Equitable Life

Annual Report and Summary Financial Statements 2008

The Equitable Life Assurance Society

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

With-profits Actuary
Tim Sheldon

Head of Actuarial Function
Tim Bateman

Legal advisers
Lovells
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London EC1A 2FG

Auditors
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Hay's Galleria
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London SE1 2RD

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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Corporate review

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

Dear Members

2008, and the early months of 2009, have seen the worst global economic crisis in living memory. All the work that has been done in the previous seven years to rebuild our financial position has allowed the Society to weather the storm. While we are not immune to the effects of the crisis, and reserves have been reduced sharply on both the regulatory and accounting bases, the underlying financial position of the Society remains sound. While in the face of such global economic uncertainty, there can be no absolute assurance, our matching of investment income with future policy payments gives us confidence that we can deal with the effects of the current recession.

2008 also saw some important milestones for the Society:

- Our strategic review looking at a sale to a third party concluded that there was no proposal that would necessarily improve prospects for policyholders;

- The decision to remain closed to new business and allow the Society to run down gradually over many years paying policy benefits as they fall due. This is known as 'run-off'. We are seeking alternative administration arrangements to reduce costs for policyholders;

- The publication of the Parliamentary Ombudsman's report recommending Government compensation for policyholders.

The continuing uncertainty in the financial markets and the global economy remains a threat to all companies. However, subject to that profound uncertainty, we believe that the Society, in run-off, can continue to take whatever action is necessary to secure our future. One significant remaining concern is that of future expenses and we are currently looking to negotiate a contract to address that risk for a significant period into the future. We will also adapt our internal organisation to reduce costs.

2008 Bonus declaration

During 2008, the Society achieved a gross return on the with-profits fund of 0.1%. In such a harsh economic climate, we expect that to be a relatively good return compared with other with-profits funds. After adjusting for a rise in the value of liabilities corresponding to the fall in interest rates, the effective gross return was -6.1%. The Society currently deducts 1.0% p.a. to cover the cost of administration (this figure allows for future diseconomies of scale) and, in 2008, 0.5% p.a. to cover the cost of guarantees. The effective net return on the with-profits fund in 2008 was -7.7% (2007: 1.9%). Further details of the factors affecting the Board's bonus decisions are given in the Financial review.

A number of changes to policy values have been made since our last report:

- Policy values (or their equivalents) were reduced at 31 December 2008 by 3.0% for UK with-profits pensions policies and by 2.4% for UK life policies (2007: increased by 5.0% p.a. and 4.0% p.a. respectively);

- Policy values (or their equivalents) were subsequently reduced at 1 March 2009 by a further 2.0% for UK with-profits pensions policies and by 1.6% for UK life policies to recognise the further falls in values of assets;

- No interim bonus will be added to UK with-profits pensions policies and UK life policies from 1 January 2008 until further notice;

- Consistent with previous years, there is no guaranteed reversionary bonus for 2008; and

- The financial adjustment applied to the early surrender of with-profits policies remains at 5.0%. This adjustment can be varied at any time and is kept under regular review.

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.

The allowance for the cost of guarantees has been increased to 1.0% p.a. from 1 January 2009.

Financial position

In spite of the unprecedented economic circumstances of 2008 and the further decline in the opening months of 2009 the Society has maintained a solvent financial position.

The excess realistic assets at 31 December 2008 were £414 million (2007: £621 million) representing 7.0% of the with-profits fund (2007: 9.2%). Such a fall is to be expected during a significant financial crisis, particularly with the falls in value of corporate bonds discussed below. The Board keeps this measure under close scrutiny and a number of adjustments to interim bonuses were made during 2008 in order to protect the Society's long-term stability.

An important element in the change in the Society's financial position comes from our holdings of corporate bonds. Market fears concerning default and liquidity have dramatically reduced the price of these bonds. It is worth noting that, although we use market prices to value the bonds in our accounts, we normally hold bonds to maturity. So far, actual defaults by companies have not increased materially. Consequently, we intend to continue to hold these bonds to maturity, so, unless actual levels of default increase, the (unrealised) losses reflected in these accounts and the further losses in the opening months of 2009 should reverse.

Parliamentary Ombudsman

The Parliamentary Ombudsman presented her report *Equitable Life: a decade of regulatory failure* to Parliament in July 2008 and we wrote to policyholders regarding the report in August.

