THE EQUITABLE LIFE ASSURANCE SOCIETY

FOUNDED 1762

1999

Directors' Report and Accounts

Equitable

Board of Directors

President

J R Sclater CVO

Vice-Presidents

I P Sedgwick

Peter Martin

P A Davis

J D S Dawson

C P Headdon

A Nash

Miss J A Page CBE

D W J Price

J F Taylor

D G Thomas

General Management

Managing Director and Actuary

A Nash

General Managers

R Q Bowley

C P Headdon

M C A Jones

P Stone

D G Thomas

J M Weller

Principal activities

The Equitable Life Assurance Society (the Society) is the ultimate holding company of the Equitable Group of companies (the Group). The principal activities of the Group during 1999 were the transaction of life assurance, annuity, pension and permanent health insurance business in the form of guaranteed, participating and unit-linked contracts, and other financial services.

Financial results

The Society

Earned premiums, net of reinsurance, were £3,483.7m compared with £3,729.5m in 1998. Expenses before deferral of acquisition expenses amounted to £147.3m (*1998 £150.8m*).

The amount of the technical provisions comprising the long-term business provision, net of reinsurance, and technical provisions for linked liabilities, increased to £28,060.9m from £25,043.2m. The market value of the assets supporting the technical provisions was £32,902.0m (*1998 £28,068.5m*).

Equitable Unit Trust Managers Limited (EUTM)

EUTM is a wholly-owned subsidiary of the Society.

Total sales of units of the trusts managed by EUTM, including those bought by the Society to back unit-linked policies, amounted to £666.9m (*1998 £348.2m*) during the year and the value of funds under management at the end of the year was £3,677.6m (*1998 £2,413.3m*).

Permanent Insurance Company Limited (Permanent)

The principal activity of Permanent (a wholly-owned subsidiary of the Society) is the transaction of permanent health insurance.

Earned premiums, net of reinsurance, were £48.5m (*1998 £44.1m*).

University Life Assurance Society (University Life)

The Society owns all the shares of this company which ceased transacting new business some years ago. The Society is entitled to 10% of the surplus distributed at each declaration, these currently taking place every three years, and of the surplus distributed as interim and terminal bonuses during each triennium. The most recent valuation for the purpose of establishing the amount of distributable surplus was made as at the end of 1999.

The Society is paid a fee for the services provided to University Life which has no staff of its own and this fee is set against the corresponding incurred expenses.

Valuation and bonus declaration

In accordance with the Society's Articles of Association and insurance company legislation, the Society's Appointed Actuary carried out a valuation of the assets and liabilities of the Society as at 31 December 1999. In the light of the results of that valuation, the Directors decided to allocate declared bonuses with a value of £422.7m (*1998 £363.4m*) from the surplus revealed by the valuation.

Having followed a disciplined approach to setting declared bonuses at levels consistent with the prevailing low inflation climate in recent years, the Directors have decided that it is appropriate to maintain rates of bonus for 1999 at the same levels as those declared a year ago in respect of 1998.

For example, the rate of declared bonus on the current series of personal pension plans for 1999 was 5% (*1998 5%*). For older policies with a $3\frac{1}{2}$% p.a. rate of roll-up guaranteed by the policy, the 1999 declared rate was $1\frac{1}{2}$% (*1998 $1\frac{1}{2}$%*).

Even after discounting the short-term surge in markets at the year end, which was quickly reversed in early 2000, a good return was achieved in 1999.

The Directors have taken account of that by setting the accumulation rates applicable to total policy benefits expressed in cash fund form at a higher level than applied to claims during the year. The rate for UK pension contracts for 1999 was 12% (*1998 10%*). The comparable rate for life contracts for 1999 was 10.25% (*1998 8.5%*). The increase in total policy values in excess of the build-up of guaranteed benefits was in the form of final bonus which is a non-guaranteed addition and may be varied at any time before the policy benefits become contractually payable. Bonuses for other classes of policy were set on bases consistent with these rates of return, after adjusting for the differential tax treatment.

Details of the new declared bonuses added to individual policies have been communicated to policyholders in the usual way.

Details of the rates for major classes are given in one of the Society's leaflets, which is available from branch offices on request. A description of the Society's approach to with-profits business is given in the With-Profits Guide, which is similarly available.

Directors

The Directors of the Society during the year were as set out on page 1, except for Mr C P Headdon who was appointed a Director on 1 July 1999 and Mr J D S Dawson who was appointed a Director on 1 January 2000. Mr A G Tritton and Mr D W Wilson were also Directors until their retirement on 30 June 1999.

The three Directors retiring at the Annual General Meeting by rotation are Mr A Nash, Miss J A Page and Mr D W J Price who, all being eligible, offer themselves for re-election.

In accordance with Regulation 40 of the Articles of Association, Mr J D S Dawson and Mr C P Headdon retire at the Annual General Meeting and are eligible for re-election.

Details of the Directors seeking re-election, and of the other Directors of the Society, can be found in the Annual Report which accompanies this document.

Corporate governance

A statement regarding the Society's approach to corporate governance is given on pages 5 to 8. A statement by the Directors of their responsibilities in respect of the accounts is given on page 9.

Year 2000

Prior to 31 December 1999, the Society carried out a compliance programme to establish the scope of the risks posed to its business systems and operational infrastructure (buildings, fire and security systems, etc.) by the Year 2000 date change and to address these risks.

The Society has not encountered any significant disruption and, although it is not possible to guarantee that no Year 2000 problems remain, the Directors believe that business critical systems are Year 2000 compliant. Testing of business critical systems will continue in order to confirm continuing compliance throughout 2000.

The Society continues to monitor the Year 2000 status of key suppliers to minimise business disruption from this source. No significant disruption has occurred to date.

The Year 2000 costs are being treated in accordance with recommended practice and are being written off as incurred. It is estimated that the total costs directly attributable to Year 2000 will amount to £3.1m of which £2.9m had been expended and charged to the Profit and Loss Account by 31 December 1999.

Staff

In relation to the employment of disabled persons the Society's policy in 1999 was to give the same consideration to disabled people as to other people, in regard to applications for employment, continuation of employment, training, career development and promotion – having regard to their particular aptitudes and abilities.

During 1999 it was the Society's continuing policy and practice to involve staff by providing and receiving information relevant to the progress, development and performance of the organisation. Matters of concern to staff as employees were communicated through briefing by managers, a system of written circulars (including a monthly core brief), a staff handbook and training courses.

Consultation with staff on matters affecting the interests of staff and the general efficiency of the Society took place in various ways; one of these was through the elected staff representatives on a staff consultative committee which met on four occasions in the year.

All members of staff and executive Directors participate in incentive schemes designed to encourage and reward corporate or individual improvements in performance.

Profit-Related Pay Schemes were in operation in 1999 for most of the Society's non-field staff. As a mutual company the Society has no employee share scheme in force.

Payment of suppliers of goods and services

It is the Society's policy to agree the terms of payment on commencement of business with all suppliers and to abide by those terms. The proportion of trade creditors included in the Balance Sheet to total supplies invoiced in the year represents 32 days' supplies (*1998 34 days' supplies*).

Auditors

Ernst & Young have expressed their willingness to continue in office as auditors.

John Sclater

President

22 March 2000

Principles of good governance

The Society is committed to integrity and professionalism in all its activities. As an essential part of this commitment the Board pursues the highest standards in corporate governance and confirms that the Society has voluntarily adopted the Principles of Good Governance and Code of Best Practice (The Combined Code) appended to the UK listing rules.

