Equitable Life

Annual Report and Summary Financial Statements 2006

Registered office

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www.equitable.co.uk

Policyholder administration

Walton Street, Aylesbury, Buckinghamshire HP21 7QW

Board of Directors

Vanni Treves, Chairman
Peter Smith, Deputy Chairman
Charles Thomson, Chief Executive
David Adams OBE, Non-executive Director
Ian Brimecome, Non-executive Director
Ian Reynolds, Non-executive Director
Fred Shedden, Non-executive Director
Andrew Threadgold, Non-executive Director
Jean Wood, Non-executive Director

With-profits Actuary and Head of Actuarial Function

Tim Bateman

Legal Advisers

Lovells
Atlantic House
Holborn Viaduct
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Auditors

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

Please Note:

The Annual Report and Summary Financial Statements are a summary of information in the audited Annual Report and Accounts. For a fuller understanding of the Group's results and state of affairs, please consult the Annual Report and Accounts which are available on the Society's website (www.equitable.co.uk) or you can obtain a copy, free of charge, by writing to the Society's registered office. If you wish to receive copies of the full Annual Report and Accounts in subsequent years, you may elect to do so by making a request in writing to the Society's registered office.

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The Society's Chairman, Vanni Treves, and Chief Executive, Charles Thomson, on behalf of the Board, review 2006

Dear Members

We are pleased to tell you that, during the last twelve months, we have taken some major strategic steps. In addition, we have continued our steady improvement in the financial security of the Society and this has allowed us to increase bonuses.

This year's report shows:

- Completion in February 2007 of the transfer of the bulk of our non-profit pension annuities to Canada Life, largely removing a significant risk from the with-profits fund;
- Agreement in March 2007 with Prudential, subject to policyholder and Court approval, to transfer £1.8 billion of with-profits annuity policies, enabling the annuitants to join an actively managed with-profits fund in a large and growing organisation;
- A further improvement in the Society's strength – our key measure of solvency, "Excess Realistic Assets", has improved to £884 million (2005: £669 million), representing 9.4% of the with-profits fund (2005: 6.6%);
- The continued improvement in the Society's financial position and the reduction in the risks that it faces have allowed an enhancement to the bonus that would otherwise have been payable;
- With-profits pension policy values have been increased by up to 5.0% p.a. in respect of 2006 (2005: 4.5% p.a.); and
- The interim bonus for 2007 on with-profits pension policies will be at the rate of up to 5.0% p.a. (2006: 3.5% p.a.).

Transfer of non-profit pension annuities to Canada Life

We wrote to members in May and October 2006 to explain the agreement we reached to transfer most of our non-profits pension annuity business to Canada Life Limited ("Canada Life"). The final transfer of about £4.2 billion of assets in February 2007 makes this the largest transfer of its kind in the UK to date. This was the first major step flowing from our review of strategic options for the future.

The competitive process we used enabled us to secure attractive terms for the transfer.

The transfer was approved by the High Court in London on 1 February 2007 and the policies were transferred on 9 February 2007.

The transfer has greatly reduced exposure of the with-profits fund to the risk of unexpected and unquantifiable improvements in life expectancy. Consequently, we have been able to reduce the additional capital we are required to retain for that risk.

Transfer of with-profits annuity policies to Prudential

We wrote to members on 15 March 2007 to describe the agreement we have reached with The Prudential Assurance Company Limited ("Prudential").

The agreement represents another major phase in our strategic development, allowing with-profits annuitants to join Prudential's large, strong and actively managed long-term investment fund. This will enable with-profits annuitants to benefit from a fund with much greater bonus earning potential than the Society can provide.

If members approve the transfer of with-profits annuities to Prudential, the Society's business will be simpler and the Board will be able to focus all its attention on the 80% of policyholders who remain. Our prospects of finding an attractive strategy for the benefit of the remaining policyholders will be significantly improved.

We plan to write again in September with more information about the proposal including the Independent Expert's report and details of the voting arrangements. In the meantime, we will put new information regarding the agreement to transfer with-profits annuities to Prudential on our website (www.equitable.co.uk) as it becomes available.

If it is approved by members, we expect to complete the transfer at the end of this year.

2006 Bonus declaration

During 2006, the Society achieved a gross return on the with-profits fund of 2.6%. This return reflects the rise in interest rates during the year which reduces the value of fixed-interest investments. However, the rise in interest rates also reduces the value of our liabilities. After adjusting for reductions in the value of the liabilities corresponding to the rise in interest rates, and also making allowances for expenses, tax and changes to provisions, the effective net return on the with-profits fund was 3.9%.

Throughout the past six years, the Society has, as you know, had a significant level of uncertainty in its provisions and, consequently, has had to hold substantial capital against the risks associated with that uncertainty. As an example of the Society's increased strength, our key measure of solvency, Excess Realistic Assets, has improved to £884 million at 31 December 2006 (2005: £669 million), representing 9.4% of the with-profits fund (2005: 6.6%). As a result of the removal of some risks and the reduction in others, the Board has enhanced the bonus figures, shown below, above those that would have been appropriate based on investment performance alone.

Further details of the factors affecting the Board's bonus decisions are given in the Financial Review.

The key decisions are:

- Policy values (or their equivalents) will be increased for UK with-profits pensions policies at a non-guaranteed accrual rate of 5.0% p.a. (2005: 4.5% p.a.) for the whole of 2006 (4.0% p.a. for UK life policies – 2005: 3.6% p.a.);
- A non-guaranteed interim bonus in 2007 of 5.0% p.a. for UK with-profits pensions policies (4.0% p.a. for UK life policies) will continue to be added to policy values (or their equivalents); and
- Consistent with previous years, there is no reversionary bonus for 2006.