The Government finally responded to the Ombudsman's report in January 2009. We welcomed the apology which the Government made at that time and their acceptance of the Ombudsman's findings of maladministration in some areas. However, we are concerned that the Government has decided to 'act as judge on its own behalf' in rejecting some of the Ombudsman's findings of maladministration and injustice. We are also disappointed by the suggestion that the Treasury will consider some form of 'means testing' for policyholders. We are frustrated that there is, as yet, no timescale given for the Government's alternative proposed scheme.

We found the Government's response to the Ombudsman's thorough and authoritative report to be wholly unsatisfactory and we gave evidence to Parliament's Public Administration Select Committee ("PASC") to that effect. In March 2009, PASC issued its second report *Justice denied? The Government's response to the Ombudsman's report on Equitable Life*. The Committee concluded that the scheme proposed by the Government "is inadequate as a remedy for injustice". The Ombudsman is Parliament's Ombudsman and it is for Parliament to uphold her role. Consequently, we have worked hard to lobby political opinion, giving evidence to the Select Committee, writing to the Treasury Minister and meeting many MPs to encourage Parliamentarians to seek to influence the Government's response. (Some examples of this are published in the media section of the Society's website.) This lobbying activity will continue as we support the Parliamentary process.

The Government has asked Sir John Chadwick, a former Lord Justice of the Court of Appeal, to give them further advice relevant to the design of their proposed scheme. We have contacted Sir John Chadwick to offer our support on making progress as quickly as possible.

Governance

The Society's member relations strategy (published in the corporate governance section of the Society's website) aims to help members take an interest in its governance. Questions from members in respect of corporate issues can be addressed to the member relations function through a dedicated email address: member.relations@equitable.co.uk and through a special postal address: Member relations, Equitable Life Assurance Society, 2-4 Wendover Road, Aylesbury HP21 9LB. Questions relating to members' policies continue to be addressed by customer services staff in Aylesbury.

The Society produces 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"). Also, each year we produce reports by the Board and by the With-profits Actuary on how the with-profits fund has been managed. In the interests of keeping costs down, we make these documents available on the corporate governance section of the Society's website. They are also available to members on request. If there are material changes in these documents we will, of course, draw them to your attention.

Customer service

During 2008, we issued 245,000 annual statements to inform policyholders of the progress of their policies. We issued around 466,000 letters to policyholders and former policyholders regarding the Parliamentary Ombudsman's report and we also issued 198,000 letters regarding the possible sale process.

Our customer services staff dealt with 261,000 telephone calls (2007: 330,000) and 273,000 letters (2007: 316,000).

Business outlook

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 ensuring an efficient and effective administration; and

- Resolving outstanding claims against the fund.

The Society's financial position is achieved, in part, by investing predominantly in fixed-income investments (with only around 20% of the fund in equities and property). We are satisfied that the expected cashflow from investments is more than sufficient to meet the expected policy payments year by year, but we will monitor the position in detail as necessary through these exceptional financial times.

Looking forward: run-off

During 2008, the Board decided that although various proposals were received from third parties, none would necessarily provide improved prospects for policyholders. Consequently, the Board is now pursuing the best possible run-off strategy, looking in detail at the company, people, structure and costs.

A key concern in run-off is expenses. Over time, as policies continue to mature, the relative management costs of the Society will increase and the cost of that increase will fall on the remaining policyholders. We have modelled this and made allowances in our management of the business, but some uncertainty remains. For that reason we are investigating long-term agreements with a number of companies who can provide administration services to the Society (known as ‘third party administrators’ or TPAs). The TPAs are in competition with each other and with HBOS (now part of the Lloyds Banking Group) who currently act as a TPA for the Society. We expect to complete a long-term agreement during 2009 and this should give both cost reductions in the short term and considerably greater certainty over future expense levels for policyholders in the long term.

Also, in run-off, we will require a smaller Board of Directors going forward and the role of Chief Executive will also be less challenging than before and so we are taking the following steps:

- We are currently in the process of recruiting a new Chief Executive who will take over from Charles Thomson who will step down in the autumn;

- We plan to reduce the number of non-executive Directors on the Board; and

- As a first step on that road, Fred Shedden and Andrew Threadgold will retire from the Board at the AGM and will not be seeking re-election.

To allow for the retirement of our other longer serving Directors, we are seeking two new non-executive Directors; one with an accounting or other finance background and the other with experience of outsourced administration. The Society has appointed search consultants, The Zygos Partnership, to help to identify suitable candidates. Anyone who believes that he or she has the skills and experience we are seeking and can add substantial value to the Board is encouraged to put his or her name forward for consideration. If you wish to be considered, please send your c.v. to The Zygos Partnership, 15 Sloane Square, London SW1W 8ER (or by e-mail to Toni@zygos.com) quoting reference 1017.