Directors

The Board meets regularly, normally monthly, so that it can control key issues and monitor the overall performance of the Society and the Group. The President together with the Managing Director and Actuary and the Secretary establish an agenda for each Board meeting. Agenda items are supported by papers distributed five days before the meeting. Executives are available at Board meetings to present papers and to provide answers to questions raised by the Board. The Board decides organisational strategy and has a formal schedule of matters reserved for its decision. Authority is delegated to the Managing Director and Actuary for implementing strategy and for managing the Group. In discharging this responsibility the Managing Director and Actuary works with a General Management Team, comprising all executive Directors and General Managers.

The Society separates the roles of President and Managing Director. The President and two Vice-Presidents, all non-executives, are elected by the Board. One Vice-President, Mr I P Sedgwick, is nominated as the senior independent non-executive Director.

The Society's practice is for the majority of Directors to be non-executive.

The Board considers that independent non-executive Directors should be free of any business or other relationship which could materially interfere with the exercise of their independent judgement. All the Directors hold policies with the Society but, in the view of the Board, in no instance do these interfere with the independence of the relevant Director. Accordingly, all non-executive Directors are considered to be independent.

All Directors must retire and seek re-election at the first Annual General Meeting following appointment. The Society's Articles require three Directors to retire at each Annual General Meeting but the Directors have undertaken that all Directors will be required to submit themselves for re-election by rotation at a General Meeting at least every three years. All appointments are subject to review by the Board with detailed assistance by the Nominations Committee, at intervals not exceeding five years.

The terms of service of executive Directors are in line with those of staff and it is normally required that they relinquish their directorships on retirement or leaving service.

The Board's policy on remuneration is set out in the Remuneration Report.

Board Committees

There are four committees of the Board as set out below.

The Audit Committee, which comprises four non-executive Directors, is chaired by Mr I P Sedgwick. It meets at least three times a year and assists the Board in fulfilling the Board's responsibilities in respect of the accounts, which are set out on page 9. It also reports to the Board on the accounting policies of the Society, the contents of annual reports and accounts, the conclusions drawn from risk management and internal control reports, and the adequacy and scope of the audit. The Auditors attend its key meetings and have direct access to the chairman of the Committee.

The Investment Committee comprises three non-executive and three executive Directors. It normally meets monthly. It is fully involved in strategic asset allocation for the with-profits and managed funds whilst delegating implementation to the General Manager – Investments and his team. It monitors investment results and these are reviewed regularly by the full Board. The Committee retains more detailed control over property investments. The chairman is Mr D W J Price.

The Nominations Committee comprises the President, as chairman, the two Vice-Presidents, one other non-executive Director and the Managing Director and Actuary. It meets as necessary and is responsible for nominating, for the approval of the Board, candidates for appointment to the Board.

The Remuneration Committee, which comprises the President and the two Vice-Presidents, is chaired by Mr I P Sedgwick. The Committee, which normally meets twice a year, is responsible for recommending to the Board the terms and conditions of employment of Directors, including those for executive Directors. It is further responsible for considering management recommendations and advising the Board on the appropriate policy for remuneration and employment terms of the Society's staff, including incentive arrangements for bonus payments.

Accountability and Audit

The Board reviews the Directors' Report and Accounts and the Annual Report following detailed review by the Audit Committee and satisfies itself that the reports present a balanced and understandable assessment of the Society's and the Group's position and prospects.

The Directors are ultimately responsible for the system of internal control for the Society and the Group. A sound system of internal control provides reasonable, but not absolute, assurance that a company will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of business, by circumstances which may be reasonably foreseen. A system of internal control cannot, however, provide protection with certainty against a company failing to meet its business objectives or against all material errors, losses, fraud, or breaches of laws or regulations. In assessing what constitutes reasonable assurance, the Directors have regard to the materiality of any risks incurred, the likelihood of such risks crystallising and the costs and benefits of particular aspects of the internal control system.

As the Board has voluntarily adopted the Combined Code, the Directors are required to review the effectiveness of the Society's and the Group's system of internal control, including financial, operational, compliance and risk management controls.

Guidance for directors, 'Internal Control: Guidance for Directors on The Combined Code' (the 'Turnbull guidance'), was published in September 1999. The Board confirms that the Society and the Group are on course to be fully compliant with the Turnbull guidance by 31 December 2000.

During the year ended 31 December 1999 the Board reviewed the effectiveness of the system of internal control, applying the transitional arrangements in the listing rules. Currently, the main elements of the Society's control framework are as follows:

- An organisational structure which includes clearly defined levels of authority and division of responsibilities.
- An annual presentation to the Board from management responsible for each principal business area.
- A comprehensive system of financial reporting, forecasting and planning.
- A report on the results of the annual valuation by the Appointed Actuary.
- A Risk Management Group which assists the Board in identifying, managing and controlling risk. The Managing Director and three General Managers are currently members of this group, which meets monthly.
- Regular review of significant control issues by the Audit Committee, which receives reports from management and from the Risk Management Group as well as from the Society's external auditors.
- An annual risks and controls self-assessment undertaken by management, the results of which are considered by the Risk Management Group and the Audit Committee.
- An annual report on compliance matters by the Society's Compliance Officer.

The Directors consider that the Society has adequate resources to continue in business for the foreseeable future. Further, the Society has complied and continues to comply with the appropriate statutory and regulatory requirements. For these reasons, the Board continues to adopt the going concern basis in preparing the accounts.

Statement of Compliance with the Code Provisions

The Society confirms that it complied with the provisions of The Combined Code throughout the year with the exception that non-executive Directors are not appointed for specified terms (code provision A.6.1). However, a Director's continued appointment is subject to periodic review by the Nominations Committee at intervals not exceeding five years and retirement is required at age 67. Directors are also required to seek re-election at General Meetings at least every three years.

Remuneration Report

The composition and responsibilities of the Society's Remuneration Committee are set out on page 6. The Remuneration Committee's recommendations are made on the basis of rewarding individuals for the size of the jobs they undertake and their performance therein. Proper regard is paid to the need to retain good quality, highly motivated staff at all levels and the remuneration being paid by competitors of the Society is taken into consideration.

The total emoluments of the Directors comprise:

	Notes	Fees and salaries £	Benefits £	Business performance bonus £	Total 1999 £	Total 1998 £
Non-executive Directors						
J R Sclater CVO		55,688	1,128		56,816	46,304
I P Sedgwick		33,500	417		33,917	30,000
Peter Martin	1	61,811	1,000		62,811	42,171
P A Davis		24,750	417		25,167	23,000
Miss J A Page CBE		21,458	-		21,458	20,142
D W J Price		27,250	417		27,667	25,950
J F Taylor	2	28,208	488		28,696	26,142
A G Tritton DL (retired 30.6.99)	3	30,989	4,173		35,162	64,303
D W Wilson (retired 30.6.99)		10,208	1,611		11,819	20,450
		293,862	9,651		303,513	298,462
Executive Directors						
A Nash		200,000	9,676	70,282	279,958	253,646
C P Headdon (appointed 1.7.99)	4	69,015	4,440	22,842	96,297	-
D G Thomas		175,000	7,546	61,497	244,043	224,455
		444,015	21,662	154,621	620,298	478,101

Notes

1. Includes fees received of £8,808 from a directorship of University Life and £21,180 from a directorship of Permanent.
2. Includes fees received of £6,750 from a directorship of Equitable Services and Consultancy Limited.
3. Includes fees received of £6,425 from a directorship of University Life and £8,314 from a directorship of Permanent.
4. C P Headdon, General Manager Finance and Appointed Actuary, was appointed a Director of the Society on 1 July 1999. The total of his salary, benefits and business performance bonus for the year was £178,458.

Benefits

Benefits comprise miscellaneous reimbursed expenses and other benefits regarded as taxable. For executive Directors these benefits mainly arise from the provision of a company car. Tax legislation requires that the annual benefit is assessed according to the cost of the car provided and, in the case of A Nash and C P Headdon, with reductions for business mileage.

