

Annual Report
and
Summary Financial Statements
2009

Equitable Life

The Equitable Life Assurance Society

Registered office

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Policyholder administration

Walton Street, Aylesbury, Buckinghamshire, HP21 7QW

Board of Directors

Ian Brimecome, Chairman
David Adams OBE, Deputy Chairman
Chris Wiscarson, Chief Executive
Tim Bateman, Finance Director
Mark Earls, Chief Operating Officer
Keith Nicholson, Non-executive Director
Ian Reynolds, Non-executive Director
Cathryn Riley, Non-executive Director

With-profits Actuary

Rob Merry

Head of Actuarial Function

Tim Bateman

Legal advisers

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Auditors

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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 Society'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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2 Corporate review

The Society's Chairman, Ian Brimecome,
and Chief Executive, Chris Wiscarson, on behalf of the Board

Dear Members

It is heartening to be able to report that, after a very challenging 2009, the year ended with real positive momentum. The completion of the contract with HCL to provide administration services to the Society from March 2011 has added many millions of pounds of value to policyholder funds. This, together with a considerable easing in the stresses on the bond, equity and property markets, gave the Board confidence to increase policy values in 2010.

While these increases in policy values cannot be guaranteed, they are an important step towards the recreation of policyholder value that, over so many years, has been eroded.

Having set down our vision to recreate policyholder value, we believe we have three principal ways of achieving this:

- Maximising the return on policyholder assets subject to meeting solvency requirements;
- Providing the best value for money cost base;
- Achieving maximum Government compensation for policyholders.

It is our intention to distribute all of the assets amongst with-profits policyholders as fairly as possible over time.

The importance of solvency

At the heart of everything we do is the need to remain solvent. Sadly, given the events of 2000, this is a matter better understood by Equitable Life policyholders than most. It is also a matter that has profoundly affected the financial services industry, in particular, over the last two years.

At the Society, the demands of solvency are unique. The nature of the underlying guarantees on many policies requires, on the one hand, conservatism in our choice of investment which limits return much in excess of the guarantee; and, on the other hand, requires a great deal of capital above and beyond policyholder liabilities to protect policy values against unexpected events.

Given the Society's solvency imperatives, its holdings in equity-related investments and property (albeit a relatively small proportion of total assets) are simply too volatile, and the fluctuations experienced in 2008 and early 2009 put very considerable stress on the solvency margins of the Society. While, at all times, the Society remained solvent, the uncertainty around a recovery in equity, property and corporate bond prices was not assured. Prices did, of course, recover to some degree and the Board then felt it prudent to reduce its holdings in both equity-related investments and property. The virtue of this was to increase solvency cover but, in direct consequence, there is less opportunity to achieve returns much in excess of that needed to meet policy guarantees.

Tying up your funds in relatively low growth assets is not consistent with recreating policyholder value, and we will return to the implications of this at the conclusion to this report.

Government's proposed compensation scheme

At the Judicial Review in the High Court in October 2009, the Government were told that their rejection of some of the Parliamentary Ombudsman's findings was unlawful. As a result, the Government were obliged to change the Terms of Reference of Sir John Chadwick so that his advice on a compensation scheme will be more comprehensive than it might otherwise have been. We congratulate the Equitable Members Action Group ("EMAG") on their success in bringing that action. The good work carried out by EMAG is both welcome and influential and we look forward to working productively with EMAG in the interests of past and present policyholders.

The Society continues to work with Sir John to help him to reach a sensible proposal as quickly as possible, currently scheduled to be in May 2010. In Sir John's interim reports, he describes a flexible approach which has the potential to cover all those who were policyholders during the period affected by the maladministration. We support Sir John's argument in this matter.

We appeal to Sir John and the Government to bring forward a scheme that is simple and transparent. No matter how fair the theory of any scheme, if policyholders and commentators are unable to understand it, it will never seem fair.

A new third party administrator

We announced in November 2009 that, following an extensive review of the life and pensions administration providers, the Society had awarded its policy administration contract to HCL. This agreement will provide very significant cost savings and cost certainty, enabling the Society to release more value to our policyholders in the years to come. Our latest estimate is that policyholder funds can be increased by some £130m as a result of the contract, and this will be passed to policyholders in future years through reduced charges for expenses, thereby increasing policy values.

