3. Interim Review for the half year ended 30 June 2007

Corporate and Financial Review

Dear *Members*,

We are pleased to tell you of the continued progress of *Equitable Life*, both in strategic developments and in financial terms.

Since our last report:

- *Equitable Life's* financial position has remained stable. Excess Realistic Assets of £849 million represent 9.6% of the with-profits fund (9.4% at the last year-end);
- In April, we reduced the Financial Adjustment for early surrenders of *UK* with-profits policies from 8% to 5%;
- The demanding work to enable the transfer of £1.8 billion of with-profits annuity policies to *Prudential* (subject to *Members'* approval) continues to plan;
- The transfer of £4.6 billion of non-profit pension annuities to *Canada Life* and the sale of University Life to Reliance Mutual have been completed; and
- We have redeemed the outstanding £171 million of 8% subordinated debt, as we no longer need this expensive form of capital support.

Financial position

Equitable Life's financial position complies fully with the much more stringent capital requirements that the regulator has introduced over the past few years. We have an appropriate level of Excess Realistic Assets for a closed fund in 'run off' and our focus has now moved from building *Equitable Life*'s strength, which is now achieved, to ensuring that we pay as much as we can to those taking their benefits during the next few years (as well as providing properly for those who will take their benefits later). Further details are outlined below.

Transfer of with-profits annuity policies to *Prudential*

In March, we reached an agreement to transfer all *Equitable Life*'s with-profits annuity policies to The Prudential Assurance Company Limited ("*Prudential*").

Since that time work has continued to make that complex transfer as smooth and secure as possible. This includes a vote of *Members* which will take place at an *Extraordinary General Meeting* (*EGM*) in October. The transfer itself is expected to take place at the end of the year.

Work is continuing to plan and we have taken the opportunity to include this interim report within the Policyholder *Circular* for the *EGM*, so making significant savings in the cost of production and mailing.

The *Board* unanimously recommends the proposed transfer to *Members*. It is clearly in the interests of those who have with-profits annuities and also those who have other with-profits policies. With-profits annuitants will join an actively managed fund which is one of the largest and strongest insurers in the UK and which has greater bonus earning potential than the current *Equitable Life* fund. The transfer of the with-profits annuities will also greatly improve the prospects of the *Board* finding an attractive long term strategy for remaining with-profits policyholders.

Parliamentary Ombudsman

In May, the Parliamentary Ombudsman announced that she would not be able to publish her report into the regulation of *Equitable Life* as planned, before Parliament's summer recess. She promised to update Parliament again in October.

We share the frustration and disappointment of policyholders that this important report has been delayed again, though we recognise the need for the job to be done thoroughly.

We believe that the Parliamentary Ombudsman's report provides the best hope for Government compensation for policyholders and if she makes such a recommendation, we will be among the first to encourage the Government to do the right thing.

3. Interim Review for the half year ended 30 June 2007 (Continued)

Corporate and Financial Review (Continued)

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 *Equitable Life's* policyholders, but it also acknowledged that this recommendation has no force. The Government's reaction has been to wait for the Parliamentary Ombudsman's report.

Transfer of non-profit pension annuities to *Canada Life*

Following High Court approval, the transfer of the bulk of *Equitable Life*'s non-profit pension annuities to *Canada Life* was completed in February 2007. This transfer has greatly reduced the exposure of the with-profits fund to the risk of unexpected and unquantifiable improvements in life expectancy.

University Life Assurance Society

The transfer of University Life to Reliance Mutual Insurance Society Limited was completed on 31 May 2007, as planned. We took this step to simplify *Equitable Life*'s business, thereby making it easier to assess and implement strategic options.

Subordinated debt

On 6 August 2007, we took the opportunity to redeem the outstanding subordinated debt. The debt, in the form of Bonds, was issued in 1997 as a way of raising capital. It is a sign of *Equitable Life*'s steadily improving financial health that we were able to repurchase approximately £179 million of the Bonds in 2005 with the remainder of £171 million being redeemed in August of this year. *Equitable Life* no longer needs this expensive form of financial support.