As you are aware, part of the with-profits annuitants' share of the cost of Guaranteed Annuity Rates ("GARs") from 2000 remains unrecovered. The majority of with-profits annuity policies have a higher level of anticipated bonus than is achievable by a predominantly fixed-interest fund in the current low inflation environment so that, regrettably, income can be expected to fall year-on-year. The balance of the cost of the GARs allocated in 2000 to with-profits annuitants continues to be recovered by withholding 0.5% p.a.. This will apply to both the final bonus for 2006 and the interim bonus for 2007. This process continues as planned. For example, the non-guaranteed accrual rate of 5.0% p.a. mentioned above for 2006 will be applied as 4.5% p.a. for relevant with-profits annuities.

Where a contractual policy payment is due and the guaranteed benefit exceeds the policy value (or its equivalent), it is the guaranteed benefit which will be paid. For this reason, increases in policy values (or their equivalents) described above will not affect the benefit payable under a policy unless the policy value exceeds the guaranteed benefit at the due date.

The financial adjustment applied to the early surrender of with-profits policies is 8.0%. This adjustment can be varied at any time and is kept under regular review.

Parliamentary Ombudsman and European Parliamentary Inquiry

In 2004, following strong criticisms of the regulators in Lord Penrose's report, the Society called on the Parliamentary Ombudsman ("PO") to reopen her independent inquiry into the regulation of Equitable Life. We have had lengthy and numerous confidential discussions with her inquiry team and continue to give all possible assistance. If the PO finds maladministration on the part of the regulators, she has the power to recommend government compensation. We look forward to publication of the report which should, in any event, bring finality to this matter. Following a delay announced in the autumn, the report is currently expected to be published this year, before Parliament's summer recess.

In January 2006, the European Parliament set up a Committee of Inquiry into the regulation of Equitable Life. In particular, it is considering alleged contraventions of Community law and allegations of maladministration in the application of that law to Equitable Life. We have given all possible assistance to the Committee and your Chief Executive has attended the Committee on two occasions to give evidence and answer questions. The inquiry is not seeking to investigate the conduct of the Society's affairs but, rather, its UK regulation and the status of any claims by non-UK European citizens. The Committee plans to present its report to the European Parliament in July 2007.

University Life Assurance Society

University Life Assurance Society has been a subsidiary of Equitable Life since 1919. It has been closed to new business since 1976. It now has fewer than 2,000 policyholders and around £30 million in assets. We have agreed to sell University Life to Reliance Mutual Insurance Society Limited and the sale is expected to complete in the summer.

This is another step flowing from our strategic review – simplifying the business makes it easier to assess and implement strategic options.

Litigation

In 2004, a group of 873 with-profits annuitants commenced proceedings against the Society. 406 annuitants are still part of this action, the others having withdrawn. The trial itself is scheduled to take place early in 2008. Some of the claimants may have legitimate complaints that could be compensated under our normal procedures. However, we continue to resist any attempts by policyholders to obtain an unfair financial advantage at the expense of all other with-profits policyholders.

Governance

The Association of Mutual Insurers (AMI) published guidance for mutual insurers in December 2005. Much of the guidance was already covered in the Society's practices, but we have published (in the corporate section of the Society's website) a member relations strategy which aims to help members of the Society to take an interest in its governance.

The member relations strategy is implemented by a member relations function, which provides answers to members in respect of corporate issues (whereas the customer services staff answer questions relating to members' policies) through a dedicated email address: member.relations@equitable.co.uk and through a special postal address: Member relations, Equitable Life Assurance Society, Warwick Court, Paternoster Square, London EC4M 7DX.

We will also propose amendments to the Society's Articles at the Annual General Meeting (AGM) in May 2007. These reflect changes in relevant legislation and developments in good practice in corporate governance (including the AMI's guidance). The proposals include reducing to 500 (from 1,000) the number of members needed to requisition a resolution to an AGM or to requisition an Extraordinary General Meeting.

During 2006, we issued to with-profits policyholders, together with their annual statements, a guide on how we manage the with-profits fund. This is a simpler, easier to follow version of the Principles and Practices of Financial Management (PPFM) document which the Society has had in place since 2004. We also issued to with-profits policyholders reports by the Board and by the With-profits Actuary on compliance with the PPFM. In the interests of keeping costs down, we do not propose to issue these documents again unless there are material changes in them. However, the latest versions of all of these documents will continue to be all available on the Society's website and, on request, to members.

Customer service

During 2006, we issued some 280,000 annual statements to inform policyholders of the progress of their policies and we also issued some 280,000 letters informing clients with pensions policies of the effects of the new rules for pensions, which came into force on 6 April 2006.

Our customer services staff dealt with around 400,000 telephone calls (2005: 340,000) and 550,000 letters (2005: 520,000) – many as a result of the new rules for pensions.

Strategic objectives

Particularly since the completion of the transfer of non-profit pension annuities to Canada Life, the fund is more stable and secure than it has been for many years. We continue to make progress in reducing operating expenses year on year. However, new regulations require the fund to remain predominantly invested in fixed-interest investments with limited potential to earn higher bonuses. We, therefore, continue to explore strategic options which might further improve the longer term prospects for policyholders. Our success in this area is demonstrated by the agreement reached with Prudential which will allow with-profits annuitants to move to a fund which has much greater investment freedom and higher bonus earning potential.

The Society's business objectives continue to include:

- Treating policyholders fairly, including leavers, and ensuring we meet the guarantees provided to policyholders by pursuing an appropriate investment strategy;
- Reducing expenses and restoring an efficient business model; and
- Resolving outstanding claims against the fund.

Your Board

As we reported last year, the greatly improved stability of the Society has allowed the Board to start to evolve – because of the turbulence of earlier years, it had largely been unchanged since 2001.

