

**Equitable Life**

THE EQUITABLE LIFE ASSURANCE SOCIETY

Annual FSA Insurance Returns  
for the year ended  
31 December 2009

Appendices 9.1, 9.3, 9.4, 9.4A & 9.6 from the Interim Prudential Sourcebook for Insurers

Registered Office 20 - 22 Bedford Row, London, WC1R 4JS



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**Statement of solvency - long-term insurance business**Name of insurer **Equitable Life Assurance Society**

Global business

Financial year ended **31 December 2009**

Adjusted solo solvency calculation

R2	Company registration number	GL/UK/CM	day month year			Units
			31	12	2009	
	<b>37038</b>	<b>GL</b>				<b>£000</b>
			<b>As at end of this financial year</b>			<b>As at end of the previous year</b>
			<b>1</b>			<b>2</b>

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	612785	449277
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>		
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	612785	449277

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	76796	83621
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	535989	365657

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	230388	250862
Resilience capital requirement	<b>32</b>		
Base capital resources requirement	<b>33</b>	2346	1889
Individual minimum capital requirement	<b>34</b>	230388	250862
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	230388	250862
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	497591	323846
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	439994	261131

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>	382397	198415
Enhanced capital requirement	<b>40</b>	612785	449277

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	612785	449277
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	0	0

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	<b>51</b>		
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**Covering Sheet to Form 2**

**Form 2**

Name of insurer      **Equitable Life Assurance Society**

Global business

Financial year ended      **31 December 2009**

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**Ian Brimecome, Chairman**

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**Chris Wiscarson, Chief Executive**

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**Tim Bateman, Finance Director**

**London, 29/03/2010**

**Components of capital resources**Name of insurer **Equitable Life Assurance Society**

Global business

Financial year ended **31 December 2009**

R3	Company registration number 37038	GL/ UK/ CM GL	day month year			Units £000
			31	12	2009	
		General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3	Total as at the end of the previous year 4	

**Core tier one capital**

Permanent share capital	11				
Profit and loss account and other reserves	12				
Share premium account	13				
Positive valuation differences	14		614783	614783	450738
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		614783	614783	450738

**Tier one waivers**

Unpaid share capital / unpaid initial funds and calls for supplementary contributions	21				
Implicit Items	22				
Tier one waivers in related undertakings	23				
Total tier one waivers as restricted (21+22+23)	24				

**Other tier one capital**

Perpetual non-cumulative preference shares as restricted	25				
Perpetual non-cumulative preference shares in related undertakings	26				
Innovative tier one capital as restricted	27				
Innovative tier one capital in related undertakings	28				

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		614783	614783	450738
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35				
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37				
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		614783	614783	450738

**Components of capital resources**Name of insurer **Equitable Life Assurance Society**

Global business

Financial year ended **31 December 2009**

	Company registration number	GL/UK/CM	day month year			Units	
	<b>R3</b>	<b>37038</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2009</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>		<b>4</b>	

**Tier two capital**

Implicit items, (tier two waivers and amounts excluded from line 22)	<b>41</b>				
Perpetual non-cumulative preference shares excluded from line 25	<b>42</b>				
Innovative tier one capital excluded from line 27	<b>43</b>				
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	<b>44</b>				
Perpetual cumulative preference shares	<b>45</b>				
Perpetual subordinated debt and securities	<b>46</b>				
Upper tier two capital in related undertakings	<b>47</b>				
<b>Upper tier two capital (44 to 47)</b>	<b>49</b>				

Fixed term preference shares	<b>51</b>				
Other tier two instruments	<b>52</b>				
Lower tier two capital in related undertakings	<b>53</b>				
<b>Lower tier two capital (51+52+53)</b>	<b>59</b>				

<b>Total tier two capital before restrictions (49+59)</b>	<b>61</b>				
Excess tier two capital	<b>62</b>				
Further excess lower tier two capital	<b>63</b>				
<b>Total tier two capital after restrictions, before deductions (61-62-63)</b>	<b>69</b>				



**Components of capital resources**Name of insurer **Equitable Life Assurance Society**

Global business

Financial year ended **31 December 2009**

	Company registration number	GL/ UK/ CM	day month year			Units
R3	37038	GL	31	12	2009	£000
		General insurance business	Long-term insurance business		Total as at the end of this financial year	Total as at the end of the previous year
		1	2		3	4

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	71					
<b>Total capital resources before deductions (39+69+71)</b>	72		614783	614783	450738	
Inadmissible assets other than intangibles and own shares	73		1997	1997	1460	
Assets in excess of market risk and counterparty limits	74					
Deductions for related ancillary services undertakings	75					
Deductions for regulated non-insurance related undertakings	76					
Deductions of ineligible surplus capital	77					
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	79		612785	612785	449277	

**Available capital resources for GENPRU/INSRU tests**

Available capital resources for guarantee fund requirement	81		612785	612785	449277	
Available capital resources for 50% MCR requirement	82		612785	612785	449277	
Available capital resources for 75% MCR requirement	83		612785	612785	449277	

**Financial engineering adjustments**

Implicit items	91					
Financial reinsurance - ceded	92					
Financial reinsurance - accepted	93					
Outstanding contingent loans	94					
Any other charges on future profits	95					
Sum of financial engineering adjustments (91+92-93+94+95)	96					

**Analysis of admissible assets**Name of insurer **Equitable Life Assurance Society**

Global business

Financial year ended **31 December 2009**Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day month year			Units	Category of assets
	R13	37038	GL	31	12	2009	£000
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>
						<b>1</b>	<b>2</b>
Land and buildings				<b>11</b>		374929	442128

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>	24439	29925
	Debts and loans	<b>28</b>		
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>	17188	45547	
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>	265047	297280	
Rights under derivative contracts	<b>44</b>	7124	35091	
Fixed interest securities	Approved	<b>45</b>	2047434	2631446
	Other	<b>46</b>	2479721	2542161
Variable interest securities	Approved	<b>47</b>	218294	29008
	Other	<b>48</b>		
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>	757	892	
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>	495	606	
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	503600	315220
	More than one month withdrawal	<b>55</b>		
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>	239096	73953
	Property linked	<b>59</b>		

**Analysis of admissible assets**Name of insurer **Equitable Life Assurance Society**

Global business

Financial year ended **31 December 2009**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>37038</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2009</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	4328	4386
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>		1794
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	9235	28663
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	2919	6113
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	104650	113042
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>	814	41849

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	6300069	6639105
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**Analysis of admissible assets**Name of insurer **Equitable Life Assurance Society**

Global business

Financial year ended **31 December 2009**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	37038	GL	31	12	2009	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting**

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	6300069	6639105
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	1997	1460
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100	2333075	2136244
Other asset adjustments (may be negative)	101	(20697)	(22808)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	8614444	8754002
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

**Long term insurance business liabilities and margins**

Name of insurer **Equitable Life Assurance Society**  
Global business  
Financial year ended **31 December 2009**  
Total business/Sub fund **ORDINARY LONG TERM**  
Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	<b>11</b>	5498486	5972003	
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>			
Balance of surplus/(valuation deficit)	<b>13</b>			
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	5498486	5972003	
Claims outstanding	Gross	<b>15</b>	18530	16183
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	18530	16183
Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>	76700	46200
Deposits received from reinsurers	<b>23</b>			
Creditors	Direct insurance business	<b>31</b>	10923	24323
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>	1456	
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions	<b>36</b>	7368	12330	
Creditors	Taxation	<b>37</b>	145	3917
	Other	<b>38</b>	54895	98058
Accruals and deferred income	<b>39</b>	18781	16813	
Provision for "reasonably foreseeable adverse variations"	<b>41</b>			
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	188798	217824	
Excess of the value of net admissible assets	<b>51</b>	612785	449277	
Total liabilities and margins	<b>59</b>	6300069	6639105	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	8239	9007
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>		

Total liabilities (11+12+49)	<b>71</b>	5687284	6189828
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>	2333075	2136244
Other adjustments to liabilities (may be negative)	<b>74</b>	594085	427930
Capital and reserves and fund for future appropriations	<b>75</b>		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	<b>76</b>	8614444	8754002

**Analysis of derivative contracts**

Name of insurer **Equitable Life Assurance Society**

Global business

Financial year ended **31 December 2009**

Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets
<b>R17</b>		<b>37038</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2009</b>	<b>£000</b>	<b>10</b>
<b>Derivative contracts</b>		Value as at the end of this financial year			Notional amount as at the end of this financial year			
		Assets <b>1</b>	Liabilities <b>2</b>	Bought / Long <b>3</b>	Sold / Short <b>4</b>			
Futures and contracts for differences	Fixed-interest securities	<b>11</b>						
	Interest rates	<b>12</b>						
	Inflation	<b>13</b>						
	Credit index / basket	<b>14</b>						
	Credit single name	<b>15</b>						
	Equity index	<b>16</b>						
	Equity stock	<b>17</b>						
	Land	<b>18</b>						
	Currencies	<b>19</b>	97				80602	
	Mortality	<b>20</b>						
	Other	<b>21</b>						
In the money options	Swaptions	<b>31</b>	33605			953000		
	Equity index calls	<b>32</b>						
	Equity stock calls	<b>33</b>						
	Equity index puts	<b>34</b>						
	Equity stock puts	<b>35</b>						
	Other	<b>36</b>						
Out of the money options	Swaptions	<b>41</b>						
	Equity index calls	<b>42</b>						
	Equity stock calls	<b>43</b>						
	Equity index puts	<b>44</b>						
	Equity stock puts	<b>45</b>						
	Other	<b>46</b>						
Total (11 to 46)		<b>51</b>	33702			953000	80602	
Adjustment for variation margin		<b>52</b>	(26578)					
Total (51 + 52)		<b>53</b>	7124					

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE.  
Please see instructions 11 and 12 to this Form for the meaning of these figures.

**With-profits insurance capital component for the fund**Name of insurer **Equitable Life Assurance Society**With-profits fund **ORDINARY LONG TERM**Financial year ended **31 December 2009**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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**Regulatory excess capital**

Regulatory value of assets	Long-term admissible assets of the fund	<b>11</b>	6300069	6639105
	Implicit items allocated to the fund	<b>12</b>		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	<b>13</b>	756042	690062
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	<b>14</b>	39941	39044
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	<b>15</b>		
	Total (11+12-(13+14+15))	<b>19</b>	5504086	5909999
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts	<b>21</b>	4742444	5281941
	Regulatory current liabilities of the fund	<b>22</b>	188798	217824
	Total (21+22)	<b>29</b>	4931242	5499765
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		<b>31</b>	190447	211818
Resilience capital requirement in respect of the fund's with-profits insurance contracts		<b>32</b>		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		<b>39</b>	5121689	5711583
Regulatory excess capital (19-39)		<b>49</b>	382397	198415

**Realistic excess capital**

Realistic excess capital	<b>51</b>		
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**Excess assets allocated to with-profits insurance business**

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	<b>61</b>	382397	198415
Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)	<b>62</b>		
Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)	<b>63</b>		
Present value of future shareholder transfers arising from distribution of surplus	<b>64</b>		
Present value of other future internal transfers not already taken into account	<b>65</b>		
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero, else greater of 61-64-65 and zero)	<b>66</b>	382397	198415

**Realistic balance sheet**

Name of insurer **Equitable Life Assurance Society**  
 With-profits fund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**

As at end of this financial year	As at end of the previous year
1	2

**Realistic value of assets available to the fund**

Regulatory value of assets	<b>11</b>	5504086	5909999
Implicit items allocated to the fund	<b>12</b>		
Value of shares in subsidiaries held in fund (regulatory)	<b>13</b>		
Excess admissible assets	<b>21</b>		
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	<b>22</b>	16615	13124
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22	<b>23</b>		
Value of shares in subsidiaries held in fund (realistic)	<b>24</b>		
Prepayments made from the fund	<b>25</b>		
Realistic value of assets of fund (11+21+22+23+24+25-(12+13))	<b>26</b>	5520701	5923122
Support arrangement assets	<b>27</b>		
Assets available to the fund (26+27)	<b>29</b>	5520701	5923122

**Realistic value of liabilities of fund**

With-profits benefit reserve	<b>31</b>	4143186	4552116	
Future policy related liabilities	Past miscellaneous surplus attributed to with-profits benefits reserve	<b>32</b>		
	Past miscellaneous deficit attributed to with-profits benefits reserve	<b>33</b>		
	Planned enhancements to with-profits benefits reserve	<b>34</b>	672911	412255
	Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve	<b>35</b>	290067	299867
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	<b>36</b>	28406	33603
	Future costs of contractual guarantees (other than financial options)	<b>41</b>	573742	814074
	Future costs of non-contractual commitments	<b>42</b>		
	Future costs of financial options	<b>43</b>	11058	9000
	Future costs of smoothing (possibly negative)	<b>44</b>		
	Financing costs	<b>45</b>		
	Any other liabilities related to regulatory duty to treat customers fairly	<b>46</b>		
	Other long-term insurance liabilities	<b>47</b>	249479	251323
Total (32+34+41+42+43+44+45+46+47-(33+35+36))	<b>49</b>	1188717	1153182	
Realistic current liabilities of the fund	<b>51</b>	188798	217824	
Realistic value of liabilities of fund (31+49+51)	<b>59</b>	5520701	5923122	



**Realistic balance sheet**Name of insurer **Equitable Life Assurance Society**With-profits fund **ORDINARY LONG TERM**Financial year ended **31 December 2009**Units **£000**

As at end of this financial year	As at end of the previous year
1	2

**Realistic excess capital and additional capital available**

Value of relevant assets before applying the most adverse scenario other than the present value of future profits arising from business outside with-profits funds	<b>62</b>	5520701	5923122
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	<b>63</b>		
Value of relevant assets before applying the most adverse scenario (62+63)	<b>64</b>	5520701	5923122
Risk capital margin for fund (62-59)	<b>65</b>		
Realistic excess capital for fund (26-(59+65))	<b>66</b>		
Realistic excess available capital for fund (29-(59+65))	<b>67</b>		
Working capital for fund (29-59)	<b>68</b>		
Working capital ratio for fund (68/29)	<b>69</b>		

**Other assets potentially available if required to cover the fund's risk capital margin**

Additional amount potentially available for inclusion in line 62	<b>81</b>		
Additional amount potentially available for inclusion in line 63	<b>82</b>		

## Long-term insurance business : Revenue account

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	156164	69952
Investment income receivable before deduction of tax	12	321435	369939
Increase (decrease) in the value of non-linked assets brought into account	13	(161353)	15725
Increase (decrease) in the value of linked assets	14	8799	(761)
Other income	15	2875	3279
<b>Total income</b>	<b>19</b>	<b>327921</b>	<b>458134</b>

**Expenditure**

Claims incurred	21	684604	874409
Expenses payable	22	114990	102940
Interest payable before the deduction of tax	23	195	404
Taxation	24	1649	(432)
Other expenditure	25		
Transfer to (from) non technical account	26		
<b>Total expenditure</b>	<b>29</b>	<b>801438</b>	<b>977321</b>

Business transfers - in	31		
Business transfers - out	32		3133
Increase (decrease) in fund in financial year (19-29+31-32)	39	(473517)	(522319)
Fund brought forward	49	5972003	6494322
Fund carried forward (39+49)	59	5498486	5972003

**Long-term insurance business : Analysis of premiums**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Regular premiums	11	21933	56484	3107	81524	79071
Single premiums	12	157	136257	673	137087	57390

**Reinsurance - external**

Regular premiums	13	15078	35705	2202	52985	55744
Single premiums	14	24	9315	123	9462	10765

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17	6855	20779	905	28539	23327
Single premiums	18	133	126942	550	127625	46625

**Total**

Gross	19	22091	192741	3780	218612	136462
Reinsurance	20	15102	45020	2325	62447	66510
Net	21	6988	147721	1455	156164	69952