Business Performance Bonus

The Society operates a Business Performance Bonus Scheme for its non-field staff, including its executive Directors. The scheme operates by comparing on an annual basis the actual costs of running the administration of the Society with the amounts available for that purpose from charges in the new and renewal business in the period. Management fees received by the Society for services provided to subsidiary undertakings are also brought into account. A part of any profit thus made is distributed among the non-field staff, including executive Directors, in proportions which vary according to seniority. Payments under the scheme to both non-field staff and executive Directors are non-pensionable. The scheme formed the basis of the Society's Inland Revenue approved Profit-Related Pay Schemes for non-field staff including executive Directors. As a mutual company the Society has no employee share scheme in force.

Service contracts

No Director, executive or non-executive, has a service contract.

Long-term benefits

No share options are given. The Society does not operate any long-term benefits scheme.

Directors' pension entitlements

During the year the executive Directors, two non-executive Directors and some staff participated in the Society's defined benefits pension scheme. The scheme is non-contributory, fully insured under policies held with the Society and governed by an independent trust.

Further details on the defined benefits scheme are shown in Note 8.c.i. in the Notes on the Accounts on page 22 of this document.

The pension entitlements of the Directors are as follows:

	Age at 31.12.99	Years of pension entitlement at 31.12.99	Increase, excluding inflation, in accrued pension during the year £000	Accumulated annual benefit at 31.12.99 £000
J R Sclater CVO	59	14	1.7	11.1
A G Tritton DL	68	23	0.8	6.3
A Nash	51	28	15.5	93.3
C P Headdon	43	21	17.3	45.5
D G Thomas	55	34	14.8	99.2

Notes

1. A G Tritton DL retired on 30 June 1999.
2. The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 1999 or, if earlier, to retirement date.
3. The Normal Retirement Age for the purposes of the scheme for J R Sclater CVO is 65. Pension entitlement is earned according to the pension formula for each year of service up to retirement.
4. Members of the scheme have the option to pay Additional Voluntary Contributions to secure additional benefit.
5. The funding rate for the Society's defined benefits scheme in 1999 was 15%, which takes sufficient account of the increase in accrued entitlement shown in the table above.
6. With the exception of C P Headdon each of the above Directors is married.

For executive Directors the normal retirement age under the scheme is 60 and, on retirement at or after this age, a pension is payable equal to 1/60th of final pensionable salary for each year of pensionable service, subject to Inland Revenue limits.

For death before retirement, a capital sum equal to three times pensionable salary is payable, together with a spouse's pension of one-third of the member's pensionable salary.

For death in retirement, a spouse's pension of 50% of the member's pre-commutation pension is payable. Additionally, in the case of death within five years after retirement, a lump sum is payable equal to the balance of five years' instalments of pension.

In the event of death after leaving service but prior to commencement of pension, a lump sum equal to the transfer value of the member's benefit just prior to death, less any amount required to provide a spouse's Guaranteed Minimum Pension (GMP), is payable to beneficiaries decided by the trustees.

In all circumstances, children's allowances are also payable, usually up to the age of 18 or, if still in full-time education, 23.

The scheme is contracted-out. Increases in pensions in payment are given only on the excess over GMP. Post-retirement pension increases are guaranteed at the lesser of 5% p.a. and the increase in the Retail Price Index (RPI). The practice has been generally to award annual increases in line with inflation.

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Society and of the Group and of the result of the Society and of the Group for that period.

In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors have complied with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the accounts comply with the Companies Act 1985 as described above. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the Auditors to the members of The Equitable Life Assurance Society

We have audited the accounts on pages 11 to 31, which have been prepared on the basis of the accounting policies set out on pages 14 to 16.

Respective responsibilities of Directors and Auditors

As described on page 9, the Society's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 accounts are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Society and of the Group as at 31 December 1999 and of the result of the Society and of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor

London
22 March 2000

Technical Account – Long-term Business

		GROUP		SOCIETY	
		1999	1998	**1999**	1998
	Notes	**£m**	£m	**£m**	£m
Earned premiums, net of reinsurance					
Gross premiums written	1	3,545.4	3,783.4	3,488.0	3,732.9
Outward reinsurance premiums		(13.0)	(9.6)	(4.3)	(3.4)
		3,532.4	3,773.8	3,483.7	3,729.5
Investment income	2	1,981.4	1,754.5	1,957.1	1,726.9
Unrealised gains on investments		2,298.1	1,698.1	2,314.2	1,673.0
Other technical income	3	50.1	17.3	14.5	9.3
		7,862.0	7,243.7	7,769.5	7,138.7
Claims incurred, net of reinsurance					
Claims paid – gross amount	4	2,730.8	2,580.4	2,694.9	2,547.5
Reinsurers' share		(5.5)	(2.1)	(3.3)	(1.0)
		2,725.3	2,578.3	2,691.6	2,546.5
Changes in other technical provisions, net of reinsurance					
Value of benefits excluding new declared bonus		1,570.4	2,528.5	1,565.0	2,486.5
New declared bonus		422.7	363.4	422.7	363.4
Long-term business provision – gross amount		1,993.1	2,891.9	1,987.7	2,849.9
Reinsurers' share		(8.0)	(7.8)	(1.0)	(0.6)
		1,985.1	2,884.1	1,986.7	2,849.3
Other technical provisions					
Technical provisions for linked liabilities		1,069.3	689.0	1,069.1	685.5
		3,054.4	3,573.1	3,055.8	3,534.8
Net operating expenses	5	161.3	142.9	142.8	132.7
Commission	9	7.7	6.1	nil	nil
Investment expenses and charges	2b	37.9	38.2	36.7	37.4
Taxation	10a	21.7	47.3	19.7	42.9
Minority interests		7.6	(3.4)		
Transfers to the fund for future appropriations	16	1,846.1	861.2	1,822.9	844.4
		2,082.3	1,092.3	2,022.1	1,057.4
		7,862.0	7,243.7	7,769.5	7,138.7
Balance on the Technical Account		–	–	–	–

All significant recognised gains and losses are dealt with in the Profit and Loss Accounts. Exchange gains and losses arising on retranslation of overseas operations are taken directly to reserves. All the amounts above are in respect of continuing operations.

Balance Sheets

As at 31 December 1999

Assets

		GROUP		SOCIETY	
		1999	1998	**1999**	1998
	Notes	**£m**	£m	**£m**	£m
Investments					
Land and buildings	11a	2,096.8	1,489.0	2,051.6	1,453.6
Investments in group undertakings	11b			164.7	184.2
Other financial investments	11c	26,768.5	23,619.1	26,455.0	23,255.9
		28,865.3	25,108.1	28,671.3	24,893.7
Assets held to cover linked liabilities	12	4,228.4	3,156.9	4,184.5	3,113.4
Reinsurers' share of technical provisions					
Long-term business provision		29.1	21.2	5.8	4.8
Debtors	13				
Debtors arising out of direct insurance operations		69.6	68.7	55.4	58.1
Debtors arising out of reinsurance operations		1.0	0.3	–	–
Other debtors		95.4	51.2	97.7	52.0
		166.0	120.2	153.1	110.1
Other assets					
Tangible assets	14	19.0	21.1	18.1	20.5
Cash at bank and in hand		13.3	21.0	–	9.4
		32.3	42.1	18.1	29.9
Prepayments and accrued income					
Accrued interest and rent		186.3	186.9	183.1	184.0
Deferred acquisition costs	6	268.1	275.0	235.2	245.5
Other prepayments and accrued income		44.7	53.8	43.3	52.6
		499.1	515.7	461.6	482.1
		33,820.2	28,964.2	33,494.4	28,634.0

