Equitable Life

Annual Report and Summary Financial Statements 2007

The Equitable Life Assurance Society

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

With-profits Actuary
Kathryn Payne

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

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

Dear Members

2008 is likely to be a key year in deciding the longer term future of the Society. The Society can run its existing policies to maturity or it may be able to transfer them to one or more third parties who can provide the prospect of better outcomes for policyholders. The options should become clear during 2008.

We are pleased to report that 2007 saw some very important milestones in the strategic development of the Society:

- Most of the Society's fixed pensions transferred to Canada Life Limited in February 2007;
- University Life Assurance Society was transferred to Reliance Mutual at the end of May 2007;
- The Subordinated Bonds were redeemed in August 2007; and
- The Society's with-profits annuities (pensions in payment) transferred to Prudential in December 2007.

The Society remains a very large business – the with-profits fund is £6.8 billion – and most with-profits policyholders have savings contracts of various forms (mostly saving towards a pension). The Society is now stable and secure and it can foresee running its business, paying policy benefits as they fall due, for many years. The Society will remain closed to new business and will gradually run down as policies mature. This is known as 'run-off'.

In 2008 we are inviting other companies to say what they could do to improve the prospects for policyholders. If we believe that one or more can provide a better option for policyholders than run-off, we will choose the best proposal and recommend it to you. We emphasize that no such change would take place without the approval of members.

2007 Bonus declaration

During 2007, the Society achieved a gross return on the with-profits fund of 4.0%. After adjusting for a rise in the value of liabilities corresponding to the fall in interest rates, the effective gross return was 3.3%. The Society currently deducts 1.0% p.a. to cover the cost of administration (this figure allows for future diseconomies of scale) and 0.5% p.a. to cover the cost of guarantees. The effective net return on the with-profits fund in 2007 was 1.9% (2006: 3.9%). The removal of some risks in the business and the reduction in others during 2007 in particular has allowed the Board to enhance returns for policyholders above the effective net return arising from investment performance alone. Further details of the factors affecting the Board’s bonus decisions are given in the Financial Review.

The key decisions are:

- Policy values (or their equivalents) will be increased for UK with-profits pensions policies at a non-guaranteed accrual rate of 5.0% p.a. (2006: 5.0% p.a.) for the whole of 2007 (4.0% p.a. for UK life policies – 2006: 4.0% p.a.);

- A non-guaranteed interim bonus in 2008 of 5.0% p.a. for UK with-profits pensions policies (4.0% p.a. for UK life policies) will continue to be added to policy values (or their equivalents);

- Consistent with previous years, there is no guaranteed reversionary bonus for 2007; and

- The financial adjustment applied to the early surrender of with-profits policies was reduced to 5.0% in April 2007 (from 8.0%). This adjustment can be varied at any time and is kept under regular review.

Where a contractual policy payment is due and the guaranteed benefit exceeds the policy value (or its equivalent), it is the guaranteed benefit which will be paid. For this reason, increases in policy values (or their equivalents) described above will not affect the benefit payable under a policy unless the policy value exceeds the guaranteed benefit at the due date.

Financial position

The Society has maintained its satisfactory financial position. The Society's key measure of solvency is known as 'Excess Realistic Assets' and we continue to have an appropriate level of excess realistic assets for a fund in 'run-off'.

Excess realistic assets at 31 December 2007 were £621 million following the transfer of with-profits annuities to The Prudential Assurance Company Limited ("Prudential") (2006: £884 million), representing 9.2% of the with-profits fund (2006: 9.4%).

Parliamentary Ombudsman and the European Parliamentary Inquiry

In 2004, following strong criticisms of the regulators in Lord Penrose's report, the Society called on the Parliamentary Ombudsman ("PO") to reopen her independent inquiry into the regulation of Equitable Life. We have had lengthy and numerous confidential discussions with her inquiry team and continue to give all possible assistance. If the PO finds maladministration on the part of the regulators, she has the power to recommend Government compensation. We look forward to publication of the report.

The PO has stated that in April 2008 she expects to inform all interested parties of the final date for publication (which we expect to be in the summer). If she recommends Government compensation for policyholders we will be in the forefront of those calling on the Government to do the right thing. We will continue to work with politicians to support that goal.

In June, the European Parliament adopted the report of its special Committee into Equitable Life in the European context. The report recommended (among other things) that the UK Government should pay compensation to policyholders, but it also acknowledged that this recommendation has no force. The Government's reaction has, as predicted, been to wait for the PO's report.

Governance

The Association of Mutual Insurers ("AMI") published guidance for mutual insurers in December 2005. Much of the guidance was already covered in the Society's practices and the Society's Articles were amended at the Annual General Meeting ("AGM") in May 2007 to reduce to 500 the number of members needed to requisition a resolution to an AGM or to requisition an Extraordinary General Meeting ("EGM").

The Society's member relations strategy (published in the corporate governance section of the Society's website) aims to help members take an interest in its governance. Questions from members in respect of corporate issues can be addressed to the member relations function through a dedicated email address: member.relations@equitable.co.uk and through a special postal address: Member relations, Equitable Life Assurance Society, Warwick Court, Paternoster Square, London EC4M 7DX. Questions relating to members' policies continue to be addressed by customer services staff in Aylesbury.

The Society has produced a guide on how we manage the with-profits fund. This is a simpler, easier to follow version of the Principles and Practices of Financial Management ("PPFM"). Also, each year we produce reports by the Board and by the With-profits Actuary on how the with-profits fund has been managed. In the interests of keeping costs down, we make these documents available on the corporate governance section of the Society's website. They are also available to members on request. If there are material changes in these documents we will, of course, draw them to your attention.