In March 2011, when HCL take over full responsibility for the administration services to the Society, policyholders can expect little change and, in particular, the contact centre will remain based in the UK. We will be communicating clearly and fully nearer the time. Until then, policyholder services will continue to be provided by HBOS, now part of the Lloyds Banking Group.

Asset management services

In a similar manner to the way we reviewed the provision of administrative services, we have embarked on an assessment of companies that provide asset management services. In recreating value, policyholders' assets should be optimally managed, and we expect to complete the selection process by the autumn of 2010.

Your Board of Directors

Over the last year, your Board has appointed a new Chairman and a new Chief Executive following the retirement of Vanni Treves and Charles Thomson. As announced in our September interim report, we also welcome Keith Nicholson, Cathryn Riley and Mark Earls to the Board.

Peter Smith retired from the Board in March 2010 and we take this opportunity to thank him for his sterling service over nine years. We will miss his thoughtful, penetrating and wise counsel through the uniquely difficult challenges that the Society's policyholders have had to face.

Recreating value for policyholders

Following our decision in 2008 to run down gradually, 2009 was, in many respects, a watershed year for the Society. Having navigated its way through the financial crisis, having put in place new third party administration arrangements and having refreshed the Board membership, the Society is now studying options for the most effective run-off strategy to recreate value for policyholders.

Recreating value for policyholders (continued)

As a first step, the Board is establishing a set of risk objectives which guide the Executive in its decision making. One such objective is that the Society will seek to hold solvency capital in excess of the requirements laid down by the regulators so that we have time to effect remedial action before falling below the regulatory requirements. This will give reassurance to policyholders that the Society will be able to withstand market events as challenging as so recently experienced.

The solvency capital required to be held by the Society is considerable and this can be expected to increase as a result of Solvency II, the new regulations being developed by the EU Commission scheduled to come into force in October 2012.

Policyholder assets will be invested to provide a secure and stable return but, as we described earlier, growth much in excess of policy guarantees is unlikely. This dilemma is one that we can only see persisting, and one that does not easily lend itself to the recreation of policyholder value as it is difficult to significantly accelerate the distribution of solvency capital.

Accordingly, your Board is looking at what strategies would maximise the return on policyholder assets and we will report further on this well before the introduction of the new solvency regulations.

On behalf of the Society's Board of Directors



Ian Brimecome
Chairman



Chris Wiscarson
Chief Executive

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

A very important measure of the Society's net resources is the excess of realistic assets ("ERA") over liabilities. 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 increase policy values in the future.

At 31 December 2009, ERA were £675m, an increase of £261m over the prior year. The analysis of the with-profits assets and liabilities is as follows:

	2009 £m	2008 £m
Realistic value of with-profits assets	5,546	5,951
less:		
Policy values	4,143	4,552
Future charges	(290)	(300)
Impact of early surrenders	(28)	(34)
Cost of guarantees	574	814
Other long-term liabilities	283	287
Other liabilities	189	218
	4,871	5,537
Excess Realistic Assets	675	414

The movement in the 'Realistic value of with-profit assets' above relates primarily to claims payments made during 2009.

8 Financial review

continued

Excess Realistic Assets (continued)

The key movements in the ERA during 2009 are shown in the following table:

	2009 £m	2008 £m
Opening Excess Realistic Assets	414	621
Investment performance net of changes in policy values	242	(311)
Mortality experience and assumption changes	(24)	3
Surrender experience and assumption changes	2	52
Changes in other valuation assumptions	(3)	26
Variances in expenses and provisions	(89)	(7)
Transfer of with-profit annuities to Prudential	-	(3)
Other movements	3	33
Expense savings from transfer to HCL	130	-
Closing Excess Realistic Assets	675	414

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 2009 represents 12% of with-profits realistic assets, an increase from the equivalent figure of 7% at 31 December 2008.

Financial Services Authority capital requirements

As a mutual company closed to new business, when we report to the Financial Services Authority (“FSA”) for solvency purposes, the ERA is deemed to be part of policyholder liabilities, and therefore the Society does not report a capital surplus.

In addition to the requirement to prepare financial statements on a realistic basis, the capital required for the Society’s particular risks are quantified in the preparation of a confidential assessment of its capital needs. This is 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. These capital requirements are met out of the ERA and, in extreme situations, out of policyholders’ non-guaranteed benefits.