During the year, Ron Bullen and Michael Pickard, who between them served as Directors for a total of nine years, retired from the Board and we thank them for their outstanding contribution to the Society's development.

We are glad to welcome Ian Reynolds and Ian Brimecome who were appointed to the Board as non-executive Directors with effect from 1 October 2006 and 12 January 2007 respectively.

Ian Reynolds has over forty years' experience in the insurance industry and is currently a non-executive Director of HSBC Life Assurance and also a member of the Council of the Institute of Actuaries.

Ian Brimecome, formerly a non-executive Director of Winterthur UK Financial Services Group Limited, has over thirty years' experience in the financial services industry and is currently Chairman of Fox-Pitt Kelton Limited's Advisory Board. He has also recently been appointed a non-executive Director of AXA UK plc.

Looking forward

This review emphasises two things: the Society has continued to improve substantially its financial position and the security of policyholders; and we have delivered strategic opportunities with the potential for significantly improved prospects for policyholders.

The transfer of non-profit pension annuities to Canada Life much reduced a major mortality risk to the with-profits fund and the agreement with Prudential, if approved by members, would allow with-profits annuitants to join an actively managed with-profits fund in a large, strong organisation.

Once the transfer of with-profits annuity policies to Prudential is completed, we believe that there will be greater opportunities for further strategic options which can improve the outlook for the remaining policyholders.

As always, you may rest assured that your Board will continue to do everything it possibly can to improve the stability and the security of your Society and the prospects for all policyholders.

On behalf of the Society's Board of Directors

Vanni Treves
Chairman

Charles Thomson
Chief Executive

This Financial Review specifies certain financial matters of interest to policyholders. The complete version of this summarised review is included in the primary financial statements. The other matters specified in that complete version include commentary on and details of maturities and surrenders, Equitable Life Finance plc and further details in respect of actuarial assumptions and asset values, expenses and provisions and regulatory capital requirements.

Excess Realistic Assets and regulatory solvency

A key measure of the Society's resources is the excess of realistic assets over liabilities before deduction of the estimate of the value of future discretionary enhancements to policy values ("Excess Realistic Assets"). Although this amount is reported as a policy-related liability in the Balance Sheet, it is available to meet any unforeseen liabilities and liabilities in excess of those provided for at the balance sheet date and to enhance bonuses in the future.

At 31 December 2006, Excess Realistic Assets were £884m, an increase of £215m over the prior year. The analysis of the with-profits assets and liabilities is as follows:

	2006 £m	2005 £m
Realistic value of with-profits assets	9,453	10,185
less:		
Policy values	7,559	8,181
Future charges	(288)	(300)
Impact of early surrenders	(50)	(46)
Cost of guarantees	566	847
Other long-term liabilities	406	482
Other liabilities	376	352
	8,569	9,516
Excess Realistic Assets	**884**	**669**

Note: The above analysis excludes the matching assets and liabilities of the Canada Life 'deposit back' arrangement, as explained further on page 28.

The Society seeks to maintain the Excess Realistic Assets balance at a level that protects solvency whilst treating continuing and exiting policyholders fairly. The balance at 31 December 2006 represents 9.4% of with-profits realistic assets, an increase from the equivalent figure of 6.6% at 31 December 2005.

The key movements in the Excess Realistic Assets during 2006 are shown in the following table:

	2006 £m	2005 £m
Opening Excess Realistic Assets	**669**	**455**
Favourable investment performance	69	465
Mortality experience and assumption changes	97	(275)
Surrender experience and assumption changes	28	(55)
Changes in other valuation assumptions	(12)	66
Variances in provisions and expenses	13	(3)
Other movements	20	16
Closing Excess Realistic Assets	**884**	**669**

The increase in Excess Realistic Assets results principally from favourable investment performance, following good capital gains in the property and equity portfolios, and from modification of mortality assumptions, principally relating to the with-profits annuity business following further analysis during the year of actual experience and consideration of expected future experience. The balancing figure results mainly from changes to assumptions and changes to expenses and provisions.

The policy value attributable to with-profits policies may include an element of non-guaranteed final bonus. A prudent allowance for future bonuses, based on assumed future net investment returns that take account of deductions for potential risks, is included in the valuation of the long-term business technical provision in these financial statements. Any enhancements to the bonuses assumed would be met from the Excess Realistic Assets.

In the first of the tables, the amount of £566m shown as the cost of guarantees relates to policy liabilities where guarantees exceed policy values. At the balance sheet date, the total discounted value of aggregate guaranteed with-profits liabilities included within the realistic liabilities totalled £7,270m (2005: £8,302m). Discretionary amounts, which are assumed to be distributed along with guaranteed amounts when contractual benefits are taken, are £586m (2005: £480m) and are included in the technical provisions.

Transfer of the bulk of the non-profit pension annuities

On 11 May 2006, the Society entered into various agreements with Canada Life, which led to the transfer of around 90% of the Society's non-profit pension annuities in payment. The actual transfer of those policies took place on 9 February 2007, following High Court approval of a Part VII scheme of arrangement. From 11 May 2006 to 9 February 2007, relevant annuities were subject to a reassurance arrangement under which Canada Life bore substantially all the risks and rewards from this business with effect from 1 January 2006. This transfer is reflected as 'Outward reinsurance premiums – Discontinued operations' in the Profit and Loss Account and as an increase within the 'Reinsurers' share of technical provisions' asset on the Group and Society Balance Sheets.

In order to protect the policyholders from a large counterparty credit exposure, the initial premium was deposited back with the Society until the transfer was approved by the High Court and completed. This deposit was held in assets with a similar investment mix to that previously held by the Society. Canada Life held a secured charge over those assets. The investment returns from those secured assets were attributed to Canada Life and payments of related annuities were deducted from the deposited assets. The net balance due to Canada Life at 31 December 2006, of £4,316m, is shown within 'Deposits received from reinsurer – secured' as a new category of liability on the Group and Society Balance Sheets. This deposit back had the effect of increasing total assets and total liabilities of the Society and the Group by the deposited amount.