The Society held an EGM in October 2007 to allow members to discuss and vote for the proposal to transfer the with-profits annuity policies to Prudential. They did so by an overwhelming majority of over 98% of those voting.

Litigation

In 2004, a group of 873 with-profits annuitants commenced proceedings against the Society, although the majority subsequently withdrew from the proceedings. Settlement was agreed in December 2007 with the remaining 401 annuitants involved. The cost was well within the provisions which the Society had made in respect of this action.

During 2008 we have been notified of 78 legal claims lodged in various regional courts in Germany. We will examine these claims in due course and consider them on their individual merits. As usual, we will resist any attempts by policyholders to obtain an unfair advantage at the expense of all other with-profits policyholders.

Customer service

During 2007, we issued 260,000 annual statements to inform policyholders of the progress of their policies. We also issued around 284,000 letters announcing the proposed transfer of with-profits annuity policies to Prudential and more than 385,000 packs explaining the proposal in detail.

Our customer services staff dealt with 330,000 telephone calls (2006: 400,000) and 316,000 letters (2006: 550,000). The higher levels in 2006 reflected the impact of the new rules for pensions which were introduced on 6 April 2006.

Business outlook

The Society's business objectives continue to include:

- Treating policyholders fairly, including leavers, and ensuring we meet the guarantees provided to policyholders by pursuing an appropriate investment strategy;
- Reducing expenses and further improving our business model; and
- Resolving outstanding claims against the fund.

The Society is stable and secure and it achieves that, in part, by investing predominantly in fixed-income investments (with only around up to 20% of the fund in equities and property). The current outlook is:

- Policyholders will get at least their minimum guaranteed benefits when they fall due;
- Additional, non-guaranteed, benefits will reflect the cautious investment policy – in stable conditions we would expect returns to remain around the current levels (for example, growth of policy values of 5.0% p.a. for UK pension policies);
- We hold back some assets to cover the risks of the fund. As the fund runs down those extra assets (if they are not needed to cover the risks) will be released to policyholders. The effect is likely to be a gradual release of these assets to policyholders over a long time;
- Members continue to share in the profits and also the losses of the business. So, for example, policy values could be adversely affected by the cost of any unanticipated future claims against the Society (or any other new problems) if the existing money put aside is not enough; and
- Over time, as policies continue to mature, the relative management costs of the Society will increase and the cost of the increase will fall on the remaining policyholders. We have modelled this development and have made allowances in our accounting, but there is a risk that the actual changes will be greater than the models have implied.

This is the background against which the Society will assess any proposals from third parties to see whether they can provide improved prospects for policyholders.

Corporate review
continued

Your Board

We were pleased to welcome Tim Bateman, General Manager (Finance), who joined the Board as an executive Director in January 2008. Tim has been with the Society since 2004 giving advice to the Board in his professional capacities as Head of Actuarial Function and, until November 2007, as With-profits Actuary.

Looking forward

The Society has a stable and secure future, even though, inevitably, it will face some challenges as a closed fund in 'run-off'.

As we said earlier, it is from this position of relative strength and security that we are about to invite third parties to approach us with proposals which could improve the prospects for policyholders. We will also continue to look for improvements that could be made internally.

During 2008 we expect to be able to determine whether the next phase of the Society's future will be best for policyholders if we continue independently, or whether one or more third parties can produce the prospect of better outcomes for policyholders. No such change would take place without the approval of members. If such a change appears to be the right way forward it would probably be implemented during 2009.

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

On behalf of the Society's Board of Directors

Vanni Treves
Chairman

Charles Thomson
Chief Executive

The Financial Review specifies certain financial matters of interest to policyholders. The complete version of the summarised review is included in the primary financial statements. The other matters specified in that complete version include commentary on and details of maturities and surrenders, further details in respect of actuarial assumptions and asset values, expenses and provisions and regulatory capital requirements.

Transfer of with-profits annuity policies

On 15 March 2007 the Society announced it had entered into an agreement with The Prudential Assurance Company Ltd. ("Prudential") for the transfer of all its with-profits annuity policies. The transfer of assets, and the resulting impact on liabilities of £1.75bn, took place on 31 December 2007, following a High Court approval of a Part VII Scheme of Arrangement. These movements are presented in the financial statements as part of discontinued operations.

In September the Society published a Policyholder Circular in conjunction with the transfer. This document set out the details of the transfer and the principles to be used to allocate a fair share of the Excess Realistic Assets ("ERA") to with-profits annuitants. As a result of the transfer, the ERA has reduced by £188m, as shown in the table overleaf, slightly less than the £195m estimated as at 30 June 2007.

Excess Realistic Assets and regulatory solvency

The key measure of the Society's net resources is the excess of realistic assets over liabilities before deduction of the estimate of the value of future discretionary enhancements to policy values ("ERA"). This amount, which is reported as a policy-related liability in the technical provisions, is available to meet any unforeseen liabilities, and liabilities in excess of those provided for at the balance sheet date, and to enhance bonuses in the future.

At 31 December 2007, ERA were £621m, a decrease of £263m over the prior year, including the reduction of £188m transferred to Prudential as part of the transfer of with-profits annuities mentioned above. The analysis of the with-profits assets and liabilities is as follows:

	2007 £m	2006 £m
Realistic value of with-profits assets	6,775	9,453
less:		
Policy values	5,383	7,559
Future charges	(206)	(288)
Impact of early surrenders	(31)	(50)
Cost of guarantees	442	566
Other long-term liabilities	384	406
Other liabilities	182	376
	6,154	8,569
Excess Realistic Assets	**621**	**884**

Notes:

(1) The above analysis for 2006 excludes the matching assets and liabilities of the Canada Life Ltd. 'deposit back' arrangement.

