Equitable Life

Interim Accounts

for the half year ended 30 June 2003

The Equitable Life Assurance Society

City Place House
55 Basinghall Street
London
EC2V 5DR
www.equitable.co.uk

Board of Directors

Vanni Treves, Chairman (a, b, c, e)

Charles Thomson, Chief Executive (b, d)

Nigel Brinn, Finance and Investment Director (d)

David Adams OBE, Non-executive Director (a, d)

Ron Bullen, Non-executive Director (a)

Sir Philip Otton, Non-executive Director (b, c, e)

Michael Pickard, Non-executive Director (d)

Fred Shedden, Non-executive Director (b, d)

Peter Smith, Non-executive Director (a, b, c, e)

Andrew Threadgold, Non-executive Director (d)

Jean Wood, Non-executive Director (d)

Key to membership of principal Board Committees

(a) – Audit
(b) – Legal Audit
(c) – Remuneration
(d) – Investment
(e) – Nominations

Appointed Actuary

David Murray

Legal Advisers

Lovells
Atlantic House,
Holborn Viaduct
London
EC1A 2FG

Auditors

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Contents

Corporate and Financial Review

Dear Members,

In the Society's Annual Report, published in March 2003, your Board stated that it remained "resolute in dealing efficiently with all the issues that continue to face your Society". We also stated that your Board was "cautiously optimistic" for the year ahead. We remain so. Your Board believes that the Society has made significant progress towards greater stability during the first half of 2003. However, the business continues to face a unique set of challenges and uncertainties.

In this review, we provide a detailed statement of the Society's current position and developments against key projects. The key issues stated here have been highlighted already to you in previous review statements but this review provides an update along with an analysis of the significant legal and financial risks and uncertainties that continue to overhang the business.

Equitable Life is solvent. The continued maintenance of solvency – the ability of the Society to meet its guaranteed obligations to continuing policyholders and annuitants – remains your Board's primary goal.

We are pleased to report good progress towards resolving the major known claims against the Society. In particular, we have achieved settlement in respect of a high proportion of claims from former non-GAR policyholders and we are set to launch the revised rectification scheme (for GAR policyholders who retired before the House of Lords' ruling in the Hyman case) shortly.

There are still challenging issues from the past that need to be resolved. These are not new issues but their consequences remain uncertain. For example, in the case of the Treasury-commissioned Lord Penrose Inquiry, it is possible that claims against the Society may follow publication, or, on the positive side, there may be possible opportunities for policyholder compensation from other parties that his report may reveal.

The fundamental uncertainty surrounding the appropriate amount to be set aside for mis-selling claims and other provisions will continue until the various reviews are substantially complete (likely to be achieved around the end of 2004). Your Board believes, after much discussion and advice, that the level of provisions for mis-selling and other claims is appropriate. There obviously remains, however, a risk of exposure to other claims or that the provisions prove insufficient.

Last year, your Board set clear business objectives to move the Society towards a stable financial position while ensuring that we treat different groups of policyholders fairly. They are:

- Resolve outstanding claims against the fund;
- Stabilise the with-profits fund to ensure its continued solvency;
- Ensure we meet the guarantees provided to policyholders by pursuing an appropriate investment strategy;
- Reduce expenses and restore an efficient business model.

Good progress towards meeting these objectives is reported in this Corporate and Financial Review.

GAR Rectification Scheme and Managed Pension Review

Your Board believes that the Society has made significant progress developing the revised GAR rectification scheme, which we are set to launch shortly for individual policyholders who are eligible to be considered under it. The previous GAR rectification scheme was withdrawn in March of this year. The previous Board launched it in December 2000, in order to compensate former holders of GAR policies who retired before the House of Lords' ruling in 2000 in the Hyman case. The original scheme was reviewed and withdrawn by this Board as it was very complex and time-consuming and, most importantly, it would have allowed policyholders the opportunity to revisit the decisions they made at retirement with the benefit of hindsight. The impact of the significant fall in stock market values since 2000 would clearly influence such decisions and your Board considered that it would be unfair to allow former GAR policyholders retrospectively to change investment decisions at the expense of other continuing policyholders. We have also changed the processes, which are expected now to be much simpler and easier to administer, and this will lead to greater efficiency as the new GAR rectification scheme progresses.

The review, instigated by the FSA, of the sale of managed pensions, continues to be developed. The detail remains to be settled before the next stage of the review can be implemented, but the intention, in line with the FSA's requirements, is that determinations will be made and issued by the Society in all eligible cases during the course of next year. The liabilities connected with the managed pension review cannot therefore be predicted with a high degree of accuracy.

The liabilities relating to the GAR rectification scheme and the managed pensions review have been increased by £20m to £440m, allowing for the impact of interest rates on the cost of provision of compensation under these reviews.

Complaints by former non-GAR policyholders

In June, the Society implemented a case-by-case assessment of complaints by former non-GAR policyholders. We mailed former policyholders, representing some 16,000 policies, advising them of the Society's complaints procedure and the redress formula and inviting them to respond if they believe they have a valid complaint against the Society in relation to the GAR issue.

The Financial Ombudsman Service (FOS) is continuing to review various claims by certain former non-GAR policyholders. The Society is co-operating with the FOS and has made detailed representations to the FOS as to the appropriate level of redress for these particular claims.