Solvency II regime

The current regulatory framework will be replaced in 2012 by the Solvency II regime, a Europe-wide regulatory basis for establishing capital requirements for insurance companies. Current indications of the proposals being developed by the EU Commission are that the capital requirements under Solvency II will be much more onerous for the Society than the current regime. As a mutual Society, there is no recourse to further capital other than existing funds. The mitigations the Society can put in place are quite limited and generally depend upon reducing risks taken, typically by reducing the proportion of return-seeking assets we hold and hence reducing the expected level of returns, or upon holding back capital in the next few years and paying out less to policyholders. The Board does not view either of these options as meeting the strategic vision for recreating value for policyholders, and is now studying options for the most effective run-off strategy for the Society.

Investment performance and changes in policy values

The Society continues to operate a cautious investment strategy, investing largely in fixed-interest investments while retaining a relatively low proportion of the with-profits fund in equities and property. This helps the Society to match

Investment performance and changes in policy values (continued)

anticipated policyholder payments as they fall due, and reduces the amount of capital that is required to be held. The Society regularly reviews 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.

As mentioned in the Corporate review, some of the assets previously invested in were too volatile to meet the Society's solvency objectives and, in 2009, equity investments, including equity derivatives, worth £90m, and properties, worth over £70m, were sold.

The assets backing UK with-profits policies produced a gross return of 6.0% during the year. The increase in corporate bond values as a result of returning market confidence more than offset the falls in values of Government bonds, increasing the value of fixed-income securities over the course of the year. Allowing for the movements in Government bond yields over 2009 the Society's corporate bond holdings have recovered about half of the £380m reduction in 2008. Some of the severe falls in property and, to a lesser degree, equity values over 2008, were reversed during the second half of 2009. The return adjusted for Government bond yield movements affecting both assets and liabilities was 9.2%. The return on the fund after adjustments to allow 1% for the impact of expenses, 1% for the charge for guarantees, and to allow for tax and the effect of changes in provisions and technical provisions, is 6.6%.

The charge of 1% referred to in the previous paragraph is currently held back from the investment return to meet the cost of guarantees. This charge can be reduced or increased depending on financial conditions from time to time and we expect the charge to continue at this level during 2010.

In determining changes in policy values, the Society aims to balance the objectives of:

- Retaining sufficient capital to meet regulatory requirements;
- Meeting guaranteed payments to policyholders; and

- Meeting obligations to other creditors as they fall due

against the distribution of 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, where value and liquidity are directly affected by market conditions. It is also dependent upon capital requirements and the extent to which the Board believes it is fair to distribute the ERA.

In early 2009, the Society reduced policy values by 2% for applicable pension policies and by 1.6% for life assurance contracts and set the rates of increase in policy values to nil. After consideration of all risks, reserving and capital matters, the Board reversed this reduction in early 2010 and agreed that, from the end of 2008, pension policies should increase at 3.5% p.a. and life assurance policies by 2.8% p.a. Policy values, thus increased, were used as the basis for the financial statements. Increasing policy values by less than the adjusted return of 6.6%, resulted in an increase in the ERA of £126m (in 2008, the decrease in policy values was less than the adjusted return, and this resulted in a distribution from the ERA of £222m).

Following the valuation at the end of 2009, the Board has determined that, for 2009, policy values should be increased by 5.5% for applicable with-profits pension policies and by 4.4% for life assurance policies. It has also confirmed that, for UK with-profits policies remaining in force at 1 April 2010, the interim bonus rate applying until further notice would be 3.5% for pension policies (2.8% for UK life policies) and be backdated to 1 January 2010.

In order for the Society to meet all of its contractual liabilities over the foreseeable future, the Board has again confirmed that new distributions of surplus will be made in non-guaranteed form. Accordingly, there is no expectation of any further reversionary bonus being awarded over the next few years and, in particular, in respect of 2009. 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 3.5% p.a.

Investment performance and changes in policy values (continued)

In consequence of the investment performance and changes in policyholder values, ERA has increased by £242m (2008: decreased by £311m). Future bonus declarations will reflect the capital available for distribution in light of the risks facing the Society as described on the previous page.