Further consideration is being given to the core organisation which will need to remain to give appropriate cost-effective control over the business on behalf of policyholders. We have already closed our London offices and relocated those operations to cheaper premises in Aylesbury. Also, to save costs and reflecting the Society's more stable position, we have decided to issue the interim review for the period to 30 June 2009 only on request – it will continue to be available to all on the Society's website.

Since 2001, the Society has had to face a wide range of extremely challenging circumstances ranging from the instability caused by the guaranteed annuity rates ("GARs"), various schemes to address problems of the past, the rising cost of annuities and financial markets in crisis. The Society has addressed those challenges successfully and we hope for calmer waters in the future, though we recognise the risk posed by the current uncertainty of financial markets.

In spite of the global economic crisis, we are pleased to report steady progress at Equitable Life and a clear plan for the future.

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

On behalf of the Society's Board of Directors

Vanni Treves	Charles Thomson
Chairman	**Chief Executive**

Personal message from the Chairman:

Our Corporate review explains that Charles Thomson has decided to leave the Society.

Charles joined in 2001 and took over as Chief Executive with the objective of leading a highly unstable company to a stable and secure future. That job has been well done.

As a result of Charles' success, the range and depth of challenges facing management will reduce significantly and that is why Charles has decided to move on.

On behalf of the Board, I would like to take this opportunity to express our thanks to Charles for his achievements over the last eight years. There was an intimidating number of complex issues to be addressed and the relentless arrival of new hurdles year after year as progress was being made would have drained lesser men. Yet, Charles' resourcefulness and commitment have contributed greatly to a number of innovative solutions including major deals the nature of which has been unprecedented.

The Board is grateful to Charles for the work he has done and the leadership he has shown on behalf of policyholders and wishes Charles all the best for the future.

We would also like to put on record our thanks to Fred Shedden and Andrew Threadgold for their outstanding contributions to the Society over the last eight years. They have been exemplary non-executive Directors: wise, committed, tolerant and strong friends, especially in adversity. The Society could not have hoped for more from them, and I count myself lucky to have been their colleague.

Vanni Treves

Vanni Treves
Chairman

Financial review

The Financial review specifies certain financial matters of interest to policyholders. The complete version of the 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, further details in respect of actuarial assumptions and asset values, expenses and provisions and regulatory capital requirements.

Excess Realistic Assets and regulatory solvency

The key measure of the Society's net resources is the excess of realistic assets over liabilities before deduction of the estimate of the value of future discretionary enhancements to policy values ("ERA"). This amount, which is reported as a policy-related liability in the technical provisions, 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 2008, ERA were £414m, a decrease of £207m over the prior year. The analysis of the with-profits assets and liabilities is as follows:

	2008 £m	2007 £m
Realistic value of with-profits assets	5,951	6,775
less:		
Policy values	4,552	5,383
Future charges	(300)	(206)
Impact of early surrenders	(34)	(31)
Cost of guarantees	814	442
Other long-term liabilities	287	384
Other liabilities	218	182
	5,537	6,154
Excess Realistic Assets	**414**	**621**

The key movements in the ERA during 2008 are shown in the following table:

	2008 £m	2007 £m
Opening Excess Realistic Assets	**621**	**884**
Investment performance net of the benefit of reduction in policy values and effect of bonuses	(311)	(112)
Mortality experience and assumption changes	(3)	(22)
Surrender experience and assumption changes	52	19
Changes in other valuation assumptions	26	28
Variances in provisions and expenses	(7)	(13)
Transfer of with-profits annuities to Prudential	(3)	(188)
Other movements	33	25
Closing Excess Realistic Assets	**414**	**621**

The principal changes in the ERA are explained in more detail in later sections of this review.

The Society seeks to maintain the ERA balance at a level that protects solvency while treating continuing and exiting policyholders fairly. The balance at 31 December 2008 represents 7.0% of with-profits realistic assets, a decrease from the equivalent figure of 9.2% at 31 December 2007.

The policy value attributable to with-profits policies may include an element of non-guaranteed final bonus. An 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 ERA.

Investment performance and capacity to pay bonuses

The turbulence in the financial markets that began in 2007 continued to escalate during 2008. The Society continues 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. This provides the assurance that asset proceeds will be available to meet anticipated policyholder payments as they fall due. The Society's assets are presented in the accounts at fair value which is the price achievable between a willing buyer and seller. Current market conditions have depressed prices as recessionary fears have grown.