The transfer, together with expected related costs of £36m (including 2006 costs shown in Note 4 to the summary financial statements), does not reduce the amount of the Society's Excess Realistic Assets. Further details are explained in Notes 2 and 6 on pages 25 to 26 and 28.

Investment performance and capacity to pay bonuses

During 2006, the Society continued to operate a cautious investment strategy of retaining a relatively low proportion of the with-profits fund in equities and property, in order that its assets match closely its realistic liabilities. The weighting in favour of fixed-income securities within the investment portfolio results in there being limited scope for growth of the fund. The assets backing UK with-profits policies produced a gross return of 2.6% during the year, being impacted adversely by the rise in interest rates during the year, which reduced the value of fixed-income securities. The return adjusted for bond yield movements (which affect both assets and liabilities) was 5.2%, reducing to 3.9%, after allowing for the impact of expenses, tax and adjustments to provisions and technical provisions.

In determining bonus policy, the Society needs to consider the longer term picture and aims to balance the objectives of continuing to meet its obligations to policyholders and other creditors as they fall due and of distributing the Society's assets over the lifetime of its policies as fairly as possible. The ability to increase policy values depends to a considerable extent on the returns achieved on, and the outlook for, the Society's property and private equity portfolios, whose value and liquidity could be affected by adverse market conditions. It is also dependent on actual and expected expense levels, the expected cost of guarantees, costs of meeting commitments in respect of non-profit annuities, miscellaneous profits and losses and possible changes in the level of provisions.

The Society sold £609m of indirect property holdings during the year. This action was taken to improve the liquidity of the property portfolio. Some of these proceeds have been re-invested in direct property investments and the Society continues to seek attractive opportunities to invest.

As reported in previous financial statements, a margin is held back from the investment return to meet the cost of guarantees and provide additional risk capital. The assumption for the future margin against investment returns has been maintained at 0.5% p.a., in accordance with the range of values stated in the Society's Principles and Practices of Financial Management. This margin can be reduced or increased depending on the financial position of the Society.

After consideration of all risks, reserving and capital matters, the Board has increased, for applicable with-profits pension policies for 2006, policy values at the rate of 5.0% p.a. (2005: 4.5% p.a.) and 4.0% p.a. (2005: 3.6% p.a.) for life assurance policies. This bonus includes a partial distribution of excess assets following the Society's continued improved financial strength and reduction of risks. The Board will keep the level of capital available under review, in order that further distributions reflect the circumstances and the risks facing the Society.

A non-guaranteed interim bonus will continue to be added to policy values (or their equivalents) in 2007 at a rate of 5.0% p.a. for pension policies (2006: 3.5% p.a.), and 4.0% p.a. for life policies (2006: 2.8% p.a.). These interim bonus rates will apply until further notice. The Board may change interim bonus rates during the year.

As previously advised, policyholders should note that, in order to meet all its future contractual liabilities for the foreseeable future, any new distributions of surplus will be made in non-guaranteed form and there is no expectation of any further reversionary bonus being awarded in the near to medium term. Accordingly, there will be no reversionary bonuses for 2006. However, for those policies with guaranteed investment returns (“GIRs”), the value of the guaranteed benefit is not changed by the increase in policy values, but is increased instead at the rate set out in the policy conditions, typically being 3.5% p.a..

The outstanding balance of the cost of GARs allocated in 2000 to with-profits annuities continues to be recovered by withholding 0.5% p.a.. This will apply to both the increase in policy values for 2006 and the interim bonus for 2007.

Expenses and provisions

Expenses shown in the Profit and Loss Account, incorporating administration, exceptional, claims, investment expenses and interest costs, have continued to reduce, from £127m in 2005 to £116m in 2006. Within non-exceptional expenses, lower administration and claims costs, reflecting reduced levels of activity as the with-profits fund reduces in size, were more than offset by the one-off costs of implementing the new pensions legislation in April 2006. Investment management expenses have continued to decline as the funds invested have reduced. Exceptional expenses have decreased significantly in 2006, principally reflecting the wind-down of the rectification and managed pension reviews and the third party litigation, partially offset by the costs incurred in implementing the strategic initiatives.

As shown in Note 5b to the summary financial statements, balance sheet provisions, included as part of the technical provisions, have reduced over the year. The rectification and managed pension provision has reduced by a further £17m, as a result of settlements made or finalised. The provision for exceptional expenses of £115m includes provision for future pension contributions in addition to the cost of funding past service entitlements for those former employees of the Society who transferred to HBOS in 2001.

The Excess Realistic Assets reconciliation table on page 10 shows a favourable variance in provisions and expenses, taken together, of £13m. This reflects reductions in certain provisions, which offset the costs of pursuing alternative strategic solutions. Although the volume of transactions per policy is now more stable, the complexity of the Society’s affairs and related uncertainties continue to result in a requirement for provision of an organisational infrastructure substantially greater than would be normal in run-off situations, with resultant higher costs. The cost of administration and investment management at 0.7% of realistic with-profits assets for 2006 is a key indicator of expenses. In order to take account of the uncertainty of future costs and the challenge of reducing costs as policies mature or transfer, administration expenses as a percentage of fund assets are allowed for at a rate of 1.0% p.a., and underruns below this level are held in reserve to cover expected future higher costs.

Actuarial assumptions and asset values

The Excess Realistic Assets reconciliation table on page 10 shows a net figure of £69m for favourable investment performance, representing the return in excess of the expected investment return assumed at the beginning of the year and includes total gains in equities, unit trusts and properties of £141m. This figure is stated after allowing for the impact of the distribution of capital made this year which is referred to in the section above, entitled 'Investment performance and capacity to pay bonuses'.