(2) Assets to the value of £1.75bn were transferred to Prudential as part of the with-profits annuity transaction.

The key movements in the ERA during 2007 are shown in the following table:

	2007 £m	2006 £m
Opening Excess Realistic Assets	**884**	**669**
Investment performance and effect of bonuses	(112)	69
Mortality experience and assumption changes	(22)	97
Surrender experience and assumption changes	19	28
Changes in other valuation assumptions	28	(12)
Variances in provisions and expenses	(13)	13
Transfer of with-profits annuities to Prudential	(188)	-
Other movements	25	20
Closing Excess Realistic Assets	**621**	**884**

The principal changes in the ERA over and above the transfer to Prudential, are explained in more detail in later sections of this Review.

The Society seeks to maintain the ERA balance at a level that protects solvency whilst treating continuing and exiting policyholders fairly. The balance at 31 December 2007 represents 9.2% of with-profits realistic assets, a small decrease from the equivalent figure of 9.4% at 31 December 2006.

The policy value attributable to with-profits policies may include an element of non-guaranteed final bonus. A prudent allowance for future bonuses, based on assumed future net investment returns that take account of deductions for potential risks, is included in the valuation of the long-term business technical provision in these financial statements. Any enhancements to the bonuses assumed would be met from the ERA.

Investment performance and capacity to pay bonuses

During 2007, the Society continued to operate a cautious investment strategy of retaining a relatively low proportion of the with-profits fund in equities and property, in order that its assets match closely its realistic liabilities. The weighting in favour of fixed-income securities within the investment portfolio results in there being limited scope for growth of the fund. The assets backing UK with-profits policies produced a gross return of 4.0% during the year, benefiting from the change in yields over the year which increased the value of fixed-income securities. However, the financial market re-evaluated the risk associated with corporate bonds (commonly referred to as the 'credit crunch') with the impact of reducing the value of corporate bonds over the year. This, and falls in property values in the latter part of the year, had the effect of reducing the gross return. The return adjusted for bond yield movements (which affect both assets and liabilities) was 3.3% reducing to 1.9% after allowing for the impact of expenses, a 0.5% charge for guarantees, tax and the effect of changes in provisions and technical provisions.

The ERA reconciliation table above shows a net figure of £112m for adverse investment performance and the effect of bonuses. The gains made from the good returns on our small portfolio of equity holdings in the year were more than offset by losses arising from the widening of credit spreads on corporate bonds, and the falls in property values that impacted the UK property market at the end of 2007.

The UK with-profits fund's exposure to equities was increased during the year by the purchase of a small amount of short-term derivative contracts whose value moves in line with changes in the level of the FTSE 100 Index. The Society will consider further opportunities to increase the fund's exposure to equities and will seek to manage its property holdings in line with the run-off of business and its need to meet regulatory capital requirements.

The Society also purchased a number of interest rate swaptions in 2007 as part of a strategy to manage the combined risks of a low interest rate economy and policyholders deferring their retirement. This is discussed further in a later section of this Review.

In determining bonus policy, the Society needs to consider the longer term picture and aims to balance the objectives of continuing to meet its obligations to policyholders and other creditors as they fall due and of distributing the Society's assets over the lifetime of its policies as fairly as possible. The ability to increase policy values depends to a considerable extent on the returns achieved on, and the outlook for, the Society's property and private equity-related portfolios, whose value and liquidity could be affected by adverse market conditions. It is also dependent on actual and expected expense levels, the expected cost of guarantees, costs of meeting commitments in respect of non-profit annuities, miscellaneous profits and losses and possible changes in the level of provisions.

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

After consideration of all risks, reserving and capital matters, the Board has increased policy values at the rate of 5.0% p.a. (2006: 5.0% p.a.) for applicable with-profits pension policies for 2007, and 4.0% p.a. (2006: 4.0% p.a.) for life assurance policies. This bonus includes some distribution of excess assets following the Society's continued improved financial strength and reduction of risks. As a result, policy values (including with-profits annuities) have increased in 2007 by £205m (2006: £78m) in excess of that implied by the adjusted return available for distribution. The Board will keep the level of capital available under review, in order that further distributions reflect the circumstances and the risks facing the Society.

A non-guaranteed interim bonus will continue to be added to policy values (or their equivalents) in 2008 at a rate of 5.0% p.a. for pension policies (2007: 5.0% p.a.), and 4.0% p.a. for life policies (2007: 4.0% p.a.). These interim bonus rates will apply until further notice. The Board may change interim bonus rates during the year.

As previously advised, policyholders should note that, in order to meet all its future contractual liabilities for the foreseeable future, any new distributions of surplus will be made in non-guaranteed form and there is no expectation of any further reversionary bonus being awarded in the near to medium term. Accordingly, there will be no reversionary bonuses for 2007. However, for those policies with Guaranteed Investment Returns ("GIR"), the value of the guaranteed benefit is not changed by the increase in policy values, but is increased instead at the rate set out in the policy conditions, typically being 3.5% p.a.

Expenses and provisions

Overall expenses have increased by £50m in 2007. Savings on recurring expenses have been offset by increases in exceptional expenses as a result of strategic activity, and a review of pension commitments in the year.

Expense savings have been made in investment expenses (2007: £21m, 2006: £30m) due to the fall in investment management expenses which is consistent with a smaller investment asset portfolio. Both this, and the £10m saving in non-exceptional expenses reflect reduced activity levels arising from the transfer of liabilities as part of the Canada Life Ltd. ("Canada Life") transaction.

