Equitable Life

Recreating Value for Policyholders

Annual Report and Summary Financial Statements 2010

The Equitable Life Assurance Society

Registered office
20-22 Bedford Row, London WC1R 4JS
www.equitable.co.uk

Policyholder administration
Walton Street, Aylesbury, Buckinghamshire, HP21 7QW

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

With-profits Actuary
Rob Merry

Head of Actuarial Function
Tim Bateman

Legal advisers
Hogan Lovells
Atlantic House
Holborn Viaduct
London EC1A 2FG

Auditors
PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
London SE1 2RD

Member relations is accessible to members through a dedicated email address: member.relations@equitable.co.uk and through a special postal address: Member relations, The Equitable Life Assurance Society, 2-4 Wendover Road, Aylesbury, Buckinghamshire, HP21 9LB.

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

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Corporate review

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

Ian Brimecome

Chris Wiscarson

Dear Members

In two very important respects, the last twelve months have been momentous for the Society.

"...the last twelve months have been momentous for the Society"

- At long last, Government has announced total compensation of £1.5bn to policyholders, past and present, for the regulatory maladministration that took place in the 1990s.
- Your Board has announced the first important step in its programme for getting capital back into policyholders' hands.

Last year, we set out our strategy to recreate policyholder value by:

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

We are very pleased to report on our progress.

Government compensation

Last October, Government announced total compensation of £1.5bn, payable free of tax commencing in mid-2011. It is inevitable that there will be disappointment that compensation at this level only represents about one third of the total losses suffered.

However, in assessing this level of compensation, your board is mindful that:

- The Society has consistently supported the Parliamentary Ombudsman's recommendation to compensate for relative losses subject to public purse affordability.
- The Government has accepted the Parliamentary Ombudsman's findings in full. In regard to the reduction for public purse affordability, the Ombudsman has publicly stated that the Government's decision is not incompatible with her recommendations.
- The previous Government and, indeed, the new Coalition until relatively late in the day had placed emphasis on the work of Sir John Chadwick in evaluating compensation. Had Sir John Chadwick's advice prevailed, compensation would have been of the order of £340m.
- Our policyholder research conducted soon after Government's announcement asserted that a line be drawn under the issue, and the Government compensation scheme be accepted so that payments can proceed without delay, giving closure at last.

Taking all this into consideration, we conclude that our focus in regard to the compensation scheme should now be exclusively on getting payments made. We shall support the Treasury with the provision of policyholder data to facilitate payments and we will continue to work constructively with EMAG and other policyholder groups who have been so influential in securing compensation far in excess of the amount advised by Sir John Chadwick.

> "...our focus in regard to the compensation scheme should now be exclusively on getting payments made"

We set down at the end of this review some more information about the current status of the compensation scheme.

Getting capital back into the hands of policyholders

As we have made clear in our last two reports to you, it is a driving intention of the Board to distribute all of the Society's assets including its solvency capital to with-profits policyholders as fairly as possible over time.

We begin this distribution of capital in earnest from 1 April 2011 by earmarking a sum equivalent to 12.5% of policy values at 31 December 2010 to enhance payments for policyholders who leave the Society.

> "...it is a driving intention of the Board to distribute all of the Society's assets"

We have been managing the financial assets of the Society prudently and thoughtfully and have gone to great lengths to rebuild the capital base of the Society. In doing this, we have been mindful of the new regulations that come into force in 2013, known as Solvency II, as developed by the EU Commission.

The more capital we hold, the better the shield it provides against changing circumstances, such as significant changes in investment conditions and where a change may be required to maintain fairness for all policyholders. Indeed, the Regulators take a very close interest in the level of solvency capital and prescribe certain minimum amounts, known as regulatory solvency capital. The Society's policy is to hold amounts in excess of regulatory solvency capital.

While it is very important to have solvency capital, it is also important that with-profits policyholders leaving the Society receive their fair share of capital, provided there is enough left for those who remain. Hence, the Board's very important step to introduce capital distribution in the way we have.

We set down the amount of capital as at 31 December 2010 on page 10 of this document. As can be seen, it amounted to £694m as at 31 December 2010, a little ahead of the amount a year earlier notwithstanding that the number of policies we manage has reduced as many members cash in their funds from the Society, usually following retirement.

Administration services

In November 2009, we announced our intention to change our back office administration providers from the Lloyds Banking Group to HCL. At that time, the principal issues facing the Society were: first, the need for the new Board to establish a robust financial plan to demonstrate effective solvency management particularly in the light of the regulations known as Solvency II; and, second, the need to address the expiry in March 2011 of the administration contract terms with Lloyds Banking Group.