Liabilities

	Notes	GROUP 1999 £m	GROUP 1998 £m	SOCIETY 1999 £m	SOCIETY 1998 £m
Minority interests		16.2	32.4		
Subordinated liabilities	15	346.9	346.6	346.2	346.2
Fund for future appropriations	16	4,868.3	3,028.3	4,841.1	3,025.3
Technical provisions	17				
Long-term business provision – gross amount		24,137.4	22,181.3	23,905.2	21,954.3
Technical provisions for linked liabilities	17	4,205.4	3,137.2	4,161.5	3,093.7
Provisions for other risks and charges	18	37.6	45.1	32.1	39.1
Creditors					
Creditors arising out of direct insurance operations		45.4	36.0	41.0	33.0
Creditors arising out of reinsurance operations		0.9	0.1	0.1	0.1
Amounts owed to credit institutions	19a	23.4	26.1	21.4	21.5
Other creditors including taxation and social security	19b	84.3	61.9	104.5	69.5
		154.0	124.1	167.0	124.1
Accruals and deferred income		54.4	69.2	41.3	51.3
		33,820.2	28,964.2	33,494.4	28,634.0

J R Sclater CVO
President

I P Sedgwick
Vice-President

A Nash
Managing Director and Actuary

22 March 2000

Accounting policies

Basis of presentation

The accounts have been prepared in accordance with sections 255 and 255A of, and Schedule 9A to, the Companies Act 1985 and in accordance with applicable accounting standards and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business dated December 1998. The true and fair override provisions of the Companies Act have been invoked, see note 11.a. Non-linked investments – Land and buildings.

A new accounting standard, FRS16 'Current Taxation', was issued by the Accounting Standards Board on 16 December 1999. The Society has adopted the provisions of the standard in the financial statements for the year ended 31 December 1999. The revised treatment represents a change in accounting policy and the comparative figures for investment income and taxation have been restated.

Limited partnerships are accounted for by the Group and the Society as investments in an entity and classified by reference to their principal category of underlying asset. Previously, limited partnerships were accounted for using proportional consolidation (the 'look through' basis). This change has been accounted for as a prior year adjustment in note 16. Accordingly, comparative figures have been restated.

Basis of consolidation

The Group accounts consolidate the accounts of the Society and all its subsidiary undertakings drawn up to 31 December each year.

Earned premiums

Premiums earned are accounted for on a cash basis in respect of single premium business and recurrent single premium pension business and on an accruals basis in respect of all other business.

All pension policies now contain an open market option under which, in lieu of the benefits that must be taken on retirement, the equivalent lump sum can be transferred to another provider. All such lump sums in respect of individual and personal pension policies insured with the Society are included in payments under policies and where either annuities or managed pensions are bought the lump sums are included in premium income.

Investment income

Investment income is included on an accruals basis.

Dividends are included by reference to ex dividend dates.

Income on fixed-interest investments is adjusted for purchased accrued interest.

Rental income arising under operating leases is recognised in equal instalments over the period of the lease of the properties.

Realised gains and losses on investments

Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost.

Unrealised gains and losses on investments

Movements in unrealised gains and losses on investments arising in the year are shown in the Profit and Loss Accounts. Unrealised gains and losses on investments are calculated as the difference between the valuation of investments at the Balance Sheet date and the original cost.

Claims incurred

Death claims are recorded on the basis of notifications received. Surrenders, maturities and annuity payments are recorded when due. Claims on participating business include bonuses payable and interest. Reinsurance recoveries are credited to match the relevant gross amounts. Claims payable include direct costs of settlement.

New declared bonuses

The new declared bonuses charged to the Profit and Loss Accounts for a given year are the value of the new reversionary bonuses declared at the end of that year calculated by reference to the policies in force at that time. The Society declares bonuses annually and University Life declares bonuses triennially.

Deferral of acquisition costs

For contracts of the recurrent single premium type where a series of future premiums is expected to be received, only a proportion of the acquisition costs incurred in the year of sale is covered by the premium loadings received in that year. The balance remains to be covered by loadings in future years and is shown as deferred acquisition costs in these accounts.

For single premium contracts other than managed pensions, acquisition expenses are covered by loadings in the year of sale. There is, therefore, no deferral of acquisition costs.

For managed pensions, the acquisition costs are recovered by loadings in the first four years of the contract. The balance unrecouped at any time is shown as deferred acquisition costs in these accounts.

For conventional level annual premium contracts sold by the Society, the method of calculating the long-term business provision makes implicit allowance for the full acquisition costs at the end of the year of sale. There is, therefore, no explicit deferral of acquisition costs.

For contracts sold by Permanent, the method of calculating the long-term business provision assumes that acquisition costs will be recovered regularly from the series of premiums payable. The balance of acquisition costs to be recovered from loadings in future premiums is included in deferred acquisition costs in these accounts.

The deferred acquisition costs asset takes no account of any tax relief available on expenses.

Where a deferred acquisition costs asset is created the rate of amortisation of that asset is consistent with a prudent assessment of the expected pattern of receipt of the relevant future loadings over the period in which the contracts concerned are expected to remain in force.

Pension costs

Pension costs are recognised on a systematic basis so that the costs of providing retirement benefits to employees are matched evenly, so far as possible, to the service lives of the employees concerned.

Leases

Payments under operating leases are charged to the Profit and Loss Accounts equally over the lease term.

Deferred taxation

Deferred taxation is calculated using the liability method but is provided only where the amount is likely to become payable in the foreseeable future.

Valuation of investments

Investments are stated at current value at the Balance Sheet date, calculated as follows:

- Freehold and leasehold properties are individually valued by qualified surveyors on the basis of open market value, account being taken of the cost of disposal. The valuation is carried out on an annual basis.
- Listed securities are stated at the middle market value.
- Unit trust units are stated at bid value.
- Short-term deposits are included at cost.
- Unlisted investments are stated at Directors' valuation.

Fixed assets and depreciation

Expenditure on motor vehicles, fixtures, fittings, computer equipment and other equipment is capitalised and depreciated over the expected useful lives of the relevant assets, having regard to expected residual values.

The periods generally applicable are:

- motor vehicles 2½ years
- plant, fixtures and fittings 5 to 10 years
- computer equipment 3 to 5 years

Long-term business provision

The long-term business provisions for the Group are determined by the respective Appointed Actuary of each entity following, in each case, his annual investigation of the long-term business. For the Society and University Life, the long-term business provision is calculated using the gross premium method of valuing the liabilities. In the case of Permanent the calculation uses the net premium valuation method. Provisions for overseas branch business are calculated on a UK basis.

Since the Society is a mutual office all assets belong to the policyholders. For the purpose of these accounts, however, the liability to policyholders in respect of these assets has to be divided into two parts. The first part, called technical provisions, is represented by assets needed to meet the guaranteed benefits under contracts, including declared bonuses added up to and including the date of the accounts and making allowance, in accordance with the assumptions used, for specific levels of future declared bonuses.

The balance of the assets, which is mainly represented by the fund for future appropriations, comprises assets which are held on account for future bonus additions of various kinds in excess of the levels allowed for in the technical provisions.

In the case of University Life a similar treatment applies except that, since this society is a proprietary office, the Proprietor will ultimately be entitled to an appropriate proportion of the surplus to be distributed in the future.

For Permanent, an office writing non-profit business, all unappropriated surpluses arising in the year are available to the shareholder.

Foreign currency translation

Assets and liabilities in foreign currencies are expressed in sterling at the exchange rates ruling at 31 December. Revenue transactions and those relating to the acquisition and realisation of investments have been translated at rates of exchange ruling at the time of the respective transactions.

Segmental reporting

In the opinion of the Directors, the Group operates in one business segment.