The savings in recurring expenses have been offset by a £70m increase in exceptional expenses (2007: £98m, 2006: £28m). These additional costs are as a result of implementing the strategic initiatives in 2007 and changes to the funding of the pension scheme. Following consultation with our advisors on the likely valuation assumptions to be used by the Scheme Actuary at the next triennial review of the scheme, the provision has been increased by £44m from the December 2006 provision. This reflects the significant impact of moving to a more prudent mortality assumption in line with the current views on longevity. The increase in provision also reflects changes in underlying assumptions.

The costs associated with the transfer of the with-profits annuitants to Prudential, as well as further costs involved with the work commencing to look at the future strategy for the Society, are the principal reasons for higher strategic costs in 2007.

As shown in Note 7b to the financial statements, balance sheet provisions, included as part of the technical provisions, have reduced over the year. The miscellaneous provisions (including Managed Pension mis-selling and the Rectification Scheme) have reduced by a combined £60m. The provision for exceptional expenses of £82m includes provision for future pension contributions which is also affected by the pension scheme assumption changes noted above.

The cost of administration and investment management at 0.5% of realistic with-profits assets for 2007 (2006: 0.7%) is a key indicator of expenses. In order to take account of the uncertainty of future costs and the challenge of reducing costs as policies mature or transfer, administration expenses as a percentage of policy values are allowed for at a rate of 1.0% p.a., and underruns (as occurred in 2007) below this level are held in reserve to cover expected future higher costs.

Overall, the ERA reconciliation table shows an unfavourable variance in provisions and expenses, taken together, of £13m.

Actuarial assumptions and modelling

Following further analysis during the year of actual experience and following consideration of expected future experience, the Society has further modified its mortality assumptions, principally relating to future rates of improvement in annuitant mortality.

During 2007, as part of the work involved in the transfer of non-profit annuity business to Canada Life, the Society undertook a review of the remaining non-profit annuity business. This process led to refinements of the data and assumptions used in valuation. This produced a large proportion of the £28m shown in the ERA table as 'Changes in other valuation assumptions'.

Protection of the fund and policyholder behaviour

Where a policyholder surrenders his or her with-profits policy (or switches to a unit-linked fund) before maturity, contractual obligations in respect of payouts under the policy generally do not apply. The Society takes account of the interests of all policyholders in these circumstances by paying the policy value (or equivalent), less a financial adjustment. In setting the financial adjustment, the aim is for the amounts paid for surrendering policies to be fair, but not to disadvantage continuing policyholders. In particular, the amounts paid to surrendering policyholders should not reduce the payout prospects of the continuing policyholders. The financial adjustment was reduced from 8.0% to 5.0% in April 2007.

This adjustment can be varied at any time without advance notice to policyholders and any such change would reflect the financial position of the Society at that time. In particular, any reduction in values of property or assets other than fixed-interest securities is not offset by a reduction in guaranteed liabilities, so that any future adverse change in the Society's financial circumstances resulting from a significant fall in net asset values or increase in provisions or non-matched liabilities may necessitate policy value reductions. If the Society were to be forced to sell fixed-interest securities to its disadvantage before their relevant maturity dates, in order to make payments to surrendering policyholders, assets and liabilities cease to be matched. In such circumstances, those policyholders would be expected to bear the related costs incurred, by way of a higher financial adjustment.

Allowance has been made in realistic liabilities for future discretionary non-guaranteed bonuses. As noted previously, it is the Society's intention that any future bonuses will be in a non-guaranteed form. Allowance is made for continuing contractual commitments, such as the GIR of 3.5% p.a. that is applicable to many policies. If the Society's investment return falls below a rate which covers the guarantees and its expenses and the assumed retirement profile ceases to be appropriate as a result of significant numbers of policyholders deferring their retirement dates, substantially higher technical provisions may be required.

The Society has purchased a series of interest rate swaptions with a range of terms during 2007. The purpose of these swaptions is to provide additional capital when interest rates on similar fixed-interest securities fall. These swaptions are designed to partially mitigate any increase in liabilities for Recurrent Single Premiums ("RSP") policies with a non-zero GIR if policyholders defer their retirement plans. A fall in interest rates of 1.0% at all terms would increase the value of the swaptions by £44m and a similar increase would decrease the value by £19m.

Accounting basis of preparation

The year-end financial statements have been prepared in accordance with 'FRS 26 Financial Instruments: Recognition and Measurement' in line with most other insurers and comparatives restated accordingly. The financial statements also reflect the implementation of 'FRS 29 Financial Instruments: Disclosures', which became a requirement on adoption of FRS 26 and the purchase of the interest rate swaptions.

The impact of FRS 26 on the 2007 year-end accounts has removed £45m gross premiums (2006: £61m), and £292m gross claims (2006: £267m) from the Profit and Loss Account. These values are now included in the technical reserves in the Balance Sheet. The introduction of these new accounting policies has had no impact on the profit or ERA of the Society.

Transfer of the bulk of the non-profit pension annuities

On 11 May 2006, the Society entered into various agreements with Canada Life, which led to the transfer of around 90% of the Society's non-profit pension annuities in payment. The actual transfer of those policies and the assets over which Canada Life held a charge took place on 9 February 2007, following High Court approval of a Part VII Scheme of Arrangement.

The business transferred is treated as discontinued operations within the Profit and Loss Account. Further details are explained in Note 1c.

Equitable Life Finance plc

Under the terms of the agreement, Equitable Life Finance plc ("ELF"), a wholly-owned subsidiary of the Society, had the right to redeem £179m of remaining bonds at par. On 6 August 2007 ELF exercised its option to redeem all the remaining bonds.

On 30 October 2007 ELF passed a resolution for voluntary winding up of the company.