In the period since November 2009, as is evident from our words above, the solvency of the Society is such that we feel able to commence a programme of getting capital back into policyholders' hands. While having the right cost profile remains a key strategic objective, getting capital back to policyholders must, in our judgement, take priority. Capital release will require significant IT systems change and we do not feel able to embark on such an IT change programme at the same time as transferring the administrative services to a new provider. In consequence, we have reviewed our strategy for administration services and have decided to consider alternative operating models. In particular, we have decided not to proceed with the transition to HCL but instead take direct responsibility for our own back office while retaining Lloyds Banking Group to manage the IT platform.

“….enables the Society to manage its own operational destiny to complement its capital repatriation strategy”

For many of the administrative staff, this will represent a return to the fold and enables the Society to manage its own operational destiny to complement its capital repatriation strategy.

Fit for the future

We have covered in this report the most significant developments during 2010. In addition, we completed our transfer to new investment managers, BlackRock; we have gone to great pains to engage with our staff through the many changes they have had to manage; and, most importantly of all, we have kept in touch with policyholders through extensive research, and by communicating with you through special letters and through the media.

After a decade of disappointment, we are pleased to report on some very positive developments in recreating policyholder value.

On behalf of the Society's Board of Directors

Ian Brimecome
Chairman

Chris Wiscarson
Chief Executive

25 March 2011

Government compensation: your questions answered

Government compensation

Who is eligible?

(i) Policyholders who purchased a new with-profits policy after 1 September 1992 and before 31 December 2000; and

(ii) Policyholders who paid a premium on an existing with-profits recurrent single premium policy between 31 December 1992 and 31 December 2000. Most of our pension policies are recurrent single premium policies.

How much compensation will be payable?

Government will make £1.5bn available for compensating policyholders past and present. Included in that figure is an amount to cover losses for with-profits annuitants, leaving £775m free of tax and administrative costs for distribution to everyone else.

How much will each policyholder get?

Government will base compensation on 'relative loss', which is the difference between what policyholders receive from their Equitable policies and what they would have received if they had invested in certain comparator companies.

With-profits annuitants should receive the whole of their relative losses. Other eligible policyholders should receive 22.4% of their relative loss.

Wherever practicable, Government proposes to offset relative gains against relative losses where policyholders have multiple policies. They are also considering setting a de minimus amount, in the region of £10, beneath which payments would not be made.

Government has said that about one third of policyholders have not suffered a relative loss and a further third have relative losses under £500.

Government has yet to announce how much each individual policyholder will be paid.

How will compensation be paid?

With-profits annuitants will receive regular tax-free payments. All other policyholders will receive a tax-free lump sum.

When will compensation be paid?

Government has said it will begin making payments in the middle of 2011. For policies other than with-profits annuities, it aims to complete all payments over the following three years.

Government is not in a position to say when individual policyholders will receive payments, although it has stated that the oldest policyholders and the estates of deceased policyholders will be given priority.

You have said that one of your most important objectives is to maximise Government compensation. What have you done?

We worked closely with the Equitable Members Action Group to support their key initiatives. In particular, they secured the pledges of many hundreds of MPs and prospective MPs to adopt the recommendations of the Parliamentary Ombudsman to compensate for the relative losses subject to public purse affordability.

We were ourselves very active in promoting the adoption of the Parliamentary Ombudsman's recommendation to Ministers in the new Government, and to many MPs; and last summer, wrote to all the Society's current policyholders encouraging them to give their own views in support of the Parliamentary Ombudsman's recommendation.

We were pleased that both newspapers and TV gave prominence to our pleas to Government.

What's happening next?

We expect Government to publish a detailed design document for the scheme. This is unlikely to be later than June because Government has committed to getting compensation payments flowing by the middle of the year.

Is there anything that policyholders should be doing?

We have supplied the names, addresses and all policy details to the Treasury's representatives so they now have all the information they need to begin to make contact with policyholders.

The Treasury keeps everyone up to date on their progress on the website www.hm-treasury.gov.uk/home.htm

Excess Realistic Assets

The excess of realistic assets ("ERA") over liabilities, reported as a policy-related liability in the technical provisions, is available to meet liabilities in excess of those provided for at the balance sheet date, as well as to increase payouts in the future.