1. Earned premiums

	GROUP		SOCIETY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
a. Analyses of gross premiums written are as follows:				
Individual premiums	2,748.1	3,070.3	2,704.1	3,031.6
Premiums under group contracts	797.3	713.1	783.9	701.3
	3,545.4	3,783.4	3,488.0	3,732.9
Regular premiums	1,567.9	1,606.4	1,510.5	1,556.0
Single premiums	1,977.5	2,177.0	1,977.5	2,176.9
	3,545.4	3,783.4	3,488.0	3,732.9
Premiums from non-profit contracts	211.5	306.1	170.0	270.8
Premiums from with-profits contracts	2,721.6	2,914.9	2,721.4	2,914.6
Premiums from linked contracts	612.3	562.4	596.6	547.5
	3,545.4	3,783.4	3,488.0	3,732.9
Premiums from life business	777.3	539.6	761.5	526.9
Premiums from annuity business	53.6	58.9	53.6	58.8
Premiums from pension business	2,679.2	3,151.9	2,672.0	3,146.4
Premiums from permanent health business	35.3	33.0	0.9	0.8
	3,545.4	3,783.4	3,488.0	3,732.9
Premiums from UK business	3,283.7	3,586.1	3,226.3	3,535.6
Premiums from overseas business	261.7	197.3	261.7	197.3
	3,545.4	3,783.4	3,488.0	3,732.9
b. New business				
Individual premiums	2,044.4	2,396.9	2,033.5	2,389.7
Premiums under group contracts	289.8	208.3	286.1	205.8
	2,334.2	2,605.2	2,319.6	2,595.5
Regular premiums	356.6	428.2	342.1	418.6
Single premiums	1,977.6	2,177.0	1,977.5	2,176.9
	2,334.2	2,605.2	2,319.6	2,595.5
Premiums from non-profit contracts	128.3	225.1	115.8	215.8
Premiums from with-profits contracts	1,819.0	2,003.9	1,819.0	2,003.9
Premiums from linked contracts	386.9	376.2	384.8	375.8
	2,334.2	2,605.2	2,319.6	2,595.5
Premiums from life business	623.3	415.1	617.2	412.4
Premiums from annuity business	33.3	41.0	33.3	41.0
Premiums from pension business	1,671.5	2,143.4	1,669.0	2,141.9
Premiums from permanent health business	6.1	5.7	0.1	0.2
	2,334.2	2,605.2	2,319.6	2,595.5
Premiums from UK business	2,088.9	2,433.8	2,074.3	2,424.1
Premiums from overseas business	245.3	171.4	245.3	171.4
	2,334.2	2,605.2	2,319.6	2,595.5

1. Earned premiums continued

Classification of new business

In classifying new business premiums the basis of recognition adopted is as follows:

- New recurrent single premium contracts are classified as regular where they are deemed likely to renew at or above the amount of initial premium. Incremental increases on existing policies are classified as new business premiums.
- DSS rebates are classified as new single premiums.
- Funds at retirement under individual pension contracts left with the Society and transfers from group to individual contracts are classified as new business single premiums and for accounting purposes are included in both claims incurred and as single premiums within gross premiums written. Where an amount of fund under a managed pension is applied to secure an annuity in payment, that amount is included in both claims incurred and as a single premium within gross premiums written.
- Increments under existing group pension schemes are classified as new business premiums.

Where regular premiums are received other than annually the regular new business premiums are on an annualised basis.

2. Investment income

	GROUP		SOCIETY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
a. Investment income comprises:				
Group companies			1.6	2.0
Other investments				
land and buildings	109.7	96.4	109.7	96.4
other investments – listed	989.8	927.0	976.1	914.0
– other	111.4	109.8	110.7	108.9
	1,210.9	1,133.2	1,196.5	1,119.3
Gains on realisation of investments	770.5	621.3	759.0	605.6
	1,981.4	1,754.5	1,957.1	1,726.9
b. Investment expenses and charges comprise:				
Investment management expenses	9.5	9.3	8.3	8.5
Interest charges				
payable on loans other than bank loans and overdrafts	–	0.3	–	0.3
payable on all other loans	28.4	28.6	28.4	28.6
	37.9	38.2	36.7	37.4
c. Investment activity account				
Investment income	1,210.9	1,133.2	1,198.1	1,121.3
Realised investment gains	770.5	621.3	759.0	605.6
Movement in unrealised investment gains	2,298.1	1,698.1	2,314.2	1,673.0
	4,279.5	3,452.6	4,271.3	3,399.9
Investment management expenses including interest	(37.9)	(38.2)	(36.7)	(37.4)
Investment return for the year	4,241.6	3,414.4	4,234.6	3,362.5

3. Other technical income

	GROUP		SOCIETY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Other technical income comprises:				
Profits of Group companies	46.3	13.7		
Income from Group companies			12.2	6.5
Stock lending and underwriting commission	2.1	2.6	2.1	2.6
Other income	1.7	1.0	0.2	0.2
	50.1	17.3	14.5	9.3

4. Claims paid

	GROUP		SOCIETY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Gross claims paid comprise:				
On death	95.0	80.8	88.0	76.8
On maturity and surrender	1,942.7	1,899.7	1,935.6	1,891.0
By way of periodic payments	685.6	592.9	664.8	573.6
Claims handling expenses	7.5	7.0	6.5	6.1
	2,730.8	2,580.4	2,694.9	2,547.5
Life and annuity business	373.1	307.1	362.1	297.2
Pension business	2,329.3	2,247.2	2,325.6	2,243.9
Permanent health business	20.9	19.1	0.7	0.3
Claims handling expenses	7.5	7.0	6.5	6.1
	2,730.8	2,580.4	2,694.9	2,547.5
Linked business	232.2	198.6	225.3	191.6
Non-profit business	270.5	246.2	242.6	221.5
With-profits business	2,220.6	2,128.6	2,220.5	2,128.3
Claims handling expenses	7.5	7.0	6.5	6.1
	2,730.8	2,580.4	2,694.9	2,547.5
UK business	2,658.8	2,522.2	2,623.9	2,490.2
Overseas business	64.5	51.2	64.5	51.2
Claims handling expenses	7.5	7.0	6.5	6.1
	2,730.8	2,580.4	2,694.9	2,547.5

Included within claims paid are interim, terminal and final bonuses for the Group of £511.2m (*1998 £478.6m*) and for the Society of £508.6m (*1998 £475.0m*).

5. Net operating expenses

	GROUP		SOCIETY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Net operating expenses comprise:				
Acquisition costs	105.9	113.4	100.1	109.1
Change in deferred acquisition costs	6.9	(4.1)	10.3	(3.5)
Administrative expenses	48.5	33.6	32.4	27.1
	161.3	142.9	142.8	132.7

6. Deferred acquisition costs

	GROUP			SOCIETY		
	Deferred		Charge	Deferred		Charge
	£m	£m	£m	£m	£m	£m
Deferred costs at 1 January 1998		270.9			242.0	
Acquisition costs incurred in the year	113.4			109.1		
Dealt with in the technical provisions	(46.4)		46.4	(46.4)		46.4
	67.0			62.7		
Apportionment for the year		59.0	8.0		55.3	7.4
Amortisation of prior year acquisition costs		(54.9)	54.9		(51.8)	51.8
Deferred costs at 31 December 1998		275.0			245.5	
Acquisition costs incurred in the year	105.9			100.1		
Dealt with in the technical provisions	(51.6)		51.6	(51.6)		51.6
	54.3			48.5		
Apportionment for the year		48.0	6.3		42.8	5.7
Amortisation of prior year acquisition costs		(54.9)	54.9		(53.1)	53.1
Deferred costs at 31 December 1999		268.1			235.2	
Acquisition costs charged for 1999		112.8			110.4	
Acquisition costs charged for 1998		109.3			105.6	

