simplified financial statements

As stated in the Society's 2004 Report and Accounts, we are aware that many members would prefer a simplified presentation of the financial statements. This would enable significant cost savings to be made and a simpler presentation of the Society's annual performance to be presented to members. The current format for our Annual Report and Accounts will continue to be available to those who would like it and, of course, we shall also continue to publish those on our website. To assess policyholders' interest in receiving simplified accounts, we enclose a letter to give policyholders the opportunity to state their wishes.

Looking ahead

Further good progress has been made in the first half of 2005 and we have achieved yet greater stability. There remain issues to be resolved and these will be addressed in the coming months. In particular, as noted later in the financial section of this Review, the publication of the Society's 2005 Annual Report next spring will see the adoption of new financial reporting standards. These new proposals will change the way we report the Society's results; however, we are pleased to report that, under the updated measures to be introduced, the Society's finances remain stable and secure.

Our review of the Society's long-term strategy and prospects for policyholders is continuing well. We recognise that this is a matter of major concern for policyholders and we will keep you informed of our progress in considering what is a detailed review of various options.

Review of the Society's financial position

The Society's net resources, after allowing for its liabilities, are represented by the Fund for Future Appropriations (FFA). This amount is available to meet its non-guaranteed bonuses in the future and any unforeseen liabilities or liabilities in excess of those provided for at the balance sheet date.

At 30 June 2005, the FFA balance was £713m, an increase of £166m since the year-end. The FFA balance represents a further strengthening of the Society's position from 6.2% to 7.7% of with-profits reserves.

The key movements in the FFA in the period are shown in the following table:

	January to June 2005 £m	January to December 2004 £m
Opening balance	547	542
Change in provisions and expenses	42	(59)
Contractual cost of HBOS past service pension funding	(16)	(20)
Changes in net asset values, valuation assumptions and valuation rates of interest	149	116
The effect on FFA of policy maturities and surrenders	(8)	(5)
Interest on subordinated debt	(7)	(28)
Other movements	6	1
Closing balance	713	547

When assessing solvency under accounting standards currently applicable to the Society, it is the Society's ability to pay its guaranteed obligations to policyholders that is most significant. The guaranteed obligations include reversionary bonuses on with-profits policies that have already been declared in respect of previous years. The guaranteed obligations do not include any allowance for non-guaranteed bonuses.

The policy value attributable to with-profits policies often includes an element of non-guaranteed final bonus accumulated to date. Estimated final bonus, sometimes referred to as terminal bonus, included in the policy value, is not guaranteed and is therefore not included in the valuation of the long-term business technical provision in these financial statements, which are prepared under accounting standards currently applicable to the Society. Accordingly, only guaranteed obligations are included in the valuation of the long-term business technical provisions shown in the balance sheet. Under accounting standards currently applicable to the Society, any such final bonus has to be met from the FFA.

As noted below, the Financial Services Authority (FSA) has introduced new requirements in respect of "realistic balance sheet" reporting for the measurement of financial strength in the annual regulatory returns. These changes took effect from the 2004 FSA returns. The statutory reporting changes, which mirror the regulatory changes, will be introduced for the Society's 2005 year-end financial statements. Under this reporting basis, unlike the present statutory basis, non-guaranteed final bonuses are included as liabilities.

The excess capital over that required for regulatory purposes has increased over the period. The following table for the Society details the principal reconciling items between the FFA and the excess of net assets over the Long Term Insurance Capital Requirement (LTICR), which represents a minimum level of required regulatory capital:

	30 June 2005 £m	31 December 2004 £m
FFA	713	547
Subordinated debt[1]	167	167
Reserving adjustments and disallowed assets[2]	(2)	(11)
Regulatory net assets	878	703
Long Term Insurance Capital Requirement[3]	(593)	(599)
Net assets in excess of LTICR[3]	285	104

[1] For the purposes of regulatory reporting, the carrying value of the subordinated debt can be treated as capital.

[2] Certain balances are required to be held at values that are measured on bases different from those adopted for the financial statements or otherwise are treated differently between the FSA returns and financial statements.

[3] The figures at 30 June 2005 for LTICR and the excess of net assets over LTICR are estimated, as there is no requirement to prepare full regulatory returns at that date.

Transactions with HBOS

Under the terms of the 2001 transactions with HBOS, when the administrative and sales operations, systems and certain subsidiary undertakings were sold by the Society, the final and contingent tranche of consideration, of up to £250m, was receivable on 31 March 2005 if certain thresholds of new business and profitability were achieved by the Society's former salesforce up to 31 December 2004. HBOS has confirmed that neither threshold, relevant for calculation of this consideration, was achieved. Accordingly, no further consideration is due to the Society from HBOS in this regard.

Investment performance and capacity to pay bonuses

During the period, the Society continued to operate a cautious investment strategy of retaining a low proportion of the with-profits fund in equities and property, in order that its assets match closely its liabilities. The weighting in favour of fixed-interest securities and bonds within the investment portfolio results in there being limited scope for growth of the fund, as any changes to values resulting from movements in yields are mirrored in equivalent and largely offsetting changes in the value of liabilities under the current accounting standards applicable to the Society.