**Long-term insurance business : Analysis of claims**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Death or disability lump sums	11	14634	21967	694	37295	43813
Disability periodic payments	12					
Surrender or partial surrender	13	55207	269647	5920	330775	477289
Annuity payments	14	6235	62491	8832	77558	98442
Lump sums on maturity	15	57246	380397	7111	444753	531560
<b>Total</b>	<b>16</b>	<b>133322</b>	<b>734501</b>	<b>22557</b>	<b>890381</b>	<b>1151104</b>

**Reinsurance - external**

Death or disability lump sums	21	8122	10240	553	18915	19621
Disability periodic payments	22					
Surrender or partial surrender	23	7091	117465	2089	126645	182157
Annuity payments	24	860	5310	142	6312	6585
Lump sums on maturity	25	11211	41043	1650	53905	68332
<b>Total</b>	<b>26</b>	<b>27284</b>	<b>174058</b>	<b>4434</b>	<b>205776</b>	<b>276695</b>

**Reinsurance - intra-group**

Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33					
Annuity payments	34					
Lump sums on maturity	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Death or disability lump sums	41	6512	11727	141	18380	24192
Disability periodic payments	42					
Surrender or partial surrender	43	48117	152182	3832	204130	295132
Annuity payments	44	5375	57181	8690	71246	91857
Lump sums on maturity	45	46034	339353	5461	390849	463228
<b>Total</b>	<b>46</b>	<b>106038</b>	<b>560443</b>	<b>18123</b>	<b>684604</b>	<b>874409</b>

**Long-term insurance business : Analysis of expenses**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Commission - acquisition	11					
Commission - other	12					
Management - acquisition	13		311		311	128
Management - maintenance	14	1728	33198	1329	36255	39617
Management - other	15	3706	71868	2850	78424	63195
<b>Total</b>	<b>16</b>	<b>5434</b>	<b>105377</b>	<b>4179</b>	<b>114990</b>	<b>102940</b>

**Reinsurance - external**

Commission - acquisition	21					
Commission - other	22					
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
<b>Total</b>	<b>26</b>					

**Reinsurance - intra-group**

Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Commission - acquisition	41					
Commission - other	42					
Management - acquisition	43		311		311	128
Management - maintenance	44	1728	33198	1329	36255	39617
Management - other	45	3706	71868	2850	78424	63195
<b>Total</b>	<b>46</b>	<b>5434</b>	<b>105377</b>	<b>4179</b>	<b>114990</b>	<b>102940</b>

**Long-term insurance business : Summary of new business**Name of insurer **Equitable Life Assurance Society**

Total business

Financial year ended **31 December 2009**Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Number of new policyholders/  
scheme members for direct  
insurance business**

Regular premium business	11	6			6	10
Single premium business	12	6	2458	25	2489	2627
<b>Total</b>	<b>13</b>	<b>12</b>	<b>2458</b>	<b>25</b>	<b>2495</b>	<b>2637</b>

**Amount of new regular  
premiums**

Direct insurance business	21	6	13183	282	13471	2943
External reinsurance	22					
Intra-group reinsurance	23					
<b>Total</b>	<b>24</b>	<b>6</b>	<b>13183</b>	<b>282</b>	<b>13471</b>	<b>2943</b>

**Amount of new single  
premiums**

Direct insurance business	25	143	136766	701	137611	57748
External reinsurance	26					
Intra-group reinsurance	27					
<b>Total</b>	<b>28</b>	<b>143</b>	<b>136766</b>	<b>701</b>	<b>137611</b>	<b>57748</b>

**Long-term insurance business : Analysis of new business**

Name of insurer

**Equitable Life Assurance Society**

Total business

Financial year ended

**31 December 2009**

Units

**£000**

UK Life / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
100	Conventional whole life with-profits OB	1	2		
325	Level term assurance	5	3		
395	Annuity non-profit (PLA)			5	116
500	Life UWP single premium				3
510	Life UWP endowment regular premium - savings		0		0
700	Life property linked single premium				0
715	Life property linked endowment regular premium - savings		0	1	24

**Long-term insurance business : Analysis of new business**

Name of insurer

**Equitable Life Assurance Society**

Total business

Financial year ended

**31 December 2009**

Units

**£000**

UK Pension / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
380	Miscellaneous protection rider		5		
390	Deferred annuity non-profit			17	1683
400	Annuity non-profit (CPA)			2050	22528
545	Individual deposit administration with-profits		188		4958
555	Group deposit administration with-profits		2158	60	16502
565	DWP National Insurance rebates UWP			72	6234
725	Individual pensions property linked		850	17	442
735	Group money purchase pensions property linked		9981	120	2370
745	DWP National Insurance rebates property linked			3	2905
750	Income drawdown property linked			1	453
905	Index linked annuity			118	78692



**Long-term insurance business : Analysis of new business**

Name of insurer

**Equitable Life Assurance Society**

Total business

Financial year ended

**31 December 2009**

Units

**£000**

Overseas / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
395	Annuity non-profit (PLA)			11	359
400	Annuity non-profit (CPA)			13	145
500	Life UWP single premium		0		2
545	Individual deposit administration with-profits		76		24
555	Group deposit administration with-profits		5		
715	Life property linked endowment regular premium - savings		54		120
725	Individual pensions property linked		27		43
735	Group money purchase pensions property linked		120	1	8

**Long-term insurance business : Assets not held to match linked liabilities**

Name of insurer **Equitable Life Assurance Society**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2009**  
 Units **£000**

Unadjusted assets	Economic exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
1	2	3	4	5

**Assets backing non-profit liabilities and non-profit capital requirements**

Land and buildings	11					
Approved fixed interest securities	12	165949	165949	8105	4.08	
Other fixed interest securities	13	348515	348515	20660	5.66	
Variable interest securities	14					
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	33095	33095	388	1.17	
<b>Total</b>	<b>19</b>	<b>547559</b>	<b>547559</b>	<b>29153</b>	<b>4.91</b>	

**Assets backing with-profits liabilities and with-profits capital requirements**

Land and buildings	21	374929	450598	29668	6.58	5.94
Approved fixed interest securities	22	1914078	1914078	92335	3.70	(0.40)
Other fixed interest securities	23	2192103	2194648	135889	5.64	13.08
Variable interest securities	24	219461	219461	4005	0.37	8.30
UK listed equity shares	25	208	39055	1220	3.12	45.02
Non-UK listed equity shares	26	0	82169	284	0.35	14.92
Unlisted equity shares	27	41418	80635	19	0.02	(1.42)
Other assets	28	771216	532770	5314	1.00	(10.33)
<b>Total</b>	<b>29</b>	<b>5513414</b>	<b>5513414</b>	<b>268734</b>	<b>4.21</b>	<b>5.67</b>

**Overall return on with-profits assets**

Post investment costs but pre-tax	31					5.54
Return allocated to non taxable 'asset shares'	32					5.50
Return allocated to taxable 'asset shares'	33					4.40

## Long-term insurance business : Fixed and variable interest assets

Name of insurer **Equitable Life Assurance Society**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2009**  
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
<b>UK Government approved fixed interest securities</b>	<b>11</b>	1276227	8.55	3.77	3.77
<b>Other approved fixed interest securities</b>	<b>21</b>	803800	7.47	3.67	3.53
<b>Other fixed interest securities</b>					
AAA/Aaa	<b>31</b>	475527	4.91	3.71	3.50
AA/Aa	<b>32</b>	445556	6.50	4.78	4.36
A/A	<b>33</b>	1077898	7.00	6.11	5.12
BBB/Baa	<b>34</b>	461892	5.75	6.48	4.27
BB/Ba	<b>35</b>	64723	6.82	8.69	3.23
B/B	<b>36</b>	12683	1.29	19.67	3.37
CCC/Caa	<b>37</b>				
Other (including unrated)	<b>38</b>	4884	15.18	11.21	(18.45)
<b>Total other fixed interest securities</b>	<b>39</b>	2543163	6.28	5.64	4.43
<b>Approved variable interest securities</b>	<b>41</b>	219461	10.76	0.37	0.37
<b>Other variable interest securities</b>	<b>51</b>				
<b>Total (11+21+39+41+51)</b>	<b>61</b>	4842651	7.28	4.58	3.92

## Long-term insurance business : Summary of mathematical reserves

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Form 51 - with-profits	11	92816	38283	5787	136886	135883
Form 51 - non-profit	12	53190	672449	128443	854082	952786
Form 52	13	123739	4420387	84931	4629057	5171979
Form 53 - linked	14	117332	1770836	48036	1936203	1736674
Form 53 - non-linked	15	581	17459	3250	21289	25071
Form 54 - linked	16	17490	233508		250998	82270
Form 54 - non-linked	17	140	2875		3015	3550
<b>Total</b>	<b>18</b>	<b>405287</b>	<b>7155798</b>	<b>270446</b>	<b>7831531</b>	<b>8108214</b>

**Reinsurance - external**

Form 51 - with-profits	21	88		40	128	138
Form 51 - non-profit	22	20269	308122	10925	339316	339387
Form 52	23	68	23331	1	23400	25817
Form 53 - linked	24	117332	1770836	48036	1936203	1736674
Form 53 - non-linked	25	581	17459	3250	21289	25071
Form 54 - linked	26	102	11800		11902	8318
Form 54 - non-linked	27		835		835	839
<b>Total</b>	<b>28</b>	<b>138440</b>	<b>2132383</b>	<b>62252</b>	<b>2333075</b>	<b>2136244</b>

**Reinsurance - intra-group**

Form 51 - with-profits	31					
Form 51 - non-profit	32					
Form 52	33					
Form 53 - linked	34					
Form 53 - non-linked	35					
Form 54 - linked	36					
Form 54 - non-linked	37					
<b>Total</b>	<b>38</b>					

**Net of reinsurance**

Form 51 - with-profits	41	92728	38283	5747	136758	135745
Form 51 - non-profit	42	32921	364328	117518	514766	613399
Form 52	43	123671	4397056	84929	4605656	5146162
Form 53 - linked	44					
Form 53 - non-linked	45					
Form 54 - linked	46	17388	221708		239096	73953
Form 54 - non-linked	47	140	2040		2179	2711
<b>Total</b>	<b>48</b>	<b>266847</b>	<b>5023415</b>	<b>208194</b>	<b>5498456</b>	<b>5971970</b>

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
100	Conventional whole life with-profits OB	2132	49088	1308				22459
120	Conventional endowment with-profits OB savings	2778	20612	846				16008
125	Conventional endowment with-profits OB target cash	3231	99142	2038				40011
165	Conventional deferred annuity with-profits	328	1263	5				2046
205	Miscellaneous conventional with-profits		221					969
210	Additional reserves with-profits OB							11324
300	Regular premium non-profit WL/EA OB	440	5746	94				3549
315	Individual deposit administration non-profit	258	1120	3				4008
325	Level term assurance	32719	2659853	6703				7329
330	Decreasing term assurance	12996	611209	2083				227
390	Deferred annuity non-profit	73	137					115
395	Annuity non-profit (PLA)	1817	4608					37104
435	Miscellaneous non-profit	4347	530040	970				859

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 UK Life / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
120	Conventional endowment with-profits OB savings		1406	88				88
300	Regular premium non-profit WL/EA OB		5746	94				3549
315	Individual deposit administration non-profit		1120	3				4008
325	Level term assurance		2659853	6703				7329
330	Decreasing term assurance		611209	2083				227
390	Deferred annuity non-profit		137					115
395	Annuity non-profit (PLA)		844					4183
435	Miscellaneous non-profit		530040	970				859

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Equitable Life Assurance Society**  
Total business / subfund **ORDINARY LONG TERM**  
Financial year ended **31 December 2009**  
Units **£000**  
UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
155	Conventional pensions endowment with-profits	347	1457	14				2362
165	Conventional deferred annuity with-profits	235	1114	4				1836
210	Additional reserves with-profits OB							34085
315	Individual deposit administration non-profit	411	2384	13				5969
325	Level term assurance	6387	385621	1034				3805
330	Decreasing term assurance	355	7670	40				22
380	Miscellaneous protection rider		1550536	4364				6980
390	Deferred annuity non-profit	4062	10851					226711
400	Annuity non-profit (CPA)	22116	28923					427127
411	Group death in service dependant's annuities		7846	352				353
435	Miscellaneous non-profit	1840	179941	403				1482

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 UK Pension / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
315	Individual deposit administration non-profit		2384	13				5969
325	Level term assurance		385621	1034				3805
330	Decreasing term assurance		7670	40				22
380	Miscellaneous protection rider		1550536	4364				6980
390	Deferred annuity non-profit		10851					226711
400	Annuity non-profit (CPA)		3525					62800
411	Group death in service dependant's annuities		7846	352				353
435	Miscellaneous non-profit		179941	403				1482



**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 Overseas / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
195	Annuity with-profits (PLA)	20	78					1036
205	Miscellaneous conventional with-profits	21	1594	14				67
210	Additional reserves with-profits OB							4685
325	Level term assurance	1567	187690	557				669
330	Decreasing term assurance	1098	68171	250				14
380	Miscellaneous protection rider		9217	79				258
390	Deferred annuity non-profit	202	2434					7491
395	Annuity non-profit (PLA)	194	1211					12422
400	Annuity non-profit (CPA)	1184	7645					107588

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 Overseas / Reinsurance ceded external

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
205	Miscellaneous conventional with-profits		818	6				40
325	Level term assurance		187690	557				669
330	Decreasing term assurance		68171	250				14
380	Miscellaneous protection rider		8826	56				193
390	Deferred annuity non-profit		2434					7491
395	Annuity non-profit (PLA)		15					205
400	Annuity non-profit (CPA)		131					2352

**Long-term insurance business : Valuation summary of accumulating with-profits contracts**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium	4577	52062		50197	49380	1826	51206
510	Life UWP endowment regular premium - savings	11755	251929	1938	65667	60529	2056	62585
555	Group deposit administration with-profits	2	12		12	12	0	12
575	Miscellaneous UWP	2089	1616	772	1616	774	73	847
610	Additional reserves UWP						9089	9089

**Long-term insurance business : Valuation summary of accumulating with-profits contracts**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 UK Life / Reinsurance ceded external

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
510	Life UWP endowment regular premium - savings		17333				6	6
575	Miscellaneous UWP		131592				62	62

**Long-term insurance business : Valuation summary of accumulating with-profits contracts**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 UK Pension / Gross

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
535	Group money purchase pensions UWP		22662		22662	22662	670	23331
545	Individual deposit administration with-profits	78836	1996466		2001638	1869717	38224	1907941
555	Group deposit administration with-profits	113482	993408		993408	953577	40593	994170
565	DWP National Insurance rebates UWP	128939	1012095		1884897	908280	43454	951733
570	Income drawdown UWP	2809	93664		93664	93664		93664
571	Trustee investment plan UWP	4	1686		1686	1653	1	1654
610	Additional reserves UWP						447892	447892

**Long-term insurance business : Valuation summary of accumulating with-profits contracts**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 UK Pension / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
535	Group money purchase pensions UWP		22662		22662	22662	670	23331

**Long-term insurance business : Valuation summary of accumulating with-profits contracts**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 Overseas / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium	348	5587		5587	5507	108	5615
510	Life UWP endowment regular premium - savings	1031	32469	837	17223	16990	71	17062
545	Individual deposit administration with-profits Deferred annuity	576	8930	683	8930	10471	1042	11513
545	Individual deposit administration with-profits	1155	32334		32334	28539	4068	32607
555	Group deposit administration with-profits	897	8829		8829	7430	2211	9641
570	Income drawdown UWP	9	457		457	457		457
575	Miscellaneous UWP	2	32	1	2	1	1	1
610	Additional reserves UWP						8034	8034

**Long-term insurance business : Valuation summary of accumulating with-profits contracts**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 Overseas / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
510	Life UWP endowment regular premium - savings		5849				1	1
575	Miscellaneous UWP		32				0	0



**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **Equitable Life Assurance Society**  
Total business / subfund **ORDINARY LONG TERM**  
Financial year ended **31 December 2009**  
Units **£000**  
UK Life / Gross