Using these valuations the assets backing UK with-profits policies produced a gross return of 0.1% during the year. Falls in Government bond yields increased the value of fixed-income securities. However, this was almost entirely offset by the decrease in the value of corporate bonds as a result of the 'credit crunch', severe falls in property and, to a lesser degree, falls in equity values during the year. The return adjusted for Government bond yield movements (which affect both assets and liabilities) was -6.1%, reducing to -7.7%, after allowing for the impact of expenses, a 0.5% charge for guarantees, tax and the effect of changes in provisions and technical provisions. The changes above together with changes in bonus rates detailed below reduced the ERA by £311m.

Of particular note is the low value placed on corporate bonds, as a result of the re-evaluation of risk of default and illiquid markets. Allowing for the movements in Government bond yields over 2008 the Society's corporate bond holdings have reduced in value by £380m. Provided the Society's experience of defaults on corporate bonds does not reach historically very high levels and liquidity returns to the market, some of this £380m should be recovered in market prices. This would positively impact both the Society's ERA and bonus rates in due course.

The cash flows from the Society's assets and liabilities are well matched, so these depressed asset values do not directly affect our ability to pay guaranteed policy benefits as they are assumed to fall due. These values do, however, limit the Society's ability to declare further bonuses.

The Society considers the appropriate composition of the with-profits fund and seeks to manage its property and equity holdings in line with the run-off of business and its need to meet regulatory capital requirements. In particular, the use of derivatives will be considered where they can protect the with-profits fund from adverse financial conditions.

In determining bonus policy, the Society needs to consider the longer term picture and aims to balance the objectives of retaining sufficient capital 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 corporate bond, property and equity-related portfolios, whose value and liquidity have been 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, possible changes in the level of provisions and further changes to the regulatory environment.

As reported in previous financial statements, a charge is held back from the investment return to meet the cost of guarantees. In 2008 the charge against investment returns was 0.5% p.a. We expect the future charge against investment returns for 2009 onwards to be 1.0% p.a. The revised charge is in accordance with the range of values stated in the Society's Principles and Practices of Financial Management ("PPFM"). This charge can be reduced or increased depending on the financial position of the Society.

At 31 December 2008, and after consideration of all risks, reserving and capital matters, the Board decreased policy values by 3.0% for applicable with-profits pension policies and by 2.4% for life assurance policies (2007: increased by 5.0% p.a. and by 4.0% p.a. respectively) compared with an adjusted return of -7.7%. Reducing policy values by less than the reduction implied by the adjusted return (as happened in 2008) resulted in a distribution of excess assets to policies of £222m (2007: £157m). The Board will keep the level of capital available under review, in order that further bonus declarations reflect the circumstances and the risks facing the Society.

Subsequently, as a result of continuing poor investment returns in early 2009, the Board decreased policy values by a further 2.0% effective from 1 March 2009 for applicable with-profits pension policies and by 1.6% for life assurance policies to give an overall effect since 1 January 2008 of a 5.0% reduction for applicable with-profits pension policies and a 4.0% reduction for life assurance policies. Interim bonus for 2008 was initially set so that pension policies increased by 5.0% p.a. and life assurance policies increased by 4.0% p.a. However, during the year these bonuses were progressively reduced as investment conditions deteriorated and all interim bonus for 2008 was removed in October 2008. Until further notice, no interim bonus will be added for either pension policies or life assurance policies. The Board will keep this evolving situation under close scrutiny 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 2008. However, for those policies with Guaranteed Investment Returns ("GIR"), the value of the guaranteed benefit is not affected by a change in policy values, but is increased instead at the rate set out in the policy conditions, typically being 3.5% p.a.

Expenses and provisions

Overall, expenses have decreased in the year to £104m (2007: £166m). This excludes £85m of realised investment losses (2007: £nil) which is included in Investment expenses including interest. Savings on all other expense categories were achieved. There was, however, an increase in pension provisions following a review of pension commitments in the year.

Incurred exceptional expenses reduced in the year to £54m (2007: £98m) and included the cost of the search for a possible buyer for the Society and a review of pension commitments. The triennial valuation of the pension scheme as at 31 December 2007 concluded later in 2008. Following consultation with our advisors on the most appropriate valuation assumptions to be used as at the end of 2008, the provision has been increased by £22m from the December 2007 level. This reflects the significant impact of the continuing financial turbulence and changes in the underlying assumptions.