Review of *Equitable Life's* financial position

The key measure of *Equitable Life*'s net resources is the excess of realistic assets over liabilities before deduction of the estimated value of future discretionary enhancements to policy values ("Excess Realistic Assets"). 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 30 June 2007, Excess Realistic Assets were £849 million. The key movements in the Excess Realistic Assets during the period are shown in the following table:

	January to June 2007 £m	January to December 2006 £m
Opening Excess Realistic Assets	**884**	**669**
Investment performance	(44)	69
Mortality experience and assumption changes	2	97
Surrender experience and assumption changes	(11)	28
Changes in other valuation assumptions	(3)	(12)
Variances in provisions and expenses	13	13
Other movements	8	20
Closing Excess Realistic Assets	**849**	**884**

Equitable Life seeks to maintain the Excess Realistic Assets balance at a level that protects solvency whilst treating both continuing and exiting policyholders fairly. The balance at 30 June 2007 has fallen slightly, but it now represents 9.6% of with-profits realistic assets, an increase from the equivalent figure of 9.4% at 31 December 2006. The *Board* believe that the level of *Equitable Life*'s Excess Realistic Assets is now appropriate for a closed fund in 'run off'.

The reduction in Excess Realistic Assets over the period is mainly attributable to the decline in the value of fixed-interest investments, due to rising interest rates, a decline which exceeded the gains and income from the equity and property investments. Higher expense provisions for the planned strategic steps have been more than offset by other provision reductions and favourable economic factors reducing the provision for future expenses.

In line with most other insurers, *Equitable Life* has implemented the accounting standard FRS 26 (Financial Instruments: Measurement) for these interim results and restated the comparatives accordingly. This change in accounting policy has no overall impact on the Excess Realistic Assets. However, it does separate the liabilities for those policies which do not have significant insurance content, as these are now classified as 'investment contracts'. Where these policies are not linked to the with-profits fund, the premiums and claims no longer pass though the Profit and Loss Account, instead passing directly to the Balance Sheet. It can be seen in Note 5 that 'investment contracts' actually represent the majority of *Equitable Life*'s liabilities.

As stated above, the transfer of most of the non-profit pension annuity business to *Canada Life* was completed on 9 February 2007, with these interim accounts reflecting the reduction of assets and liabilities for this business as well as the unwinding of the reassurance arrangements and the removal of the secured deposit back from *Canada Life*. This, of course, has had the effect of reducing the size of *Equitable Life*'s Balance Sheet significantly.

After the period end, *Equitable Life* purchased a series of interest rate swaptions to match its potential liabilities more closely in circumstances where interest rates were to decline for a sustained period. This action is designed to provide a better match for the potential higher costs of fulfilling policyholders' guarantees, such as the guaranteed investment return of 3.5% which applies to many policies.

Looking ahead

After years of hard work and difficult decisions, our strategic initiatives are now delivering real opportunities to improve the prospects for policyholders. The transfer of with-profits annuity policies to *Prudential* will represent a major step forward for those annuitants and will greatly enhance our ability to find and assess opportunities for the remaining with-profits policyholders.

You may rest assured that your *Board* will continue to do everything in its power to improve further the prospects for all policyholders.

Vanni Treves and Charles Thomson on behalf of *Equitable Life's* Board of Directors