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
700	Life property linked single premium	1227	41124		41330	41330	67	41397
710	Life property linked whole life regular premium	773	14402	107	14968	14968	86	15054
715	Life property linked endowment regular premium - savings	2986	94780	2199	59485	59485	404	59889
735	Group money purchase pensions property linked	2	9		9	9		9
795	Miscellaneous property linked	406	26054	143	1541	1541	23	1564

**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 UK Life / Reinsurance ceded external

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
700	Life property linked single premium		41124		41330	41330	67	41397
710	Life property linked whole life regular premium		14402	107	14968	14968	86	15054
715	Life property linked endowment regular premium - savings		94780	2199	59485	59485	404	59889
735	Group money purchase pensions property linked		9		9	9		9
795	Miscellaneous property linked		26054	143	1541	1541	23	1564

**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 UK Pension / Gross

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
725	Individual pensions property linked	86049	916543		916462	916462	4165	920627
735	Group money purchase pensions property linked	73668	438466		438466	438466	13237	451702
745	DWP National Insurance rebates property linked	38189	355391		355391	355391		355391
750	Income drawdown property linked	691	29169		29169	29169	5	29174
755	Trustee investment plan	3	197		197	197		197
795	Miscellaneous property linked	976	2603		31150	31150	53	31203

**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 UK Pension / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
725	Individual pensions property linked		916543		916462	916462	4165	920627
735	Group money purchase pensions property linked		438466		438466	438466	13237	451702
745	DWP National Insurance rebates property linked		355391		355391	355391		355391
750	Income drawdown property linked		29169		29169	29169	5	29174
755	Trustee investment plan		197		197	197		197
795	Miscellaneous property linked		2603		31150	31150	53	31203

**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 Overseas / Gross

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
700	Life property linked single premium	31	487		459	459	66	525
715	Life property linked endowment regular premium - savings	834	21918	136	18394	18394	496	18890
725	Individual pensions property linked	1348	19347		19347	19347	1616	20963
735	Group money purchase pensions property linked	341	6207		6207	6207	661	6868
750	Income drawdown property linked	4	341		341	341	1	342
795	Miscellaneous property linked	209	3287	230	3287	3287	411	3698

**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 Overseas / Reinsurance ceded external

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
700	Life property linked single premium		487		459	459	66	525
715	Life property linked endowment regular premium - savings		21918	136	18394	18394	496	18890
725	Individual pensions property linked		19347		19347	19347	1616	20963
735	Group money purchase pensions property linked		6207		6207	6207	661	6868
750	Income drawdown property linked		341		341	341	1	342
795	Miscellaneous property linked		3287	230	3287	3287	411	3698

**Long-term insurance business : Valuation summary of index linked contracts**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 UK Life / Gross

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
900	Life index linked single premium	7	79		79	79		79
905	Index linked annuity	252	1127		17388	17388	140	17528
910	Miscellaneous index linked		23	0	23	23		23





**Long-term insurance business : Valuation summary of index linked contracts**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 UK Pension / Gross

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
905	Index linked annuity	4554	12837		229481	229481	2049	231530
910	Miscellaneous index linked	122	4027		4027	4027	826	4854

**Long-term insurance business : Valuation summary of index linked contracts**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**  
 UK Pension / Reinsurance ceded external

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
905	Index linked annuity		267		7772	7772	9	7782
910	Miscellaneous index linked		4027		4027	4027	826	4854

**Long-term insurance business : Index linked business**

Name of insurer **Equitable Life Assurance Society**  
 Total business **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**

Value of assets	Mean Term
1	2

**Analysis of assets**

Approved variable interest securities	11	207012	14.80
Other variable interest securities	12	22027	7.83
Approved fixed interest securities	13		
Other fixed interest securities	14		
Cash and deposits	15	9112	
Equity index derivatives	16		
Inflation swaps	17		
Other assets	18	945	
Variation margin	19		
<b>Total (11 to 19)</b>	<b>20</b>	<b>239096</b>	

**Credit rating of other fixed interest and other variable interest securities**

AAA/Aaa	31		
AA/Aa	32		
A/A	33		
BBB/Baa	34		
BB/Ba	35		
B/B	36		
CCC/Caa	37		
Other (including unrated)	38		
<b>Total other fixed interest and other variable interest securities</b>	<b>39</b>		

**Long-term insurance business: Analysis of valuation interest rate**Name of insurer **Equitable Life Assurance Society**Total business **ORDINARY LONG TERM**Financial year ended **31 December 2009**Units **£000**

Product group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
UK L&G Form 51 With Profits Policies - deferred annuities	2078	4.00	4.00	4.59
UK L&G Form 51 With Profits Policies - other	90650	3.20	4.00	4.59
UK L&G Form 51 With Profits Policies - Non-Profit annuities in payment post 1991	16905	4.50	5.00	5.01
UK L&G Form 51 With Profits Policies - Non-Profit annuities in payment pre 1992	16016	5.00	5.00	5.01
UK L&G Form 52 With Profits Policies (net)	114552	3.20	4.00	4.59
UK L&G Form 52 With Profits Policies (gross)	9119	4.00	4.00	4.59
UK L&G Form 54 Annuity in payment - Index Linked post 1991	15552	0.49	0.54	0.61
UK L&G Form 54 Annuity in payment - Index Linked pre 1992	1976	0.54	0.54	0.61
UK Pens Form 51 With Profits Policies	38283	4.00	4.00	4.59
UK Pens Form 51 Non Profit annuity in payment	364328	5.00	5.00	5.01
UK Pens Form 52 With Profits Policies	4303391	4.00	4.00	4.59
UK Pens Form 52 With Profits - managed pensions etc	93664	0.00	0.00	0.60
UK Pens Form 54 Annuity in payment - Index Linked	223748	0.54	0.54	0.61
OVS Form 51 With Profits Policies - annuities in payment	1041	3.50	4.38	4.59
OVS Form 51 With Profits Policies - other net	26	3.20	4.00	4.59
OVS Form 51 With Profits Policies - other gross	4685	4.00	4.00	4.59
OVS Form 51 Non profit - annuities in payment	117518	5.00	5.00	5.01
OVS Form 52 With Profits Policies - other net	8453	3.20	4.00	4.59
OVS Form 52 With Profits Policies - other gross	57825	4.00	4.00	4.59
<b>Total</b>				



**Long-term insurance business : Distribution of surplus**

Name of insurer **Equitable Life Assurance Society**  
 Total business / subfund **ORDINARY LONG TERM**  
 Financial year ended **31 December 2009**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	5498486	5972003
Bonus payments in anticipation of a surplus	12	21725	48607
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	5520211	6020610
Mathematical reserves	21	5498456	5971970
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	21755	48641

**Composition of surplus**

Balance brought forward	31		
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	21755	48641
Total	39	21755	48641

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41	21725	48607
Cash bonuses	42		
Reversionary bonuses	43	30	34
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	21755	48641
Net transfer out of fund / part of fund	47		
Total distributed surplus (46+47)	48	21755	48641
Surplus carried forward	49		
Total (48+49)	59	21755	48641

**Percentage of distributed surplus allocated to policyholders**

Current year	61	100.00	100.00
Current year - 1	62	100.00	100.00
Current year - 2	63	100.00	100.00
Current year - 3	64	100.00	100.00

**Long-term insurance business : With-profits payouts on maturity (normal retirement)**

Name of insurer **Equitable Life Assurance Society**  
Original insurer **Equitable Life Assurance Society**  
Date of maturity value / open market option **01 March 2010**

Category of with-profits policy	Original term (years)	Maturity value / open market option	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	10	5819	135	n/a	CWP	N	5819
Endowment assurance	15	9894	323	n/a	CWP	N	9894
Endowment assurance	20	16243	681	n/a	CWP	N	16243
Endowment assurance	25	27756	2383	n/a	CWP	N	27756
Regular premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	10	25559	2394	n/a	UWP	N	25559
Regular premium pension	15	46366		n/a	UWP	N	46366
Regular premium pension	20	73466		n/a	UWP	N	73466
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	10114		n/a	UWP	N	10114
Single premium pension	15	18528		n/a	UWP	N	18528
Single premium pension	20	28169		n/a	UWP	N	28169

**Long-term insurance business : With-profits payouts on surrender**

Name of insurer **Equitable Life Assurance Society**  
 Original insurer **Equitable Life Assurance Society**  
 Date of surrender value **01 March 2010**

Category of with-profits policy 1	Duration at surrender (years) 2	Surrender value 3	Terminal bonus 4	MVA 5	CWP / UWP 6	MVA permitted? 7	Death benefit 8
Endowment assurance	5	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	10	5306		n/a	CWP	Y	16155
Endowment assurance	15	9324		n/a	CWP	Y	17843
Endowment assurance	20	15571		n/a	CWP	Y	21277
With-profits bond	2	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	3	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	5	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	10	9914		n/a	UWP	N	9914
Single premium pension	2	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	3	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	9296		489	UWP	Y	10114



**Long-term insurance capital requirement**Name of insurer **Equitable Life Assurance Society**

Global business

Financial year ended **31 December 2009**Units **£000**

LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Reinsurance factor	LTICR Financial year	LTICR Previous year
1	2	3	4	5	6

**Insurance death risk capital component**

Life protection reinsurance	11	0.0%				
Classes I (other), II and IX	12	0.1%				
Classes I (other), II and IX	13	0.15%				
Classes I (other), II and IX	14	0.3%	6806395	475126	0.50	10210
Classes III, VII and VIII	15	0.3%	38522		0.50	58
<b>Total</b>	<b>16</b>		6844917	475126		10267

**Insurance health risk and life protection reinsurance capital component**

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					37
						39

**Insurance expense risk capital component**

Life protection and permanent health reinsurance	31	0%				
Classes I (other), II and IX	32	1%	5626893	5264111	0.94	52641
Classes III, VII and VIII (investment risk)	33	1%	264982	234376	0.88	2344
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	16745		0.85	142
Classes III, VII and VIII (other)	35	25%				
Class IV (other)	36	1%	73		0.85	1
Class V	37	1%				
Class VI	38	1%				
<b>Total</b>	<b>39</b>					55128

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%				
Classes I (other), II and IX	42	3%	5626893	5264111	0.94	157923
Classes III, VII and VIII (investment risk)	43	3%	264982	234376	0.88	7031
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	16745			
Classes III, VII and VIII (other)	45	0%	1922868			
Class IV (other)	46	3%	73		0.85	2
Class V	47	0%				
Class VI	48	3%				
<b>Total</b>	<b>49</b>		7831561	5498486		164956

<b>Long term insurance capital requirement</b>	<b>51</b>					230388
						250862

## RETURNS UNDER INSURANCE COMPANIES LEGISLATION

### THE EQUITABLE LIFE ASSURANCE SOCIETY

FINANCIAL YEAR END 31 DECEMBER 2009

### SUPPLEMENTARY NOTES TO THE RETURN

#### \*0301\* Net Admissible Assets and Capital Resources

Valuation differences between assets in Form 3 and assets in Forms 13 and 14 are illustrated below:

Description	Reference	£000
Net Admissible Assets	Form 13 Line 89	6,300,069
Mathematical Reserves	Form 14 Line 11	(5,498,486)
Other Insurance Liabilities	Form 14 Line 49	(188,798)
Total Capital Resources	Form 3 Line 79	612,785

#### \*0310\* Positive Valuation Difference

The positive valuation difference detailed in line 14 represents the difference between the value of with-profits liabilities as valued in accordance with the FSA Handbook of rules and guidance and the value of with-profits liabilities that the Society has used in its external financial reporting to comply with FRS 27 and the Financial Reporting Council – Board of Actuarial Standards guidance note 45 (section 3.3.3.1 relevant to closed funds).

#### \*1308\* Aggregate Values

The aggregate value of unlisted investments included at lines 41, 42, 46 or 48 which have been valued in accordance with GENPRU rule 1.3 is £17.3m (2008: £28.6m).

Part of the Society's assets is invested in property (including property unit trusts) and unlisted equity, amounting to £657m at year end 2009 (2008: £735m). In adverse market conditions, it may not be possible to realise these investments without delay.

The aggregate value of investments in collective investment schemes in line 43 that are not schemes falling within the UCITS Directive are £68.9m (2008: £153.0m).

The aggregate value of reversionary interests held by the Society is nil (2008: nil).

#### \*1309\* Aggregate Value of Hybrid Securities

The aggregate value of hybrid securities included at lines 46 or 48 is £125.6m (2008: £215.7m).

#### \*1310\* Amounts Receivable and Payable

Amounts due to and from any one person have been offset where appropriate in accordance with generally accepted accounting principles.

#### \*1312\* Large Counterparty Exposures

There were no exposures to counterparties at the end of the financial year exceeding 5% of the Society's base capital resources requirement and long-term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded.

#### \*1318\* Other asset adjustments

The Society has adopted 'FRS26 Financial Instruments: Measurement' in the preparation of its external financial reporting. As a result, the reinsurers' share of technical provisions reported on Form 13 differs from that recorded in the Society's Annual Statutory Report and Accounts. The difference, £20.7m (2008: £22.8m), is recorded on Line 101 of Form 13.

#### \*1319\* Investment Guidelines, Maximum Counterparty Exposure

The maximum amount that the investment manager is permitted to expose the funds of the Society to any one Counterparty is controlled by the following limits for any individual non gilt bond issue.

<b>Maximum investment in a single non-gilt issue</b>	<b>% of total fixed interest</b>
Supranational and Government guaranteed "AAA" rated	2.00%
"AAA" rated	1.50%
"AA" rated	1.00%
"A" rated	0.50%
"BBB" rated	0.25%
Unrated	0.125%

The maximum amount that the investment manager is permitted to expose the funds of the Society to any one Counterparty is controlled by the following limits for individual entities or groups including exposure across significant asset classes as follows;

<b>Maximum investment in any individual entity or group</b>	<b>% of total fund</b>
Supranational and Government guaranteed "AAA" rated	5.00%
Bank (per ELAS approved list)	1.50%
"AAA" (not on Bank list), or "AA" rated	1.00%
"A" rated	0.50%
"BBB" rated	0.25%
Unrated	0.15%

#### \*1401\* Provision for Adverse Changes

Investment guidelines for the use of conventional derivatives operated throughout the year and did not permit the writing of uncovered call options. Consequently, no provision for adverse changes is considered necessary.

#### \*1402\* Charges, Contingent Liabilities, Guarantees, Indemnities and Contractual Commitments

No liabilities included in Form 14 are secured by a charge.

There exist some uncertainties that, if they were to materialise, could adversely impact on the propriety of preparing this return 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 this return 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.
- 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.

- 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 in 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.

Amounts are held in specific provisions and are described in paragraph 8 of the Abstract of valuation report on pages 76 to 77.

#### \*1405\* Reconciliation of Total Liabilities to Financial Statements

The value in line 74 represents the difference between the value of liabilities as valued in accordance with FSA Handbook of Rules and Guidance and the value of liabilities detailed in external financial reporting to comply with FRS27 and the Financial Reporting Council - Board of Actuarial Standards guidance note 45 (section 3.3.3.1 relevant to closed funds).

#### \*1701\* Treatment of the variation margin

The aggregate excess variation margin received in respect of derivatives in 2009 was £3.0m (2008: nil).

The variation margin is included within line 54 of Form 13.

The liability to repay the excess variation margin at the end of 2009 is reflected in line 54 of Form 13.

#### \*4002\* Other Income

Other Income is comprised of the following:

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Stock Lending commission	640	1,552
Investment management fee rebate	1,008	672
Other Income	1,227	1,055
	<u>2,875</u>	<u>3,279</u>

#### \*4004\* Transfer of Contracts

On 15 March 2007, the Society entered into an agreement with Prudential for the transfer of its with-profits annuity policies. Following the completion of the High Court process, this business was subsequently transferred to Prudential on 31 December 2007 as a Part VII Transfer under the Financial Services and Markets Act 2000. The final value of assets to be transferred was £1.76bn. The final transfer of £3m was made in 2008.