Although not necessarily a meaningful indicator of the expected annual investment return, the with-profits assets produced a gross return of 5.3% during the period.

As noted above, in the light of the Society's stronger financial position, the level of non-guaranteed interim bonus to be added to policy values has been increased.

Expenses and provisions

Expenses, other than exceptional expenses, for the six-month period shown in the Profit and Loss Account, incorporating administration, claims, and investment costs, have reduced to £35m in 2005 from £37m in 2004 and reflect reduced levels of activity as the with-profits fund reduces in size, set against the backdrop of an increase in costs resulting from preparation for the introduction of new pensions legislation in 2006. Exceptional expenses are marginally lower at £26m and relate principally to the timing of the incurrence of costs relating to provisions. Interest costs halved, compared with last year, following the partial repurchase of the subordinated guaranteed bonds.

As shown in note 7.2 (v) to the financial statements, balance sheet provisions, included as part of the technical provisions, have reduced over the period. The rectification and managed pension provision has reduced by £90m, principally as a result of payments made and the lower number of eligible claimants. Other provisions continue to decline gradually, as matters are settled by payment of redress or otherwise resolved.

The above FFA reconciliation table shows a reduction in provisions and expenses, taken together, of £42m. Reference has been made above to the reduction in the rectification and managed pension provision. Partially offsetting the reduction in provisions is an increase in expense provisions, partly due to the cost of implementing changes resulting from the introduction of new pensions legislation and other projects, in addition to the increasing cost of providing for future pension contributions as well as funding past service entitlements for those former employees of the Society who transferred to HBOS in 2001.

Although the Society, in undertaking its responsibility to be fair to all policyholders, adopts a robust procedure for dealing with mis-selling claims, there remains the risk of exposure to other claims and the possibility that provisions prove insufficient. There also remains the possibility of a return in the future to a situation of volatility in the number of policy exits, with related increases in costs.

Actuarial assumptions and asset values

The FFA reconciliation table shows a net figure of £149m for changes in net asset values, valuation assumptions and valuation rates of interest. Gains of £126m, both realised and unrealised, were recorded in equities, unit trusts and properties. The valuation rates of interest, applied to calculate technical provisions, have been updated to reflect yields and technical provision requirements at the balance sheet date and the strength of the basis has been maintained.

No provision is made for future discretionary guaranteed bonuses. As noted previously, it is the Society's intention that any future bonuses will be in a non-guaranteed form. Allowance is made for continuing contractual commitments, such as the Guaranteed Investment Return (GIR) of 3.5% per annum that is applicable to many policies. In valuing the liabilities in respect of those policies, it is assumed that the relevant duration is to the first contractual retirement date. If the Society's investment return falls below a rate which covers the guarantees and its expenses, and this assumption ceased to be appropriate as a result, substantially higher technical provisions may be required. In conditions where market returns fall below 3.5% per annum, policies may remain in force for a longer period of time. In addition, further provisions would be required, were greater premium income to be received in such circumstances. For this reason, a letter is to be sent to policyholders advising that premiums will no longer be accepted in situations where policyholders cease to comply with their policy conditions that require further premiums to be invested on a regular basis.

The CMI published, on 28 September 2005, updated industry experience on mortality rates. The impact of this information on the Society's reserves will be assessed in the coming months and will be explained in the year-end results.

Maturities and surrenders

During the period, the Society experienced further reductions in the level of both maturities and surrenders and, in particular, non-contractual surrenders were almost half of last year's figure.

Protection of the fund and policy surrenders

When a policyholder surrenders his policy (or switches to a unit-linked fund) before maturity, contractual obligations in respect of payouts under the policy generally do not apply. The Society takes account of the interests of all policyholders in these circumstances by paying the policy value (or equivalent), less a financial adjustment. The financial adjustment can be changed at any time without advance notice to policyholders. In setting the financial adjustment, the aim is for the amounts paid to surrendering policies to be fair, but not to disadvantage continuing policyholders. In particular, the amounts paid to surrendering policyholders should not reduce the payout prospects of the continuing policyholders.

There has been no change to the effective level of the financial adjustment for some time, being 11.1% for most products. However, as a result of the improved financial position and reduced financial uncertainty, the financial adjustment will be reduced to 8% with effect from 1 October 2005.

This adjustment can be varied at any time and any such change would reflect the financial position of the Society at that time. In particular, any reduction in values of property or assets other than fixed-interest securities is not offset by a reduction in guaranteed liabilities, so that any future adverse change in the Society's financial circumstances resulting from a significant fall in net asset values or increase in provisions or non-matched liabilities would necessitate policy value reductions. Where the Society is forced to sell fixed-interest securities to its disadvantage before their relevant maturity dates, in order to make payments to surrendering policyholders, the position of assets and liabilities ceases to be matched. In such circumstances, those policyholders would be expected to bear the related costs incurred, by way of a higher financial adjustment.