7. Expenses before deferral of acquisition costs

	GROUP		SOCIETY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
a. Expenses before deferral and expense ratio				
Net operating expenses as reported in the Profit and Loss Accounts	161.3	142.9	142.8	132.7
Commission	7.7	6.1	nil	nil
Acquisition costs deferred in the year	48.0	59.0	42.8	55.3
Amortisation of prior year acquisition costs	(54.9)	(54.9)	(53.1)	(51.8)
	162.1	153.1	132.5	136.2.
Claims handling expenses	7.5	7.0	6.5	6.1
Investment expenses and charges including interest charges	37.9	38.2	36.7	37.4
Interest charges	(28.4)	(28.9)	(28.4)	(28.9)
Expenses before deferral	179.1	169.4	147.3	150.8
Earned premiums	3,545.4	3,783.4	3,488.0	3,732.9
Expense ratio (expenses before deferral as a % of earned premiums)	5.1%	4.5%	4.2%	4.0%

7. Expenses before deferral of acquisition costs continued

	GROUP		SOCIETY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
b. Expenses include:				
Depreciation of tangible fixed assets	8.5	8.4	8.3	8.1
Operating lease rentals – land and buildings	8.5	8.0	7.8	7.8

Auditors' remuneration, inclusive of VAT, for the Group was £478,411 (*1998 £386,487*) for audit services and £1,140,055 (*1998 £118,220*) for non-audit services. Auditors' remuneration, inclusive of VAT, for the Society amounted to £347,800 (*1998 £259,616*) for audit services and £807,363 (*1998 £107,512*) for non-audit services. £44,650 in respect of 1999 audit services for the Group and for the Society relates to the previous year.

Group net operating expenses include £80,000 in relation to a fine levied by IMRO on Equitable Unit Trust Managers Limited for breaches of IMRO rules, specifically a failure properly to value two unit trusts in respect of certain tax liabilities between June 1988 and June 1998.

8. Directors and employees

	GROUP		SOCIETY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
a. Staff costs comprise:				
Administration				
Salary	32.4	28.3	29.1	25.7
Bonus	3.9	4.0	3.4	3.7
Marketing				
Field staff remuneration	32.1	32.7	31.1	32.2
Non-field staff salary	9.8	9.2	9.3	8.6
Non-field staff bonus	1.2	1.2	1.2	1.2
Investment				
Salary	2.9	2.7	2.9	2.7
Bonus	0.7	0.7	0.7	0.7
	83.0	78.8	77.7	74.8
Social security costs	7.9	7.1	7.4	6.7
Other pension costs	10.6	9.5	9.7	8.8
	101.5	95.4	94.8	90.3
The monthly average number of employees during the year was as follows:				
Administration	1,328	1,257	1,159	1,108
Marketing	1,012	969	962	921
Investment	62	62	62	62
	2,402	2,288	2,183	2,091

8. Directors and employees continued

	1999 £	1998 £
b. Emoluments of Directors		
The total emoluments of the Directors comprise:		
Fees of non-executive Directors	303,513	298,462
Remuneration of executive Directors		
Basic remuneration	465,677	337,404
Performance-related remuneration	154,621	140,697
	923,811	776,563

	1999 £	1998 £
Number of Directors accruing retirement benefits under		
Defined benefit scheme	5	4
Defined contribution scheme	nil	nil

	1999 £	1998 £
Highest paid Director		
Emoluments	279,958	253,646
Accrued pension, accumulated annual benefit	93,300	76,500

Further details of Directors' emoluments are given in the Remuneration Report on pages 7 and 8.

c. Pension arrangements

The Society operates two non-contributory pension schemes for the benefit of the staff of the Society and of Permanent. The schemes' actuary is of the opinion that the pension cost included within management expenses of the Group of £10.6m (*1998 £9.5m*) and the Society of £9.7m (*1998 £8.8m*) is consistent with the cost of providing the promised pension benefits in accordance with Statement of Standard Accounting Practice No.24. The schemes are fully insured under policies held with the Society.

i. Defined Benefits Scheme

Certain permanent members of staff together with a number of Directors (see note 8.b.) are members of this scheme. The scheme actuary is an employee of the Society. The scheme actuary values the scheme triennially using the projected unit method with a 50 year control period and an allowance for new entrants. The most recent actuarial valuation was performed as at 1 January 1998 and the key assumptions used were as follows:

Salary increases	7% per annum
Investment return	8% per annum
Rate of increase to current and future pensions in payment in excess of the Guaranteed Minimum Pensions	4% per annum

On this basis the actuarial value of the policies of £146.9m represented 111% of the liabilities determined.

Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the Group benefits from the employees' services. The effect of variations from regular cost are spread over the expected average remaining service lives of members of the scheme. A provision of £0.4m (*1998 £0.2m*) is included in Provisions for other risks and charges, representing the excess of accumulated pension cost over the amount funded.

8. Directors and employees continued

ii. Defined Contributions Scheme

This scheme was set up during 1995. All employees will normally become eligible to join this scheme upon becoming permanent members of staff.

9. Commission

All commission payments are made by Permanent. The Society does not pay commission to third parties.

10. Taxation

	GROUP		SOCIETY	
	1999 £m	1998 £m	**1999 £m**	1998 £m
a. Taxation charged to the Technical Account				
UK corporation tax				
Current tax on income for the period	25.6	26.7	21.4	25.0
Double taxation relief	(0.6)	(0.6)	(0.5)	(0.6)
	25.0	26.1	20.9	24.4
Adjustments in respect of previous years	(3.8)	(4.3)	(2.7)	(3.6)
	21.2	21.8	18.2	20.8
Foreign tax				
Current tax on income for the period	7.0	7.1	7.6	6.8
Adjustments in respect of previous years	–	0.2	–	0.2
	7.0	7.3	7.6	7.0
Deferred tax				
UK	(5.7)	17.3	(5.3)	14.2
Overseas	(0.8)	0.9	(0.8)	0.9
	(6.5)	18.2	(6.1)	15.1
Total charge	21.7	47.3	19.7	42.9

	GROUP		SOCIETY	
	1999 £m	1998 £m	**1999 £m**	1998 £m
b. Deferred taxation				
Provided in the accounts:				
Accelerated capital allowances	(0.3)	–	–	0.1
Short-term timing differences	20.9	27.8	16.3	22.9
Unrealised appreciation in investments	7.0	6.3	5.8	5.2
	27.6	34.1	22.1	28.2
Not provided in the accounts:				
Accelerated capital allowances	0.8	1.1	1.2	1.1
Short-term timing differences	–	0.1	–	–
Unrealised appreciation in investments	146.5	100.6	143.4	97.9
	147.3	101.8	144.6	99.0

11. Non-linked investments

	Current Value		Cost	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
a. Land and buildings				
Group				
Long leasehold	490.4	308.2	470.3	306.1
Freehold	1,606.4	1,180.8	1,508.9	1,111.2
At 31 December	2,096.8	1,489.0	1,979.2	1,417.3
Society				
Long leasehold	490.4	308.2	470.3	306.1
Freehold	1,561.2	1,145.4	1,458.6	1,077.1
At 31 December	2,051.6	1,453.6	1,928.9	1,383.2

Included in the figures shown for current value is £23.9m (*1998 £21.7m*) in respect of buildings which are owned and occupied by the Society. It is considered that the useful economic lives and residual values of these properties are such that their depreciation is immaterial and is thus not provided. Notional rent of £2.0m (*1998 £1.6m*), based on market rentals, is charged to expenses and is included in investment income.