#### \*4005\* Income and Expenditure Translation

Foreign currency values for income and expenditure have been translated at rates of exchange ruling at the time of the respective transactions.

\*4008\* Management Services

During 2009 substantially all management services for The Equitable Life Assurance Society have been provided by HBOS (now part of Lloyds Banking Group).

\*4010\* Investment Income from Linked Assets

Included within line 12 is £2.8m of income earned on linked assets.

\*4803\* Assumed redemption dates

For callable securities with a range of redemption (or option) dates we take advice from our investment managers as to the most likely date of redemption. Remaining securities are assumed to be redeemed at the earliest or latest redemption (or option) date, whichever gives the lower yield. The value of 'approved fixed interest securities' and 'other fixed interest securities' with variable redemption (or option) dates are £227,494 and £537,125,459 respectively.

Irredeemable assets with no first option date are assumed to have a redemption date in 2049.

Property and equity are assumed not to be redeemed.

\*4806\* Assets used to calculate the investment returns

All assets in column 2 have been used to calculate the investment returns in column 5.

\*4807\* Return allocated to Asset Shares

The return allocated to asset shares is an increase of 5.5% for pension contracts and 4.4% for life contracts. This is the return allocated by the Board, after consideration of all risks, reserving and capital matters.

\*4901\* Rating agencies

The credit rating used is the lower of Moody's, Standard & Poor's and Fitch (if available).

In the absence of such ratings, one is supplied by Insight Investment Managers Limited; the Society's third party investment manager who is not connected with the Society.

Any fixed interest elements of collective investment schemes in column 1 allocated to column 2 of Form 48 are classified as unrated.

\*4902\* Negative redemption yield

The effect of increasing the allowance made for risk of default of income and redemption payments on corporate bonds has led to negative redemption yields for assets in ratings category "Other (including unrated)".

\*5102\* Policy count

The benefits under code 380 are attributable to life cover and death in service benefits attached to individual and group policies in codes 545, 555, 725 and 735. The policy count has been set to zero to avoid double counting.

\*5201\* Group scheme member count

There are 46 Final Salary schemes included in code 555 where benefits are not required at member level. Column 3 has been set to zero for these policies.

\*5202\* Group scheme member count

There are three schemes in the figures for code 555 where the number of members has been approximated to 100. These schemes are administered by a third party.

\*5203\* Policy count

Where a policy has both with-profits and unit linked benefits the policy count has been entered on Form 53.

\*5301\* Group scheme member count

There are 31 Final Salary schemes included in code 735 where benefits are not required at member level. Column 3 has been set to zero for these policies.

\*5302\* Policy count

Where a policy has both with-profits and unit linked benefits the policy count has been entered on Form 53.

\*5303\* Miscellaneous reserves

The reserves of £36.464m under code 795 are attributable to property linked immediate annuities (£32.242m), property linked deferred annuities (£3.698m), property linked health products (£0.435m) and Building Society linked endowment assurance (£0.089m).

\*5701\* Section 148 Waiver - Determination of Rates of Interest on Fixed Interest Securities

The Financial Services Authority, on the application of the firm, made a direction under section 148 of the Act in December 2007. The effect of the direction is to modify INSPRU 3.1.35 to require the firm to calculate the yield on certain categories of fixed interest security on an aggregate basis.

\*5901\* Market Value Adjustment

For CWP contracts no explicit MVA is applied as part of the surrender basis. Surrender values are set so that they are comparable to UWP policies on surrender.

\*6001\* Class IV business and supplementary accident and sickness insurance

Forms 11 and 12 are not completed, as the gross annual office premiums for the relevant classes are less than 1% of the total gross annual office premiums. The figure in line 21 of Form 60 exceeds the amount that would be obtained had Forms 11 and 12 been completed and is calculated as follows:

These classes are 100% reinsured and closed to new business.

Premiums are payable monthly and so the premiums earned and receivable are essentially the same. The premiums to the supplementary accident and sickness insurance were £40,884 and the premiums to Class IV business were £878,022. The 'premiums amount' is therefore  $0.18 \times (£40,884 + £878,022 / 3) \times 0.5 = £30,020$ .

Claims in the last 12 months were nil for the supplementary accident and sickness insurance and £844,054 for the Class IV business. The 'claims amount' is therefore  $0.26 \times (0 + £844,054 / 3) \times 0.5 = £36,576$ . Therefore, 'claims amount' of £36,576 is used.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

### Introduction

1. (1) The date of the valuation was 31 December 2009.
- (2) The date of the previous valuation was 31 December 2008.
- (3) The date of the interim valuation was 30 June 2009.

### Product range

2. There were no significant changes to the Society's product range. The Society is closed to new business except by increment.

### Discretionary charges and benefits

3. (1) A market value reduction (or equivalent) was applied throughout 2009 for non-contractual withdrawals from all with-profits contracts.
- (2) There were no changes to the basis for setting premiums on reviewable protection policies during the year.
- (3) The interest rate added to non-profit deposit administration policies varied depending on the date the policy commenced. This rate is fixed until benefits are taken.
- (4) There were no changes to service charges on linked policies.
- (5) There were no changes to benefit charges on linked policies.
- (6) There were no changes to the method and basis for management charges on unit-linked or accumulating with-profits policies.
- (7) – (10) All linked liabilities are wholly reassured with Halifax Life and Clerical Medical Managed Funds Limited. Linked fund prices mirror those set by the reinsurer.

### Valuation Basis

4. The bases (and methodology) are set out in the following paragraphs.

- (1) General

The main method used was that of a gross premium valuation with specific reserves for the future expenses of running the business.

#### Accumulating with-profits policies

For accumulating with-profits policies in the Basic Life Assurance and General Annuity and Pension Business Funds which were grouped by calendar year of vesting date, it has been assumed that the vesting date falls in the middle of the group year.



# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

The liability was calculated by discounting the guaranteed benefits (including any declared and attaching bonus) with an allowance for guaranteed investment return (GIR) where appropriate. Policies effected before 1 July 1996 have a GIR of 3.5% p.a. (with the exception of some Retirement Annuity policies effected prior to 1 October 1975 that have a GIR of 2.5% p.a.) and policies effected on or after 1 July 1996 have a GIR of 0.0% p.a.

For policies with flexible retirement dates, the dates at which retirement benefits are assumed to be taken are based on an amounts analysis of recent Society experience and are set out in section 4 (8).

Certain pension policies also contain a guaranteed minimum level of pension. The liability for these policies was set to the higher of the discounted cash fund and declared bonus cash fund or the discounted value of the guaranteed minimum pension at retirement. The reserves were calculated using the same mortality and expense basis and methodology used to value annuities in payment but with interest appropriate to pre retirement pension policies. This value was then discounted to the valuation date using interest and mortality for pre retirement pension policies.

For with-profits managed pension policies, school fee trust plans and with-profits personal pension trustee income drawdown policies, the current full value of the guaranteed fund and attaching declared bonus fund was reserved.

The attributable expense reserves are based on the total gross administration charges from the recently engaged Third Party Administrator (TPA) contractually agreed to apply from 1 March 2011. These will be covered by the allowance from gross policies before their assumed benefit payment dates. None of these expenses are therefore assumed to be covered by policy fees on policies past their assumed benefit payment date, which includes all managed pension contracts. These expenses are assumed to increase at a rate of inflation appropriate to the administration agreement. For policies with flexible retirement dates the dates at which retirement benefits are assumed to be taken are based on a lives analysis of recent Society experience and are set out in section 4 (8).

Additional TPA costs arising from the current administrator until the start of the contract with the new service provider are covered by an exceptional expense provision.

### **Annuities**

Life immediate annuities were valued individually assuming payments are continuous. Joint-life and last survivor annuities were valued individually by equivalent factors based on the ages of the respective lives and the incidence of payments. Outstanding guaranteed periods and escalation in payment are also allowed for in the valuation where applicable.

Temporary immediate annuities were valued as annuities certain.

For with-profits immediate annuities the liability was calculated by valuing the guaranteed payments and attaching bonus payments.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

### Conventional Business

For the main classes of annual premium business the liability was calculated by deducting from the value of the guaranteed benefits, including vested bonus additions, the value of office premiums receivable after deducting from these a provision for future expenses.

Whole life assurances were valued individually and the factors for valuing sums assured and bonuses were increased by one half-year's interest to allow for immediate payment of claims.

Endowment assurances were grouped according to the calendar year of maturity and attained age. An allowance was made for immediate payment of claims.

Level temporary assurances and decreasing temporary assurances (other than those tabulated below) were valued individually. An allowance was made for the immediate payment of claims.

Assurances upon sub-standard lives were valued as though they were upon normal lives assured at the tabular rates of premium and the valuation liability was increased by the amount of one year's extra premium.

### Surrender Value Reserve

For accumulating with-profits business, an additional reserve for the amount of a cash payment secured by the exercise of an option to surrender the policy has been calculated in accordance with INSPRU 1.2.71R. This is calculated by comparing the "normal" policy reserve obtained using the gross premium valuation method applied to the guaranteed benefits for accumulating with-profits policies as described earlier in section 4 (1) plus the allowance for future expenses as described in paragraph 4 (6), with the lower of:

- the current surrender value that could reasonably be expected to be paid having regard to the representations made to policyholders, and
- that value disregarding discretionary adjustments (i.e. disregarding both the financial adjustment and final bonus beyond the current guaranteed value).

Where the "normal" reserve is higher, no additional reserve is held. Where it is lower, the difference is held within this additional reserve.

The bases to be used in the event of surrender or transfer are not guaranteed, and the primary objective when setting the basis is to protect the interests of the continuing with-profits policyholders. In the event of a significant level of policy discontinuances, the Society reserves the right to reduce surrender payments. If it were required in order to protect solvency, surrender payouts could be made equal to the discounted value of the guaranteed benefits.

An additional reserve is also calculated for conventional with-profits business, in a similar way to that described above.

### Unit Linked

The unit liability under all linked contracts was valued by taking the number of units deemed to attach to policies multiplied by the valuation price per unit. The valuation prices match those set by Halifax Life for liabilities reinsured through Halifax Life. The valuation prices match those set by Clerical Medical Managed Funds Limited (CMMF) for liabilities reinsured through CMMF. The business is fully reinsured.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

The unit liability under all contracts linked directly to the Halifax UK Growth OEIC was valued by taking the number of units deemed to attach to policies multiplied by the mid price of Halifax UK Growth OEIC shares on the valuation date.

The non-unit liability was calculated using a per policy projected cash flow methodology. The only non-linked liabilities are in respect of expenses and are described in section 4 (6) below.

### Other Business

For with-profits Flexible Protection Plans and German Deferred Annuity policies, which were grouped by calendar year of maturity date or annuity vesting date as appropriate, it has been assumed that the maturity or vesting date falls in the middle of the group year. The liability was calculated by discounting the guaranteed fund and attaching bonuses where appropriate and adding the amount of the current month's mortality charge deduction.

With-profits Bonds, with-profits Personal Investment Plans, with-profits Personal Pension Trustee Investment policies and with-profits International Investment Plans were grouped by calendar year of the next option date on which full withdrawal can be made on guaranteed terms. For this purpose the guaranteed fund and bonuses attaching to different single premiums paid to the policy were included in the appropriate group years. It has been assumed that the next option date falls in the middle of the group year. The liability was calculated by discounting the guaranteed fund and attaching bonuses.

Recurrent single premium death-in-service group pension arrangements were valued using one year's premium.

- (2) Interest rates used are set out in the following table:

Product group	Rate at 31 December 2009	Rate at 31 December 2008
UK non-profit annuities (Pensions)	5.00%	4.63%
UK non-profit annuities pre-1992 (Life)	5.00%	4.63%
UK non-profit annuities post-1991 (Life)	4.50%	4.17%
Overseas non-profit annuities (Pensions)	5.00%	4.63%
German with-profits annuities (Life)	3.50%	3.50%
UK index-linked annuities pre-1992 (Life)	0.54%	1.79%
UK index-linked annuities post-1991 (Life)	0.49%	1.61%
UK index-linked annuities (Pensions)	0.54%	1.79%
All pension contracts	4.00%	3.94%
UK with-profits endowments and whole life	3.20%	3.15%
UK term assurance	3.10%	3.07%
UK with-profits policies (Flexible Protection Plan, Regular Savings Plan, With-Profits Bond, Personal Investment Plan, Major Medical Cash Plan, Critical Illness Plan)	3.20%	3.15%
Overseas with-profits policies (Life)	3.20%	3.15%
UK non-profit annuities in deferment (Pensions)	3.90%	3.86%

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

(3) Yields on assets are reduced to allow for risk as follows:-

Equity shares are assumed to have no yield.

Property (and property unit trust) yields are capped at 6.5%.

The rates of interest on fixed interest securities have been determined using an aggregate yield basis, i.e. by calculating the rate of interest as the rate which equates the aggregate market value to the discounted value of the aggregate cash flows. The fixed interest portfolio (excluding convertible fixed interest securities) has been separated into two segments of securities which have like attributes (being the categories on Forms 48 and 49), i.e.:

- approved fixed interest securities, and
- other fixed interest securities.

Yields on approved fixed interest assets with credit ratings of "exceptionally or extremely strong" or "very strong" are not reduced for risk.

At the 31 December 2007 valuation, all other fixed interest assets had their yield reduced by reference to historic default rates. These were based on 20 years of Moody's data and represented the mean default rate plus two standard deviations plus a 40% margin for prudence. These default rates were increased by a factor of 300% for the valuation at 31 December 2008, however at this current valuation the yield was reduced by the expected future default rates equivalent to 140% of the default rates set at December 2007 valuation. This change reflects the general reduction in credit ratings over the year. This allowance for default was set with regard to the Bank of England's analysis of the decomposition of corporate bond spreads, market assessment of default risk in the Credit Default Swap market, and the pessimistic view from the range of expected default outcomes presented by the Society's investment managers. This allowance for defaults ascribes 46% of the credit spread seen on the Society's corporate bond portfolio to be due to default risk. The assumptions used to reduce the yield are shown in the following table:

<b>Credit Rating</b>	<b>Yield Reduction at 31 December 2009</b>	<b>Yield Reduction at 31 December 2008</b>
AAA	0.20%	0.42%
AA+	0.25%	0.54%
AA	0.35%	0.75%
AA-	0.47%	1.02%
A+	0.64%	1.38%
A	0.88%	1.89%
A-	1.20%	2.58%
BBB+	1.63%	3.51%
BBB	2.23%	4.77%
BBB-	3.04%	6.51%
BB+	4.14%	8.88%
BB	5.65%	12.12%
BB-	7.71%	16.53%
B+	10.51%	22.53%
B	14.34%	30.72%
B-	19.55%	41.91%
CCC	26.67%	57.15%
CC	26.67%	57.15%

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

Non-rated stocks are treated as having rating CC.

For stocks with variable redemption dates we have taken the view of investment advisors and set the redemption date to the expected redemption date and taken into account any anticipated changes to income until this date.

Where our investment advisors have no view as to the likely redemption date and where the income yield was greater than the gross redemption yield, the stocks were assumed to redeem at the earliest date.