Equitable Life Finance plc (ELF)

The payment of principal and interest and all other monies payable by ELF, a wholly owned subsidiary of the Society, in respect of the 8% undated subordinated guaranteed bonds, issued in 1997, has been irrevocably and unconditionally guaranteed on a subordinated basis by the Society.

In December 2004, the Society made an offer to Bondholders to repurchase bonds at £920 per £1,000 of principal, subsequently increased to £980. Acceptances were received for £179m of bonds and settlement was made on 4 January 2005. As a result, there are now subordinated bonds with a principal value of £171m outstanding.

The transaction resulted in an increase, net of expenses, in FFA of £3m, which is included in the investment return.

If, when payment of interest in relation to the Bonds becomes due, the Society does not meet Required Minimum Margin (RMM), as defined under the issue terms, as of the date of its latest actuarial valuation, then the payment will be deferred by ELF unless FSA consent to such payment is obtained. As at 31 December 2004, the Society's net assets are in excess of RMM, as defined under the issue terms. This continues to be the position, based on estimated data, at 30 June 2005. However, there exists the possibility that the Society may not meet RMM, as so defined, at all times in the future. There is, therefore, uncertainty in respect of the payment of the interest on and principal of the Bonds, because Bondholders' interests are subordinated to those of the Society's policyholders and other creditors in the event of a winding up of the Society.

Realistic reporting

As noted above, the introduction of a new accounting standard, FRS 27, will change the way the Society's financial position is reported in the 2005 year-end financial statements. FRS 27 will introduce "realistic" reporting, already required for regulatory reporting, in the principal financial statements.

Although not a requirement for the Society, relevant information relating to the Society's realistic position as at 31 December 2004 was incorporated in the year-end Financial Review. A description of the methodology and an explanation of the key assumptions were also provided.

Realistic reporting requires accounting for liabilities (including options and guarantees) to be "realistic". Unlike current statutory reporting, realistic liabilities include an estimate of non-guaranteed benefits, including future discretionary increases to policy values. The effect of possible changes in market conditions and recognition of the further impact of guarantees in adverse conditions are taken into account in realistic reporting by provision for any shortfall in policy values.

The absence of comparable data at June 2004 causes difficulties for the provision of meaningful disclosures. However, preliminary analysis of the data shows that the growth of the balance of the FFA in the half-year to June 2005 is expected to be broadly reflected in the growth in the working capital figure, which is the equivalent measure under realistic reporting. The FFA has increased by £166m over that period. The principal elements of that growth, being the gains in value of equity and property investments, combined with the reduction in provisions, are applicable on a realistic basis also.

The Society is permitted to include as capital the economic value of its subordinated debt, calculated at £181m, by the addition, to the principal outstanding, of the present value of the future interest payable to August 2007, at which time the Society has the option to repurchase the outstanding bonds.

The Society will consider the requirements of FRS 27 and emerging best practice disclosures, as evidenced by the publication of listed companies' results on the realistic basis, when the Society is required to adopt this accounting standard for its year-end reporting.

The Board's conclusions on provisions and going concern

The Board is responsible for making a formal assessment as to whether the "going concern" basis is appropriate for preparing these financial statements. 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 expected to happen.

The Board has examined the issues relevant to the going concern basis which, in summary, are mainly the exposure to: increases in provisions, investment losses, impact of discretionary bonus payments, effect of lower interest rates on the behaviour of policyholders with GIRs, future expense levels (including the costs of the continuing pension obligations to former staff), persistency risks (the age or duration at which benefits are taken) and mortality risks.

The financial position of the Society has been projected under a very wide range of economic scenarios. The Board has also considered the level of contingent liabilities (that is, liabilities not recorded in the financial statements but which could conceivably arise) in its analysis 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. In such circumstances, as with any other long-term with-profits fund, actions could be necessary to adjust maturity values, with-profits annuity payments and surrender values.

In addition, the Board has considered the potential additional claims referred to in note 10 to the financial statements, entitled "Contingent liabilities and uncertainties". The Board has assessed the probability of these uncertainties arising and on the basis of current information and, having taken legal and actuarial advice, has concluded that it is highly unlikely they will result in any material adverse financial consequences. Certain of those risks, in extremely adverse scenarios, could prejudice the continuing solvency of the Society.

The Board has given due consideration to all the potential risks and possible actions set out above and has concluded that it remains appropriate to prepare these financial statements on a going concern basis.

Corporate and Financial Review

continued

Because of volatility in investment and property markets, the uncertain nature of provisions and the other potential strains on the Society's finances, and even though all these issues are subject to close management scrutiny, the Board recognises the possibility that the Society may not meet LTICR at all times in the future. As noted above, any failure to satisfy LTICR does not, of itself, cause the Society to become insolvent.

The Board will not hesitate to take appropriate action in any circumstances which jeopardise the fund's ability to meet guaranteed obligations to policyholders.