Allowance has been made in realistic liabilities for future discretionary non-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 GIR of 3.5% p.a. that is applicable to many policies. If the Society's investment return falls below a rate which covers the guarantees and its expenses and the assumed retirement profile ceases to be appropriate as a result of significant numbers of policyholders deferring their retirement dates, substantially higher technical provisions may be required, as described in Note 16d to the full financial statements.

Protection of the fund and policy surrenders

Where a policyholder surrenders his or her with-profits 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. 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. The financial adjustment has remained at 8% since October 2005.

This adjustment can be varied at any time without advance notice to policyholders 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, assets and liabilities cease to be matched. In such circumstances, those policyholders would be expected to bear the related costs incurred, by way of a higher financial adjustment.

Although the Society experienced a stable level of claims during the year, with figures broadly in line with last year, changes in the pattern of surrenders have been reflected in the realistic assumptions which, together with favourable actual experience in the year, result in a gain of £28m in Excess Realistic Assets, as shown in the reconciliation table on page 10.

Proposed transfer of with-profits annuity policies to Prudential

Since the balance sheet date, the Society has announced it has entered into an agreement with The Prudential Assurance Company Limited for the transfer of its with-profits annuity policies. On completion, expected to be by the end of 2007, approximately 62,000 with-profits annuities (representing some 50,000 annuitants) would be transferred. These policies represent about 20% of the with-profits liabilities with an estimated value of £1.8 billion as at December 2006. The transfer is conditional on certain matters, including the approval of members and the High Court. The amount of assets to be transferred will be determined by reference to the Society's financial position at the date of transfer, after deducting the costs to implement the transfer and allowing for an allocation of the with-profits annuitants' share of the Excess Realistic Assets.

University Life Assurance Society

On 20 December 2006, the Society agreed to sell the share capital of its subsidiary company, University Life Assurance Society ("ULAS") to Reliance Mutual Insurance Society Limited. The sale is expected to complete on 31 May 2007. At the year-end, ULAS had total assets of £36m, including shareholders' funds of £0.1m and the sale does not reduce the amount of the Society's Excess Realistic Assets.

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 summary 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.

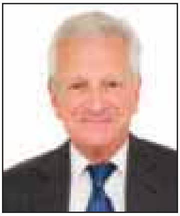
The Board has examined the issues relevant to the going concern basis which, in summary, are mainly the exposure to: increases in provisions, investment losses, impact of discretionary bonus payments, effect of lower interest rates on the behaviour of policyholders with GIRs, future expense levels (including 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 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 fund, appropriate actions could be necessary to adjust maturity values, with-profits annuity payments and surrender values in order that policy guarantees can be met.

In addition, the Board has considered the potential additional claims referred to in Note 8 to the summary 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.

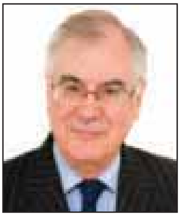
The Board has given due consideration to all the potential risks and possible actions set out above and has concluded that it remains appropriate to prepare these summary financial statements on a going concern basis.

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 regulatory capital requirements at all times in the future. Any such failure does not, of itself, cause the Society to become insolvent.









Board of Directors

1. Vanni Treves, Chairman (a) (b) (c) (e)
2. Peter Smith, Deputy Chairman (a) (b) (c) (e)
3. Charles Thomson, Chief Executive (b) (d) (e)
4. David Adams OBE (a) (d)
5. Ian Brimecome (d)
6. Ian Reynolds (a) (d)
7. Fred Shedden (b) (d)
8. Andrew Threadgold (d)
9. Jean Wood (c) (d)

Key to membership of principal Board Committees

(a) Audit

(b) Legal Audit

(c) Remuneration

(d) Investment

(e) Nominations

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6 7 8 9

The Society's Remuneration Committee's recommendations are made on the basis of rewarding individuals for the scope of their responsibilities and their performance. Where possible, the Committee seeks to meet the standards set out in the Annotated Code on Corporate Governance published by the Association of Mutual Insurers.

Proper regard is paid to the need to retain good quality, highly motivated staff and the remuneration being paid by competitors of the Society is taken into consideration. In this respect, the Committee has received information and advice from remuneration consultants, KPMG and Towers Perrin. KPMG has undertaken additional engagements for the Society, including advice on accounting standards and providing an Independent Expert in respect of the transfer of most of the Society's non-profit annuity business to Canada Life. The Committee considers both KPMG and Towers Perrin to be independent. KPMG and Towers Perrin had no other connections with the Society.

The total emoluments of the Directors, excluding pension benefits, comprise:

Non-executive Directors	Notes	2006 £	2005 £
V E Treves, Chairman	1	140,000	140,000
Other non-executive Directors	2		
P A Smith		38,000	38,000
D H Adams OBE		33,000	33,000
R Bullen	3	23,333	28,000
M J Pickard	3	27,500	33,000
D I W Reynolds	4	7,000	–
F Shedden		33,000	33,000
A R Threadgold		33,000	33,000
J Wood		33,000	33,000
		227,833	231,000
Total for non-executive Directors		**367,833**	**371,000**

Notes:

1. The Chairman's fees have been £140,000 p.a. since 1 July 2004.
2. From 1 July 2004 the non-executive Directors (other than the Chairman) have received fees at the rate of £28,000 p.a.. The following non-executive Directors have also received additional fees of £5,000 p.a. in relation to specific services: M J Pickard (Chairman, University Life); A R Threadgold (Chairman, Investment Committee); F Shedden (Chairman, Legal Audit Committee); J Wood (Chairman, Remuneration Committee); and D H Adams (Deputy Chairman, Audit Committee). P A Smith (Deputy Chairman and Chairman of Audit Committee) has received an additional fee of £10,000 p.a..
3. R Bullen and M J Pickard resigned as Directors on 31 October 2006.
4. D I W Reynolds was appointed a Director with effect from 1 October 2006.