At 31 December 2010, ERA were £694m, an increase of £19m over the previous year-end position. The analysis of the with-profits assets and liabilities is as follows:

	2010 £m	2009 £m
Realistic value of with-profits assets	5,479	5,546
less:		
Policy values	3,845	4,143
Future charges	(294)	(290)
Impact of early surrenders	(19)	(28)
Cost of guarantees	755	574
Other long-term liabilities	324	283
Other liabilities	174	189
	4,785	4,871
Excess Realistic Assets	**694**	**675**

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

	2010 £m	2009 £m
Opening Excess Realistic Assets	**675**	**414**
Investment performance net of changes in policy values	136	242
Variances in expenses and provisions	(90)	(89)
Effect of HCL agreement	(130)	130
Mortality experience and assumption changes	-	(24)
Surrender experience and assumption changes	(4)	2
Changes in other valuation assumptions	92	(3)
Other movements	15	3
Closing Excess Realistic Assets	**694**	**675**

The Society seeks to maintain its solvency capital at a level that protects the interests of continuing policyholders while treating exiting policyholders fairly. It is the Board's firm intention to distribute all of the assets of the Society as fairly as possible amongst the holders of with-profits policies over the lifetime of those policies and this is considered in more detail below.

Investment performance

The Society continues to operate a cautious investment strategy, investing largely in fixed-interest investments and an increased proportion in cash. The Society retains a relatively low and decreasing proportion of equities and property. This helps the Society to match anticipated policyholder payments as they fall due and reduces the amount of solvency capital required.

UK bond, equity and property markets all delivered positive returns during 2010. The environment remained volatile, driven by rising fiscal deficits and government debt levels, as we have seen in Greece and Ireland, and concerns over the sustainability of the current economic recovery. Rising interest rates in the latter part of 2010 added further uncertainty to the near-term outlook for investment markets.

Investment performance (continued)

The Society regularly reviews the appropriate composition of the with-profits fund. In 2010, the equity and property portfolio was considered too volatile to meet the Society's regulatory capital objectives, and so we continued to reduce our exposure to investment risk during 2010 with equity sales of almost £100m and property sales of just over £100m.

The assets backing UK with-profits policies produced a gross return of 8.4% for the year. An important component of this return arose from Government bond yields which fell by approximately 0.5% at most durations increasing the value of the Society's fixed-interest holdings. We adjust the return to be passed on to policyholders to remove the effect of Government bond yield movements, as they affect both assets and liabilities. This reduces the return available to be passed on to policyholders to 5.1%. The net return on the fund for the year, after deducting charges for expenses and guarantees of 1% per annum each, and after adjusting for tax and the effect of changes in accounting and technical provisions, is 2.7%.

The specific nature of the Society's liabilities makes comparisons with the wider market performance misleading. Working with our newly appointed investment manager, BlackRock, the Society has commissioned a theoretical benchmark which targets the highest expected return subject to our cashflow matching and capital requirements. We shall commence reporting against the benchmark in next year's report.

Payout enhancements and policy values

In determining payouts to policyholders, the Society aims to balance the objectives of distributing the Society's assets, including its solvency capital, over the lifetime of its policies as fairly as possible, having regard to:

- Meeting guaranteed payments to policyholders;
- Retaining sufficient solvency capital as a shield against changing circumstances; and
- Meeting obligations to other creditors as they fall due.

Payouts depend, to a considerable extent, on the returns achieved on, and the outlook for, the Society's corporate bond, property and equity-related portfolios, where values and liquidity are directly affected by market conditions.

After reviewing the capital required to meet regulatory requirements, both now and under a wide range of possible future economic conditions, the Board has decided that it is appropriate to start the process of distributing solvency capital to policyholders. The Society has, therefore, earmarked a sum equivalent to 12.5% of policy values at 31 December 2010 to enhance payments for with-profits policyholders who leave the Society. This level has been derived on a cautious basis to ensure that exiting policyholders do not disadvantage those who remain. Payout levels will be kept under regular review and, while the Board reserves the right to reduce or remove the distribution of capital at any time, it is hoped that the 12.5% enhancement can be maintained.

Following the valuation at the end of 2010, and as part of the cautious approach taken, the Board has determined that policy values at the end of 2010 should be unchanged from the levels established at the end of 2009. It has also confirmed that, for UK with-profits policies remaining in force at 1 April 2011, until further notice, policy values will increase at 2.0% p.a. for UK pensions policies (1.6% p.a. for UK life assurance policies) backdated to 1 January 2011.

The policy values as at the end of 2010, as described in the previous paragraph were used as the basis for the financial statements. Leaving policy values unchanged over 2010 resulted in an increase in the ERA of £102m. In 2009, policy values increased by less than the returns, and this resulted in an increase in the ERA of £126m, which effectively reduced by £80m at the end of March 2010 following the further increase in policy values announced at that time.