Vanni Treves
Chairman

Charles Thomson
Chief Executive

29 September 2005

Profit and Loss Account

for the period ended 30 June 2005

Technical account - long-term business

	Notes	Half year ended 30 June 2005 £m	Half year ended 30 June 2004 £m	Full year to 31 December 2004 £m
Earned premiums, net of reinsurance				
Gross premiums written		92	124	274
Outward reinsurance premiums		(49)	(66)	(129)
		43	58	145
Investment income	2	484	460	945
Unrealised gains on investments	2	305	-	338
Other technical income		1	1	2
		833	519	1,430
Claims incurred, net of reinsurance				
Claims paid – gross amount		825	1,079	2,202
Reinsurers' share		(136)	(176)	(373)
		689	903	1,829
Changes in provision for claims	7.1	(1)	2	6
	3	688	905	1,835
Changes in other technical provisions, net of reinsurance				
Long-term business provision – gross amount	7.1	(124)	(664)	(603)
Reinsurers' share		16	(6)	(5)
		(108)	(670)	(608)
Technical provisions for linked liabilities – gross amount	7.1	53	(68)	(18)
Reinsurers' share		(35)	64	34
		(90)	(674)	(592)
Net operating expenses – non exceptional		25	26	54
Net operating expenses – exceptional		26	27	72
Net operating expenses	4	51	53	126
Investment expenses and charges	2	12	23	44
Unrealised losses on investments	2	-	220	-
Taxation attributable to the long-term business		6	2	11
Transfers to/(from) the fund for future appropriations		166	(10)	6
		235	288	187
		833	519	1,430
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.

Balance Sheet

as at 30 June 2005

Assets

	Notes	30 June 2005 £m	30 June 2004 £m	31 December 2004 £m
Investments				
Land and buildings	5	847	777	806
Investments in group undertakings		16	35	19
Other financial investments	5	13,657	13,752	13,626
		14,520	14,564	14,451
Assets held to cover linked liabilities		714	676	696
Reinsurers' share of technical provisions				
Long-term business provision		359	375	375
Technical provisions for unit-linked liabilities		2,349	2,284	2,314
		2,708	2,659	2,689
Debtors				
Debtors arising out of direct insurance operations		34	32	33
Debtors arising out of reinsurance operations		-	8	10
Other debtors		124	117	239
		158	157	282
Other assets				
Cash at bank and in hand		10	15	16
Prepayments and accrued income				
Accrued interest and rent		203	214	202
Other prepayments and accrued income		14	1	1
		217	215	203
Total assets		**18,327**	**18,286**	**18,337**

Liabilities

	Notes	30 June 2005 £m	30 June 2004 £m	31 December 2004 £m
Subordinated liabilities	6	167	346	167
Fund for future appropriations		713	532	547
Technical provisions				
Long-term business provision - gross amount	7.1	14,074	14,134	14,207
Claims outstanding	7.1	6	3	7
Linked liabilities	7.1	3,063	2,960	3,010
		17,143	17,097	17,224
Provisions for other risks and charges	8	58	59	64
Creditors				
Creditors arising out of direct insurance operations		53	49	54
Creditors arising out of reinsurance operations		6	-	-
Amounts owed to credit institutions		43	50	26
Other creditors including taxation and social security		114	121	228
		216	220	308
Accruals and deferred income		30	32	27
Total liabilities		**18,327**	**18,286**	**18,337**

Notes on the Accounts

1. Basis of preparation

The Equitable Life Assurance Society's (the Society's) Interim Accounts do not constitute statutory financial statements as defined in section 240 of the Companies Act 1985. The results for the six month period to 30 June 2005 are unaudited, but have been reviewed by the Society's auditors, PricewaterhouseCoopers LLP, as set out in their report on pages 22 and 23.

Comparative figures for the period ended 30 June 2004 have been extracted from the 2004 Interim Accounts.

The comparatives for the Society for the full year ended 31 December 2004 are consistent, except as stated below, with the Society data included in the consolidated Annual Report and Accounts for 2004, which have been filed with the Registrar of Companies.

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 29 September 2005.

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. A more detailed explanation is provided in the Corporate and Financial Review on pages 5 to 10 and in note 10 to the accounts on pages 19 to 21.

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 2004 other than in respect of the 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 comprising the long-term business provision in the Interim Accounts have been calculated using the same methodology. However, some elements of the provision have been calculated using an approximate method that adjusts for changes in the period.

2. Analysis of investment return

	Half year ended 30 June 2005 £m	Half year ended 30 June 2004 £m	Full year to 31 December 2004 £m
Interest and dividend income	385	408	812
Rental income	23	33	58
Realised investment gains	76	19	75
Investment income	484	460	945
Movement in unrealised investment gains/(losses)	305	(220)	338
	789	240	1,283
Investment management expenses	(8)	(9)	(16)
Interest charges	(7)	(14)	(28)
Gain on the repurchase of subordinated bonds (note 6)	3	-	-
Investment expenses and charges	(12)	(23)	(44)
Investment return for the period	**777**	**217**	**1,239**

3. Analysis of claims

	Half year ended 30 June 2005 £m	Half year ended 30 June 2004 £m	Full year to 31 December 2004 £m
Contractual claims			
Deaths	17	15	27
Maturities	238	331	637
Surrenders	15	27	50
	270	373	714
Non-contractual claims			
Surrenders	122	224	477
	392	597	1,191
Periodic payments	294	306	640
Claims handling expenses	2	2	4
	688	**905**	**1,835**

All claims presented above are net of reinsurance.