(4) The mortality rates are summarised in the following tables:

(i) Immediate Annuities

Product group	Table at 31 December 2009 in possession	Complete expectation of life		Table at 31 December 2008 in possession	Complete expectation of life	
		65	75		65	75
UK non-profit annuities (Pensions)	87.5%PNMA00mc U=2012	Male 24.4	Male 15.1	90.0%PNMA00mc U=2011	Male 24.0	Male 14.8
	80.0%PNFA00mc U=2012	Female 27.6	Female 17.8	97.5%PNFA00mc U=2011	Female 25.7	Female 16.2
UK non-profit annuities (Life)	72.5%IML00ult U=2009	Male 24.5	Male 15.1	82.5%IML00ult U=2008	Male 23.2	Male 14.0
	77.5%IFL00ult U=2009	Female 27.1	Female 16.9	82.5%IFL00ult U=2008	Female 26.4	Female 16.3
Overseas with-profits annuities (Life)	87.5%PNMA00mc U=2012	Male 24.4	Male 15.1	85.0%PNMA00mc U=2011	Male 24.5	Male 15.3
	80.0%PNFA00mc U=2012	Female 27.6	Female 17.8	77.5%PNFA00mc U=2011	Female 27.8	Female 18.0
Overseas non-profit annuities (Pensions)	87.5%PNMA00mc U=2012	Male 24.4	Male 15.1	90.0%PNMA00mc U=2011	Male 24.0	Male 14.8
	80.0%PNFA00mc U=2012	Female 27.6	Female 17.8	97.5%PNFA00mc U=2011	Female 25.7	Female 16.2
UK unit-linked annuities (Pensions)	80.0%PNMA00mc U=2012	Male 25.2	Male 15.8	82.5%PNMA00mc U=2011	Male 24.8	Male 15.5
	65.0%PNFA00mc U=2012	Female 29.6	Female 19.5	82.5%PNFA00mc U=2011	Female 27.2	Female 17.5
UK index-linked annuities (Life)	72.5%IML00ult U=2009	Male 24.5	Male 15.1	82.5%IML00ult U=2008	Male 23.2	Male 14.0
	77.5%IFL00ult U=2009	Female 27.1	Female 16.9	82.5%IFL00ult U=2008	Female 26.4	Female 16.3
UK index-linked annuities (Pensions)	87.5%PNMA00mc U=2012	Male 24.4	Male 15.1	90.0%PNMA00mc U=2011	Male 24.0	Male 14.8
	80.0%PNFA00mc U=2012	Female 27.6	Female 17.8	97.5%PNFA00mc U=2011	Female 25.7	Female 16.2

The allowance for future mortality improvements for PNMA/PNFA00 is based on the implied future mortality improvements in the PMA/PFA 92 MC tables subject to a minimum improvement of 1.5% p.a..

The allowance for future mortality improvements for IML/IFL00ult is based on the implied future mortality improvements in the IML/IFL 92 tables subject to a minimum improvement of 1.5% p.a..

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

### ii) Deferred annuities

#### In deferment

Product group	Table at 31 December 2009 in deferment	Table at 31 December 2008 in deferment
UK non-profit deferred annuities (Pensions)	90.0% AMC00ult 97.5% AFC00ult	90.0% AMC00ult 97.5% AFC00ult
German with-profits deferred annuities (Life)	90.0% AMC00ult 97.5% AFC00ult	90.0% AMC00ult 97.5% AFC00ult

#### In payment

Product Group	Table at 31 December 2009	Complete expectation of life at age 65 for current age		Table at 31 December 2008	Complete expectation of life at age 65 for current age	
		45	55		45	55
UK non-profit deferred annuities (Pensions)	87.5% PNMA00mc U=2012	Male 27.3	Male 25.8	90.0% PNMA00mc U=2011	Male 26.9	Male 25.4
	80.0% PNFA00mc U=2012	Female 30.6	Female 29.1	97.5% PNFA00mc U=2011	Female 28.5	Female 27.1
German with-profits deferred annuities (Life)	87.5% PNMA00mc U=2012	Male 27.3	Male 25.8	90.0% PNMA00mc U=2011	Male 26.9	Male 25.4
	80.0% PNFA00mc U=2012	Female 30.6	Female 29.1	97.5% PNFA00mc U=2011	Female 28.5	Female 27.1

### iii) Linked business

For Managed Pensions no mortality was assumed. Otherwise, AM80 ultimate mortality was assumed with a 2-year deduction from age for male lives and a 6-year deduction from age for female lives.

### iv) Other products

Product group	Table at 31 December 2009	Table at 31 December 2008
All pension contracts	90.0% AMC00ult 97.5% AFC00 ult	90.0% AMC00ult 97.5% AFC00 ult
UK endowments and whole life	90.0% AMC00ult 97.5% AFC00 ult	90.0% AMC00ult 97.5% AFC00 ult
UK term assurance	72.5% TMC00 77.5% TFC00	72.5% TMC00 77.5% TFC00
UK with-profits policies (Life)	90.0% AMC00ult 97.5% AFC00 ult	90.0% AMC00ult 97.5% AFC00 ult
Overseas with- profits policies (Life)	90.0% AMC00ult 97.5% AFC00 ult	90.0% AMC00ult 97.5% AFC00 ult

(5) There are no significant morbidity risks.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

- (6) The attributable expense basis is summarised in the following tables.  
As described in section 4 (1) these relate to costs from the new TPA to apply from 1 March 2011.  
There are no Zillmer adjustments.  
For net business it is assumed that the tax relief will be at 20%.

### Accumulating with-profits business

For accumulating with-profits business, the following current levels of administrative expenses (excluding fund management) were assumed. It was further assumed that these expenses would increase at a rate of 5.1% per annum (2008 - 8.9% per annum).

Product code	Product name	Year ending 31 December 2009	Year ending 31 December 2008
120	CWP savings endowment	£11.69 per benefit	£305 per benefit
125	CWP target cash endowment	£11.69 per benefit	£305 per benefit
500	UWP Bond	£11.69 per benefit	£60 per benefit
510	UWP savings endowment	£11.69 per benefit	£60 per benefit
535	UWP group regular premium pension	£8 per benefit	£22 per benefit
555	Group deposit administration with-profits	£8 per benefit	£22 per benefit
545	Individual deposit administration with-profits	£6.68 per benefit	£45 per benefit

Separate allowance was made for fund management expenses using a loading of 1.20 per mille (2008 – 1.20 per mille) of the basic benefit including declared bonuses. These expenses were assumed to escalate in line with the valuation interest rates, i.e. a net rate of discount of 0%.

For life assurance and general annuity business the appropriate per policy expenses and fund management assumptions shown above were netted down for tax at a rate of 20%.

No other explicit reserve was made for expenses on policies where premiums have ceased, no future premiums are payable or the method of valuation does not take credit for future premiums as an asset.

### Conventional business

Product code	Product name	Year ending 31 December 2009	Year ending 31 December 2008
120	CWP savings endowment	3% of office premium	3% of office premium
125	CWP target cash endowment	3% of office premium	3% of office premium
155/165	CWP pensions	4% of office premium	4% of office premium
325/330	Term assurance	4.5% of office premium	4.5% of office premium

In addition, an annual loading of £3 (2008 – £3) was reserved per individual policy.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

### Annuities

For annuities in payment, the following current levels of administrative expenses were assumed. It was further assumed that the per benefit expenses would increase at a rate of 5.1% per annum (2008 – 8.9%).

Product code	Product name	Year ending 31 December 2009		Year ending 31 December 2008	
		Per benefit	Fund management	Per benefit	Fund management
400	Annuity	£4.46	0.6 per mille	£20	0.6 per mille

### Linked business

The future expenses for unit-linked and “FTSE 100” linked policies are met by Clerical Medical Managed Funds Limited. In Forms 53 and 54 we have treated those reserves set up in respect of future expenses as reassured liabilities.

For UK regular premium business no future premiums have been assumed in the calculation of the non-unit-reserve.

Product code	Product name	Year ending 31 December 2009	Year ending 31 December 2008
700	Bond	£11.96 per policy	£34 per policy
715	Savings endowment	£11.96 per policy	£34 per policy
725	Regular premium pension	£14.52 per policy	£29 per policy
735	Group regular premium pension	£17.68 per member	£11 per member

For Non-UK regular premium business no future premiums have been assumed in the calculation of the non-unit-reserve.

Product code	Product name	Year ending 31 December 2009	Year ending 31 December 2008
700	Bond	£102.48 per policy	£34 per policy
715	Savings endowment	£102.48 per policy	£34 per policy
725	Regular premium pension	£123.17 per policy	£29 per policy
735	Group regular premium pension	£151.48 per member	£11 per member

There is also a 15bps (2008 – 15bps) expense charge p.a. to allow for investment expenses and overheads.



# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

- (6) The unit growth rates (before management charges) and expense inflation rates are:

Year ending 31 December 2009		Year ending 31 December 2008	
Unit growth rate	Expense inflation	Unit growth rate	Expense inflation
4.6%	5.1%	3.9%	3.15%

- (7) The method of valuation described above makes an allowance for any future guaranteed investment return described in section 4 (1) – Accumulating With-profits Policies. The assumption for future discretionary bonus for with-profits contracts is zero for all classes.

- (8) The persistency assumptions are as follows:

There are no non-contractual withdrawals assumed.

For pension policies where there is a range of contractual retirement dates. Recent Society experience for lives and benefits has been used to derive the persistency assumptions for expenses and policy values respectively.

Experience has been split into two categories: policies that are yet to reach and those already past the Earliest Contractual Date (ECD) shown in the table below. The assumed retirement ages in relation to ECD are shown in the following tables (where NRA = Normal Retirement Age):

Assumption for expenses for policies yet to reach ECD:

Product Type	Year ending 31 December 2009	Year ending 31 December 2008	Original ECD
Group Pensions	3.00 years before ECD	3.00 years before ECD	NRA
Individual (executive) Pensions	0.75 years before ECD	2.00 years before ECD	NRA
Personal Pensions (non-DSS)	11.75 years after ECD	At ECD	50
Personal Pensions (DSS)	3.75 years after ECD	At ECD	60
Retirement Annuities	3.75 years after ECD	At ECD	60

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

Assumption for expenses for policies already past ECD:

<b>Product Type</b>	<b>Year ending 31 December 2009</b>	<b>Year ending 31 December 2008</b>	<b>Original ECD</b>
Group Pensions	9.75 years after ECD	Immediately	NRA
Individual (executive) Pensions	2.25 years after ECD	Immediately	NRA
Personal Pensions (non-DSS)	14.00 years after ECD	Immediately	50
Personal Pensions (DSS)	6.00 years after ECD	Immediately	60
Retirement Annuities	7.50 years after ECD	Immediately	60

Assumption for benefits for policies yet to reach ECD:

<b>Product Type</b>	<b>Year ending 31 December 2009</b>	<b>Year ending 31 December 2008</b>	<b>Original ECD</b>
Group Pensions	3.25 years before ECD	3.00 years before ECD	NRA
Individual (executive) Pensions	1.00 years before ECD	2.00 years before ECD	NRA
Personal Pensions (non-DSS)	10.25 years after ECD	At ECD	50
Personal Pensions (DSS)	3.50 years after ECD	At ECD	60
Retirement Annuities	2.75 years after ECD	At ECD	60

Assumption for benefits for policies already past ECD:

<b>Product Type</b>	<b>Year ending 31 December 2009</b>	<b>Year ending 31 December 2008</b>	<b>Original ECD</b>
Group Pensions	7.75 years after ECD	Immediately	NRA
Individual (executive) Pensions	2.00 years after ECD	Immediately	NRA
Personal Pensions (non-DSS)	14.00 years after ECD	Immediately	50
Personal Pensions (DSS)	5.75 years after ECD	Immediately	60
Retirement Annuities	6.75 years after ECD	Immediately	60

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

Group final salary benefits are assumed to terminate in 1.5 years.

Income drawdown policies are assumed to terminate immediately.

For group money purchase schemes, where individual member data is not required, the term to retirement is assumed to be the same as all other group money purchase schemes.

For life policies where there is a range of potential contractual termination dates, the following assumptions are used:

Personal Investment Plans: next contractual withdrawal date.

Bonds: next contractual withdrawal date.

School Fee Trust Plans are assumed to terminate immediately.

- (9) There are no other material assumptions stated elsewhere.
- (10) The Society does hold derivative contracts but none were used to justify the valuation rate of interest.
- (11) There have been no changes in methodology as a result of changes to INSPRU in respect of the allowances for:
  - lapses on valuation of protection business;
  - negative reserves on valuation of protection business;
  - lapses on valuation of unit-linked business;
  - attributable expenses on valuation of unit-linked business.

### Options and guarantees

#### 5. (1) Guaranteed annuity rate options

(a) The method used is a deterministic one. The basic reserve represents the value of the cash benefit. The extra reserve for the guarantee is calculated as

$(\text{Guaranteed Annuity Rate} / \text{Valuation Annuity rate} - 1) \times \text{basic reserve}$   
(subject to a minimum of zero)

with an additional contingency margin of 70%.

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## REGULATORY VALUATION REPORT

(b)

Product name	Deferred annuity	Accumulating class	Endowments	German Deferred Annuity
<b>Basic reserve</b>	£2.1m	£5.5m	£2.5m	£7.4m
<b>Spread of outstanding durations</b>	0 to 21 years	0 to 10 years	0 to 24 years	0 to 41 years
<b>Guarantee reserve</b>	£1.8m	£4.5m	£2.2m	£2.6m
<b>Guaranteed annuity rate (male aged 65)</b>	9.92%	9.92%	9.92%	6.94%
<b>Increments permissible?</b>	No	Yes	No	Yes
<b>Form of annuity</b>	Half yearly, in arrear, level, single life, no guarantee period	Half yearly, in arrear, level, single life, no guarantee period	Half yearly, in arrear, level, single life, no guarantee period	Monthly, in advance, level, single life, no guarantee period
<b>Retirement ages</b>	60 to 70	60 to 70	60 to 70	50 to 75

(2) Options which guarantee surrender values at specified dates are automatically valued as a result of the persistency assumption set out in paragraph 4(8).

(3) Guaranteed Insurability options

(a) Under some UK bonds the death benefit is 105% or 110% of the fund value. Due to the low level of new premiums, the low level of sum assured at risk and the prudent persistency assumption no extra reserve is held.

All Flexible Protection Plans issued on normal terms carry the option to effect further policies without evidence of health. Broadly, the option allows the life cover to be increased at intervals, by effecting further policies, in line with increases in the Retail Prices Index. Due to the low level of increases permitted and the reviewable and prudent nature of the mortality charges, no extra reserve is held.

Prior to 15 August 1986 an option to effect further policies without evidence of health could be included on the Society's standard whole life and endowment assurances in the life fund. Due to the non-guaranteed and prudent premium basis for new policies, no extra reserve is held.

Mortgage protection policies and endowment assurances with guaranteed minimum death benefit, where used as collateral security in respect of a house purchase loan carry the option to effect further policies or increase the death benefit on existing policies when an additional loan is effected or the terms of a loan are changed. Due to the size of this policy class, the conditional nature of the option and the prudent, non-guaranteed new policy premium bases, no extra reserve is held.

(b) Individually and in aggregate the sums assured of the policy classes listed above do not exceed £1bn.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

- (4) Guaranteed minimum pensions and guaranteed interest rates are valued as described in paragraph 4(1).

### Expense reserves

6. (1) The aggregate amount of expense loadings expected to arise during the 12 months following the valuation date from explicit reserves made is £82.3m.

Homogeneous risk group	Implicit allowances (£m)	Explicit allowances (investment) (£m)	Explicit allowances (maintenance) (£m)	Non-attributable expenses (maintenance) (£m)	Non-attributable expenses (exceptional) (£m)	Total (£m)
UK Life	n/a	0.1	0.4	0.8	2.6	3.9
UK Pensions	n/a	4.7	6.4	15.2	48.6	74.9
Overseas	n/a	0.1	0.6	0.7	2.1	3.5
Total	n/a	4.9	7.4	16.7	53.3	82.3

The non-attributable expense is made up of £16.7m maintenance expenses and £53.3m exceptional expenses. Total maintenance expenses in 2010 are £29.0m.

- (2) There are no implicit allowances. All expense assumptions and reserves are calculated explicitly.
- (3) The difference of the amount of maintenance expenses from the maintenance expenses in 2009 shown in line 14 on Form 43 is due to reductions in the regular expense budget.
- (4) The Society is closed to new business.
- (5) The reserving basis already incorporates factors reflecting the closed nature of the fund.
- (6) An exceptional expense reserve of £131.9m covers short term exceptional costs and is attributed to homogeneous risks groups in proportion to overall reserves. These costs are principally strategic business projects and pension funding commitments. A non-attributable regular expense reserve of £196.5m covers the regular expenses that exceed the explicit per policy expense allowance and is attributed to homogeneous risks groups in proportion to overall reserves. This provision is calculated as the net present value of the projected budget which reduces at a rate related to the projected run off of the business.