Executive Directors
Salary and bonuses

	Salary		Performance Related Bonus		Benefits		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	£	£	£	£	£	£	£	£
Charles Thomson	436,450	419,662	129,000	184,196	107,101	102,544	672,551	706,402
Total for executive Directors	**436,450**	**419,662**	**129,000**	**184,196**	**107,101**	**102,544**	**672,551**	**706,402**

C G Thomson's annual rate of salary for the period 1 January to 30 June 2006 was £430,000 plus annual benefits of £88,050. His annual rate of salary was increased to £442,900 with effect from 1 July 2006, with annual benefits remaining at the same level. In addition, benefits in kind received in 2006 totalled £19,051.

The maximum potential annual discretionary bonus award he may receive is 50% of his salary. For 2006/2007 the Remuneration Committee has recommended to the Board that the amount of C G Thomson's discretionary bonus award should be £199,305 and be paid in June 2007.

Long-term retention scheme

	2006	2005
	£	£
Charles Thomson	149,653	281,250

C G Thomson participated in an annual retention bonus scheme for senior staff. Under this scheme, a retention bonus of £68,750 vested on 31 March in each year of 2003, 2004 and 2005 and was paid in full on 1 April 2005. Under extensions to that scheme, further amounts of £75,000 and £50,000 were payable provided C G Thomson remained in the service of the Society on 31 December 2005 and 30 June 2006 respectively. These amounts were paid as due.

A new retention bonus scheme for senior staff was introduced in September 2006 under which C G Thomson is eligible to receive payments equal to the following percentages of his then prevailing salary on the dates below, provided he remains in the Society's employment on the relevant date:

- 22.5% on 31 December 2006;
- 22.5% on 30 June 2007;
- 30% on 31 December 2007; and
- up to 75% on 31 December 2008.

The amount of the final bonus entitlement accruing on 31 December 2008 will be at the discretion of the Remuneration Committee (who will determine the amount of the final payment depending on the prevailing financial and operational conditions and strategy of the Society).

In accordance with the new scheme, C G Thomson received a bonus of £99,653 in December 2006.

Benefits

Executive Directors' benefits include a car allowance and payments in lieu of pension contributions. The executive Director has no accrued pension entitlements (2005 – no accrued entitlements).

No benefits are paid to non-executive Directors.

Service contracts

C G Thomson has a service contract with a six-month notice period. No non-executive Director has a service contract.

Long-term benefits

No share options are available. Other than a retention bonus scheme, the Society does not operate any other long-term benefits scheme.

Directors' remuneration

Non-executive Directors' remuneration comprises a specified fee, which includes extra amounts for specific additional responsibilities, as set out on page 18.

Executive bonus entitlements

The Society operates an annual discretionary bonus scheme for executive Directors. The Society's policy is to ensure that executive Directors are appropriately incentivised to meet the objectives of the business. In particular, significant objectives against which targets are set and approved by the Remuneration Committee include the maintenance of solvency, the achievement of business stability, the management of significant regulatory reviews and litigation issues and the maintenance of effective service delivery.

Directors' pension entitlement

The Society does not provide an occupational scheme for Directors. Executive Directors are provided with a specific allowance in lieu of direct contributions.

We have examined the summary financial statements set out on pages 23 to 32.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the annual report and summary financial statements.

Our responsibility is to report to you our opinion on the consistency of the summary financial statements within the annual report and summary financial statements with the full annual financial statements and Directors' remuneration report and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

We also read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statements.

This statement, including the opinion, has been prepared for and only for the Society's members as a body in accordance with section 251 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our work in accordance with bulletin 1999/6, 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board.

Our report refers to the emphasis of matter – contingent liabilities and uncertainties, in respect of potential additional claims against the Society, expenses and increases in provisions 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 the uncertainties prevail, further obligations would arise in respect of mis-selling and other claims, which in extreme circumstances may also have consequences for the going concern basis of preparation of the financial statements.

Details of the circumstances relating to the emphasis of matter – contingent liabilities and other uncertainties are described in Note 8 to the summary financial statements. Our opinion on the annual financial statements is not qualified in respect of this emphasis of matter.

Opinion

In our opinion the summary financial statements are consistent with the annual financial statements and the Directors' remuneration report of The Equitable Life Assurance Society for the year ended 31 December 2006 and complies with the applicable requirements of section 251 of the Companies Act 1985, and the regulations made thereunder.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
28 March 2007

Technical account – long-term business

	Notes	2006 £m	2005 £m
Gross premiums written		177	210
Outward reinsurance premiums	2		
– Continuing operations		(109)	(98)
– Discontinued operations		(4,608)	–
		(4,540)	112
Investment return		286	1,422
Net other (charges)/income		(23)	4
		263	1,426
Claims paid	3	(1,689)	(1,638)
Reinsurers' share		626	268
		(1,063)	(1,370)
Net operating expenses – non-exceptional		(55)	(51)
Net operating expenses – exceptional	4	(28)	(46)
Net operating expenses		(83)	(97)
Changes in other technical provisions, net of reinsurance		5,424	(71)
Comprising – Continuing operations		*802*	*272*
– Discontinued operations		*4,622*	*(343)*
Transfer to the fund for future appropriations		(1)	–
Balance on the Technical Account		**–**	**–**