4. Net operating expenses

	Half year ended 30 June 2005 £m	Half year ended 30 June 2004 £m	Full year to 31 December 2004 £m
Administrative expenses	25	26	54
Net operating expenses – non exceptional	25	26	54
Rectification and other GAR-related expenses	12	14	35
Costs of pursuing litigation against third parties	9	4	8
Former staff pension scheme costs	3	5	21
Other projects	2	4	8
Net operating expenses – exceptional	26	27	72
	51	**53**	**126**

Notes on the Accounts

continued

5. Other financial investments

	30 June 2005		30 June 2004		31 December 2004	
	£m	%	£m	%	£m	%
a) Land and buildings	847	6	777	5	806	6
b) Other financial investments						
Shares and other variable yield securities and units in unit trusts[1]	1,080	7	1,052	7	1,056	7
Debt and other fixed-income securities[2]	12,125	84	12,055	83	12,056	83
Loans	4	-	5	-	4	-
Deposits with credit institutions	448	3	640	5	510	4
	13,657	94	13,752	95	13,626	94
	14,504	100	**14,529**	100	**14,432**	100

Total property-related investments at 30 June 2005 are £1,551m (31 December 2004: £1,475m). This includes directly held property disclosed as "Land and buildings" of £847m (31 December 2004: £806m), limited partnerships disclosed within "shares and other variable yield securities and units in unit trusts" of £66m (31 December 2004: £63m) and property unit trusts, similarly disclosed of £638m (31 December 2004: £606m).

[1] Includes listed investments of £222m (31 December 2004: £183m) at current value.
[2] Includes listed investments of £12,091m (31 December 2004: £12,000m) at current value.

6. Subordinated liabilities

On 6 August 1997, Equitable Life Finance plc (ELF), a wholly-owned subsidiary of the Society, issued £350m 8.0% undated subordinated guaranteed bonds (the Bonds), which are guaranteed by the Society. The proceeds, after deduction of costs associated with the issue, were loaned to the Society on similar terms as to interest, repayment and subordination as to those applicable to the Bonds. All (but not some only) of the Bonds are repayable at the option of ELF on 6 August 2007 and each fifth anniversary thereafter, so long as the Bonds are outstanding.

The payment of principal and interest in respect of the Bonds has been irrevocably and unconditionally guaranteed by the Society. The obligations of the Society under the guarantee constitute direct and unsecured obligations of the Society. In the event of a winding up of the Society, the claims of the bondholders under the guarantee will be subordinated in right of payment to the claims of all creditors of the Society.

In accordance with the Trust Deed, where the payment of any amount in relation to the Bonds is due and the Society cannot meet the Required Minimum Margin (RMM) of assets over liabilities required under the Trust Deed, by reference to the Insurance Companies Act 1982, on the due date (or would not be able to meet RMM immediately after such payment), then the payment (or an appropriate part thereof) will be deferred unless the FSA's consent is obtained. The measure of RMM is in accordance with previous FSA regulatory rules and continues to be applicable to the Group's ability to make payments under the Trust Deed.

Following an invitation by the Society to holders of the Bonds, an amount of £175m was paid on 4 January 2005 as settlement of accepted, tendered Bonds, representing a principal value of £179m at a price of £980 per £1,000 of Bonds tendered. The gain net of expenses, resulting from this transaction, of £3m, has been included in investment expenses and charges (note 2).

7. Technical provisions

7.1 Gross technical provisions movements

	30 June 2005 £m	30 June 2004 £m	31 December 2004 £m
Opening balance	17,224	17,838	17,838
Retranslation of opening foreign branch technical provisions	(9)	(11)	1
Changes in long-term business provision	(124)	(664)	(603)
Changes in provision for claims	(1)	2	6
Change in technical provisions for linked liabilities	53	(68)	(18)
	17,143	**17,097**	**17,224**
Analysed as follows:			
Long-term business provision	14,074	14,134	14,207
Claims outstanding	6	3	7
Provisions for linked liabilities	3,063	2,960	3,010
	17,143	**17,097**	**17,224**

7.2 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 technical provisions have been calculated on the actuarial bases considered most appropriate by the Board. The principal assumptions used in valuing the main classes of business of the Society are shown in the table below.