Expenses and provisions

We announced in 2009 that the Society had entered into a contract with HCL for the provision of administration services. As explained in the Corporate review, it has been decided not to proceed with the transaction to HCL. Accordingly, the Society will take the administration services back in-house and approximately 350 staff will transfer across from Lloyds Banking Group. The expected benefits of £130m from the HCL transfer will now not arise as

Expenses and provisions (continued)

anticipated. Higher administrative costs have been capitalised in the valuation at the year end. Expenses and provisions have been increased by some £90m, as indicated in the table on page 9. This increase is based on a comparison of amounts for ongoing costs over the future lifetime of the business, which provides for the total anticipated expense of undertaking the transfer of staff and systems. The Board will be actively seeking ways to reduce these costs so that we have the right cost profile for a business in run-off. The Society expects to levy charges for expenses on with-profits policies at the rate of 1.0% p.a. for 2011 and until further notice, as was the case immediately before the HCL contract was signed.

Investment costs remained stable during 2010, with higher costs from BlackRock being offset by lower charges from the property portfolio. Overall expense costs have decreased by £34m (costs in 2010 were £81m compared to £115m in 2009), primarily as a result of a decrease in pension provisions. The Society has a continuing obligation to HBOS to fund the former Equitable Life staff pension scheme to 1 March 2016. At that time, the Society must leave the Scheme with no deficit and the provisions established make due allowance for this. As at 31 December 2010, provision has been made for contribution payments of £28m to be made in the period to 1 March 2016, and the estimated Scheme deficit of £83m.

Valuation assumptions

In the valuation at the end of 2010, a number of important assumptions have been updated in the light of the changing circumstances of the Society. The future asset mix of the Society now reflects the lower proportion of the assets expected to be invested in equity and property. This reduces the volatility of future returns and hence the expected cost of guarantees has fallen. We observed some changes in policyholders' retirement behaviour during 2010, with policyholders tending to defer their retirement decisions. Reflecting this in our assumptions has a small positive effect on the ERA. The higher charge for expenses gives rise to an additional amount of income to meet future expenses. This is largely offset by an increase in the cost of guarantees. Overall, the changes in assumptions increased the ERA by £92m for 2010 (in 2009 valuation assumption changes reduced the ERA by £3m).

Protection of the fund and policyholder behaviour

The Society aims for the amounts paid out to maturing and exiting policyholders to be fair, but not to disadvantage those continuing policyholders such that the prospects for the continuing solvency of the Society is impaired or payout prospects are reduced. If adverse conditions arise, the Society will act to reduce payout levels, such as in 2009 when policy values were reduced.

Where policyholders switch to a unit-linked fund or surrender their with-profits policy before maturity, the Society is not contractually required to pay out any specific amount. In consequence, the Society levies a financial adjustment of 5% of the policy value and this was the charge throughout 2010. These adjustments can be varied at any time without advance notice, any such change reflecting the then financial position of the Society.

If the Society were to be forced to sell fixed–interest securities to its disadvantage before their relevant maturity dates, or became forced sellers of property or equity holdings in order to make payments to surrendering policyholders, assets and liabilities cease to be matched. In such circumstances, those policyholders would be expected to bear the related costs incurred, by way of a higher financial adjustment.

The Society experienced a decreasing level of claims in 2010. Changes in the pattern of surrenders have been reflected in the realistic assumptions which, after allowing for favourable actual experience in the year, result in a small reduction in the ERA, in respect of these, of £4m (2009: a gain of £2m).

Allowance has been made in realistic liabilities for future discretionary non-guaranteed bonuses. As we have noted before, 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 Guaranteed Investment Return ("GIR") of 3.5% p.a. that is applicable to many policies. If the Society’s investment return is expected to fall below a rate which covers the guarantees, and the assumed retirement profile ceases to be appropriate as a result of significant numbers of policyholders deferring their retirement dates, higher technical provisions may be required.

Capital requirements now and in the future

As a mutual company closed to new business, the Society must meet regulatory capital requirements out of its existing resources. The capital required for the Society's particular risks is quantified in the preparation of a confidential assessment of its capital needs. This is required by FSA rules, introduced under the Individual Capital Assessment ("ICA") framework. The calculations are underpinned by consideration of the underlying risks, which include credit risk, market risk, liquidity risk, operational risk and insurance risk. These capital requirements are met out of the ERA and, in extreme situations, out of policyholders' non-guaranteed benefits. The Board has agreed that its risk appetite is for policy values to be kept at such a level that the ratio of solvency capital to the ICA requirements is in excess of 130%.

The current regulatory framework will be replaced in 2013 by the Solvency II regime, a Europe-wide regulatory basis for establishing capital requirements for insurance companies. The Society continues to prepare for the significant regulatory changes which, according to the latest EU Commission survey (Quantitative Impact Study 5), will be more onerous for the Society than the current regime. An EU report on the results of the survey was published in March 2011.

In assessing the enhancements for payouts set out above, the Board has taken into account the anticipated changes to solvency capital requirements under Solvency II.