Summary Group Balance Sheet
As at 31 December 2006

Assets	Notes	2006 £m	2005 £m
Investments			
Land and buildings		840	714
Shares and units in unit trusts		569	1,194
Fixed income securities		11,972	12,096
Deposits and other investments		558	352
		13,939	14,356
Assets held to cover linked liabilities		87	741
	6	14,026	15,097
Reinsurers' share of technical provisions		7,190	2,989
Other assets		414	427
Total assets		**21,630**	**18,513**

Liabilities	Notes	2006 £m	2005 £m
Subordinated liabilities		171	171
Fund for future appropriations		10	9
Technical provisions	5	16,953	18,163
Deposits received from reinsurer – secured	6	4,316	–
Other liabilities		180	170
Total liabilities		**21,630**	**18,513**

These summary financial statements were approved by the Board on 28 March 2007 and were signed on its behalf by:

Vanni Treves
Chairman

Charles Thomson
Chief Executive

1. Accounting Policies

a. Basis of presentation

The primary financial statements have been prepared in accordance with sections 255 and 255A of, and Schedule 9A to, the Companies Act 1985 and in accordance with applicable accounting standards and the Association of British Insurers' Statement of Recommended Practice (SORP) on Accounting for Insurance Business dated December 2005, which, inter alia, incorporates the requirements of FRS 27, Life Assurance.

The Directors have considered the appropriateness of the going concern basis used in the preparation of the primary financial statements, having regard to the ability of the Society to be able to meet its liabilities as and when they fall due, and the adequacy of available assets to meet liabilities. In the opinion of the Directors, the going concern basis adopted in the preparation of the primary financial statements continues to be appropriate. A more detailed explanation is provided in the Financial Review on pages 15 and 16.

Where relevant, Profit and Loss Account line items are analysed separately between continuing and discontinued operations.

b. Change in accounting policies

The Group has modified the way in which investment assets are valued at the balance sheet date by using bid value market prices rather than mid-market prices. This change has been made in order to bring the basis of valuation into line with a similar change for the annual FSA regulatory returns. Due to the limited impact of this change, the Group has not restated the financial statements for 2005 for this change.

The Directors have reviewed the accounting policies and satisfied themselves as to their appropriateness. Other than the change in valuing investments, there are no other changes in accounting policy from the prior year.

2. Outward reinsurance premiums

On 11 May 2006, the Society entered into an agreement where a substantial proportion of the Society's non-profit pension annuity business was reassured with Canada Life. Following the completion of a High Court process, this business was subsequently transferred to Canada Life on 9 February 2007 as a Part VII Transfer under the Financial Services and Markets Act 2000. Until that date, this business was subject to a reassurance arrangement under which Canada Life bore substantially all the risks and

2. Outward reinsurance premiums (continued)

rewards from this business with effect from 1 January 2006. The initial premium of £4,608m for the reassurance of this business is included in the total outward reinsurance premiums. This business has been treated as discontinued operations in the Profit and Loss Account.

3. Claims paid

	2006 £m	2005 £m
Claims paid comprise:		
On death	45	49
On maturity	548	509
On surrender	514	482
By way of periodic payments	579	595
Claims handling expenses	3	3
	1,689	**1,638**

The gross claims incurred include £306m (2005: £310m) relating to the discontinued operations which were transferred to Canada Life on 9 February 2007 as outlined in Note 2.

4. Net operating expenses – exceptional

	2006 £m	2005 £m
Rectification and other GAR-related expenses	2	14
Costs of pursuing litigation against third parties	–	23
Pension costs for former staff	5	3
Cost of strategic initiatives	18	–
Other projects	3	6
	28	**46**

As explained in the Financial Review on page 11, the greater part of the costs of strategic initiatives incurred during the year represents the costs of implementing the arrangements with Canada Life.

5. Technical provisions

a. Gross technical provisions

	2006 £m	2005 £m
Non-profit technical provisions	4,534	5,018
With-profits technical provisions		
Policy values	7,559	8,181
Future charges	(288)	(300)
Impact of early surrenders	(50)	(46)
Cost of guarantees	566	847
Other long-term liabilities	406	482
	8,193	9,164
Excess Realistic Assets	884	669
Total with-profits technical provisions	9,077	9,833
Long-term business provision	13,611	14,851
Claims outstanding	15	2
Linked liabilities	3,327	3,310
	16,953	**18,163**

The Excess Realistic Assets is a key measure of the Society's resources and represents the amount available to meet any unforeseen liabilities and liabilities in excess of those provided for at the balance sheet date and to enhance bonuses in the future.

b. The long-term business provision – miscellaneous provisions

Technical provisions include:

- An amount of £68m (2005: £85m), which is the current estimate of the compensation or adjustments to future benefits which may be payable under the review of managed pension sales and other costs 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. 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 on 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 year;

5. Technical provisions (continued)

b. The long-term business provision – miscellaneous provisions (continued)

- Anticipated additional exceptional expenses of £115m (2005: £129m) over future years, including contractual commitments to HBOS in respect of pension scheme future service costs and anticipated additional costs associated with servicing policies in the medium term; and

- An amount of £128m (2005: £182m) for other miscellaneous liabilities including, inter alia, potential mis-selling liabilities. The principal components are provisions for potential mis-selling claims, a provision for other legal claims against the Society, and provisions relating to residual reassurance balances in respect of the linked and part of the non-profit book and other items.

6. Deposits received from reinsurer – secured

On 11 May 2006, the Society entered into an agreement where a substantial proportion of the Society's non-profit pension annuity business was reassured with Canada Life. Following the completion of the High Court process, this business has been subsequently transferred to Canada Life on 9 February 2007 under a Part VII Transfer of the Financial Services and Markets Act 2000. Until that date, this business was subject to a reassurance arrangement under which Canada Life bore substantially all the risks and rewards from this business with effect from 1 January 2006.