Class of business	Interest rate %		Future expense allowance	
	30 June 2005	31 December 2004	30 June 2005	31 December 2004
Endowment assurances (with-profits)				
Basic Life and General Annuity business	3.0	3.5	3.00% of premium	3.00% of premium
Pension business	3.8	4.4	4.00% of premium	4.00% of premium
Recurrent single premium (with-profits)				
Life business	3.0	3.5	See Note ii	See Note ii
Pension annuities in payment	3.8	4.4	See Note ii	See Note ii
Pension business	3.8	4.4	See Note ii	See Note ii
Non-profit annuities in payment				
Basic Life and General Annuity business – pre 1992	4.3	4.6	See Note ii	See Note ii
Basic Life and General Annuity business – post 1991	3.8	4.1	See Note ii	See Note ii
Pension business	4.3	4.6	See Note ii	See Note ii

Notes on the Accounts

continued

7. Technical provisions (continued)

7.2 The long-term business provision (continued)

Details of the actuarial bases in respect of valuation interest rates, valuation term assumptions, mortality assumptions and the future expense allowances are set out in notes i to iv below.

i. Valuation interest rates are based on the yields on the assets held, reduced for risk. Reductions from the yield for risk for corporate fixed-interest securities are based on credit ratings. In general, fixed-interest yields have decreased since the year-end and the valuation interest rates have also decreased. The level of valuation interest rates for with-profits business maintains the strength of the basis.

ii. The aggregate amount for ongoing expenses, grossed up for taxation where appropriate, allowed for in the calculation of the long-term business provisions for the next twelve months, is £53m (31 December 2004: £50m). The increase since the year-end is principally due to the additional continuing cost that has been included to allow for the proposal that VAT be levied on outsourced administration services. The amount included for each successive year also allows for the effect of inflation and policy exits at a rate consistent with policy terms.

Future expenses are allowed for in different ways depending on the nature of the product:

- For with-profits recurrent single premium business and annuities in payment, expenses are allowed for by an explicit per policy amount, varying by policy type, and increasing by 2.5% p.a. (31 December 2004: 3.0% p.a.) supplemented by an expense allowance for fund management, expressed as a percentage of the value of the fund. The amount allowed for expenses has been assumed to increase by an extra 2.5% p.a. to allow for diseconomies of scale as the size of the business declines.
- For other business, expense allowances are a percentage of future premiums. For certain assurance contracts, the discounted value of a policy fee of £3.00 p.a. (31 December 2004: £3.00 p.a.) is included in the provision.

iii. The mortality assumptions used to value annuities in payment are consistent with those used for the 2004 year-end valuation.

iv. The assumed term in the valuation assumptions for several policy classes was changed for the 2004 year-end valuation in order to reflect policyholder behaviour at that time. There are no changes to the assumptions for the purposes of the calculations of the technical provisions at 30 June 2005. In particular, in valuing the liabilities in respect of 3.5% GIR policies, it is assumed that the relevant duration is to the first contractual retirement date. In addition, the Society's reserve for policies with an option to take an immediate surrender value (to meet the explicit requirements of the FSA's Prudential Source Book) has decreased to £46m (31 December 2004: £60m).

v. Technical provisions include amounts in respect of specific provisions:

- An amount of £150m (31 December 2004: £240m), which is the current estimate of the compensation or adjustments to future benefits which may 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 compensation and other costs which may be payable under the review of managed pensions sales. This provision is based on an assessment of the likely level of claims, the level of current interest rates and the possible form of compensation which may be payable in individual cases, if a claim is found to be appropriate. The principal reduction in the provision is as a result of further assessment and settlements during the period.
- Anticipated additional expenses of £134m (31 December 2004: £138m) over future years, including Rectification Scheme and managed pensions review administration costs, contractual commitments to HBOS in respect of pension scheme future costs, costs of litigation being pursued against third parties and anticipated additional expenses associated with servicing policies in the medium term.
- An amount of £190m (31 December 2004: £199m) for other miscellaneous liabilities including, inter alia, potential mis-selling liabilities. The principal components are provisions for mis-selling claims from non-GAR policyholders who left the Society prior to the GAR compromise scheme, liabilities in respect of GAR policy endorsements, provisions relating to the reassurance of the linked and part of the non-profit book to HBOS in 2001, a provision in respect of the Society's potential liability for compensation relating to the pensions transfers and opt outs review and the review of free-standing AVCs and other items.

7.3 Technical provision for linked liabilities

The technical provision in respect of property-linked business is equal to the value of the assets to which the contracts are linked. This business is wholly reassured to HBOS.

For index-linked annuities in payment, the technical provision is equal to the discounted value of the annuity benefits which allow for indexation, calculated using the same mortality assumptions as for non-profit annuities in payment and using an interest rate of 1.45% p.a. (31 December 2004: 1.70% p.a.) for pension business, 1.45% p.a. (31 December 2004: 1.70% p.a.) for pre-1992 general annuity business and 1.20% (31 December 2004: 1.45% p.a.) for post-1991 general annuity business.

8. Provisions for other risks and charges

	30 June 2005 £m	30 June 2004 £m	31 December 2004 £m
Pension commitments to HBOS in respect of former staff	58	59	64

9. Commitments

Property investment commitments in relation to property development programmes not provided for in the Interim Accounts amount to £63m (31 December 2004: £66m). Commitments in respect of uncalled capital on private equity fund interests amount to £49m (31 December 2004: £57m).