Future capital distribution

Following our decision to distribute capital, we have revised the Principles and Practices of Financial Management, which set out the way we manage the with-profits fund. As a result of the enhancements to payouts described in the Corporate review, the cost of meeting policy guarantees as policies exit the fund will reduce. The Board has therefore concluded that it would be appropriate to reduce the charge for guarantees levied against policy values from 1% per annum to 0.5% per annum for 2011, until further notice.

At the next valuation on 30 June 2011, we will report on the position of the Society, taking the capital distribution into account and reflecting the reduced cost of guarantees.

The Board's conclusions on going concern

The Board is responsible for making a formal assessment as to whether the 'going concern' basis is appropriate for preparing these financial statements. The going concern basis presumes that the Society will continue to be able to meet its guaranteed obligations to policyholders and other creditors as they fall due. To do this, the Society must have sufficient assets, not only to meet the payments associated with its business, but also to withstand the impact of other events that might reasonably be expected to happen.

The Board has examined the issues relevant to the going concern basis which include the exposure to: higher interest rates; the costs of the continuing pension obligations to former staff; investment losses; increases in corporate bond defaults in excess of current levels assumed in market prices; future expense levels; increases in provisions; effect of lower interest rates on the behaviour of policyholders with GIRs; persistency risks (the age or duration at which benefits are taken); and mortality risks.

The financial position of the Society has been projected under a range of economic scenarios in order to assess how robust it remains in adverse conditions. The projections make allowance for capital distributions. The Board has also considered the level of contingent liabilities in its analysis of the Society's financial position and considers that these have reduced in significance in recent years. Based on these analyses, the Board is confident of its ability to manage adverse scenarios that may arise, recognising in some scenarios that very strong action to reduce policyholder payouts would be required.

The Board has assessed these uncertainties using the latest available information and has concluded that it is appropriate to prepare these financial statements on a going concern basis.

Board of Directors

Board of Directors

1. Ian Brimecome, Chairman (b) (c)
2. David Adams OBE, Deputy Chairman (a) (b) (c)
3. Chris Wiscarson, Chief Executive (c)
4. Tim Bateman, Finance Director
5. Mark Earls, Chief Operating Officer
6. Keith Nicholson (a)
7. Ian Reynolds (a) (c)
8. Cathryn Riley (b)

Key to membership of principal Board Committees

(a) Audit and Risk
(b) Remuneration
(c) Nominations

Directors' remuneration report

The Remuneration Committee is the Board Committee established by the Society with responsibility for recommending remuneration policy to the Board. In particular, the Remuneration Committee is responsible for recommending the terms of remuneration for executive Directors, including incentive arrangements for bonus payments and the terms of remuneration for non-executive Directors. The Committee reviews remuneration policy at least once a year. The Committee's recommendations are made on the basis of rewarding individuals for the scope of their responsibilities and their performance. All incentive and bonus schemes are established and monitored by the Committee. The Committee seeks to meet the standards set out in the Combined and Annotated Codes and due attention is also given to the FSA's Remuneration Code and other corporate governance initiatives albeit these are not binding on the Society. Proper regard is paid to the need to retain good quality, highly motivated staff and the remuneration paid by organisations similar to the Society is taken into account. In this respect, during 2010, the Society received information from Towers Watson. The Committee considers Towers Watson to be independent of the Society.

Remuneration policy

Executive Director remuneration comprises salary, an annual performance bonus, and participation in long-term incentive plans with payout based on group and individual performance, together with payments in lieu of pension contributions and other benefits.

Total reward for executive Directors is positioned close to the median for the sector, subject to the individual's experience and performance in the role, with strong business and individual performance leading to higher reward.

A range of comparative data including the Towers Watson Insurance sector survey is used.

The Society's policy is to ensure that executive Directors are appropriately incentivised to meet the objectives of the business. Bonus and incentive schemes are designed to provide a strong alignment of interest between the individual and policyholders through rewarding good corporate and individual performance, leading to increases in value for policyholders, and to treating customers fairly.

Remuneration policy (continued)

There is a strong focus upon ensuring that remuneration policy and practices are consistent with and promote risk management and do not lead to the Society's risk appetite being exceeded without prompt and effective mitigation. Measures are in place to avoid conflicts of interest including declarations by Directors.

Executive bonus entitlements

The Society operates an annual discretionary bonus scheme for executive Directors.

Objectives against which targets are set include the maintenance of solvency, the management of significant regulatory reviews, the maintenance of effective service delivery, policyholder and other stakeholder relations, and expense and asset management.