In order to protect the policyholders from a large counterparty credit exposure, the initial premium was deposited back with the Society until the final transfer was approved by the High Court and completed. This deposit was held in assets with a similar investment mix to that previously held by the Society. Canada Life held a secured charge over these assets. The investment returns from those secured assets were attributed to Canada Life and payments of related annuities deducted from the deposited assets. The net balance due to Canada Life at 31 December 2006 was £4,316m. This deposit back arrangement had the effect of increasing the Group's and Society's total assets and total liabilities by the deposited amount.

7. Post balance sheet events

- On 11 May 2006, the Society announced that it had reached agreement with Canada Life for the reassurance and subsequent transfer of most of its non-profit pension annuity business, comprising approximately 130,000 policies. The Society entered into a reassurance agreement with Canada Life on that date, paying an initial premium of £4,608m. Application was subsequently made to the High Court and the policies were transferred to Canada Life under a Part VII Transfer under the Financial Services and Markets Act 2000 on 9 February 2007. Investment assets to the value of £4,234m were transferred to Canada Life to match the liabilities of the business at that date. The Society no longer has a liability for these policies.

- On 15 March 2007, the Society announced that it had entered into an agreement with The Prudential Assurance Company for the transfer of all its with-profits annuity policies. This transfer is conditional on certain matters, including the approval of members and the High Court. On completion, expected to be by the end of 2007, approximately 62,000 with-profits annuities (representing some 50,000 annuitants) would be transferred. These policies represent about 20% of the with-profits liabilities with an estimated value of £1.8billion as at 31 December 2006. The amount of the assets to be transferred will be determined by reference to the Society's financial position at the date of transfer, after deducting the costs to implement the transfer and allowing for the with-profits annuitants' share of the Excess Realistic Assets.
- On 20 December 2006, the Society announced that it had reached agreement to sell University Life Assurance Society, a wholly owned subsidiary, to Reliance Mutual Insurance Society Limited. The Society expects to complete the sale on 31 May 2007.

8. Contingent liabilities and uncertainties

As noted in the Financial Review on pages 15 and 16 and in the following sections of this Note, there exist certain uncertainties that, in the event they materialised, could adversely impact on the appropriateness of the going concern basis of preparation of these financial statements. Certain of those risks, in extremely adverse scenarios, could prejudice the continuing solvency of the Society. 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 remains appropriate to prepare these financial statements on a going concern basis.

These 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

8. Contingent liabilities and uncertainties (continued)

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 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 may 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 Society has had lengthy and confidential discussions with representatives of the Parliamentary Ombudsman, who plans to publish her report before the Parliamentary recess in the summer of 2007.

- In January 2006, in response to petitions by a policyholder and a policyholder action group, the European Parliament established an EU Parliamentary Committee of Inquiry into Equitable Life to carry out a formal investigation into ‘alleged contraventions of Community law and alleged maladministration in the application of Community law related to the demise’ of the Society. Although the investigation relates to the actions of the UK government, the process may result in findings that could result in claims being asserted against the Society. Its report is expected to be published in the summer of 2007.

- The Institute of Chartered Accountants in 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 completed 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. One former director was expelled and two others admonished in respect of those charges on which misconduct was found. Although these proceedings and investigations cannot result in a requirement for the Society to take any particular action, their findings could influence the way in which claims are presented against the Society.

- As previously reported, in relation to with-profits annuities, there has been a number of complaints made to the FOS and to date there has 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 406 with-profits annuity policy claimants, who allege, inter alia, generic mis-selling and over-allocation of bonus. Having taken legal advice, the Society believes that any generic claims are not well-founded and is defending the action, which is expected to be considered by the court in 2008.
- As noted in the Financial Review on pages 11 to 13, 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% p.a. that is applicable to many policies. In valuing policy liabilities, guarantees are valued under a range of economic scenarios. The calculation of the technical provisions is based on a projection of current market conditions, allowing for current retirement experience. There remains a risk to the Society that investment conditions change or that policyholders defer their retirement. The potential additional costs associated with these guarantees if interest rates fall from assumed levels, under certain specified scenarios, have been disclosed in Note 16d to the full financial statements. In addition, further provisions would be required if greater premium income were to be received in such circumstances.
- The Society is required to submit to the FSA a confidential report assessing its capital requirements under the Individual Capital Adequacy (ICA) framework. The FSA has the power to require that a particular level of capital be held by the Society which could result in the Society considering taking specific actions to lower the Society's capital needs by reducing or transforming the risks it faces, thereby altering its asset and/or liability profiles with a consequent effect on its income and expenses.
- 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.

8. Contingent liabilities and uncertainties (continued)

- As previously reported, the Society was unable to reach agreement over the amount of the premium in respect of its 2001 reassurance arrangement with HBOS and the matter was referred to an independent umpire for resolution. On 22 September 2006, the umpire issued his determination, the resultant amount due and paid to HBOS being within the provision held by the Society for this matter. The determination is subject to a further claim by HBOS which is pending final judicial decision. There exists the possibility that the amount of the premium may be subject to further determination by another umpire.

- As noted in Note 8c to the full financial statements, the Society has contractual commitments in respect of two pension schemes for which HBOS is the principal employer. Although full provision is made for estimated contractual liabilities calculated on a basis consistent with that adopted by the Scheme Actuary in his triennial valuations, there remains the possibility that it may be necessary for a more conservative basis to be adopted in future in calculating the Society's obligations.

The Society has made appropriate provisions for future expenses, 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, the potential impact of the range of uncertainties relating to provisions may be significant.

The uncertain nature of the provisions, the incidence of other uncertainties and risks, the possible volatility of asset values and potential strains arising from surrenders and maturities could, in adverse outcomes, result in the possibility that Capital Resources Requirement (which is a measure of the capital that the FSA requires life assurance companies to hold) 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 14 to the full financial statements.

Equitable Life