The balance sheet provisions, included as part of the technical provisions, have reduced over the year. The miscellaneous provisions (including Managed Pension mis-selling and the Rectification Scheme) have reduced by a combined £102m. The provision for exceptional expenses of £70m includes provision for future pension contributions which is also affected by the pension scheme assumption changes noted above.

The cost of administration and investment management at 0.8% of policy values for 2008 (2007: 0.6%) is an indicator of expense levels. 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 policy values are allowed for at a rate of 1.0% p.a., and underruns (as occurred in 2008) below this level are held in reserve to cover expected future higher costs.

Overall, the ERA reconciliation table shows an adverse variance in provisions and expenses, taken together, of £7m.

During 2008, the Society was able to reach agreement with HBOS over the initial premium payable in respect of the 2001 reassurance arrangement resulting in a further payment, equal to the provision made at the end of 2007.

Protection of the fund and policyholder behaviour

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 was maintained at 5.0% throughout 2008. 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.

If the Society were to be forced to sell fixed-interest securities to its disadvantage before their relevant maturity dates, or became forced sellers of property or equity holdings 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.

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 is expected to fall 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.

Financial Services Authority capital requirements

In addition to the requirement to prepare financial statements on a realistic basis, the Society's particular risks are quantified for the preparation of an annual confidential assessment of its capital needs as required by FSA rules, introduced under the Individual Capital Assessment ("ICA") framework. The calculations are underpinned by consideration of the underlying risks, which include credit risk, market risk, liquidity risk, operational risk and insurance risk.

The Society continually monitors its capital resources in the light of changing financial conditions. The continuing uncertainty in the financial markets has led to a steady dialogue with the FSA in these rapidly changing circumstances. The FSA have been regularly apprised of the Society's position.

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 include the exposure to: investment losses; increases in corporate bond defaults in excess of current levels assumed in market prices; increases in provisions; impact of discretionary bonus payments; effect of lower interest rates on the behaviour of policyholders with GIR; 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.

Even though subject to close management scrutiny, because of the volatility in investment and property markets, the uncertain nature of provisions and the other potential strains on the Society's finances, 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.

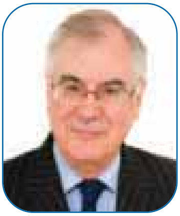
The financial position of the Society has been projected under a range of economic scenarios. The Board has also considered the level of contingent liabilities (that is, liabilities not recorded in the financial statements but which could conceivably arise, as referred to in Note 6, entitled 'Contingent liabilities and uncertainties') in its analysis of the Society's financial position. The Board is confident of its ability to manage adverse scenarios that may arise, but extremely adverse scenarios could prejudice the continuing solvency of the Society and so there cannot be absolute assurance.

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







Board of Directors

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

1	2	3	4	5
6	7	8	9	10

Key to membership of principal Board Committees

(a) Audit
(b) Remuneration
(c) Investment
(d) Nomination

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 Combined Code on Corporate Governance and in the Annotated Code 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, during 2008 the Committee has received information and advice from remuneration consultants, Towers Perrin. The Committee considers Towers Perrin to be independent. Towers Perrin had no other connections with the Society.

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

Non-executive Directors	Notes	2008 £	2007 £
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
I Brimecome		33,000	27,087
D I W Reynolds		28,000	28,000
F Shedden OBE		28,417	33,000
A R Threadgold		28,000	33,000
J Wood		33,000	33,000
		221,417	225,087
Total for non-executive Directors		**361,417**	**365,087**

Notes:

(1) The Chairman's fees were £140,000 p.a. from 1 July 2004. The fees were reduced to £125,000 p.a. with effect from 1 January 2009.

(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: A R Threadgold (Chairman, Investment Committee for the period up to and including 31 December 2007); I Brimecome (Chairman, Investment Committee from and including 1 January 2008); F Shedden (Chairman, Legal Audit Committee for the period up to 31 January 2008); 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.

Executive Directors
Salary and bonuses

	Salary		Performance Related Bonus		Benefits		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	£	£	£	£	£	£	£	£
C G Thomson	476,672	453,973	232,523	199,305	113,552	111,842	822,747	765,120
T J Bateman (appointed 11 January 2008)	250,000	-	125,000	-	32,402	-	407,402	-
Total for executive Directors	**726,672**	**453,973**	**357,523**	**199,305**	**145,954**	**111,842**	**1,230,149**	**765,120**

C G Thomson's annual rate of salary for the period 1 January to 30 June 2008 was £465,045 plus annual benefits of £88,050. His annual rate of salary was increased to £488,297 with effect from 1 July 2008, with annual benefits remaining at the same level. In addition, benefits in kind received in 2008 totalled £25,502.