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

Non-executive Directors	Notes	2010 £	2009 £
I Brimecome, Chairman (from 1.9.09)	1	125,000	63,667
V E Treves (resigned 31.8.09)	1	-	83,333
Other non-executive Directors			
D H Adams OBE	2	40,000	35,333
K Nicholson (appointed 26.8.09)	2, 3	45,000	13,949
D I W Reynolds	2	40,000	32,000
C Riley (appointed 24.8.09)	2	40,000	14,256
P A Smith (resigned 31.3.10)		10,000	40,333
Other non-executive Directors not in office during 2010	4	-	52,222
		175,000	188,093
Total for non-executive Directors		**300,000**	**335,093**

Notes:

(1) The Chairman's fees have been £125,000 p.a. with effect from 1 January 2009.

(2) During 2010 the non-executive Directors (other than the Chairman) have received fees at the rate of £40,000 p.a.

(3) An additional fee of £5,000 was paid to K Nicholson, Chairman of the Audit and Risk Committee, in 2010.

(4) Non-executive Directors not holding office during 2010, and who resigned in 2009, are included for comparative purposes.

Executive Directors

Salary and bonuses

	Salary		Performance Related Bonus		Benefits		Total	
	2010 £	2009 £	2010 £	2009 £	2010 £	2009 £	2010 £	2009 £
C M Wiscarson (appointed 2.9.09)	450,000	148,846	-	-	87,623	28,626	537,623	177,472
T J Bateman	250,000	250,000	94,000	50,000	33,669	35,865	377,669	335,865
M Earls (appointed 9.9.09)	230,000	68,332	90,000	34,356	27,296	8,439	347,296	111,127
Other *	-	-	-	-	-	-	-	899,856
Total for executive Directors	**930,000**	**467,178**	**184,000**	**84,356**	**148,588**	**72,930**	**1,262,588**	**1,524,320**

* C G Thomson, resigned 26.8.09. Payments include salary, bonus, benefits and a severance payment.

From his date of joining, 2 September 2009, C M Wiscarson's annual rate of salary has been £450,000 plus annual benefits of £70,000. Benefits in kind in 2010 were £17,623 (2009: 5,472). He is eligible for an annual discretionary bonus of up to 25% of his salary. In considering Mr Wiscarson's performance since joining the Society as Chief Executive, the Board concluded that it was at the top end of their expectations. In anything remotely resembling normal times, the Board would be recommending a bonus towards the maximum of 25% of salary. However, these times are not normal for Equitable policyholders and the Board and Mr Wiscarson have agreed that it is not appropriate for any bonus to be paid notwithstanding his very good performance.

Executive Directors (continued)

Salary and bonuses (continued)

The annual rate of salary for T J Bateman, who was appointed an executive Director on 11 January 2008, has been £250,000 plus annual benefits of £25,000 since that date. Benefits in kind for 2010 were £8,669 (2009: £10,865). He is eligible for an annual discretionary bonus of up to 50% of his salary. For the period to 31 December 2010 the Board approved that the amount of T J Bateman's discretionary bonus award was £94,000 (38% of salary) and this was paid in January 2011. T J Bateman received £50,000 in February 2010 for the 2009 period.

The annual rate of salary for M Earls, who was appointed an executive Director on 9 September 2009, has been £230,000 since 1 January 2010 with annual benefits of £23,000 since that date. Benefits in kind in 2010 were £4,296 (2009: £1,606). He is eligible for an annual discretionary bonus of up to 50% of his salary. For the period to 31 December 2010 the Board approved that the amount of his discretionary bonus award was £90,000 (39% of salary) and this was paid in January 2011. M Earls received £110,000 in February 2010 for service in 2009, £34,356 of which is in respect of the period from his appointment as a Director.

Long-term incentive plan

A long-term incentive plan for senior staff was introduced in 2009 replacing an earlier scheme. Subject to remaining in the Society's employment and subject to performance criteria, the potential maximum award under the scheme for T J Bateman and M Earls is 100% of salary (£250,000 and £230,000 respectively). Any award made would not be payable before June 2011. With respect to 2009 performance, M Earls received £115,000 in February 2010; of this, £35,826 related to the period from his appointment as a Director.

C M Wiscarson does not participate in any long-term incentive plan.

Benefits

Executive Directors' benefits include payments in lieu of pension contributions. C M Wiscarson, T J Bateman and M Earls have no accrued pension entitlements (2009: no accrued entitlements). No benefits are paid to non-executive Directors.

Service contracts

C M Wiscarson, T J Bateman and M Earls have service contracts with a six-month notice period. There is no notice period in respect of non-executive Directors' contracts.

Long-term benefits

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

Directors' remuneration

Non-executive Directors' remuneration comprises a specified fee, which includes extra amounts for specific additional responsibilities, as set out on page 21.