Expenses and provisions

We announced in November 2009 that the Society has entered into a contract with HCL for the provision of administration services. HCL will provide services from March 2011 and a transfer programme from HBOS, now part of the Lloyds Banking Group, to HCL is now underway. Our latest estimate is that policyholder funds have been increased by some £130m as a result of this contract, as indicated in the table on page 8. This is after providing for the total anticipated transfer costs included in exceptional expenses. The new contract with HCL enables us to reduce future running costs and to remove a large degree of uncertainty over future administration service costs, and the financial figures reflect these changes. The Society now expects to levy charges for expenses on the with-profits policies at the rate of 1.0% p.a. for 2010 and 0.5% p.a. in subsequent years as a consequence of the expense savings anticipated to be achieved through the new administration contract with HCL. Any underruns in these expense charges will be held in reserve in order to take account of the uncertainty of future charges and the challenge of reducing running costs as policies mature or transfer.

While investment and claim costs have remained stable during 2009, overall expense costs have increased by £11m (costs in 2009 were £115m compared to £104m in 2008), primarily as a result of an increase in pension provisions. The Society has a continuing obligation to HBOS to fund the former Equitable Life staff pension scheme to 1 March 2016. At that time, the Society must leave the Scheme with no deficit and the provisions established make due allowance for this. As at the year end 2009, it is estimated that the Scheme has a deficit of £93.5m (2008: £63m) on the value of past service benefits, and has provided for contribution payments of £39m for benefits arising from future service to 2016.

Protection of the fund and policyholder behaviour

The Society aims for the amounts paid out to maturing and exiting policyholders to be fair but not to disadvantage those continuing policyholders such that their payout prospects are reduced. If asset values reduce, the Society may apply a maturity equaliser as in 2009 when policy values were reduced by 2%.

Where policyholders switch to a unit-linked fund or surrender their with-profits policy before maturity, the Society is not contractually required to pay out any specific amount. In consequence, the Society levies a financial adjustment of 5% of the policy value and this applied through 2009. These adjustments can be varied at any time without advance notice, any such change reflecting the then financial position of the Society.

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.

The Society experienced a steady and decreasing level of claims during 2009, and these were broadly in line with expectations. 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 £2m (2008: £52m) in ERA, as shown in the reconciliation table on page 8.

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, higher technical provisions may be required.

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; 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.

The Board will take proactive action to maintain regulatory solvency at all times. With the volatility in investment and property markets, the uncertain nature of provisions and other potential strains on the Society's finances, the Board recognises the possibility that the Society may not meet regulatory solvency requirements at all times in the future. This does not, of itself, mean the Society will not be able to meet policyholder liabilities as and when they fall due.

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 ability of the Society to meet policyholder liabilities as they fall due, 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. Ian Brimecome, Chairman (b) (c) (d)
2. David Adams OBE, Deputy Chairman (a) (b) (c) (d)
3. Chris Wiscarson, Chief Executive (c) (d)
4. Tim Bateman, Finance Director (c)
5. Mark Earls, Chief Operating Officer
6. Keith Nicholson (a) (c)
7. Ian Reynolds (a) (c) (d)
8. Cathryn Riley (b) (c)

1	2	3	4
5	6	7	8

Key to membership of principal Board Committees

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

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 and Annotated Codes.

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 2009 the Committee has received information and advice from remuneration consultants, Towers Perrin (now known as Towers Watson), and recruitment consultants, The Zygos Partnership. The Committee considers both Towers Perrin and The Zygos Partnership to be independent of the Society. Towers Perrin had no other connections with the Society. The Zygos Partnership was engaged to assist in the recruitment of a new Chief Executive and two new non-executive Directors. It has no other connections with the Society.

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

Non-executive Directors	Notes	2009 £	2008 £
V E Treves, Chairman (resigned 31.8.09)	1	83,333	140,000
I Brimecome, Chairman (from 1.9.09)	1,2	63,667	33,000
Other non-executive Directors			
P A Smith	2, 3	40,333	38,000
D H Adams OBE	2, 3	35,333	33,000
K Nicholson (appointed 26.8.09)	3	13,949	-
D I W Reynolds	2, 3	32,000	28,000
C Riley (appointed 24.8.09)	3	14,256	-
F Shedden OBE (resigned 11.5.09)	2	10,111	28,417
A Threadgold (resigned 11.5.09)	2	10,111	28,000
J Wood (resigned 31.8.09)	2	32,000	33,000
		188,093	188,417
Total for non-executive Directors		335,093	361,417