### Mismatching reserves

7. (1) There is just one with-profits fund which contains all the non-profit, index-linked and non-sterling liabilities. The total mathematical reserves (other than liabilities for property-linked benefits), analysed by reference to the currencies in which the liabilities are expressed to be payable, together with the total value of the assets, analysed by reference to currency, which match the total liabilities are tabulated below:

Currency	Mathematical Reserves (£000,000)	Assets (£000,000)
Sterling	5,323	5,985
Euro	174	201
US Dollar	2	113

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

- (2) Not applicable.
- (3) No mismatching reserve is required.
- (4) Not applicable.
- (5) Not applicable.
- (6) Not applicable.
- (7) No additional reserves are required arising from the tests on assets in INSPRU 1.1.34R.

The cash flows emerging from benefits and expenses from non-profit, index-linked and with-profits in force business have been considered. Index linked assets can be allocated to expenses such that the cash flows emerging from those assets match those from the expected expenses. Fixed interest assets can be allocated to non-profit business such that the cash flows emerging from those assets match closely those from the non-profit in force benefits. Index linked assets and cash can be allocated to index linked business such that the cash flows emerging from those assets match broadly those from the index-linked in force benefits. The remaining assets are allocated to with-profits business. Taking into account the nature and the term of this business, it is envisaged that there will be no future liquidity problems in a wide range of investment scenarios. A significant proportion of the fund is held in British Government securities to allow for uncertainties of cash flows given the flexibility of the policies.

### Other special reserves

8. (1) UK Accumulating With-Profits Pensions - Additional Reserves UWP

This reserve of £447.9m represents unattributable expenses, exceptional expenses, investment expense on unallocated funds and the potential cost of maintaining the current with-profits non-contractual termination terms. Descriptions of each of the principal elements of this reserve are detailed below.

Where appropriate, the assumptions used to determine this reserve are consistent with those assumptions defined in earlier section of this appendix. Those assumptions are combined with past experience to determine anticipated payments for the various components of the reserve. The likelihood of a payment being made has been based on past experience and expert advice (where appropriate).

- Unattributable Regular Expenses

A provision is held for the regular administration costs of the Society in excess of the per policy loadings. This provision is calculated as the net present value of the projected budget which reduces at a rate related to the projected run off of the business.

- Exceptional Expenses

A provision is held for anticipated additional expenses over future years, including contractual commitments to HBOS in respect of pension scheme future service costs, anticipated additional costs associated with servicing policies in the medium term and non-recurring project costs.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

- Fund Management Expenses

An allowance for anticipated fund management expenses that are not covered in individual policy reserves elsewhere is included in this reserve.

- Non Contractual Withdrawals

The reserve also includes an allowance for potential surrenders where the surrender value exceeds the "normal reserve" (as described in 4 (1) above).

- (2) UK Non-Linked Pension (Other than Accumulating With-Profits) - Additional Reserves With-Profits OB

This reserve of £34.1m is the allowance made for unattributable expenses, exceptional expenses, legal claims against the Society (including potential claims relating to the sale of with-profits annuities), and the potential cost of maintaining the current with-profits non-contractual termination terms.

The reserve includes an amount for unsettled legal claims already served against the Society (adjusted for the probability of a claim being upheld based on past experience) and an allowance for potential future claims based on recent experience. In the case of with-profits annuities, the amount is dependent on the difference between existing benefits and potential alternative benefits that could have been taken.

- (3) UK Accumulating With-Profits Life - Additional Reserves UWP

This reserve of £9.1m represents unattributable expenses and the potential cost of maintaining the current with-profits non-contractual termination terms as detailed in section 4 (1) above.

- (4) UK Non-Linked Life (Other than Accumulating With-Profits) – Additional Reserves With-Profits OB

This reserve of £11.3m is the allowance made for potential surrenders as detailed in section 4 (1) above and unattributable expenses.

- (5) Non UK Non-Linked Accumulating With-Profits – Additional Reserves UWP

This reserve of £8.0m is the allowance made for mis-selling claims against the Society and unattributable expenses.

- (6) Non UK Non-Linked (Other than Accumulating With-Profits) - Additional Reserves With-Profits OB

This reserve of £4.7m is the allowance made for unattributable expenses. Non UK Non-Linked

### Reinsurance details

9. (1) All reinsurance ceded on a facultative basis is with reinsurers who are authorised to carry on insurance business in the United Kingdom.

- (2) (i) (d) The reinsurer is Halifax Life Limited.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

- (e) The reinsurer automatically provides cover in respect of 100% of the liabilities under all linked and non-profit policies, with the exception of immediate annuities in payment other than those arising from deferred annuity policies after 1 March 2001.
- (f) The premium payable since the last investigation was £58,001,610
- (g) There is no deposit-back arrangement.
- (h) The treaty is open to new business.
- (i) There is no undischarged obligation of the insurer.
- (j) £2,286m of mathematical reserves were ceded under the treaty.
- (k) There is nil retention by the insurer for new policies being ceded.
- (l) The reinsurer is authorised to carry out insurance business in the United Kingdom.
- (m) The Society and the reinsurer are not connected.
- (n) The treaty is not subject to any material contingencies.
- (o) Not applicable.
- (p) There were no financing arrangements in force at 31 December 2009.
- (ii) (d) The reinsurer is Clerical Medical Investment Group Limited (CMIG).
- (e) The reinsurer automatically provides 100% of the liabilities in respect of units purchased in CMIG With-Profits fund which are available as an investment option for members of certain group pension schemes.
- (f) The premium payable since the last investigation was £738,074.
- (g) There is no deposit back arrangement.
- (h) The treaty is open to new business.
- (i) There is no undischarged obligation of the insurer.
- (j) £23m of mathematical reserves were ceded under the treaty.
- (k) There is nil retention by the insurer for new policies being ceded.
- (l) The reinsurer is authorised to carry out business in the United Kingdom.
- (m) The Society and the reinsurer are not connected.
- (n) The treaty is not subject to any material contingencies.
- (o) Not applicable.



# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REGULATORY VALUATION REPORT

- (p) There were no financing arrangements in force at 31 December 2009.
- (iii) (d) The reinsurer is Clerical Medical Managed Funds Limited (CMMF).
- (e) The reinsurer automatically provides 100% of the liabilities in respect of units purchased in CMMF funds which are available as an investment option for members of certain group pension schemes.
- (f) The premium payable since the last investigation was £675,700.
- (g) There is no deposit back arrangement.
- (h) The treaty is open to new business.
- (i) There is no undischarged obligation of the insurer.
- (j) £24m of mathematical reserves were ceded under the treaty.
- (k) There is nil retention by the insurer for new policies being ceded.
- (l) The reinsurer is authorised to carry out business in the United Kingdom.
- (m) The Society and the reinsurer are not connected.
- (n) The treaty is not subject to any material contingencies.
- (o) Not applicable.
- (p) There were no financing arrangements in force at 31 December 2009.

### Reversionary bonus

10. Reversionary bonus has not been declared on classes of business where the mathematical reserves exceed the lesser of £10m and 1% of the total.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

### Introduction

1. (1) The date of the valuation was 31 December 2009
- (2) The previous valuation was at 31 December 2008.
- (3) The date of the interim valuation was 30 June 2009.

The Society has only one with-profits fund. Each of the following sections refers to that fund.

### Assets

2. (1) The economic assumptions used to determine the value of future profits arising from the non-profit insurance contracts were:

#### Level and fixed escalation annuities

	<b>Current Valuation</b>	<b>Previous Valuation</b>
Earned rate of interest on Non-profit assets (gross)	4.35%	4.12%
Discount rate applied to future cash flows	6.85%	6.62%
Per policy expense rate pa	£4.46 p.a.	£20 p.a.
Expense inflation rate pa	5.10%	8.90%

The expense inflation rate shown is based on RPI inflation of 3.60% p.a. (previous valuation 3.15% p.a.) plus an allowance for additional expense inflation of 1.50% p.a. (previous valuation 5.75% p.a.).

#### Index-linked annuities

	<b>Current Valuation</b>	<b>Previous Valuation</b>
Earned real rate of interest on index-linked assets (gross)	0.72%	2.03%
Real discount rate applied to future cash flows	3.22%	4.53%
Per policy expense rate pa	£4.46 p.a.	£20 p.a.
Real expense inflation rate pa	1.50%	5.75%

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

### Mortality bases

	<b>Current Valuation</b>	<b>Previous Valuation</b>
Pensions annuities:		
- male lives	92.50% PNMA00mc (U=2012) *	95% PNMA00mc (U=2011) *
- female lives	85.00% PNFA00mc (U=2012) *	102.5% PNFA00mc (U=2011) *
BLAGAB annuities:		
- male lives	72.5% IML00 Ult (U=2009)**	82.5% IML00 Ult (U=2008)**
- female lives	77.5% IFL00 Ult (U=2009)**	82.5% IFL00 Ult (U=2008)**

\* the allowance for mortality improvements for PNMA00mc/PNFA00mc is based on implied mortality improvements per PFA92mc/PFA92 mc

\*\* the allowance for mortality improvements for IML00/IFL00 Ult is based on implied mortality improvements per IMA92/IFA92

The implied mortality improvements are subject to a minimum improvement of 1.5% pa (unchanged from the previous valuation).

The Society's remaining non-profit business is wholly reassured.

- (2) Not applicable
- (3) Not applicable
- (4) Not applicable
- (5) Not applicable

### With-Profits Benefits Reserve Liabilities

3. (1) The following table shows the valuation method used to calculate the realistic value of the liabilities for the various product types together with the amounts of the with-profits benefit reserve and the future policy related liabilities.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

Product type	Valuation Method	With-Profits Benefit Reserve £m	Future Policy Related Liabilities £m
Conventional with-profits	P	91	(6)
Life RSP contract	R	130	(1)
Flexible Protection Plans	R	21	(5)
Pensions RSP (3.5% GIR)	R	3,179	320
Pensions RSP (0% GIR)	R	700	(52)
Total for these products		4,121	256
Aggregate de minimis contracts		22	(1)
Grand total		4,143	255

R=Retrospective Method, P=Prospective Method

The Future Policy Related liabilities shown are based on the future cost of contractual guarantees (line 41 of Form 19), less the future value of charges of 1.0% p.a. (as described in section 4.(4)) to be taken from investment returns (line 35 of Form 19) and the future value of profits on surrender (line 36 of Form 19).

Actual expenses are charged to policy values and their equivalents each year. The realistic balance sheet allows for a realistic estimate of future expenses including an allowance for diseconomies of scale.

- (2) Not applicable.
- (3) With-profits insurance contracts with total with-profits benefit reserves of £22m and future policy related liabilities of -£1m were not modelled explicitly. To allow for these contracts the explicitly modelled liabilities were scaled up using the ratio of total regulatory reserves including these contracts to the total regulatory reserves excluding these contracts.
- (4) Not applicable.

### With-profits benefit reserves – Retrospective method

- 4. (1) (a) The methodology is unchanged from the previous year end. For all the Recurrent Single Premium that was valued on a retrospective basis 100% of the with-profits benefit reserve was calculated on an individual basis.

For Recurrent Single Premium business Policy Values have been established as a proxy for asset shares (and hence the with-profits benefit reserve).

- (b) None.
- (c) Not applicable.
- (2) (a) None.
- (b) Not applicable.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

- (3) (a) The date of the previous expense investigation was 31/12/08.
- (b) Expense investigations are carried out every 12 months, and updated at six monthly intervals. The numbers in this section relate to the year to 31 December 2009.
- (c) (i) There were no initial expenses identified relating to the issue of new policies where the policyholder has a contractual right to take out a new policy. There were no other initial expenses.
- (ii) A charge of 1%pa of the with-profits benefit reserve (amounting to approximately £43m) was made in respect of maintenance expenses that relate to the servicing, claims handling and management of the business.
- (iii) expenses are charged to the with-profits benefits reserve by way of an expense charge of 1% pa deducted from all contracts. The expense charge will be reduced from 1% pa to 0.5% pa with effect from 1 January 2011.
- (iv) £86m of expenses were categorised as exceptional expenses. These expenses are charged against specific provisions held on the balance sheet.
- (4) A charge of 1.0% p.a. of policy values (the “charge for capital and cost of guarantees”) is taken to make some allowance for the cost of guarantees incurred and to act as a buffer against risk and adverse experience. The charge was increased from 0.5% pa with effect from 1 January 2009.
- (5) Not applicable
- (6) The claims paid during the year comprised maturity values (being the higher of Policy Values and the guaranteed benefit) and surrender values (being policy values reduced by the financial adjustment which for UK policies was 5% throughout 2009). The ratio of maturity claims to the corresponding Policy Values over the year prior to the valuation date was 100% (although more would have been paid out for cases where the guarantee bit). The corresponding ratio for surrenders/transfers was about 95%. The corresponding figures for maturities and surrenders/transfers for 2008 were 100% and 95% respectively, and for 2007 were 100% and 94% respectively.
- (7) The investment return earned over the period from 31 December 2008 to 31 December 2009 was 6.0% (2008: 0.1%) before tax and expenses. The with-profits benefit reserve was increased for the period from 31 December 2008 to 31 December 2009 by 3.5 % (2008: decreased by 3.0%) for with-profits recurrent single premium pension policies.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

### With-profits benefits reserve – Prospective method

5. (1) For conventional with-profits business (whole of life and endowments) the key assumptions used in the prospective method of calculating the with-profits benefits reserve were:
- (a) The discount rate applied to future benefits and premiums was 2.50% per annum. This is based on the risk free rate of around 3.25%, netted down for tax and rounded down.
  - (b) Not applicable.
  - (c) No assumption for future inflation of expenses is required in this methodology.
  - (d) Future reversionary bonuses are assumed to be zero. The following table of final bonus factors was used to calculate the policy values at the valuation date.

Elapsed Term - Yrs	Final Bonus Rate %
0	0
1	0
2	0
3	0
4	0
5	0
6	1
7	2
8	2
9	2
10	2
11	2
12	2
13	3
14	3
15	3
16	4
17	4
18	4
19	4
20	4
21	5
22	6
23	7
24	9
25	13
26	19
27	27
28	35
29	42
30	48
31	54

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

32	60
33	68
34	74
35	80
36	86
37	90
38	92
39	94
40	96
> 41	96

- (e) Expenses are implicitly allowed for in the premiums valued.
  - (f) No allowance for surrenders was made.
- (2) The methods in (1) involve only one set of key assumptions.

### Costs of guarantees, options and smoothing

6. (1) Not applicable
- (2) The methodology and assumptions are unchanged from the previous year end.

All the with-profits insurance contracts mentioned in 3 (1) were valued using a market consistent stochastic model. All the contracts were grouped according to the following grouping rules:

Recurring Single Premium – these contracts were grouped by outstanding term, ratio of final bonus to policy value (in 2% bands) and by the level of guaranteed interest rate (3.5% or 0% per annum).

For with-profits UK transfer plans and miscellaneous deferred annuities, a number of contracts have a Guaranteed Minimum Pension (GMP) underpin. These contracts also have the guarantees common to all Recurring Single Premium business described above. For these policies the average cost of buying out the revalued GMP annuity benefit at State Pension Age (SPA) was calculated based on 500 simulations using the mortality basis for non-profit annuities set out section 2.(1) above and risk-free yields for 10 year Zero Coupon Bonds at SPA. Allowance was also made for expenses in payment including diseconomies of scale between the valuation date and SPA.

Conventional Endowments – these contracts were grouped by original term and then by outstanding term.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

Numbers of benefits before and after applying grouping rules:

Product type	Benefits	Model Points
Conventional with-profits	7,623	697
Life RSP contracts	15,534	176
Flexible Protection Plans	4,200	133
Pensions RSP (3.5% GIR)	629,435	5,919
Pensions RSP (0% GIR)	192,988	4,580
Total	849,780	11,505

The grouping bases have not been reviewed for this valuation, and there have been no changes made since the 2005 year-end valuation.