Directors' pension entitlement

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

Highest-paid Director

The total emoluments of the highest-paid Director (C M Wiscarson) in 2010 were £537,623 (2009: C G Thomson £1,388,153).

Independent Auditors' report

to the members of The Equitable Life Assurance Society

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

Respective responsibilities of Directors and Auditors

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

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statements within the Annual Report and Summary Financial Statements with the full Annual Financial Statements, the Directors' report and the Directors' remuneration report and its compliance with the relevant requirements of section 427 of the Companies Act 2006 and the regulations made thereunder.

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

This statement, including the opinion, has been prepared for and only for the Society's members as a body in accordance with section 427 of the Companies Act 2006 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the Society's full Annual Financial Statements describes the basis of our audit opinion on those Financial Statements, the Directors' report and the Directors' remuneration report.

Opinion

In our opinion the Summary Financial Statements are consistent with the full Annual Financial Statements, the Directors' report and the Directors' remuneration report of The Equitable Life Assurance Society for the year ended 31 December 2010 and complies with the applicable requirements of section 427 of the Companies Act 2006, and the regulations made thereunder.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
25 March 2011

Summary profit and loss account

for the year ended 31 December 2010

Technical account – long-term business	Notes	2010 £m	2009 £m
Gross premiums written		90	183
Outward reinsurance premiums		(19)	(29)
		71	154
Investment return		463	326
Net other (charges)/income		(1)	1
		462	327
Claims paid	2	(543)	(731)
Reinsurers' share		53	48
		(490)	(683)
Net operating expenses – non-exceptional		(33)	(37)
Net operating expenses – exceptional	3	(40)	(70)
Net operating expenses		(73)	(107)
Changes in other technical provisions, net of reinsurance		30	309
Balance on the Technical Account		-	-

Summary balance sheet

as at 31 December 2010

Assets	Notes	2010 £m	2009 £m
Investments	4		
Land and buildings		320	375
Investments in Group undertakings		25	24
Shares and other variable yield securities and units in unit trusts		228	316
Debt and other fixed-income securities		4,220	4,746
Deposits and other investments		1,109	478
		5,902	5,939
Assets held to cover linked liabilities		240	239
		6,142	6,178
Reinsurers' share of technical provisions		2,428	2,312
Other assets		114	124
Total assets		**8,684**	**8,614**

Liabilities	Notes	2010 £m	2009 £m
Technical provisions	5	8,511	8,429
Other liabilities		173	185
Total liabilities		**8,684**	**8,614**

These financial statements were approved by the Board on 25 March 2011 and were signed on its behalf by:

Ian Brimecome
Chairman

Chris Wiscarson
Chief Executive

Notes on the financial statements

1. Accounting policies

a. Basis of presentation

The financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance groups, section 405 of the Companies Act 2006 and in accordance with applicable accounting standards and the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("the ABI SORP") issued by the Association of British Insurers dated December 2005 and revised in December 2006, which, inter alia, incorporates the requirements of 'FRS 27 Life Assurance'. The true and fair override provisions of the Companies Act 2006 have been invoked.

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

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

b. Change in accounting policies

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

2. Claims paid

	2010 Claims £m	2009 Claims £m
Gross claims paid comprise:		
On death	32	32
On maturity	327	436
On surrender	108	184
By way of periodic payments	75	78
Claims handling expenses	1	1
	543	**731**

Gross UK pension claims account for the majority of the decrease in claims in 2010.

Included in the above payments are attributable final and interim bonuses of £19m (2009: £22m).

3. Net operating expenses - exceptional

	2010 £m	2009 £m
Pension costs for former staff	7	47
Costs of strategic initiatives	30	19
Other projects	3	4
	40	**70**

As explained in the Financial review on pages 13 and 14, exceptional expenses decreased following a review of pension commitments. Costs for strategic projects included costs of developing the Society's capital distribution strategy and its future administration strategy.

4. Investments

The Society closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique such as mark-to-model or net asset value.

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

5. Technical provisions

a. Gross technical provisions

	2010 £m	2009 £m
Non-profit technical provisions	901	858
With-profits technical provisions		
Policy values	3,845	4,144
Future charges	(294)	(290)
Impact of early surrenders	(19)	(29)
Cost of guarantees	755	574
Other long-term liabilities	324	284
	4,611	4,683
Excess Realistic Assets	694	675
Total with-profits technical provisions	5,305	5,358
Long-term business provision	6,206	6,216
Claims outstanding	1	3
Linked liabilities	2,304	2,210
	8,511	**8,429**

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

b. The long-term business provision – miscellaneous provisions

Technical provisions include amounts in respect of specific provisions:

- Anticipated additional exceptional expenses of £104m (2009: £133m) over future years, including costs of implementing changes in administration provider, contractual commitments to HBOS in respect of pension scheme future service costs and anticipated additional costs associated with servicing policies in the medium term; and
- An amount of £2m legal claims made in Germany against the Society (2009: £10m total legal claims).