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 to 31 August 2009, the non-executive Directors (other than the Chairman) received fees at the rate of £28,000 p.a. The following non-executive Directors also received additional fees of £5,000 p.a. in relation to specific services: I Brimecome (Chairman, Investment Committee); 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). A further additional fee of £10,000 was paid to J Wood in 2009. P A Smith (Deputy Chairman and Chairman of Audit Committee) received an additional fee of £10,000 p.a. from 1 July 2004 to 31 August 2009.
- (3) The fees payable to K Nicholson and C Riley are £40,000 p.a. from the date of their appointment as Directors. Fees payable to other non-executive Directors (other than the Chairman) were increased to £40,000 p.a. with effect from 1 September 2009. From 1 September 2009 to 31 December 2009, P A Smith (Deputy Chairman and Chairman of Audit Committee) received an additional fee of £5,000 p.a. From 1 January 2010, K Nicholson (Chairman of Audit Committee) has received an additional fee of £5,000 p.a.

Executive Directors Salary and bonuses

	Salary		Performance Related Bonus Paid		Benefits		Redundancy Payment		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	£	£	£	£	£	£	£	£	£	£
C G Thomson (resigned 26.8.09)	318,645	476,672	207,526	232,523	73,195	113,552	300,490	-	899,856	822,747
C M Wiscarson (appointed 2.9.09)	148,846	-	-	-	28,626	-	-	-	177,472	-
T J Bateman	250,000	250,000	100,000	125,000	35,865	32,402	-	-	385,865	407,402
M Earls (appointed 9.9.09)	68,332	-	-	-	8,439	-	-	-	76,771	-
Total for executive Directors	785,823	726,672	307,526	357,523	146,125	145,954	300,490	-	1,539,964	1,230,149

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 2009 totalled £15,737. The maximum potential annual discretionary bonus award he could receive was 50% of his salary and awards made are included in the previous table. C G Thomson was made redundant with effect from 26 August 2009. He received a redundancy payment of £300,490.

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 since that date. Benefits in kind for 2009 were £10,865 (2008: £7,402). He is eligible for an annual discretionary bonus of up to 50% of his salary. For the period to 31 December 2009 the Board approved that the amount of T J Bateman's discretionary bonus award should be £50,000 and this was paid in February 2010.

From his date of joining, 2 September 2009, C M Wiscarson's annual rate of salary has been £450,000 plus annual benefits of £70,000. Benefits in kind in 2009 were £5,472. He is eligible for an annual discretionary bonus of up to 25% of his salary. No annual discretionary bonus has been awarded in respect of the period to 31 December 2009.

M Earls was appointed a Director on 9 September 2009. His annual rate of salary for the period 9 September 2009 to 31 December 2009 was £220,000 plus annual benefits of £22,000. His annual rate of salary was increased to £230,000 with effect from 1 January 2010 with annual benefits of £23,000. In addition, benefits in kind in 2009 since his appointment as a Director were £1,606. M Earls is eligible for an annual discretionary bonus of up to 50% of his salary. For the period to 31 December 2009 the Board approved that the amount of his discretionary bonus award should be £110,000 and this was paid in February 2010.

Long-term retention scheme

	2009 £	2008 £
C G Thomson	-	366,223
T J Bateman	-	187,500
M Earls (appointed 9.9.09)	-	-

A retention scheme for senior staff was introduced in July 2008. Under this, C G Thomson, T J Bateman and M Earls 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).

C G Thomson was made redundant with effect from 26 August 2009 and a payment of £488,297 under the retention scheme was made to him on 29 January 2010.

In lieu of receiving payments under the retention scheme introduced in July 2008, it has been agreed with T J Bateman and M Earls that they will participate in a replacement retention scheme under which, subject to remaining in the

Long-term retention scheme (continued)

Society's employment and subject to performance criteria, they will be eligible to awards on the dates below of up to the following percentages of their salary applying on 1 January 2010:

T J Bateman

- Up to 50% in November 2010;
- Up to 100% in June 2011.

M Earls

- Up to 50% in January 2010;
- Up to 50% in November 2010;
- Up to 100% in June 2011.