10. Contingent liabilities and uncertainties

The Society has made appropriate provisions for alleged mis-selling and other risks based on currently available information. Over time, as more information becomes available, the range of possible outcomes in relation to these issues can be expected to continue to narrow and the degree of confidence around the levels of the individual provisions can be expected to increase. However, as discussed in the Corporate and Financial Review on pages 5 to 10, in the context of the amount of the balance of the Fund for Future Appropriations, the potential impact of the range of uncertainties relating to the provisions is significant.

As previously reported, in March 2001 the Society entered into a reassurance arrangement with a subsidiary undertaking of HBOS in respect of all of the Society's insurance policies except with-profits policies and immediate annuities. Assets were transferred by the Society following a provisional calculation of the initial premium payable under the agreement. After discussions, the parties failed to agree the final amount of assets transferable in respect of this initial premium. The Society has provided in its financial statements an amount considered appropriate to satisfy its estimated liability for any balance of assets to be transferred. As the Society was unable to reach agreement with HBOS as to the relevant amount of the initial premium, it was agreed in March 2004 that the matter be referred to an umpire for resolution, as contemplated by the reassurance arrangement in the event of a dispute arising. The umpire has not yet completed his deliberations.

Although there exists a fundamental 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 financial statements. The Board has therefore concluded that it remains appropriate to prepare these financial statements on a going concern basis.

In addition, as noted in the Corporate and Financial Review on pages 9 and 10 and in the following sections of this note, there exist other uncertainties that, in the event they materialised, could adversely impact on the appropriateness of the going concern basis of preparation. Certain of those risks, in extremely adverse scenarios, could prejudice the continuing solvency of the Society. The uncertainties and potential additional claims are as follows:

- As reported previously, the report of the Equitable Life inquiry, led by Lord Penrose, was published in March 2004. Lord Penrose commented upon several aspects of the Society's affairs in a way that may impact on the likelihood of further claims being made against the Society for breach of statutory duty, or in tort or contract. The FSA has undertaken a review of the report by Lord Penrose and has concluded that generic claims against the Society regarding its basis for allocating bonuses during the 1990s are unlikely to succeed. The Board has also been advised that any claims regarding alleged "over-allocation" of bonus, relative to the relationship between aggregate policy values and aggregate assets, would face very significant difficulties and that a claim effectively seeking to recover losses relating to investment

Notes on the Accounts
continued

10. Contingent liabilities and uncertainties (continued)

conditions would be highly unlikely to succeed. The Financial Ombudsman Service (FOS) announced on 22 March 2005 that it will not investigate such complaints.

- Although some complaints have been received by the Society that have included matters commented upon by Lord Penrose, including the claim by certain with-profits annuitants referred to below, there has only been a small number of complaints received arising directly out of the report by Lord Penrose.
- Following publication of the report by Lord Penrose, the Parliamentary Ombudsman announced in July 2004 her decision to open a new investigation. It is an inquiry that is independent of the Government and can recommend to Parliament compensation payable by the government, but cannot require the Society to take any particular action. However, the terms of reference of the inquiry's report will result in consideration of some of the issues commented upon by Lord Penrose and may result in findings that could result in policyholders trying to assert claims against the Society. The Parliamentary Ombudsman expects to publish her report in the spring of 2006.
- Petitions by a policyholder and a policyholder action group have been submitted to the European Parliament, seeking that legal action be taken by the European Commission in the European Court of Justice against the UK government for its alleged failure to implement the Third Life and Non-Life Directives and to provide remedy to past and present policyholders and to request that information be made available by the UK government to assist petitioners with any UK court claims. The European Parliament's Petitions Committee met on 13 September 2005 and agreed that action should be taken to try to establish an EU Parliamentary Committee of Inquiry to carry out a formal investigation. Although the petitions relate to the actions of the UK government, if they are successful, the process may result in findings that could result in claims being asserted against the Society.
- Both Lord Penrose and the Treasury asked the Serious Fraud Office (SFO) to consider certain issues in Lord Penrose's report. Following the conclusion of the SFO's deliberations, which began in 2003, as to whether to commence an investigation, potential claims could arise as a result of any criticism of the conduct of the Society or its former management and advisers. No substantive information has been received to date relating to this matter.
- The Institute of Chartered Accountants of England and Wales has initiated disciplinary proceedings against Ernst & Young in respect of its conduct in certain of its audits of the Society. The Institute of Actuaries has also initiated disciplinary proceedings against certain of the Society's actuaries, who were also directors of the Society, for their actions during varying periods of time up to February 2000. Both disciplinary proceedings were deferred until completion of the Society's litigation against its former directors and former auditors. Although these proceedings and investigations cannot result in a requirement for the Society to take any particular action, they may make findings that could influence the way in which claims are presented against the Society.
- As previously reported, in relation to with-profits annuities, there have been a number of complaints made to the FOS and to date there have been a very limited number upheld on the basis of their respective facts. The FOS approach to these complaints has not been on the basis of generic mis-selling. However, an action has been brought by 415 with-profits annuity policy claimants, who allege, inter alia, generic mis-selling, over-allocation of bonus and raises some issues that are similar to those raised in the Society's litigation against its former directors and auditors. Having taken legal advice, the Society believes that these annuitants' claims are not well-founded and is defending the action.
- As noted in the Corporate and Financial review on page 8, it is the Society's intention that any future bonuses will be in a non-guaranteed form. Allowance is made for continuing contractual commitments, such as the GIR of 3.5% per annum that is applicable to many policies. In valuing the liabilities in respect of those policies, it is assumed that the relevant duration is to the first contractual retirement date. If the Society's investment return falls below a rate which covers the guarantees and its expenses, and this assumption ceased to be appropriate as a result, substantially higher technical provisions may be required. In conditions where market returns fall below 3.5% per annum, policies may remain in force for a longer period of time. In addition, further provisions would be required, were greater premium income to be received in such circumstances.
- The Society holds provisions for various guarantees and options arising under certain policies, including options to surrender early, GARs for a small class of policies and Guaranteed Minimum Pension entitlements for other policies. Although technical provisions are held for all material guarantees or options, there exists the possibility that those provisions may require to be adjusted as a result of an analysis of benefits arising in the case of less commonly occurring