Vanni Treves	Charles Thomson
Chairman	**Chief Executive**

10 September 2007

3. Interim Review for the half year ended 30 June 2007 (Continued)

Profit and Loss Account for the period ended 30 June 2007

Technical account - long-term business

		Half year ended 30 June		Full year to 31 December
		2007	2006 Restated	2006 Restated
	Notes	£m	£m	£m
Earned premiums, net of reinsurance				
Gross premiums written		64	59	114
Outward reinsurance premiums				
- Continuing operations		(13)	(16)	(47)
- Discontinued operations		-	(4,628)	(4,608)
		51	(4,585)	(4,541)
Investment income	2	555	693	1,054
Other technical income		37	116	8
		643	(3,776)	(3,479)
Claims incurred, net of reinsurance				
Claims paid – gross amount		634	689	1,408
Reinsurers' share		(87)	(179)	(358)
		547	510	1,050
Change in provision for claims		(13)	11	13
	3	534	521	1,063
Changes in other technical provisions, net of reinsurance				
Long-term business provision – gross amount		(4,210)	(765)	(1,267)
Reinsurers' share		3,645	(3,667)	(3,502)
		(565)	(4,432)	(4,769)
Comprising - *Continuing Operations*		*(565)*	*(710)*	*(797)*
- Discontinued Operations		-	*(3,722)*	*(3,972)*
Technical provisions for linked liabilities – gross amount		(500)	37	222
Reinsurers' share		497	(695)	(879)
		(3)	(658)	(657)
Comprising - *Continuing Operations*		*(3)*	*(19)*	*(7)*
- Discontinued Operations		-	*(639)*	*(650)*
Net operating expenses – non exceptional		23	29	55
Net operating expenses – exceptional	4	24	2	29
Net operating expenses		47	31	84
Investment expenses and charges	2	13	17	29
Other technical charges		-	1	21
Unrealised losses on investments	2	615	741	737
Taxation attributable to the long-term business		2	3	13
		677	793	884
		643	(3,776)	(3,479)
Balance on the Technical Account		-	-	-

All significant recognised gains and losses are dealt with in the Profit and Loss Account.

Balance Sheet as at 30 June 2007

Assets

	Notes	30 June 2007 £m	30 June 2006 Restated £m	31 December 2006 Restated £m
Investments				
Land and buildings		794	761	837
Investments in *Group* undertakings		17	19	19
Shares & units in unit trusts		598	560	544
Fixed-income securities		7,342	12,449	11,952
Deposits and other investments		365	483	555
		9,116	14,272	13,907
Assets held to cover linked liabilities		84	86	87
Reinsurers' share of technical provisions				
Long-term business provision		277	4,050	3,922
Technical provisions for linked liabilities		2,613	3,197	3,240
		2,890	7,247	7,162
Debtors				
Debtors arising out of direct insurance operations		43	27	31
Other debtors		5	30	47
		48	57	78
Other assets				
Cash at bank and in hand		25	7	11
Prepayments and accrued income				
Accrued interest and rent		146	210	207
Other prepayments and accrued income		87	120	111
		233	330	318
Total assets		**12,396**	**21,999**	**21,563**

Liabilities

	Notes	30 June 2007 £m	30 June 2006 Restated £m	31 December 2006 Restated £m
Subordinated liabilities		167	167	167
Technical provisions				
Long-term business provision - gross amount	5a	9,349	14,014	13,559
Claims outstanding		2	13	15
Linked liabilities	5b	2,697	3,280	3,326
		12,048	17,307	16,900
Provisions for other risks and charges		3	30	36
Creditors				
Creditors arising out of direct insurance operations		71	46	47
Deposits received from reinsurer - secured		-	4,361	4,316
Creditors arising out of reinsurance operations		9	10	25
Amounts owed to credit institutions		21	26	19
Other creditors including taxation and social security		56	30	27
		157	4,473	4,434
Accruals and deferred income		21	22	26
Total liabilities		**12,396**	**21,999**	**21,563**

Financial information on *Equitable Life* (Continued)

3. Interim Review for the half year ended 30 June 2007 (Continued)

Notes on the Accounts

1. Basis of Preparation

Equitable Life's Interim Accounts do not constitute statutory financial statements as defined in section 240 of the Companies Act 1985. The results for the six month period to 30 June 2007 and to 30 June 2006 are unaudited.

The comparatives for *Equitable Life* for the full year ended 31 December 2006 are consistent, except as stated below, with *Equitable Life* data included in the consolidated Annual Report and Accounts for 2006, which have been audited and filed with the Registrar of Companies.

Equitable Life has amended its accounting policies to adopt FRS 26, Financial Instruments: Measurement and has consequently restated prior periods in accordance with FRS 3, Reporting Financial Performance. There has also been a reclassification of certain assets in the Balance Sheet as at 30 June 2006, relating to the *Canada Life* arrangements.

The Interim Accounts are not consolidated and therefore represent the results of *Equitable Life* only (and not its subsidiaries). The *Group* figures are not materially different from those of *Equitable Life*. The Interim Accounts were approved by the *Board* of *Directors* on 10 September 2007.

The *Directors* have considered the appropriateness of the going concern basis used in the preparation of the financial statements, having regard to the ability of *Equitable Life* 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 Interim Accounts continues to be appropriate.