The maximum potential annual discretionary bonus award he may receive is 50% of his salary. For 2008/2009 the Remuneration Committee has recommended to the Board that the amount of C G Thomson's discretionary bonus award should be £146,489 and be paid in June 2009.

The annual rate of salary for T J Bateman, who was appointed an executive Director on 11 January 2008, has been £250,000 plus annual benefits of £25,000 and benefits in kind of £7,402.

He is eligible for an annual discretionary bonus of up to 50% of his salary. For 2008/2009, the Remuneration Committee has recommended to the Board that the amount of T J Bateman's discretionary bonus award should be £100,000 and be paid in June 2009.

Long-term retention scheme

	2008 £	2007 £
C G Thomson	366,223	239,167
T J Bateman (appointed 11 January 2008)	187,500	-

C G Thomson participated in an annual retention bonus scheme for senior staff under which he was eligible to receive payments equal to the following percentages of his then prevailing salary on the dates below, provided he remained 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.

In accordance with the scheme, C G Thomson received a retention bonus of £139,514 in December 2007.

T J Bateman, who was appointed an executive Director on 11 January 2008, also participated in the annual retention scheme for senior staff. Under that scheme he was eligible to receive a payment equal to up to 75% of his then prevailing salary on 31 December 2008, provided he remained in the Society's employment on that date.

In respect of both C G Thomson and T J Bateman, the amount of the final bonus entitlement accruing on 31 December 2008 was at the discretion of the Remuneration Committee which was required to determine the final payment depending on the prevailing financial and operating conditions and strategy of the Society. The Remuneration Committee determined that, for both C G Thomson and T J Bateman, the final payment should be 75% of the recipient's then prevailing salary and these amounts were paid and are shown in the table on page 21.

A new retention scheme for senior staff was introduced in July 2008. Under this, C G Thomson and T J Bateman are each eligible to receive a payment equal to 100% of their then prevailing salary in certain circumstances relating to the strategic options open to the Society. This retention bonus vests:

- in the event of the sale of the Society, or

- if it is determined that the long-term future of the business should be run off, the date on which a Run-off Project Plan has been approved by the Board and the Remuneration Committee in its absolute discretion determines that the participant has completed his responsibilities in connection with the Run-off Project Plan.

The Board announced in November 2008 that it had decided that the process of investigating a sale of the Society to a third party should be put 'on hold'. It had decided that the best possible strategy for the Society was to continue running the business until the current policies mature (i.e. 'run-off') and that this would include looking in detail at the company, people, structure and costs. Under these circumstances, the retention bonus will vest in the second of the above circumstances (i.e. relating to the Run-off Project Plan).

Benefits

Executive Directors' benefits include payments in lieu of pension contributions and, for C G Thomson only, a car allowance. C G Thomson and T J Bateman have no accrued pension entitlements (2007: no accrued entitlements). No benefits are paid to non-executive Directors.

Service contracts

Both C G Thomson and T J Bateman have service contracts with a six-month notice period. There is no notice period in respect of non-executive Directors' contracts.

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 pages 19 and 20.

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.

Highest-paid Director

The total emoluments, including under the long-term retention scheme, of the highest-paid Director in 2008 were £1,188,970 (2007: £1,004,287).

Independent Auditors' report

to the members of The Equitable Life Assurance Society

We have examined the Summary Financial Statements which comprise the Summary Profit and Loss Account and Summary Balance Sheet, the Summary Directors' Report and the Summary Directors' Remuneration Report.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Summary Financial Statements in accordance with United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statements within the summarised Annual Report with the full Financial Statements, Directors' Report 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 summarised Annual Report and consider the implications for our statement 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 on the Society's full Annual Financial Statements describes the basis of our audit opinion on those Financial Statements, the Directors' Report and the Directors' Remuneration Report.