policies or where special practices apply or where investigation of past events results in a requirement for corrective action to be taken.

- Having taken legal advice in respect of allegations of fraud made by former non-GAR policyholders in respect of the non-disclosure of GAR risks after 1998, the Board believes that there is no sustainable case of fraud and, in the event that any proceedings were issued, they would be defended vigorously. There exists the possibility that further claims could be made against the Society, alleging fraud or mis-selling not addressed hitherto or otherwise seeking compensation.

- The legal action against former directors, being certain directors who had served on previous Boards at various times between 1993, when the original decision was taken to implement differential terminal bonuses, and 2000, when the House of Lords made its ruling that such differentiation was unlawful, is expected to be completed by December 2005. The Society has provided in its financial statements for legal and other expenses incurred and those expected to be incurred for this litigation. It has not provided for the expenses of any resultant appeal or for the costs of the defendants in the event that the Society loses against such defendants and the court orders payment of costs to those defendants. In the course of this trial and the legal action taken against the Society's previous auditors, Ernst & Young, which was subsequently discontinued, matters which came before the Court may influence the way in which claims are presented against the Society by policyholders.

  The Board has assessed the probability of these other uncertainties arising and, on the basis of current information and having taken legal and actuarial advice, has concluded that it is highly unlikely they will result in any material adverse financial consequences. The Board is resolved to resist vigorously any unsubstantiated claims and will resort to court action where appropriate. The Board has therefore concluded that it remains appropriate to prepare these financial statements on a going concern basis.

The uncertain nature of the provisions, the incidence of other uncertainties and risks, the possible volatility of asset values and potential strains on the FFA arising from surrenders and maturities could, in adverse outcomes, result in the possibility that LTICR (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) may not be satisfied at all times in the future. Attention is also drawn to the implications of these uncertainties on the ability of the Society to meet payments of interest and principal in relation to the subordinated debt as explained in note 6 to the financial statements.

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 2005, the Balance Sheet at 30 June 2005 and related notes 1 to 10. 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 and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Society for the purpose of presenting Interim Accounts and for no other purpose. We do not, in producing this report, 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.

Fundamental uncertainty

In arriving at our review conclusion we have considered the adequacy of the disclosures in note 7.2 (v) and note 10, which in turn refer to the Corporate and Financial Review in respect of the uncertainties regarding the:

- Estimates of compensation payments or adjustments to future benefits which may 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 compensation and other costs which may be payable under the review of managed pension sales;
- Estimates of anticipated additional expenses; and
- Estimates of other miscellaneous liabilities including potential mis-selling costs, including those in respect of non-GAR policyholders who left the Society prior to the GAR compromise scheme, GAR policy endorsements, provisions relating to the reassurance of the linked and non-profit book to HBOS in 2001 and other costs.

In the context of the current level of the Fund for Future Appropriations, there is a fundamental uncertainty as to whether the provisions will prove to be overstated or understated when compared with the actual cost of GAR rectification, managed pension, additional expenses and other mis-selling liabilities.

Other uncertainties

In arriving at our review conclusion we have also considered the adequacy of the disclosures made in relation to other uncertainties in note 10 and under the heading “The Board’s conclusions on provisions and going concern” in the Corporate and Financial Review, in respect of the potential additional claims against the Society that could arise as a result of different legal and regulatory views on its historical conduct and any changes in provisions arising from GIR policyholder behaviour. If these different views or circumstances prevail, further obligations would arise in respect of mis-selling and other claims and provisions, which may also have consequences for the going concern basis of preparation in the Interim Accounts.

Our review conclusion is not qualified either in respect of the fundamental uncertainty or the other uncertainties.

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 2005.

PricewaterhouseCoopers LLP
Chartered Accountants
London

29 September 2005

Notes:

(a) The maintenance and integrity of The Equitable Life Assurance Society website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Interim Accounts since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Equitable Life