University Life Assurance Society

On 20 December 2006, the Society agreed to sell the share capital of its subsidiary company, University Life Assurance Society ("ULAS") to Reliance Mutual Insurance Society Ltd. The sale was completed on 31 May 2007 and there was no significant profit or loss on disposal.

The Board's conclusions on provisions and going concern

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

The Board has examined the issues relevant to the going concern basis which, in summary, are mainly the exposure to: increases in provisions; investment losses; impact of discretionary bonus payments; effect of lower interest rates on the behaviour of policyholders with GIR; future expense levels (including the costs of the continuing pension obligations to former staff); persistency risks (the age or duration at which benefits are taken); and mortality risks.

The financial position of the Society has been projected under a range of economic scenarios. The Board has also considered the level of contingent liabilities (that is, liabilities not recorded in the financial statements but which could conceivably arise) in its analysis of the Society's financial position. The results of this work show that the probability, over the foreseeable future, of the Society being unable to meet its guaranteed obligations to policyholders is not significant. The Board is confident of its ability to manage adverse scenarios that may arise, but there cannot be absolute assurance. In such circumstances, as with any other long-term fund, appropriate actions could be necessary to adjust maturity values and surrender values, in order that policy guarantees can be met.

In addition, the Board has considered the potential additional claims referred to in Note 8 to the financial statements, entitled 'Contingent liabilities and uncertainties'. The Board has assessed the probability of these uncertainties arising and on the basis of current information and having taken legal and actuarial advice, has concluded that it is highly unlikely they will result in any material adverse financial consequences. Certain of those risks, in extremely adverse scenarios, could prejudice the continuing solvency of the Society.

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

Because of volatility in investment and property markets, the uncertain nature of provisions and the other potential strains on the Society's finances, and even though all these issues are subject to close management scrutiny, the Board recognises the possibility that the Society may not meet regulatory capital requirements at all times in the future. As noted above, any such failure does not, of itself, cause the Society to become insolvent.










Board of Directors

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

1	2	3	4	5
6	7	8	9	10

Key to membership of principal Board Committees

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

Directors' remuneration report

The Society's Remuneration Committee's recommendations are made on the basis of rewarding individuals for the scope of their responsibilities and their performance. Where possible, the Committee seeks to meet the standards set out in the Annotated Code on Corporate Governance published by the Association of Mutual Insurers.

Proper regard is paid to the need to retain good quality, highly motivated staff and the remuneration being paid by competitors of the Society is taken into consideration. In this respect, during 2007 the Committee has received information and advice from remuneration consultants, Towers Perrin. The Committee considers Towers Perrin to be independent. Towers Perrin had no other connections with the Society.

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

Non-executive Directors	Notes	2007 £	2006 £
V E Treves, Chairman	1	140,000	140,000
Other non-executive Directors	2		
P A Smith		38,000	38,000
D H Adams OBE		33,000	33,000
I Brimecome	3	27,087	-
R Bullen	4	-	23,333
M J Pickard	4	-	27,500
D I W Reynolds	5	28,000	7,000
F Shedden		33,000	33,000
A R Threadgold		33,000	33,000
J Wood		33,000	33,000
		225,087	227,833
Total for non-executive Directors		**365,087**	**367,833**

Notes:

(1) The Chairman's fees have been £140,000 p.a. since 1 July 2004.

(2) From 1 July 2004 the non-executive Directors (other than the Chairman) have received fees at the rate of £28,000 p.a. The following non-executive Directors have also received

additional fees of £5,000 p.a. in relation to specific services: M J Pickard (Chairman, University Life); A R Threadgold (Chairman, Investment Committee); F Shedden (Chairman, Legal Audit Committee); J Wood (Chairman, Remuneration Committee) and D H Adams (Deputy Chairman, Audit Committee). P A Smith (Deputy Chairman and Chairman of Audit Committee) has received an additional fee of £10,000 p.a.

(3) Ian Brimecome was appointed a Director with effect from 12 January 2007.

(4) R Bullen and M J Pickard resigned as Directors on 31 October 2006. M J Pickard remained a director of University Life Assurance Society until 31 May 2007. He received fees from that company in respect of that role from 1 November 2006 to 31 May 2007 of £5,000 p.a.

(5) D I W Reynolds was appointed a Director with effect from 1 October 2006.

Executive Directors
Salary and bonuses

	Salary		Performance Related Bonus		Benefits		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	£	£	£	£	£	£	£	£
Charles Thomson	453,973	436,450	199,305	129,000	111,842	107,101	765,120	672,551
Total for executive Directors	**453,973**	**436,450**	**199,305**	**129,000**	**111,842**	**107,101**	**765,120**	**672,551**

C G Thomson's annual rate of salary for the period 1 January to 30 June 2007 was £442,900 plus annual benefits of £88,050. His annual rate of salary was increased to £465,045 with effect from 1 July 2007, with annual benefits remaining at the same level. In addition, benefits in kind received in 2007 totalled £23,792.

The maximum potential annual discretionary bonus award he may receive is 50% of his salary. For 2007/2008 the Remuneration Committee has recommended to the Board that the amount of C G Thomson's discretionary bonus award should be £232,523 and be paid in June 2008.

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 £6,317.52.

He is eligible for an annual discretionary bonus of up to 50% of his salary. For 2007/2008, the Remuneration Committee has recommended to the Board that the amount of T J Bateman's discretionary bonus award should be £125,000 and be paid in June 2008.

Long-term retention scheme

	2007 £	2006 £
Charles Thomson	239,167	149,653

C G Thomson participated in an annual retention bonus scheme for senior staff. Under that scheme an amount of £50,000 was payable provided C G Thomson remained in the service of the Society on 30 June 2006. This amount was paid as due.