97% of the Group's and of the Society's properties were valued individually as at 31 December 1999 by independent professional valuers and are included in the accounts at those valuations. Unit-linked properties were valued by independent professional valuers on a four-month rolling basis over the year. The valuations were carried out by Jones Lang Lasalle in respect of commercial properties, CB Hillier Parker in respect of unit-linked properties and by Savills plc in respect of agricultural properties. Properties held under limited partnerships amounting to £465.5m (*1998 £88.2m*) for the Group and £420.3m (*1998 £52.8m*) for the Society were valued by valuers appointed by the respective general partner.

No depreciation is provided in respect of investment properties. The Directors consider that this accounting policy is necessary for the accounts to give a true and fair view. Depreciation is only one of the factors reflected in the annual valuation, and the amount which might otherwise have been shown cannot be separately identified or quantified.

	Current Value		Cost	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
b. Investments in Group undertakings				
Shares	143.4	174.6	144.0	188.0
Loans	21.3	9.6	26.6	13.0
At 31 December	164.7	184.2	170.6	201.0

11. Non-linked investments continued

	Current Value		Cost	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
c. Other financial investments				
Group				
Shares and other variable yield securities and units in unit trusts	16,643.6	13,023.0	9,688.5	8,354.3
Debt and other fixed-income securities	9,369.0	8,963.0	8,480.9	7,438.2
Loans secured by mortgages	8.5	9.5	8.5	9.5
Loans secured by policies	5.8	7.1	5.8	7.1
Other loans	1.0	–	1.0	–
Deposits with credit institutions	740.2	1,615.8	733.3	1,621.9
Other investments	0.4	0.7	0.4	0.4
	26,768.5	23,619.1	18,918.4	17,431.4

	Current Value		Cost	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Society				
Shares and other variable yield securities and units in unit trusts	16,545.3	12,878.7	9,629.4	8,232.6
Debt and other fixed-income securities	9,165.2	8,763.9	8,294.6	7,276.1
Loans secured by mortgages	8.3	9.4	8.3	9.4
Loans secured by policies	5.7	6.8	5.7	6.8
Deposits with credit institutions	730.1	1,596.4	723.1	1,602.5
Other investments	0.4	0.7	0.4	0.4
	26,455.0	23,255.9	18,661.5	17,127.8

Investments of £1,077.5m (*1998 £360.3m*), which have been lent in the normal course of business to authorised money brokers on a secured basis, are included in other financial investments.

The value of listed investments included above at current value under shares and other variable yield securities and units in unit trusts is £16,100.3m (*1998 £12,558.6m*) for the Group and £16,002.0m (*1998 £12,413.0m*) for the Society.

The value of listed investments included above at current value under debt and other fixed-income securities is £9,131.0m (*1998 £8,898.5m*) for the Group and £8,728.9m (*1998 £8,728.9m*) for the Society.

12. Assets held to cover linked liabilities

	GROUP		SOCIETY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Cost of linked assets	3,038.9	2,485.8	3,005.9	2,452.8

13. Debtors

	GROUP		SOCIETY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Debtors arising out of direct insurance operations				
Annuities due in early January, paid in December	42.6	38.2	42.5	38.0
Tax relief due on premiums	5.7	5.9	5.7	5.9
Other policyholder debtors	7.3	14.2	7.2	14.2
Amounts owed by policyholders	55.6	58.3	55.4	58.1
Amounts owed by intermediaries	14.0	10.4		
	69.6	68.7	55.4	58.1
Debtors arising out of reinsurance operations	1.0	0.3	–	–
Other debtors				
Debtors other than Group and related companies	52.4	39.6	47.6	35.6
Outstanding sales of investments	43.0	11.6	41.3	8.6
Group companies			8.8	7.8
	95.4	51.2	97.7	52.0
	166.0	120.2	153.1	110.1

14. Tangible assets

	Motor vehicles	Plant fixtures & fittings	Computer equipment	Total
	£m	£m	£m	£m
Group				
Cost				
At 1 January 1999	9.4	17.9	18.3	45.6
Additions	3.7	2.9	1.4	8.0
Disposals	(3.3)	(3.8)	(6.3)	(13.4)
At 31 December 1999	**9.8**	**17.0**	**13.4**	**40.2**
Depreciation				
At 1 January 1999	3.8	10.4	10.3	24.5
Provided in year	2.0	2.6	3.9	8.5
Disposals	(2.0)	(3.6)	(6.2)	(11.8)
At 31 December 1999	**3.8**	**9.4**	**8.0**	**21.2**
Net book value at 31 December 1999	**6.0**	**7.6**	**5.4**	**19.0**
Net book value at 31 December 1998	5.6	7.5	8.0	21.1

14. Tangible assets continued

	Motor vehicles £m	Plant fixtures & fittings £m	Computer equipment £m	Total £m
Society				
Cost				
At 1 January 1999	9.2	17.7	17.7	44.6
Additions	3.5	2.6	1.2	7.3
Disposals	(3.3)	(3.7)	(6.3)	(13.3)
At 31 December 1999	**9.4**	**16.6**	**12.6**	**38.6**
Depreciation				
At 1 January 1999	3.8	10.3	10.0	24.1
Provided in year	1.9	2.6	3.8	8.3
Disposals	(2.0)	(3.6)	(6.3)	(11.9)
At 31 December 1999	**3.7**	**9.3**	**7.5**	**20.5**
Net book value at 31 December 1999	**5.7**	**7.3**	**5.1**	**18.1**
Net book value at 31 December 1998	5.4	7.4	7.7	20.5

15. Subordinated liabilities

On 6 August 1997 Equitable Life Finance plc, a wholly-owned subsidiary of the Society, issued £350m 8.0% Undated Subordinated Guaranteed Bonds which are guaranteed by the Society. The proceeds, after the deduction of costs associated with the issue, were lent to the Society on terms similar to those applicable to the Bonds. The Bonds are repayable by Equitable Life Finance plc on a non-instalment basis on 6 August 2007 and each fifth anniversary thereafter, so long as the Bonds are outstanding.

	GROUP		SOCIETY	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Amounts falling due in five years or more	346.9	346.6	346.2	346.2

16. Fund for future appropriations

The fund for future appropriations comprises all funds the allocation of which to policyholders has not been determined by the end of the financial year.

	GROUP		SOCIETY	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Movement in the year				
Balance at 1 January	3,028.3	2,162.9	3,025.3	2,176.3
Prior year adjustment	–	4.8	–	4.8
Transfer from the Profit and Loss Accounts	1,846.1	861.2	1,822.9	844.4
Exchange loss on retranslation of overseas operations	(6.1)	(0.6)	(7.1)	(0.2)
Balance at 31 December	4,868.3	3,028.3	4,841.1	3,025.3

The exchange loss on retranslation of overseas operations has not been included in a separate statement of recognised gains and losses owing to its insignificance.

17. Technical provisions

a. The long-term business provision

The long-term business provisions for the Society and University Life were calculated using the gross premium method of valuing the long-term, non-linked liabilities. In the case of Permanent, the net premium method of valuing that company's long-term, non-linked liabilities was used.