Our Report refers to the emphasis of matter – contingent liabilities and uncertainties, in respect of volatility in investment and property markets, 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. These uncertainties in combination with further significant investment losses 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 6 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 full Annual Financial Statements, Directors' Report and the Directors' Remuneration Report of The Equitable Life Assurance Society for the year ended 31 December 2008 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
26 March 2009

Summary profit and loss account

for the year ended 31 December 2008

Technical account – long-term business

	Notes	2008 Society £m	2007 Group £m
Gross premiums written		103	124
Outward reinsurance premiums			
– Continuing operations		(36)	(26)
		67	98
Investment return		85	324
Net other (charges)/income		4	36
Transfer of assets to Prudential	1c.	(3)	(1,754)
		86	(1,394)
Claims paid	2	(938)	(1,173)
Reinsurers' share		66	124
		(872)	(1,049)
Net operating expenses – non-exceptional		(40)	(45)
Net operating expenses – exceptional	3	(54)	(98)
Net operating expenses		(94)	(143)
Changes in other technical provisions, net of reinsurance		813	2,489
Comprising – Continuing operations		*813*	*549*
– Discontinued operations		*-*	*1,940*
Transfer to the Fund for Future Appropriations		–	(1)
Balance on the Technical Account		**-**	**-**

The results for 2008 are not consolidated as explained in Note 1a. The 2007 comparatives are Group results as previously published, but the results of the Society and Group for 2007 were materially the same.

Summary Society balance sheet

as at 31 December 2008

Assets	Notes	2008 £m	2007 £m
Investments	4		
Land and buildings		442	625
Investments in Group undertakings		30	16
Shares and other variable yield securities and units in unit trusts		430	466
Debt and other fixed-income securities		5,203	5,661
Deposits and other investments		264	337
		6,369	7,105
Assets held to cover linked liabilities		74	76
		6,443	7,181
Reinsurers' share of technical provisions		2,113	2,792
Other assets		198	236
Total assets		**8,754**	**10,209**

Liabilities	Notes	2008 £m	2007 £m
Technical provisions	5	8,537	10,030
Other liabilities		217	179
Total liabilities		**8,754**	**10,209**

These financial statements were approved by the Board on 26 March 2009 and were signed on its behalf by:

Vanni Treves
Chairman

Charles Thomson
Chief Executive

1. Accounting policies

a. Basis of presentation

The financial statements have been prepared in accordance with sections 255 and 229(2) and (3) 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 and revised in December 2006, which, inter alia, incorporates the requirements of 'FRS 27 Life Assurance'. The true and fair override provisions of the Companies Act 1985 have been invoked.

The Directors have considered the appropriateness of the going concern basis used in the preparation of these financial statements, having regard to the ability of the Society to be able to meet its liabilities as and when they fall due, and the adequacy of available assets to meet liabilities. In the opinion of the Directors, the going concern basis adopted in the preparation of these financial statements continues to be appropriate. A more detailed explanation is provided in the Financial review on pages 16 and 17.

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

The sale of University Life Assurance Society ("ULAS") to Reliance Mutual Insurance Society Ltd. on 31 May 2007 and the liquidation of Equitable Life Finance plc ("ELF") following the resolution for voluntary winding up in 2007, have resulted in the aggregate size of the remaining subsidiary companies becoming immaterial from the point of providing a true and fair view of the affairs of the Group. Therefore, these accounts represent the results and position of the Society only. The 2007 Profit and Loss Account has not been restated as the results of the Society and Group were materially the same. The 2007 Balance Sheet represents the position of the Society as previously reported in the primary financial statements, and not the position of the Group as reported in the 2007 summary financial statements.

b. Change in accounting policies

The Directors have reviewed the accounting policies and satisfied themselves as to their appropriateness. There are no changes in accounting policy from the prior year.

c. Strategic activity

Accounting for Part VII Transfers

During 2007 the Society completed two transfers of business under Part VII of the Financial Services and Markets Act 2000. The Part VII transactions involved transferring technical provisions and corresponding net assets to the counterparty. The value of assets transferred is reported separately in the Profit and Loss Account. The transfer of technical provisions is reported in ‘Changes in other technical provisions, net of reinsurance’.

The transfer of with-profits annuities to The Prudential Assurance Company Ltd. (“Prudential”) involved assets and liabilities of £1.75bn transferring on 31 December 2007. A further £11m was transferred in June 2008, of which £8m had been accrued at 31 December 2007.

The transfer of non-profit annuities to Canada Life Ltd. (“Canada Life”) involved an initial reassurance phase. Assets valued at £4.6bn were transferred to Canada Life to settle the initial premium. The assets were then deposited back with the Society until the Part VII Transfer on 9 February 2007 when £4.23bn of assets and £4.13bn of gross technical liabilities were transferred to Canada Life. The technical provisions were fully reassured at the transfer, and so the net technical provisions transferred were £nil. The deposited assets, net of the corresponding liability to Canada Life, were £nil.