A new retention bonus scheme for senior staff was introduced in September 2006 under which C G Thomson is eligible to receive payments equal to the following percentages of his then prevailing salary on the dates below, provided he remains in the Society's employment on the relevant date:

- 22.5% on 31 December 2006;
- 22.5% on 30 June 2007;
- 30% on 31 December 2007; and
- up to 75% on 31 December 2008.

In accordance with the new scheme, C G Thomson received a bonus of £99,653 in December 2006, £99,653 in June 2007 and £139,514 in December 2007.

T J Bateman, who was appointed an executive Director on 11 January 2008, will be eligible to receive a payment equal to up to 75% of his then prevailing salary on 31 December 2008, provided he remains in the Society's employment on that date.

The amount of the final bonus entitlement accruing on 31 December 2008 for both C G Thomson and T J Bateman will be at the discretion of the Remuneration Committee (who will determine the amount of the final payment depending on the prevailing financial and operational conditions and strategy of the Society).

A further retention scheme to reward performance and delivery of the strategy for the Society is currently under consideration.

Benefits

Executive Directors' benefits include payments in lieu of pension contributions and, for C G Thomson only, a car allowance. C G Thomson, who was the only executive Director in post during 2007, has no accrued pension entitlements (2006 – no accrued entitlements). T J Bateman who was appointed an executive Director on 11 January 2008 has no accrued pension entitlements. No benefits are paid to non-executive Directors.

Service contracts

C G Thomson has a service contract with a six-month notice period. T J Bateman, who was appointed an executive Director on 11 January 2008, has a service contract with a six-month notice period. No non-executive Director has a service contract.

Long-term benefits

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

Directors' remuneration

Non-executive Directors' remuneration comprises a specified fee, which includes extra amounts for specific additional responsibilities, as set out on pages 20 and 21.

Executive bonus entitlements

The Society operates an annual discretionary bonus scheme for executive Directors. The Society's policy is to ensure that executive Directors are appropriately incentivised to meet the objectives of the business. In particular, significant objectives against which targets are set and approved by the Remuneration Committee include the maintenance of solvency, the achievement of business stability, the management of significant regulatory reviews and litigation issues and the maintenance of effective service delivery.

Directors' pension entitlement

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

Independent Auditors' report

to the members of The Equitable Life Assurance Society

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

Respective responsibilities of Directors and Auditors

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

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statements within the summarised Annual Report with the full Financial Statements, Directors' Report and Directors' Remuneration Report and its compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

We also read the other information contained in the summarised Annual Report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statements.

This statement, including the opinion, has been prepared for and only for the Society's members as a body in accordance with Section 251 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6, 'The Auditors' statement on the Summary Financial Statement' issued by the Auditing Practices Board. Our Report on the Society's full Annual Financial Statements describes the basis of our audit opinion on those Financial Statements, the Directors' Report and the Directors' Remuneration Report.

Our Report refers to the emphasis of matter – contingent liabilities and uncertainties, in respect of potential additional claims against the Society, expenses and increases in provisions that could arise as a result of different legal and regulatory views on its historical conduct and any changes in provisions arising from GIR policyholder behaviour. If the uncertainties prevail, further obligations would arise in respect of mis-selling and other claims, which in extreme circumstances may also have consequences for the going concern basis of preparation of the Financial Statements.

Details of the circumstances relating to the emphasis of matter – contingent liabilities and other uncertainties are described in Note 8 to the Summary Financial Statements. Our opinion on the Annual Financial Statements is not qualified in respect of this emphasis of matter.

Opinion

In our opinion the Summary Financial Statements are consistent with the full Annual Financial Statements, Directors Report and the Directors' Remuneration Report of The Equitable Life Assurance Society for the year ended 31 December 2007 and complies with the applicable requirements of Section 251 of the Companies Act 1985, and the regulations made thereunder.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
26 March 2008

Summary group profit and loss account

for the year ended 31 December 2007

Technical account – long-term business

	Notes	2007 £m	2006 Restated £m
Gross premiums written		124	114
Outward reinsurance premiums			
– Continuing operations		(26)	(47)
– Discontinued operations	2	–	(4,608)
		98	(4,541)
Investment return		324	286
Net other (charges)/income		36	(24)
Transfer of assets to Prudential	3	(1,754)	-
		(1,394)	262
Claims paid	4	(1,173)	(1,421)
Reinsurers' share		124	358
		(1,049)	(1,063)
Net operating expenses – non-exceptional		(45)	(55)
Net operating expenses – exceptional	5	(98)	(28)
Net operating expenses		(143)	(83)
Changes in other technical provisions, net of reinsurance		2,489	5,426
Comprising – Continuing operations		*549*	*663*
– Discontinued operations		*1,940*	*4,763*
Transfer to the fund for future appropriations		(1)	(1)
Balance on the Technical Account		**-**	**-**

Summary group balance sheet

as at 31 December 2007

Assets	Notes	2007 £m	2006 Restated £m
Investments	6		
Land and buildings		625	840
Shares and other variable yield securities and units in unit trusts		478	569
Debt and other fixed-income securities		5,661	11,972
Deposits and other investments		337	558
		7,101	13,939
Assets held to cover linked liabilities		76	87
		7,177	14,026
Reinsurers' share of technical provisions		2,792	7,162
Other assets		240	414
Total assets		**10,209**	**21,602**

Liabilities	Notes	2007 £m	2006 Restated £m
Subordinated liabilities		-	171
Fund for future appropriations		-	10
Technical provisions	7	10,030	16,925
Deposits received from reinsurer - secured		-	4,316
Other liabilities		179	180
Total liabilities		**10,209**	**21,602**

These financial statements were approved by the Board on 26 March 2008 and were signed on its behalf by:

Vanni Treves
Chairman

Charles Thomson
Chief Executive

1. Accounting policies

a. Basis of presentation

The primary financial statements 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 the Association of British Insurers' Statement of Recommended Practice ("SORP") on Accounting for Insurance Business dated December 2005 and revised in December 2006, which, inter alia, incorporates the requirements of 'FRS 27 Life Assurance'.