In determining the grouping basis for each contract type, tests were done at the 2005 year-end with higher numbers of groups modelled. The final grouping rules were set so that the value of the guarantee costs did not materially change from the results using larger number of groupings.

- (3) Not applicable.
- (4) (a) (i) The methodology is unchanged from the previous year end.

For Recurring Single Premium business there is a guarantee that the death benefit and the maturity benefit will not be less than the amount of the guaranteed fund plus any declared reversionary bonuses. The maturity guarantee applies where the policyholder retires on or after the Earliest Contractual Date (ECD) written into their policy. Most policies effected before 1 July 1996 have a guaranteed rate of interest of 3.5% that will be credited to the guaranteed amounts each year.

For the purpose of determining when policyholders will exit on contractual terms, policies have been split into 2 categories -those that have not yet reached the ECD and those that have passed that date.

The assumed retirement ages in relation to the ECD are shown in the following table. The assumptions used have changed from the assumptions used in the previous valuation.



# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

	<b>Policyholders Before ECD (years)</b>	<b>Policyholders on or after ECD (years)</b>	<b>Original ECD</b>
Group Pensions	-2	8	NRA
Individual ("executive") Pensions	0	3	NRA
Personal Pensions (non-DSS)	11	14	50
Personal Pensions (DSS)	4	6	60
Retirement Annuities	3	7	60

where NRA = Normal Retirement Age

Policyholders already past the assumed retirement age were assumed to retire immediately. This assumption is unchanged from the previous valuation.

Managed Pension policies were assumed to mature evenly over the 3 year period beginning at the valuation date. This assumption is unchanged from the previous valuation.

For endowment assurances there is a guarantee that the amount payable on death and the maturity value will not be less than the sum assured and any declared reversionary bonuses.

For some with-profits UK transfer plans and miscellaneous deferred annuities there is a Guaranteed Minimum Pension (GMP) at State Pension Age (see section 6.(2) above).

A very small set of policies has guaranteed annuity options for which a provision of £11m is held. The provision was calculated deterministically, and increased by over 50% to allow for stochastic variation.

For contracts other than conventional with-profits, the extent to which policy values exceeded guaranteed values at the valuation date, banded into percentages of policy values, is shown in the following table:

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

% In / Out of money*	Policy values (£m)	Percentage
-100% to -50%	0	0%
-49% to -30%	257	7%
-29% to -20%	439	11%
-19% to -15%	526	13%
-14% to -10%	451	11%
-9% to -5%	810	20%
-4% to 0%	468	12%
1% to 5%	242	6%
6% to 10%	251	6%
11% to 15%	248	6%
16% to 20%	97	2%
21% to 30%	174	4%
31% to 50%	76	2%
51% to 100%	3	0%
Total	4,042	100%

\* Negative values indicate contracts currently “in the money” (i.e. where the current guaranteed fund exceeds the current policy value – this may change by maturity). The figures shown are percentages of policy value.

- (a) (ii) The asset model used in the valuation is the Barrie & Hibbert Economic Scenario Generator.

Nominal short-term interest rates are assumed to follow a LIBOR Market Model with semi-annual timesteps. The risk-free curve has been fitted to the gilt curve, and the volatility of interest rates has been calibrated to the implied volatility of swaption prices.

In the Realistic Balance Sheet, liabilities are discounted at 0.03% above calibrated risk-free rates. This adjustment reflects the yields available on the risk-free assets held to back with-profits liabilities relative to yields implied by the calibrated yield curve. It also reflects the proportion of such assets. No such adjustment was made at the previous valuation.

The model for the real short-term rate is similar in structure.

Price inflation is modelled as the difference between the nominal and real short-term rate process.

Credit risk on corporate bonds is modelled using an extension of the Jarrow-Landow-Turnbull model.

For equities and for properties, the ratios of total return in excess of the nominal short-term interest rate is assumed to be lognormally distributed with equity volatility varying by term, and a constant volatility assumption for property.

The volatility assumptions for the major classes of asset are chosen to be consistent with option market prices where available.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

Barrie & Hibbert supply recommended parameters, which are analysed before acceptance and use.

For the Realistic Balance Sheet, a risk-neutral set of parameters has been calibrated to be market-consistent. Barrie & Hibbert conduct a survey of OTC (over the counter) derivative price quotes from investment banks every quarter. These prices are used to update the market consistent calibrations every quarter.

At 31 December 2009, equity volatility is assumed to be as shown below, calibrated to implied volatilities on at-the-money FTSE 100 options varying by term as follows:

<b>Term</b>	<b>Implied Volatility</b>
1 year	22.9%
2 years	24.2%
3 years	24.9%
5 years	25.3%
7 years	26.3%
10 years	26.6%

Over longer terms the excess volatility tends to 27%. This is Barrie & Hibbert's best estimate of long term excess volatility from their research.

Property volatility is assumed to be 15%. As it is not currently possible to observe meaningful option prices (and hence derive volatilities), this is based on Barrie & Hibbert's best estimate from their research.

Property Unit Trusts (PUTs) are modelled as property. These vehicles have issued a significant amount of debt in order to finance the property development. The market value of the PUTs modelled reflects the total exposure to property prices, with the amount of the debt being offset against cash in the with-profits fund.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

Swaption volatilities implied by the calibration vary by term and duration with those obtained from market data. The fitting method is least squares over the swaption volatility surface with additional weight applied to options on 20 year swaps. The swaption volatilities from the Barrie & Hibbert ESG are shown in the following table. The volatilities shown are for at-the-money swaptions.

Option Term (years)	Swap Term (years)				
	1	5	10	20	30
5	20.6%	17.0%	15.7%	15.9%	15.7%
10	13.5%	13.1%	13.8%	14.1%	13.6%
15	13.6%	14.3%	14.8%	14.6%	13.5%
20	14.8%	15.1%	15.4%	14.4%	13.0%
25	15.7%	15.9%	15.6%	14.0%	12.3%

### Correlations

Barrie & Hibbert also specified a correlation matrix. The risk-neutral correlations between equities and bonds and equities and short-term interest rates were derived from an analysis of historical data.

Key correlations are:

Equities / Government Bonds	+0.16
Equities / Short Term Interest Rates	-0.22
Equities / Property	+0.20
Equities / Index-linked Bonds	+0.15

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

(a) (iii)

Asset type (all UK assets)		K=0.75				K=1				K=1.5			
n		5	15	25	35	5	15	25	35	5	15	25	35
r	Annualised compound equivalent of the risk free rate assumed for the period.(to two decimal places)	3.02%	4.70%	4.68%	4.50%	x	x	x	x	x	x	x	x
		0	0	0	0								
1	Risk-free zero coupon bond	861,619	502,406	318,843	213,925	x	x	x	x	x	x	x	x
2	FTSE All Share Index (p=1)	97,111	243,145	343,054	423,009	227,240	408,502	526,504	621,644	599,123	792,747	928,996	1,045,529
3	FTSE All Share Index (p=0.8)	88,296	187,327	241,860	277,173	209,621	322,057	377,657	414,218	562,960	640,441	681,868	710,526
4	Property (p=1)	31,508	107,157	177,331	239,826	133,116	241,928	331,130	408,504	522,172	617,177	713,209	802,634
5	Property (p=0.8)	26,445	69,720	103,537	129,335	117,233	167,760	204,676	232,797	482,587	462,439	473,751	488,634
6	15 year risk free zero coupon bonds (p=1)	14,574	12,007	10,563	27,437	77,559	63,461	83,287	138,729	480,303	459,812	475,897	523,269
7	15 year risk free zero coupon bonds (p=0.8)	12,241	5,743	2,334	2,817	65,600	28,819	16,788	24,591	437,064	276,902	214,828	208,811
8	15 year corporate bonds (p=1)	7,464	19,988	45,096	84,084	64,308	97,853	159,019	222,525	498,098	510,087	559,380	624,040
9	15 year corporate bonds (p=0.8)	5,916	8,896	14,967	24,855	52,191	47,372	60,831	79,373	454,589	330,028	300,028	299,092
10	Portfolio of 65% FTSE All Share and 35% Property (p=1)	49,923	154,631	237,372	309,357	162,520	301,074	401,721	489,434	544,428	675,383	786,799	891,792
11	Portfolio of 65% FTSE All Share and 35% Property (p=0.8)	43,559	109,890	152,255	184,039	145,955	222,175	267,474	301,592	506,224	524,526	548,051	572,471
12	Portfolio of 65% equity and 35% 15 risk free zero coupon bonds (p=1)	43,542	126,377	197,849	262,294	150,987	263,522	351,751	431,689	528,632	628,868	724,099	820,026
13	Portfolio of 65% equity and 35% 15 risk free zero coupon bonds (p=0.8)	37,570	86,544	121,093	149,573	134,992	188,879	225,692	255,194	490,521	479,754	491,351	511,327
14	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	20,395	71,301	125,672	179,700	109,032	189,255	262,929	333,728	503,578	555,814	628,601	711,931
15	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	16,651	41,913	65,093	85,957	94,101	122,506	149,060	173,511	463,040	402,366	397,378	409,330
		L=15				L=20				L=25			
16	Receiver swaption	5.06%	6.92%	5.68%	4.09%	6.60%	8.55%	6.78%	4.81%	8.01%	9.83%	7.59%	5.30%

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

- (a) (iv) The initial net yields on equities and property were taken as 3.44% and 4.30% respectively.
- (a) (v) Not applicable
- (a) (vi) For contracts other than conventional with-profits, the distribution of contracts that currently have guaranteed values greater or less than policy values is shown in the following table:

<b>Guaranteed values greater than policy values</b>		
<b>Outstanding Term</b>	<b>Policy Value (£m)</b>	<b>Percentage</b>
20 to 40 Years	257	9%
10 to 20 Years	1,064	36%
5 to 10 Years	881	30%
0 to 5 Years	749	25%
Whole Life*	0	0%
Total	2,951	100%

<b>Guaranteed values less than policy values</b>		
<b>Outstanding Term</b>	<b>Policy Value (£m)</b>	<b>Percentage</b>
20 to 40 Years	98	9%
10 to 20 Years	246	23%
5 to 10 Years	293	27%
0 to 5 Years	454	41%
Whole Life*	0	0%
Total	1,091	100%

\* A number of Recurrent Single Premium life policies (Critical Illness and Major Medical Plans) are written as whole of life policies.

The asset model has been calibrated to UK Government Bonds using Gilt Strips for a range of terms.

The model is calibrated to implied volatilities. The asset model produces:

- An equity implied volatility of 26.8% over ten years for the total return index. For comparison, the implied volatility of a ten-year at-the-money equity capital return index put option used for calibrating the model was 26.6%.
- Property volatility over ten years of 15.3% p.a. For comparison, the implied volatility assumption used for calibrating the model was 15%.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

- Zero coupon bond volatilities varying by outstanding term to redemption as follows:

Term (years)	Average expected volatility over next 20 years (%)
1	3.1
5	4.8
10	6.3
15	12.2
20	15.6
25	18.6

- Average correlations between asset classes as follows:
  - Total equity return and 10 year bond return: 23.9%
  - Total equity return and property return: 22.5%
  - Property return and 10 year bond return: 21.5%

Correlations with bonds of shorter and longer terms were similar to those shown above.

- (a) (vii) The risk-free rate implied by the economic scenarios is compared against the calibrated risk free rate.

Checks were also made to ensure that the present value of future income, gains and losses on bonds, property and equities equal the starting market values of the assets.

- (a) (viii) The results are based on 5000 simulations. Results based on batches of 500 simulations show that increasing the number of simulations increases the accuracy of the results based on the assumptions used.

(b) Not applicable.

(c) Not applicable.

- (5) (a) In the projection of assets and liabilities it has been assumed that policy values (and hence the with-profits benefit reserve) would be changed in line with the change to the market value of assets. Any residual excess of assets over liabilities would be distributed over the lifetime of the existing business. In Form 19, any residual excess of assets over liabilities would be included under planned enhancements to with-profits benefits reserve (line 34) such that the working capital is zero.

In the projection of assets and in line with planned investment strategy it is also assumed that the fund is rebalanced at the end of each year to a target asset mix comprising of 11% equities, 9% property, 75% fixed interest assets (35% gilts and 40% corporate bonds) and the remainder in cash type assets. At the previous valuation the corresponding target asset mix was 8% equities, 12% property, 75% fixed interest assets and the remainder in cash type assets.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

- (b) Future proportion of assets backing the with-profits benefit reserve which consists of equities:

	31/12/2009	31/12/2014	31/12/2019
(i) Base scenario	4.9%	11.0%	11.0%
(ii) Yields increase by 17.5%	4.4%	4.4%	4.4%
(iii) Yields reduce by 17.5%	4.0%	4.0%	4.0%

A further 2.1% of assets (allowing for gearing) were invested in Property Unit Trusts and a further 7.1% of assets were directly invested in property.

As described in section 10(b)(i), the assumed asset mix to which the fund is rebalanced each year is changed in stress scenarios. The investment mix described in section 6(5)(a) is replaced by the initial asset mix immediately following application of the stress in the stress scenario being considered. The resulting percentages, as shown in the table above, are maintained over time through rebalancing the portfolio as required.

Future declared reversionary bonus rates are assumed to be zero throughout the projection period (unchanged from previous year end).

- (6) Policyholders are assumed to take benefits on non-contractual terms at the following rates. Some of the assumptions have changed from those used at the previous valuation:

Product		Surrender rate			
		Initial Rate		Ultimate Rate	
		Current Valuation	Previous Valuation	Current Valuation	Previous Valuation
Group AVC	surrender	4.5%	5.0%	1.5%	1.5%
Group Money Purchase	surrender	4.5%	5.0%	1.5%	1.5%
Individual ("executive") Pensions	surrender	4.0%	5.0%	1.5%	1.5%
Personal Pensions (non-DSS)	surrender	5.5%	6.0%	1.5%	1.5%
Personal Pensions (DSS)	surrender	5.5%	6.0%	1.5%	1.5%
Retirement Annuities	surrender	5.5%	6.0%	1.5%	1.5%
Life Business	surrender	5.0%	5.0%	1.5%	1.5%
Single premium bonds	automatic withdrawals	5.0%	5.0%	5.0%	5.0%



# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

The surrender assumptions do not vary by policy year. They vary by duration from the valuation date. The assumed rate in the year following the valuation is the "Initial Rate" in the table above. Thereafter, the surrender rate is assumed to reduce by 0.5% each year until it reaches the "Ultimate Rate" in the table above.

The paid-up assumptions were that no further contributions would be made to policies, except where contractually required to maintain the policy.

For Recurrent Single Premium life policies it was assumed that, with the exception of the surrenders described above, all policyholders would take their benefits at their 10<sup>th</sup> anniversary dates (or, where policies have been extended, the next date at which any benefit could be taken on contractual terms).

For Conventional with-profits policies it was assumed that, with the exception of the surrenders described above, all policyholders would take benefits on the date their policies mature.

- (7) It was assumed that policyholders would make no further contributions to policies, except where contractually required to maintain the policy. Surrender rates are assumed not to vary by economic scenario. It was assumed that there would be no changes to retirement behaviour in low interest rate scenarios.

A sensitivity analysis has been carried out to illustrate the potential impact on planned enhancements to with-profits benefits reserve of GIRs on RSP business under certain scenarios modelled on a stochastic basis, where the results are aggregated and the average liability is calculated. If investment returns fall below a given level, it is possible that policyholders may defer their retirement. If policyholders defer their retirement by up to 5 years (from that previously assumed), while the interest rate in the scenario is below 2.5%, then the planned enhancements would reduce by £25m. If the level of interest rates at which behaviour changes is 3.5% and the same period of deferral is assumed, the amount is £45m. If the deferral were for a period of up to 10 years, the amounts are £35m at 2.5% and £65m at 3.5% respectively.