The principal assumptions used in valuing the main classes of business of the Society were as follows:

Class of business	Mortality	Interest rate %	Future expense allowance	Rates of future bonus On sum assured %	On existing bonus additions %
Endowment assurances					
Basic Life and General Annuity business	AM80	3.25	3.00%	1.50	1.50
Pension business	AM80	3.75	4.00%	2.00	2.00
Non-profit temporary assurances					
Basic Life and General Annuity business	TM80 Adj	3.50	3.00%	–	–
Pension business	TM80 Adj	4.50	4.00%	–	–
Recurrent single premium (with profits)					
Life business	–	0.00	0.25% p.a.	i.	i.
Pension annuity in payment – old series	PMA80-3 (C=2010)	3.50	£40 p.a.	i.	i.
Pension annuity in payment – new series	PMA80-3 (C=2010)	0.00	£40 p.a.	i.	i.
Pension business – old series	–	3.50	0.25% p.a.	i.	i.
Pension business – new series	–	0.00	0.25% p.a.	i.	i.
Non-profit annuity in payment					
Basic Life and General Annuity business	IM80 (C=2010)	5.25	£40 p.a.	–	–
Pension business	PMA80-3 (C=2010)	5.75	£40 p.a.	–	–

i. For recurrent single premium business the interest rate shown is the effective discount rate applied i.e. the valuation interest rate reduced by the future expense allowance and the assumed rate of future bonus.

ii. Except for annuities in payment and recurrent single premium business, expense allowances are a percentage of future premiums. Additionally, for certain assurance contracts, the value of a policy fee of £3.00 p.a. is included in the provision.

iii. The adjustment to the mortality table for temporary assurances is a five year age deduction plus a flat addition of 0.0005 to the resultant mortality rates. For female lives the equivalent rates are based on the AF80 table with a four year age deduction and a flat addition of 0.0002. For annuities in payment on female lives, the equivalent standard female lives mortality tables to those shown above are used.

iv. The basis used for calculating the provision at 31 December 1998 had the following key differences from the basis detailed above:
   - the interest rates for non-profit annuities were 5.00% p.a. for pension business and 4.50% p.a. for general annuity business.
   - the mortality assumption for pension business annuities in payment was PMA80-2 (C=2010).

v. An additional reserve of £132m (*1998 £70m*) is held in respect of the Society's potential liability for compensation relating to the pensions transfers and opt-outs review.

vi. An additional amount of £200m (*1998 £200m*) is included as a prudent provision for any additional liabilities which may arise through clients choosing to exercise guaranteed annuity options under their policies.

17. Technical provisions continued

b. Technical provisions for linked liabilities

The technical provision in respect of property-linked business is equal to the value of the assets to which the contracts are linked. For index-linked annuities in payment the technical provision is equal to the investment liability, calculated using the same mortality assumptions as shown above for the non-profit annuities in payment and using an interest rate of 2.00% p.a. for general annuity business and 2.25% p.a. for pension business (*1.75% p.a.* and *2.00% p.a.* respectively at *31 December 1998*).

An additional provision in respect of future expenses on all linked business and mortality risks on property-linked business is included in the long-term business provision.

	GROUP		SOCIETY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
c. Gross technical provisions movements				
Balance at 1 January				
Long-term business provision	22,181.3	19,281.4	21,954.3	19,096.3
Provisions for linked liabilities	3,137.2	2,447.9	3,093.7	2,408.0
	25,318.5	21,729.3	25,048.0	21,504.3
Retranslation of opening foreign branch technical provisions	(38.1)	8.3	(38.1)	8.3
Changes in long-term business provision – gross amount	1,993.1	2,891.9	1,987.7	2,849.9
Change in technical provisions for linked liabilities	1,069.3	689.0	1,069.1	685.5
Balance at 31 December	28,342.8	25,318.5	28,066.7	25,048.0
Balance at 31 December				
Long-term business provision	24,137.4	22,181.3	23,905.2	21,954.3
Provisions for linked liabilities	4,205.4	3,137.2	4,161.5	3,093.7
	28,342.8	25,318.5	28,066.7	25,048.0

18. Provisions for other risks and charges

	GROUP		SOCIETY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Provisions for deferred taxation	27.6	34.1	22.1	28.2
Other provisions	10.0	11.0	10.0	10.9
	37.6	45.1	32.1	39.1

19. Creditors

a. Amounts owed to credit institutions

	GROUP		SOCIETY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Bank overdrafts	23.4	26.1	21.4	21.5

b. Other creditors including taxation and social security

	GROUP		SOCIETY	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Outstanding purchases of investments	42.2	13.0	42.2	13.0
Group companies			49.0	50.8
Other creditors	42.1	48.9	13.3	5.7
	84.3	61.9	104.5	69.5

20. Subsidiary and associated undertakings

a. Principal subsidiary undertakings

The principal subsidiary undertakings, all of which are wholly owned, are as follows:

	Nature of business
Equitable Life Finance plc	Arranging and managing loan finance
Equitable Life – Finanzberatung und Versicherungsvermittlung GmbH	Sales and marketing of life assurance and pensions
Equitable Services and Consultancy Limited	Consultancy, insurance services and sale/hire of computer systems
Equitable Unit Trust Managers Limited	Unit trust management
Permanent Insurance Company Limited	Permanent health insurance, life assurance and annuity business
University Life Assurance Society	Life assurance and annuity business. Closed to new business

All the above holdings are of ordinary or like shares. Other holdings in subsidiary undertakings do not materially affect the result or assets of the Group. Equitable Life – Finanzberatung und Versicherungsvermittlung GmbH is registered in Germany.

b. Significant holdings

At 31 December 1999 the Group and the Society held more than 20% of the nominal value of a class of equity shares in 40 companies. None of these companies is regarded by the Directors as an associated undertaking and none of the holdings materially affects the result or assets of the Group or of the Society. These investments are included in the Balance Sheets at current value.

Full information on subsidiary undertakings and companies in which the Group and the Society hold more than 20% of the nominal value of a class of equity share will be annexed to the Society's next annual return.

21. Related Party Transactions

The aggregate of premiums paid and amounts transferred into policies with the Society, University Life and Permanent and of amounts paid into personal equity plans and individual savings accounts managed by EUTM in 1999 by Directors was £804,066 (*1998 £794,213*).

The aggregate of payments under policies with the Society in 1999 to Directors was £91,712 (*1998 £277,101*).

22. Commitments

Property investment commitments not provided for in the accounts amounted to £306.0m (*1998 £22.6m*) for the Group and for the Society.

Commitments in respect of uncalled capital on certain investments amounted to £188.0m (*1998 £171.6m*) for the Group and for the Society.

Operating lease commitments, all of which relate to land and buildings, payable within one year of the Balance Sheet date were in respect of leases expiring:

	GROUP		SOCIETY	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Between one and five years	0.1	0.1	–	–
After five years	7.4	7.2	7.4	7.2
	7.5	7.3	7.4	7.2

Financial highlights

Society

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m
New business										
New annual premiums	**342.1**	418.6	494.4	414.9	326.4	308.5	323.0	294.2	281.2	258.2
Single premiums	**1,977.5**	2,176.9	1,949.9	1,590.2	1,289.5	1,035.2	1,087.4	931.7	834.7	577.6
Income										
Premium income	**3,483.7**	3,729.5	3,452.1	2,830.3	2,361.8	2,052.0	2,100.8	1,876.6	1,715.4	1,345.4
Investment income (excluding realised gains)	**1,198.1**	1,121.3	1,071.1	997.3	841.7	740.7	668.4	571.6	459.0	376.1
Expenditure										
Payments under policies	**2,685.1**	2,540.4	2,221.5	1,734.9	1,428.4	1,108.0	1,121.7	946.3	838.7	659.2
Expenses of management	**147.3**	150.8	141.6	122.9	114.4	113.0	121.0	124.3	124.3	101.6
Commission	**nil**	nil	nil	nil	nil	nil	nil	nil	nil	nil
Taxation	**19.7**	42.9	66.0	46.2	28.0	11.7	19.5	6.9	1.2	6.3
Expense ratio	**4.2%**	4.0%	4.1%	4.3%	4.8%	5.5%	5.8%	6.6%	7.2%	7.6%
Assets										
Value of total net assets	**32,902**	28,068	23,676	19,305	16,612	13,545	13,407	9,497	7,368	5,786

Guide for clients on the accounts

A guide to the basis of presentation of the accounts – ‘A guide for clients on the accounts’ is available on request from the Company Secretary.