The Directors have considered the appropriateness of the going concern basis used in the preparation of these financial statements, having regard to the ability of the Society to be able to meet its liabilities as and when they fall due, and the adequacy of available assets to meet liabilities. In the opinion of the Directors, the going concern basis adopted in the preparation of these financial statements continues to be appropriate. A more detailed explanation is provided in the Financial Review on pages 17 and 18.

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

b. Change in accounting policies

During 2007 the Society has invested in derivatives. Therefore the Group has amended its accounting policy to adopt 'FRS 26 Financial Instruments: Recognition and Measurement'. Adoption of this standard requires the Group to classify its contracts into three categories with resulting differing measurement approaches and where some investment contracts are classified as financial instruments, both deposits and claims (withdrawals) are no longer accounted for in the Profit and Loss Account, but are accounted for as an adjustment to technical provisions in the Balance Sheet.

As a result of adopting FRS 26, the Group has also adopted 'FRS 23 The Effects of Changes in Foreign Exchange Rates', and 'FRS 29 Financial Instruments: Disclosures'. The adoption of these standards represents a change in accounting policy and prior year comparatives have been provided accordingly. The introduction of these new accounting policies had no impact on the profit or ERA (the excess of assets over realistic liabilities) of the Society.

c. Strategic activity

i. Accounting for Part VII Transfers

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

The transfer of with-profits annuities to The Prudential Assurance Company Ltd. ("Prudential") involved assets and liabilities of £1.75bn transferring on 31 December 2007.

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

ii. University Life Assurance Society

University Life Assurance Society ("ULAS") was sold to Reliance Mutual Insurance Society Ltd. on 31 May 2007 and so its results to that date are consolidated in the Group Profit and Loss Account. The position of ULAS at 31 December 2007 is not consolidated in the Group Balance Sheet.

iii. Equitable Life Finance plc

Equitable Life Finance plc ("ELF") passed a resolution for voluntary winding up on 30 October 2007 following the redemption of the bonds in August as described in the Financial Review on page 17. The results to the date of liquidation are consolidated in the Group Profit and Loss Account. The position of ELF at 31 December 2007 is not consolidated in the Group Balance Sheet.

2. Outward reinsurance premiums

On 11 May 2006, the Society entered into an agreement where a substantial proportion of the Society's non-profit pension annuity business was reassured with Canada Life. Following the completion of the High Court process, this business was subsequently transferred to Canada Life on 9 February 2007 as a Part VII Transfer described above. Until that date, this business was subject to a reassurance arrangement. The initial premium of £4,608m for the reassurance of this business is included in outward reinsurance premiums. This business has been treated as 'Discontinued operations' in the Profit and Loss Account. The reassurance arrangement was unwound when the business was transferred.

Associated accounting of the assets and liabilities for this transaction can be seen in the 'Reinsurers share of technical provisions' and 'Deposits received' in the Balance Sheet.

3. Transfer of assets to Prudential

On 15 March 2007 the Society entered into an agreement with Prudential for the transfer of its with-profits annuity policies. Following the completion of the High Court process, this business was subsequently transferred to Prudential on 31 December 2007 as a Part VII Transfer. The final value of assets to be transferred will be known in mid 2008 once all actuarial work is complete. The value of assets transferred at 31 December 2007 was £1.75bn. This is shown separately as a movement in the Profit and Loss Account, and the associated asset transfers in the 'Investments' section of the Balance Sheet on page 27.

4. Claims paid

	Group 2007 £m	Group 2006 Restated £m
Gross claims paid comprise:		
On death	38	41
On maturity	519	504
On surrender	310	298
By way of periodic payments	304	575
Claims handling expenses	2	3
	1,173	**1,421**

The gross claims incurred include £42m (2006: £306m) relating to discontinued operations which were transferred to Canada Life on 9 February 2007 and £178m (2006: £189m) relating to discontinued operations which were transferred to Prudential on 31 December 2007.

Included in the above payments are attributable final and interim bonuses for the Society and ULAS of £50m (2006: £47m).

5. Net operating expenses – exceptional

	2007 £m	2006 £m
Rectification and other GAR-related expenses	1	2
Pension costs for former staff	44	5
Cost of strategic initiatives	51	18
Other projects	2	3
	98	**28**

As explained in the Financial Review on pages 13 and 14, savings on recurring expenses have been offset by increases in exceptional expenses, due to strategic activity (the cost of implementing the arrangements with Canada Life and Prudential) and a review of pension commitments.

6. Investments

The Part VII Transfers in 2007 account for a large proportion of the decrease in investments, with £1.75bn being transferred to Prudential and over £4bn to Canada Life. This included £1.4bn of fixed-income securities to Prudential in 2007 (£4.1bn for Canada Life in 2007). Transfers of property (£72m), Property Unit Trusts (£133m) and cash (£150m) accounted for the majority of the balance of the Prudential payment.