Under the replacement retention scheme M Earls was paid £115,000 in January 2010. C M Wiscarson does not participate in any retention scheme.

Benefits

Executive Directors' benefits include payments in lieu of pension contributions and, for C G Thomson only, a car allowance. C G Thomson, C M Wiscarson, T J Bateman and M Earls have no accrued pension entitlements (2008: no accrued entitlements). No benefits are paid to non-executive Directors.

Service contracts

C M Wiscarson, T J Bateman and M Earls 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 page 17.

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 the maintenance of effective service delivery. These objectives have been further strengthened for 2010 to include policyholder relations, stakeholder relations (including third party providers and Equitable Members Action Group), transition to the new third party administration provider and expense and asset management.

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 of the highest-paid Director (C G Thomson) in 2009 were £1,388,153 including the payment in respect of redundancy and the payment in respect of the long-term retention scheme made in January 2010 (2008: £1,188,970).

22 Independent Auditors' report

to the members of The Equitable Life Assurance Society

We have examined the Summary Financial Statements which comprise the Summary Balance Sheet, the Summary Profit and Loss Account 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 Annual Report and Summary Financial Statements with the full Annual Financial Statements, the Directors' report and the Directors' remuneration report and its compliance with the relevant requirements of section 427 of the Companies Act 2006 and the regulations made thereunder.

We also read the other information contained in the Annual Report and Summary Financial Statements and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statements. The other information comprises only the Corporate review, the Financial review and the listing of the Board of Directors.

This statement, including the opinion, has been prepared for and only for the Society's members as a body in accordance with section 427 of the Companies Act 2006 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.

We conducted our work in accordance with Bulletin 2008/3 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.

Opinion

In our opinion the Summary Financial Statements are consistent with the full Annual Financial Statements, the Directors' report and the Directors' remuneration report of The Equitable Life Assurance Society for the year ended 31 December 2009 and complies with the applicable requirements of section 427 of the Companies Act 2006, and the regulations made thereunder.

In arriving at our opinion we have considered the adequacy of the disclosures made in relation to contingent liabilities and uncertainties in Note 6 and under the heading 'The Board's conclusions on provisions and going concern' in the Financial review. These disclosures relate to the volatility in investment and property markets, potential additional claims against the Society, 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. These uncertainties, in combination with significant investment losses, may in extreme circumstances have consequences for the going concern basis of preparation of the financial statements.

Our opinion is not qualified in respect of this emphasis of matter.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
29 March 2010

24 Summary profit and loss account

for the year ended 31 December 2009

Technical account - long-term business

	Notes	2009 Society £m	2008 Society £m
Gross premiums written		183	103
Outward reinsurance premiums		(29)	(36)
		154	67
Investment return		326	85
Net other (charges)/income		1	4
Transfer of assets to Prudential		-	(3)
		327	86
Claims paid	2	(731)	(938)
Reinsurers' share		48	66
		(683)	(872)
Net operating expenses - non-exceptional		(37)	(40)
Net operating expenses - exceptional	3	(70)	(54)
Net operating expenses		(107)	(94)
Changes in other technical provisions, net of reinsurance		309	813
Balance on the Technical Account		-	-

Summary Society balance sheet 25

as at 31 December 2009

Assets	Notes	2009 £m	2008 £m
Investments	4		
Land and buildings		375	442
Investments in Group undertakings		24	30
Shares and other variable yield securities and units in unit trusts		316	430
Debt and other fixed-income securities		4,746	5,203
Deposits and other investments		478	264
		5,939	6,369
Assets held to cover linked liabilities		239	74
		6,178	6,443
Reinsurers' share of technical provisions		2,312	2,113
Other assets		124	198
Total assets		8,614	8,754
Liabilities			
Technical provisions	5	8,429	8,537
Other liabilities		185	217
Total liabilities		8,614	8,754

These financial statements were approved by the Board on 29 March 2010 and were signed on its behalf by:



Ian Brimecome
Chairman



Chris Wiscarson
Chief Executive

1. Accounting policies

a. Basis of presentation

The financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (“SI2008/410”) relating to insurance groups, section 405 of the Companies Act 2006 and in accordance with applicable accounting standards and the Association of British Insurers’ Statement of Recommended Practice on Accounting for Insurance Business (“the ABI SORP”) issued by the Association of British Insurers 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 2006 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 page 14.