2. Claims paid

	Society 2008 Claims £m	Group 2007 Claims £m
Gross claims paid comprise:		
On death	40	38
On maturity	504	519
On surrender	294	310
By way of periodic payments	99	304
Claims handling expenses	1	2
	938	**1,173**

Gross claims incurred in 2008 relating to discontinued operations were £nil. Gross claims incurred for 2007 relating to discontinued operations were £42m for operations transferred to Canada Life on 9 February 2007 and £178m for operations which were transferred to Prudential on 31 December 2007.

Included in the above payments are attributable final and interim bonuses for the Society and in 2007 for ULAS of £49m (2007: £50m).

3. Net operating expenses – exceptional

	Society 2008 £m	Group 2007 £m
Rectification and other GAR-related expenses	1	1
Pension costs for former staff	22	44
Cost of strategic initiatives	27	51
Other projects	4	2
	54	**98**

As explained in the Financial review on pages 14 and 15, incurred exceptional expenses reduced in the year and included the cost of the search for a possible buyer for the Society and a review of pension commitments.

4. Investments

The Society closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique. The technique applied incorporates relevant observable market information available.

For corporate bonds for which there is no active market the fair value is based on broker/dealer price quotations. Where possible the Society seeks at least two quotations for each bond and considers whether these are representative of fair value. Where this information is not available the fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

5. Technical provisions
a. Gross technical provisions

	Society 2008 £m	Society 2007 £m
Non-profit technical provisions	959	881
With-profits technical provisions		
Policy values	4,552	5,383
Future charges	(300)	(206)
Impact of early surrenders	(34)	(31)
Cost of guarantees	814	442
Other long-term liabilities	287	384
	5,319	5,972
Excess Realistic Assets	414	621
Total with-profits technical provisions	5,733	6,593
Long-term business provision	6,692	7,474
Claims outstanding	1	3
Linked liabilities	1,844	2,553
	8,537	**10,030**

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 amounts in respect of specific provisions:

- Anticipated additional exceptional expenses of £70m (2007: £82m) 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 £34m (2007: £136m) for other miscellaneous liabilities including, inter alia, potential mis-selling liabilities. The principal components are provisions for potential mis-selling claims such as managed pensions, 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. Contingent liabilities and uncertainties

As noted in the Financial review on pages 16 and 17 and in the following sections of this Note, there exist some uncertainties that, in the event they were to materialise, could adversely impact on the propriety of preparing these financial statements on an ongoing concern basis. Over the last few years these uncertainties have been resolved to a very significant extent and those that remain are referred to below. In the light of this, the Board has assessed the possibility of these uncertainties arising and their potential impact upon the financial situation of the Society and has concluded that, on the basis of current information and, having taken legal and actuarial advice, it is right to prepare these financial statements on a going concern basis.

- 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.

- As noted in the Financial review on pages 12 to 14, 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. To mitigate this risk the Society continues to invest in a series of interest rate swaptions.

- Following publication of the report of the Equitable Life inquiry by Lord Penrose in March 2004, the Parliamentary Ombudsman ("PO") announced in July 2004 her decision to open a new investigation. Her final report was laid before Parliament on 16 July 2008, and published on 17 July 2008. The report found ten determinations of maladministration on the part of the Department of Trade and Industry ("DTI"), Government Actuary's Department ("GAD"), and the Financial Services Authority ("FSA") in relation to their regulation of the Society in the period before 1 December 2001.

  The Society has responded to the Government's proposed "ex gratia" payment scheme and generally in relation to the Government's response to the report and will continue to liaise with the Parliamentary Ombudsman's team, the Public Administration Select Committee, the Government and Sir John Chadwick as appropriate.

  In view of the findings in the report and the Government's response, the Society has concluded that the likelihood of successful claims being brought against the Society is now extremely limited.

- Ninety-one claims have been issued against the Society in District courts across Germany. The Society is continuing to challenge these claims and a significant number of them have been determined in its favour. The Society has not lost a single case to date and in light of this the Society now believes the costs associated with this group of claims are unlikely to be significant.

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. The Society now considers that the potential impact of the uncertainties referred to on pages 16 and 17 of the Financial review and in this Note have diminished to a significant degree over the past few years. However, the potential impact of the range of uncertainties relating to provisions could be significant.

As discussed in the Financial review, even though subject to close management scrutiny, because of the volatility in investment and property markets, the uncertain nature of provisions and the other potential strains on the Society's finances, 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.

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 in its analysis of the Society's financial position. The Board is confident of its ability to manage adverse scenarios that may arise, but extremely adverse scenarios could prejudice the continuing solvency of the Society and so there cannot be absolute assurance.

Equitable Life