7. Technical provisions

a. Gross technical provisions

	2007 £m	2006 Restated £m
Non-profit technical provisions	881	4,506
With-profits technical provisions		
Policy values	5,383	7,559
Future charges	(206)	(288)
Impact of early surrenders	(31)	(50)
Cost of guarantees	442	566
Other long-term liabilities	384	406
	5,972	8,193
Excess Realistic Assets	621	884
Total with-profits technical provisions	6,593	9,077
Long-term business provision	7,474	13,583
Claims outstanding	3	15
Linked liabilities	2,553	3,327
	10,030	**16,925**

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:

- An amount of £55m (2006: £68m), which is the current estimate of the compensation or adjustments to future benefits, which may be payable under the review of managed pension sales and other costs, which may be payable under the Rectification Scheme to policyholders who had policies with guaranteed annuity options which matured prior to the House of Lords' decision. This provision is based on an assessment of the likely level of claims, the level of current interest rates and the possible form of compensation which may be payable on individual cases, if a claim is found to be appropriate. The principal reduction in the provision is as a result of further settlements (£7m) during the year;

- Anticipated additional exceptional expenses of £82m (2006: £115m) over future years, including contractual commitments to HBOS in respect of pension scheme future service costs and anticipated additional costs associated with servicing policies in the medium term; and

- An amount of £81m (2006: £128m) for other miscellaneous liabilities including, inter alia, potential mis-selling liabilities. The principal components are provisions for potential mis-selling claims, a provision for other legal claims against the Society, and provisions relating to residual reassurance balances in respect of the linked and part of the non-profit book and other items.

8. Contingent liabilities and uncertainties

As noted in the Financial Review on pages 17 and 18 and in the following sections of this Note, there exist certain uncertainties that, in the event they were to materialise, could adversely impact on the appropriateness of the going concern basis of preparation of these financial statements. The Board has assessed the probability of these uncertainties arising and, on the basis of current information and having taken legal and actuarial advice, has concluded that it remains appropriate to prepare these financial statements on a going concern basis.

These uncertainties and potential additional claims are as follows:

- As reported previously, the report of the Equitable Life inquiry, led by Lord Penrose, was published in March 2004. Lord Penrose commented upon several aspects of the Society's affairs, in a way that may impact on the likelihood of further claims being made against the Society for breach of statutory duty, or in tort or contract. Although some complaints have been received by the Society that have included matters commented upon by Lord Penrose, including the claim by certain with-profits annuitants referred to below, there has only been a small number of complaints received arising directly out of the report by Lord Penrose.

- Following publication of the report by Lord Penrose, the Parliamentary Ombudsman ("PO") announced in July 2004 her decision to open a new investigation. It is an inquiry that is independent of the Government and can recommend to Parliament compensation payable by the Government, but cannot require the Society to take any particular action. However, the terms of reference of the inquiry's report may result in consideration of some of the issues commented upon by Lord Penrose and may result in findings that could result in policyholders trying to assert claims against the Society. The Society has had lengthy and confidential discussions with representatives of the PO. Publication of the report is likely in 2008.

- The Society has contractual commitments in respect of two pension schemes for which HBOS is the principal employer. Although full provision is made for estimated contractual liabilities, the basis of calculation to be adopted by the Scheme Actuary in his triennial valuation (as at 31 December 2007) will not be finalised for some time. There also remains the possibility that it may be necessary for a more conservative basis to be adopted in future in calculating the Society's obligations.

- The Institute of Chartered Accountants in England and Wales has initiated disciplinary proceedings against Ernst & Young in respect of its conduct in certain of its audits of the Society. Although these proceedings cannot result in a requirement for the Society to take any particular action, their findings could influence the way in which claims might be presented against the Society.

- As previously reported, in relation to with-profits annuities, there has been a number of complaints made to the FOS and to date there has been a very limited number upheld on the basis of their respective facts. The FOS approach to these complaints has not been on the basis of generic mis-selling. An action by 401 with-profits annuity policy claimants, who alleged, inter alia, generic mis-selling and over-allocation of bonus has now been settled. A limited number of existing complaints, which also raise issues highlighted by Lord Penrose, will be considered following this settlement.

- As noted in the Financial Review on page 13, it is the Society's intention that any future bonuses will be in a non-guaranteed form. Allowance is made for continuing contractual commitments, such as the GIR of 3.5% p.a. that is applicable to many policies. In valuing policy liabilities, guarantees are valued under a range of economic scenarios. The calculation of the technical provisions is based on a projection of current market conditions, allowing for current retirement experience. There remains a risk to the Society that investment conditions change or that policyholders defer their retirement. To mitigate this risk the Society has purchased a series of interest rate swaptions. Further provisions would be required if greater premium income were to be received in such circumstances.

- As previously reported, the Society was unable to reach agreement with HBOS over the initial premium payable in respect of the 2001 reassurance arrangement and the matter was referred to an independent umpire for resolution. The umpire issued his determination during 2006, the resultant amount due and paid to HBOS was within the provision held by the Society for this matter. HBOS did not accept that determination and consequently issued judicial proceedings, which the Society vigorously contested. The issue has subsequently been referred back to the umpire who has provided further reasons justifying his original determination. The proceedings remain adjourned at present and there is currently no known intention of either party to restore them, although that remains a possibility. If that were to occur, the court could potentially require the initial premium issue to be re-determined.

- On 15 March 2007 the Society announced that it had entered into an agreement with Prudential for the transfer of all of the Society's with-profits annuity policies. The transfer took place on 31 December 2007 under a Part VII Transfer under the Financial Services and Markets Act 2000. An estimate of the value of assets transferring with the policies has been reflected in these accounts. The final value of assets transferring will be agreed with Prudential under the terms of the Business Transfer Agreement to the transaction.

The Society has made appropriate provisions for future expenses, alleged mis-selling and other risks based on currently available information. Over time, as more information becomes available, the range of possible outcomes in relation to these issues can be expected to continue to narrow, and the degree of confidence around the levels of the individual provisions can be expected to increase. However, the potential impact of the range of uncertainties relating to provisions may be significant.

Equitable Life