Certain administrative expenses were incurred in respect of customer support services provided by HBOS, now part of the Lloyds Banking Group. References to HBOS in these accounts relate to various HBOS Group companies.

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

As explained in the Corporate and Financial reviews, the Society entered into a contract with HCL to provide administration services to the Society from March 2011. It is expected that this will increase policyholder funds by some £130m as a result of this contract.

2. Claims paid

	Society 2009 Claims £m	Society 2008 Claims £m
Gross claims paid comprise:		
On death	32	40
On maturity	436	504
On surrender	184	294
By way of periodic payments	78	99
Claims handling expenses	1	1
	731	938

Gross UK pension claims account for the majority of the decrease in claims in 2009. Included in the above payments are attributable final and interim bonuses for the Society of £22m (2008: £49m).

3. Net operating expenses - exceptional

	Society 2009 £m	Society 2008 £m
Rectification and other GAR-related expenses	-	1
Pension costs for former staff	47	22
Costs of strategic initiatives	19	27
Other projects	4	4
	70	54

As explained in the Financial review on page 12, incurred exceptional expenses increased following a review of pension commitments. Costs for strategic projects reduced and included costs of securing the new administration deal with HCL.

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 2009 £m	Society 2008 £m
Non-profit technical provisions	858	959
With-profits technical provisions		
Policy values	4,144	4,552
Future charges	(290)	(300)
Impact of early surrenders	(29)	(34)
Cost of guarantees	574	814
Other long-term liabilities	284	287
	4,683	5,319
Excess Realistic Assets	675	414
Total with-profits technical provisions	5,358	5,733
Long-term business provision	6,216	6,692
Claims outstanding	3	1
Linked liabilities	2,210	1,844
	8,429	8,537

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 £133m (2008: £70m) over future years, including costs of implementing the HCL administration contract, 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

5. Technical provisions (continued)

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

- An amount of £10m (2008: £34m) for other miscellaneous liabilities including, inter alia, a provision for other legal claims against the Society.

6. Contingent liabilities and uncertainties

As noted in the Financial review on pages 13 and 14, and in the following sections of this Note, there exist some uncertainties that, if 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 addressed to a very significant extent, and those that remain are referred to below. The Board has assessed the possibility of these uncertainties and has concluded that it is right to prepare these financial statements on a going concern basis having taken legal and actuarial advice on the latest available information.

- 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 page 11, 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 interest rate swaptions.

- The Parliamentary Ombudsman laid her final report into the regulation of Equitable Life before Parliament on 16 July 2008. It made no findings about the actions of the Society.

Sir John Chadwick has been appointed by the Government to advise them on the establishment of an ex-gratia scheme in respect of certain findings of regulatory maladministration identified by the Parliamentary Ombudsman. The Society continues to liaise with Sir John and the Government regarding the proposed scheme. Sir John has published three interim reports and his final report to the Government is expected in May 2010.

In view of the findings in the Ombudsman's report and the content of Sir John's interim reports, the Society has concluded that the likelihood of successful claims being brought against the Society as a result of those reports or Sir John Chadwick's final advice is extremely limited.

- 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 Accountancy and Actuarial Discipline Board ("AADB") are investigating an accountant and an actuary in respect of the provision of information for use by the Financial Reporting Review Panel relating to the financial statements of Equitable Life in 1999. The actuary is also being investigated by the AADB in relation to audits of the 1997, 1998 and 1999 financial statements.

The AADB is also investigating the conduct of certain actuaries in relation to the provision of advice by, or on behalf of, the Government Actuary's Department to prudential regulators.

Although these proceedings cannot result in a requirement for the Society to take any particular action, and it is unlikely that they will give grounds for any new claims, their findings could influence the way in which new claims, if any, are presented against the Society.

6. Contingent liabilities and uncertainties (continued)

- 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 courts have found in favour of the Society in all cases held so far, 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 page 14 of the Financial review and in this Note have diminished significantly 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, the Board will take proactive action to maintain regulatory solvency at all times. With 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 solvency requirements at all times in the future. This does not, of itself, mean the Society will not be able to meet policyholder liabilities as and when they fall due.

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 ability of the Society to meet policyholder liabilities as they fall due and so there cannot be absolute assurance.