Apart from the above change for FRS 26, the Interim Accounts have been prepared in accordance with the accounting policies set out in the Annual Report and Accounts as at 31 December 2006 other than in respect of the long-term business provision. A full valuation of the provisions in the long-term fund is carried out annually for the Annual Report and Accounts. The majority of provisions comprising the long-term business provision in the Interim Accounts have been calculated using the same methodology. However, some elements of the provision have been calculated using an approximate method that adjusts for changes in the period.

2. Investment return

	Half year ended 30 June		
	2007	2006 Restated	Full year to 31 December 2006 Restated
	£m	£m	£m
Investment return arises from:			
Land and buildings	26	67	114
Shares and units in unit trusts	76	77	87
Fixed-income securities	(178)	(206)	95
Deposits and other investments	16	14	21
Interest and investment expenses	(13)	(17)	(29)
	(73)	**(65)**	**288**

These figures include £555m of investment income and realised gains in the period (£693m for period to 30 June 2006, £1,054m for year to 31 December 2006), but this is more than offset by unrealised losses from fixed-income securities during the period.

3. Claims paid, after recoveries from reinsurers

	Half year ended 30 June		
	2007	2006 Restated	Full year to 31 December 2006 Restated
	£m	£m	£m
Claims comprise:			
On death	13	14	26
On maturity	255	213	492
On surrender	139	154	269
Periodic payments	125	138	273
Claims handling expenses	2	2	3
	534	**521**	**1,063**

4. Net operating expenses – exceptional

	Half year ended 30 June		
	2007	2006 Restated	Full year to 31 December 2006 Restated
	£m	£m	£m
Rectification and other GAR-related expenses	1	1	2
Pension costs for former staff	(7)	(7)	5
Costs of strategic initiatives	28	6	19
Other projects	2	2	3
	24	**2**	**29**

The costs of strategic initiatives include the costs incurred during the period for the arrangements with *Canada Life* and *Prudential*. These costs include the assessment of options, the legal and advisory costs for the agreements and the *Court* approval process, the communications with policyholders, costs of exiting from existing third party arrangements and the physical transfer of policyholder data and *Records*.

5. Technical provisions

5a. Gross long-term business technical provisions

	30 June 2007	30 June 2006 Restated	31 December 2006 Restated
	£m	£m	£m
Non-profit insurance technical provisions	814	4,616	4,487
Non-profit investment technical provisions	5	6	6
With-profits insurance technical provisions			
Policy values	2,176	2,401	2,272
Future charges	(96)	(102)	(100)
Impact of early surrenders	(1)	(3)	(3)
Cost of guarantees	94	167	138
Other long-term liabilities	122	154	140
	2,295	2,617	2,447
With-profits investment technical provisions			
Policy values	5,097	5,462	5,287
Future charges	(182)	(197)	(188)
Impact of early surrenders	(29)	(45)	(47)
Cost of guarantees	273	531	428
Other long-term liabilities	227	250	255
	5,386	6,001	5,735
Excess Realistic Assets	849	774	884
Total with-profits technical provisions	8,530	9,392	9,066
	9,349	**14,014**	**13,559**

Financial information on *Equitable Life* (Continued)

3. Interim Review for the half year ended 30 June 2007 (Continued)
Notes on the Accounts (Continued)

The Excess Realistic Assets is a key measure of *Equitable Life*'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.

5b. Gross linked liabilities

	30 June 2007	30 June 2006 Restated	31 December 2006 Restated
	£m	£m	£m
Index-linked annuities	86	724	707
Other linked insurance liabilities	246	251	255
Other linked investment liabilities	2,365	2,305	2,364
	2,697	**3,280**	**3,326**

5c. Impact of adoption of FRS 26, Financial Instruments: Measurement on technical provisions

The implementation of FRS 26 has introduced a further split of the technical provisions between insurance contracts and investment contracts. Investment contracts represent those policies that do not have significant insurance content, which collectively represented £7,756m at 30 June 2007. At 30 June 2006, investment contracts represented £8,312m of the technical provisions and at 31 December 2006 they represented £8,105m and the comparatives have been restated accordingly in Note 5a and 5b above.