The Society has purchased a series of receiver swaptions with a range of terms. The purpose of these swaptions is to provide additional capital when interest rates on similar fixed-interest securities are anticipated to fall. These swaptions are designed to partially mitigate any increase in liabilities for RSP policies with a non-zero GIR if policyholders defer their retirement plans. The total market value of the swaptions at 31 December 2009 was £34m. A fall in interest rates of 1.0% at all terms would increase the value of the swaptions by £34m and a similar increase would decrease the value by £17m.

### Financing Costs

7. Not applicable.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

### Other long-term insurance liabilities

8. There are several provisions in respect of various review programmes and to cover other risks. These liabilities also include allowance for short-term exceptional expenses mainly in connection with these review programmes and litigation costs. The total provision of £249.5m is composed of the following elements:

	<b>£m</b>
Regular expenses	106.8
Exceptional expenses	133.0
Other miscellaneous liabilities including mis-selling	9.7
<b>Total other long-term insurance liabilities</b>	<b>249.5</b>

An expense provision of £106.8m has been established against potential higher future costs arising as the fund runs off. The aim is to be able to maintain a stable percentage point charge to with-profits policies for regular expenses. The charge will be reduced from 1% p.a. to 0.5% p.a. with effect from 1 January 2011. This change reflects the cost savings resulting from the change in TPA provider that will take effect in 2011.

### Realistic current liabilities

9. These liabilities include tax and social security creditors, other creditors arising out of direct insurance operations and a liability relating to the staff pension scheme (£93 m). The total realistic current liabilities of £186 m are the same as the regulatory valuation current liabilities.

### Risk Capital Margin

10. (a) The Risk Capital Margin at 31 December 2009 was zero. This is a consequence of reducing the planned enhancements to policyholders as described in section 10(b)(i) below. The stress scenarios described below were tested:
- (i) The scenarios tested were rises and falls in the values of equities and property of 20% and 12.5% respectively. These percentages were applied to both UK and non-UK assets. The scenario where the market values of equities and property fell was the most onerous scenario.
  - (ii) The scenarios tested were a rise and fall of 17.5% of the long term gilt yield (being 77.85 basis points) for yields at all durations. The scenario where yields rise was the most onerous scenario prior and after to the impact of management actions.
  - (iii) (a) The credit risk scenario resulted in an average increase in the spread of about 74 basis points in respect of corporate bonds in the with-profits fund. The resultant fall in market values was approximately 5.8% of the total value of those bonds.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

- (b) Not applicable
- (c) The credit risk event was not applied to the portfolio of business that is reassured with HBOS plc (a subsidiary of Lloyds Banking Group).
- (d) Not applicable
- (e) Not applicable
- (iv) The overall increase in the realistic value of the liabilities as a result of applying the persistency stress was 0.9%.
- (v) Not applicable
- (b) (i) In the stress scenarios it has been assumed that when asset values fall at the start of the projection there will be an immediate reduction in policy values equal to the same percentage reduction. When asset values increase due to a fall in yields no further change in the policy values was assumed.

In the stress scenarios where yields rise it has been assumed that the charge for capital and cost of guarantees is increased from 1% to 1.25%. In the stress scenarios where yields fall it has been assumed that the charge for capital and cost of guarantees is increased from 1% to 1.5%.

In the stress scenarios the value of the swaptions changes. In the stress scenarios where yields rise the value of assets was reduced by the £14m fall in the value of the swaptions. In the stress scenarios where yields fall the swaptions increased in value by £25m. However, the value of assets was not adjusted as it was assumed that the increase would be exactly offset by the impact of RSP policyholders deferring their retirement plans.

In the stress scenarios it is assumed that the target asset mix to which the fund is rebalanced at the end of each year, as described in section 6(5)(a), is changed with the fund instead being rebalanced each year to the actual asset mix immediately following application of the stresses.

- (ii) The reduction to policy values, changes to asset mix as described above and increase in charges described in section 10(b)(i) above reduces the RCM. The amount of the RCM calculated before and after these changes would be as follows:

<b>Stress scenario</b>	<b>Before</b>	<b>After</b>
-----	-----	-----
Yields rise	£312m	£95m
Yields fall	£167m	£27m

As described in section 6(5)(a), any residual excess of assets over liabilities would be included under planned enhancements to with-profits benefits reserve such that the Working Capital remains zero. Therefore the Risk Capital Margin is zero.

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

- (iii) Changing the asset mix in the stress scenarios, as described above, results in a reduction in the equity backing ratios as shown in the table below.

	31/12/2009	31/12/2014	31/12/2019
Yields increase by 17.5% without management action	4.4%	11.0%	11.0%
Yields reduce by 17.5% without management action	4.0%	11.0%	11.0%
Yields increase by 17.5% with management action	4.4%	4.4%	4.4%
Yields reduce by 17.5% with management action	4.0%	4.0%	4.0%

There are assumed to be no future declared reversionary bonuses.

- (iv) In the most onerous stress scenario the value of past and future cost of guarantees is in excess of the value of past and future charges i.e. the requirements of INSPRU 1.3.188R would be met.
- (c) (i) No assets are required to cover the risk capital margin.
- (ii) Not applicable.

### 11. Tax

Tax is payable on an “I-E” basis for life business. The tax payable is deducted from future increases to policy values (or their equivalents).

### 12. Derivatives

The Society held equity futures as part of its strategy to manage the proportion of the with-profits fund invested in equities (providing £109m of exposure at 31 December 2008). The entire holding was sold during 2009.

The Society holds a series of swaptions to partially mitigate the impact of RSP pensions policyholders deferring their retirement plans during periods of low interest rates. Margining is used to provide appropriate collateral. The total market value of the swaptions at 31 December 2009 was £34m (£84m at 31 December 2008).

In December 2009 the Society purchased a US Dollar forward exchange contract to reduce its exposure to exchange rate movements. At 31 December 2009 the nominal amount of the contract was US\$130m (Nil at 31 December 2008).

# THE EQUITABLE LIFE ASSURANCE SOCIETY

## REALISTIC VALUATION REPORT

### 13. Analysis of change in working capital

The movement in the Working Capital from £0m at the previous valuation to £0m has been analysed as follows:

<b>Item</b>	<b>Effect (£m)</b>
Add back opening zeroisation impact	412
Investment return on the opening working capital	22
Mismatch profits and losses on assets backing the future policy related liabilities	82
Economic assumption changes	6
Other valuation assumption changes	(116)
Investment variance	134
Demographic and expense variance	78
Change in provisions and current liabilities	(30)
Modelling changes	83
Other	3
Closing zeroisation impact	(673)
Total change	0

### 14. Optional Disclosure

Not applicable

## **RETURNS UNDER INSURANCE COMPANIES LEGISLATION**

### **THE EQUITABLE LIFE ASSURANCE SOCIETY**

#### **FINANCIAL YEAR END 31 DECEMBER 2009**

#### **ADDITIONAL INFORMATION AS REQUIRED BY IPRU (INS) 9.29**

- (a) All derivative transactions may only be entered into following prior approval by the Society's Investment Committee. In all cases, use of derivative instruments is restricted to the purpose of managing exposure and reducing risk. No derivative contracts were entered into on a speculative basis.
- (b) There are no specific guidelines for the use of contracts not reasonably likely to be exercised. However, the Society's Investment Committee only allows the use of derivatives for the purpose of efficient portfolio management or to reduce risk.
- (c) The fund holds receiver swaptions, at a range of terms, to partially hedge guaranteed investment return risk within the fund. Each position pays out if 10-year swap rates are below 4.5% at the time of exercise. The strike of 4.5% is at a high enough level that the Society considers itself not to have entered into contracts not reasonably likely to be exercised. As at 31 December 2009, 100% of the swaption holdings by value are 'in the money'.
- (d) The Society did not, at any time during the financial year, hold a derivative contract which required a significant provision to be made for it under INSPRU 3.2.17R or (where appropriate) did not fall within the definition of a permitted derivative contract.
- (e) The Society did not grant any rights under derivative contracts during the year.

**RETURNS UNDER INSURANCE COMPANIES LEGISLATION**

**THE EQUITABLE LIFE ASSURANCE SOCIETY**

**FINANCIAL YEAR END 31 DECEMBER 2009**

**ADDITIONAL INFORMATION AS REQUIRED BY IPRU (INS) 9.30**

The Society has no shareholder controllers because it is a mutual company.

## **RETURNS UNDER INSURANCE COMPANIES LEGISLATION**

### **THE EQUITABLE LIFE ASSURANCE SOCIETY**

**FINANCIAL YEAR END 31 DECEMBER 2009**

#### **CERTIFICATE REQUIRED BY IPRU(INS) 9.34 AND APPENDIX 9.6**

We certify that:

- 1) the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU;
- 2) we are satisfied that:
  - a) throughout the financial year ended 31 December 2009 and other than as specified below, the Society has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS), PRU, GENPRU and INSPRU (as applicable); and  

The Society is dependent on the delivery of administration and investment services by HBOS group of companies within the Lloyds Banking Group (“HBOS”) and is reliant on HBOS’s systems and controls and, in making the above statement in respect of SYSC, the directors have relied upon information received from and appropriate disclosures having been made by HBOS to the Society.
  - b) other than as specified in (a) it is reasonable to believe that the Society has continued so to comply subsequently, and will continue so to comply in future;
- 3) in our opinion, premiums for contracts entered into during the financial year ended 31 December 2009 and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the Society that are available for the purpose, to enable the Society to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
- 4) the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 constitute proper provision as at 31 December 2009 for the long-term insurance liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before 31 December 2009) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;
- 5) the with-profits fund has been managed in accordance with the Principles and Practices of Financial Management, as established, maintained and recorded under COBS 20.3; and



- 6) we have, in preparing the return, taken and paid due regard to:
- a) advice from the actuary appointed by the Society to perform the actuarial function in accordance with SUP 4.3.13R; and
  - b) advice from every actuary appointed by the Society to perform the with-profits actuary function in accordance with SUP 4.3.16AR.

Ian Brimecome, Chairman

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Chris Wiscarson, Chief Executive

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Tim Bateman, Finance Director

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29 March 2010

## **RETURNS UNDER INSURANCE COMPANIES LEGISLATION**

### **AUDITOR'S REPORT: REGULATORY RETURN FOR A LIFE INSURANCE COMPANY**

**FINANCIAL YEAR END 31 DECEMBER 2009**

### **REPORT TO THE DIRECTORS PURSUANT TO RULE 9.35 OF THE INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS**

We have examined the following documents prepared by the Society pursuant to the Accounts and Statements Rules set out in part I and part IV of chapter 9 to IPRU(INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU the Insurance Prudential Sourcebook ("the Rules") made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- Forms 2, 3, 13, 14, 17 to 19, 40 to 43, 48, 49, 56, 58 and 60, (including the supplementary notes on pages 56 to 61) ("the Forms");
- the statement required by IPRU(INS) rule 9.29 on page 100 ("the Statement");
- the valuation report required by IPRU(INS) rule 9.31(a) ("the valuation report") on pages 62 to 79; and
- the statements, analysis and reports required by IPRU(INS) rule 9.31 (b) ("the realistic valuation report") on pages 80 to 99

We are not required to examine and do not express an opinion on:

- Forms 46 to 47, 50 to 54, 57, 59A and 59B (including the supplementary notes on pages 56 to 61);
- the statements required by IPRU(INS) rules 9.30 and 9.36 on pages 101 and 107 to 108, and
- the certificate required by IPRU(INS) rule 9.34(1) on pages 102 to 103 ("the certificate").

#### **Respective responsibilities of the Society and its auditors**

The Society is responsible for the preparation of an annual return (including the Forms, the Statement, the valuation report, the realistic valuation report), the forms and statements not examined by us and the certificate under the provisions of the Rules. The requirements of the Rules have been modified by a waiver issued under section 148 of the Financial Services and Markets Act 2000 on 21 December 2007. Under IPRU(INS) rule 9.11 the Forms, the Statement, the valuation report, the realistic valuation report, the forms and statements not examined by us and the certificate are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules.

The methods and assumptions determined by the Society and used to perform the actuarial investigation as set out in the valuation report, and the realistic valuation report, prepared in accordance with IPRU(INS) rule 9.31 are required to reflect appropriately the requirements of INSPRU 1.2 and 1.3.

It is our responsibility to form an independent opinion as to whether the Forms, the Statement, the valuation report and the realistic valuation report meet these requirements, and to report our opinions to you. We also report to you if, in our opinion, the Society has not kept proper accounting records or if we have not received all the information we require for our examination. This report has been prepared for the directors of the Equitable Life Assurance Society to comply with their obligations under IPRU(INS) rule 9.35 and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

### **Basis of opinion**

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (Revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the Statement, the valuation report and the realistic valuation report. The evidence included that previously obtained by us relating to the audit of the financial statements of the Society for the financial year. It also included an assessment of the significant estimates and judgements made by the Society in the preparation of the Forms, the Statement, the valuation report and the realistic valuation report.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, Statement, the valuation report and the realistic valuation report are free from material misstatement, whether caused by fraud or other irregularity or error and comply with IPRU(INS) rule 9.11.

In accordance with IPRU(INS) rule 9.35(1A), to the extent that any document, Form, Statement, analysis or report to be examined under IPRU(INS) rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to IPRU(INS) rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the Society.

### **Opinion**

In our opinion:

(i) the Forms, the Statement, the valuation report and the realistic valuation report fairly state the information provided on the basis required by the Rules as modified and have been properly prepared in accordance with the provisions of those Rules; and

(ii) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report and the realistic valuation report prepared in accordance with IPRU(INS) rule 9.31 appropriately reflect the requirements of INSPRU 1.2 and 1.3.

**Emphasis of Matter – contingent liabilities and other uncertainties**

In arriving at our opinion we have considered the adequacy of the disclosures made in relation to contingent liabilities and uncertainties in note 1402. 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 the emphasis of matter.

PricewaterhouseCoopers LLP  
Chartered Accountants  
29<sup>th</sup> March 2010

## **RETURNS UNDER INSURANCE COMPANIES LEGISLATION**

### **THE EQUITABLE LIFE ASSURANCE SOCIETY**

#### **FINANCIAL YEAR END 31 DECEMBER 2009**

#### **STATEMENT OF INFORMATION REQUIRED BY IPRU (INS) 9.36**

T J Sheldon was the With-Profits Actuary for the Society until 4 June 2009. The particulars to be given in compliance with IPRU (INS) 9.36 are: -

a) Shareholding

T J Sheldon had no interest in any shares or debentures issued by the Society.

b) Pecuniary Interest

T J Sheldon holds a unit-linked retirement policy issued by the Society. No premiums were paid to the policy in 2009.

c) Aggregate Remuneration

The aggregate remuneration received by T J Sheldon from the Society in 2009 in respect of his services as With-Profits Actuary of the Society was £36,450.

T J Sheldon was not a Director of the Society.

d) Other Pecuniary Benefits

T J Sheldon received no other pecuniary benefit from the Society.

The Society requested T J Sheldon to furnish the particulars specified in IPRU (INS) 9.36.

The above particulars were furnished by T J Sheldon and they agree with the Society's records.

R Merry was the With-Profits Actuary for the Society from 5 June 2009. The particulars to be given in compliance with IPRU (INS) 9.36 are :-

a) Shareholding

R Merry had no interest in any shares or debentures issued by the Society.

b) Pecuniary Interest

R Merry holds unit-linked benefits in the AVC Scheme of the Equitable Pension Fund and Life Assurance Scheme under which premiums of £2,400 were paid during 2009.

c) Aggregate Remuneration

R Merry's services as With-Profits Actuary were supplied under a contract of administration between the Society and a subsidiary of HBOS plc. HBOS plc was R Merry's employer during the period in question.

R Merry was not a Director of the Society.

d) Other Pecuniary Benefits

R Merry received no other pecuniary benefit from the Society.

The Society requested R Merry to furnish the particulars specified in IPRU (INS) 9.36.

The above particulars were furnished by R Merry and they agree with the Society's records.