6. Risk management

The Society has established a comprehensive risk management framework. Through this framework, the Society seeks to identify, monitor and manage the various risks to which the Society is exposed. The main risks which concern us are market risk, credit risk, liquidity risk, insurance risk, and operational risk.

Market Risk

Market risk is the risk of adverse financial changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity and property prices, derivatives (which the Society invests in within strict guidelines agreed by the Board of Directors) and foreign currency exchange rates. Market risk arises from the portfolio of investments held by the Society which are subject to movements in market price.

A particular source of market risk for the Society is in respect of GIR on with-profits policies, which are typically 3.5% p.a. When the market interest rates are below this level and policyholders defer their retirement, the cost of providing these guarantees is correspondingly higher. To mitigate this risk the Society holds a series of interest rate swaptions.

Credit risk

Credit risk is the risk that a counterparty will fail to pay amounts in full when due. The main credit risks faced by the Society are:

- The risk of default on its portfolio of fixed-interest securities, especially corporate bonds;
- The risk of default by any of its reinsurers.

The Society seeks to limit exposure to credit risk by setting robust selection criteria and exposure limits covering factors such as counterparty financial strength. The Society monitors against these limits so that appropriate management actions can be taken to pre-empt loss from default events.

The major reinsurance treaties are with companies in the HBOS Group. Because reinsurance does not remove the primary liability to its policyholders, the credit rating of these companies is monitored closely.

Liquidity risk

Liquidity risk is the risk of the Society failing to meet short term cashflow requirements, particularly those in respect of claims. Over the longer term, the Society monitors its forecast liquidity position by estimating both the guaranteed and expected cash outflows from its insurance and investment contracts and manages any potential mismatch by purchasing assets with similar durations to meet these obligations.

Insurance risk

Insurance risk refers to fluctuations in the actual timing, frequency and severity of insured events relative to the expectations of the Society at the time of underwriting. The mortality of policyholders is one such example. The Society is not taking on any new insurance risks and its strategy is to manage existing risks through, for example, reassurance.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The process of transferring administration services back to the Society provides for more direct control over many aspects of operational risk but brings with it some particular operational risks which will require careful management. The Society has arrangements in place for identifying, monitoring and managing its operational risks.

7. Contingent liabilities and uncertainties

As noted in the Financial review on page 17 and in the following sections of this note, there exist some uncertainties that, if they were to materialise, could adversely impact on the financial position of the Society. Over the last few years, these uncertainties have been addressed to a very significant extent, and the range of possible outcomes has continued to narrow.

The major development during 2010 was Government's announcement of a payment scheme in response to the Parliamentary Ombudsman's report into the regulatory handling of the Society. In contrast, there was little change in respect of the 91 claims against the Society in district courts across Germany where the cases have all been defended successfully so far. Also outstanding are the investigations initiated by the Accountancy and Actuarial Disciplinary Board ("AADB"). The 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.

It is not considered that the uncertainties described above represent a significant financial threat, and it is considered that the risk of any material new issues arising for the Society appears limited.

The Board continues to closely monitor the contractual commitments the Society has in respect of the two pension schemes for which HBOS is principal employer. There remains a possibility that it may be necessary for a more conservative basis to be adopted in future in calculating the Society's obligations.

Additionally, there remains a risk to the Society that investment conditions change or policyholders defer their retirement, which may materially alter the calculations of technical provisions for policy liabilities.

The process of transferring administration services back to the Society brings with it a range of operational risks, which makes the estimation of future costs more uncertain, and will require careful management. The Society has arrangements in place for identifying, monitoring and managing these risks.

The financial position of the Society has been projected under a range of economic scenarios, in order to assess how robust it remains in adverse conditions. The projections make allowance for capital distribution. The Board has also considered the level of contingent liabilities in its analysis of the Society's financial position and considers that these have reduced in significance in recent years. Based on these analyses, the Board is confident of its ability to manage adverse scenarios that may arise, recognising that in some scenarios very strong action to reduce policyholder payouts would be required.

The Board has assessed these uncertainties using the latest available information and has concluded that it is appropriate to prepare these financial statements on a going concern basis.

Equitable Life

Recreating Value for Policyholders

For security purposes and training purposes, telephone calls may be recorded. Authorised and regulated by the Financial Services Authority. The Equitable Life Assurance Society is a mutual society registered in England No. 37038. Registered Office: 20-22 Bedford Row, London WC1R 4JS, United Kingdom.