Investment contracts with discretionary participation features (i.e. with-profits contracts) continue to be treated like insurance contracts within the Long-Term Business Technical Account. However, non-profit and unit-linked investment contracts are now treated as Financial Instruments, with gross premiums and claims no longer passing though the Technical Account. Instead only income generated from these contracts passes through the Technical Account. The restatement for the period to 30 June 2006 has removed £41m of gross premiums and £144m of gross claims from the Technical Account, together with the related re-insurance amounts. For the year to 31 December 2006, the restatement has removed £63m of gross premiums and £267m of gross claims.

5d. The long-term business provision – miscellaneous provisions

Technical provisions include amounts in respect of specific provisions:

- An amount of £68m (31 December 2006: £68m), which is the current estimate of the compensation or adjustments to future benefits 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 over the treatment of such options, and compensation and other costs which may be payable under the review of managed pensions sales. 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.
- Anticipated additional exceptional expenses of £118m (31 December 2006: £115m) over future years, including contractual commitments to HBOS in respect of pension scheme future service costs, the costs associated with implementing new regulations, costs of completing the arrangements with *Prudential* and anticipated additional costs associated with servicing policies in the medium term.
- An amount of £115m (31 December 2006: £128m) for other miscellaneous liabilities. The principal components are provisions for potential mis-selling claims, a provision for other legal claims against *Equitable Life*, and provisions relating to the reassurance of the linked and part of the non-profit book to HBOS in 2001.

6. Contingent liabilities and uncertainties

As noted in the following sections of this Note, there exist certain uncertainties that, in the event they materialised, could adversely impact on the appropriateness of the going concern basis of preparation of these financial statements. Certain of those risks, in extreme adverse scenarios, could prejudice the continuing solvency of *Equitable Life*. 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 *Equitable Life's* affairs in a way that may impact on the likelihood of further claims being made against *Equitable Life* for breach of statutory duty, or in tort or contract. Although some complaints have been received by *Equitable Life* 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 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 *Equitable Life* to take any particular action. However, the terms of reference of the inquiry's report may result in findings that could result in policyholders trying to assert claims against *Equitable Life*. *Equitable Life* has had lengthy and confidential discussions with representatives of the Parliamentary Ombudsman, but after a significant submission from the government, the Parliamentary Ombudsman has had to postpone the issue of her report to consider these matters fully. A further update on the publication timetable is now expected in the Autumn.
- 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 *Equitable Life*. Although these proceedings cannot result in a requirement for *Equitable Life* to take any particular action, their findings could influence the way in which claims are presented against *Equitable Life*.
- As previously reported, in relation to with-profits annuities, there have 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. However, an action has been brought by 403 with-profits annuity policy claimants, who allege, inter alia, generic mis-selling and over-allocation of bonus. Having taken legal advice, *Equitable Life* believes that whilst some of the claimants may have legitimate complaints that could be compensated under our normal procedures and provisions, any generic claims are not well-founded and is defending the action, which is expected to be considered by the *Court* in 2008.
- It is *Equitable Life'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 *Equitable Life* that investment conditions change or that policyholders defer their retirement. Further provisions would be required if greater premium income were to be received in such circumstances.

3. Interim Review for the half year ended 30 June 2007 (Continued)

Notes on the Accounts (Continued)

- As previously reported, *Equitable Life* was unable to reach agreement over the amount of the premium in respect of its 2001 reassurance arrangement with HBOS and the matter was referred to an independent umpire for resolution. On 22 September 2006, the umpire issued his determination, the resultant amount due and paid to HBOS being within the provision held by *Equitable Life* for this matter. The determination is subject to a further claim by HBOS which resulted in the matter being referred back to the umpire who has recently reconfirmed his original decision. It remains to be seen if HBOS will refer the matter back to *Court* or possibly seek leave to appeal.
- *Equitable Life* has contractual commitments in respect of two pension schemes for which HBOS is the principal employer. Although full provision is made for estimated contractual liabilities calculated on a basis consistent with that adopted by the Scheme Actuary in his triennial valuations, there remains the possibility that it may be necessary for a more conservative basis to be adopted in future in calculating *Equitable Life's* obligations.

Equitable Life 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.