The Society has received a preliminary view from the FOS, based on its own legal advice, that it is considering a different approach from that of the Society for some cases. The Ombudsman has invited views from both the Society and complainants. The Society has made representations to the FOS that the appropriate approach to assessing compensation in cases such as these should be based on the Society's own legal opinion, which is consistent with the published legal advice obtained by the FSA. It could be many months before the matter is finally resolved with the FOS and/or the courts. At this stage we have no reason to change our approach. For those complainants dealt with by the FOS under its review, the FOS has agreed in the meantime to provide complainants with details of offers consistent with the Society's approach to redress and we are pleased that many subsequently have settled their complaints on this basis.

Litigation by the Society

In February, the High Court accepted Ernst & Young's application to have part of the Society's claim against them struck out. In July, the Court of Appeal overturned the earlier decision, substantially reinstating our claim.

In the High Court on 17 October, Mr Justice Langley rejected the application by certain former non-executive directors to strike out the claim against them and permitted the Society's case to go forward against the group of 15 former directors. The Society was awarded its costs in both cases. The decisions have vindicated your Board's action to pursue this important litigation in the interests of policyholders. The trial of both claims is planned to commence in April 2005.

Based on all our legal advice and the current assessment of the chances of success, your Board has a duty to act and we must pursue these claims. Any compensation the Society receives will be added to the with-profits fund for the benefit of continuing with-profits policyholders.

Investigations by the Parliamentary Ombudsman and by The Lord Penrose Inquiry

The Parliamentary Ombudsman, in her report published in July, concluded that she did not find evidence to suggest that the FSA, acting as prudential regulator, had failed in its responsibilities during the period under investigation. The period under review was 1 January 1999 to 8 December 2000, the date on which the Society closed for new business.

Your Board awaits the publication of Lord Penrose's Report. His terms of reference are much broader and his inquiry is therefore more complex than that of the Parliamentary Ombudsman. Whilst recognising the Society's and its policyholders' commercial interests, the current Board has provided the Lord Penrose Inquiry with a very substantial amount of documentation. Lord Penrose is investigating decades of the Society's history and also the roles of the various regulatory agencies that supervised the Society's business over the years.

There is much public speculation on the progress of that inquiry and the timing of the delivery of Lord Penrose's report to the Treasury.

Whether Lord Penrose's report is made public in whole, in part or at all is a matter for the Treasury. Lord Penrose's

Corporate and Financial Review

continued

report will set out his view of what went wrong. On publication, which we very much hope will not be delayed, your Board will consider, with its advisers, what the potential implications for the Society may be and the next steps on behalf of policyholders.

Other uncertainties

As the Society has stated on previous occasions, although no proceedings have been initiated, allegations of fraud have been made, including those by a small number of former non-GAR policyholders, that the Society's conduct (after 1998) in relation to the GAR issue went beyond negligence and amounted to fraud. Having taken legal advice, your Board consider there is no sustainable case of fraud, and, in the event that any proceedings were issued, they would be defended vigorously.

There exists the possibility that further claims could be made against the Society, alleging fraud, or other mis-selling not addressed hitherto, or otherwise seeking compensation. In particular, these potential claims could arise as a result of any criticism of the conduct of the Society included in or following publication of Lord Penrose's report, or of former management and advisers following any FSA investigations or reviews by the actuarial and accounting professions.

With-Profits Annuity payments

We wrote in November 2002 and advised that cuts in final bonus would be made to the payments to with-profits annuitants over two policy years, beginning in February 2003. The changes, when completed (in January 2006), will bring the position for with-profits annuitants into line with the Society's other with-profits policyholders.

The amount of future with-profits annuity payments is dependent on the performance of the with-profits fund relative to the bonus rate anticipated by the individual policyholder when the policy started. Each year, the income level reduces at the rate of bonus anticipated by the policyholder and increases by any final bonus declared by the Society. Policyholders generally chose the anticipated bonus rate at a time of higher prevailing inflation and higher expected investment returns. With lower inflation and low investment returns, the overall performance of the with-profits fund may be insufficient in many cases to enable the Society to award final bonuses that will match the reduction in the basic annuity. Many with-profits annuitants will therefore see ongoing falls to their income, though generally by much smaller amounts than the cuts that started in February 2003. This situation is common to other with-profits annuity providers, not just Equitable Life.

Review of the Society's current financial position

In the six months since 31 December 2002, the Fund for Future Appropriations (FFA) fell by £103m to £453m. The FFA balance at 30 June 2003 represents approximately 4.5% of with-profits reserves, little changed from the percentage as at 31 December 2002.

The FFA is the most important measure of the Society's financial position as it represents the Society's net resources available to meet non-guaranteed bonuses, any unforeseen liabilities and liabilities in excess of those provided for at the balance sheet date.

In assessing the Society's ability to meet its obligations as they fall due, the FFA is a more relevant measure than the excess of net assets over the Required Minimum Margin (RMM), which forms part of the financial returns sent to the Financial Services Authority (FSA). The RMM is calculated by the application of specified factors to the policy reserves and acts as a minimum level of required capital. If the Society's excess assets fall below RMM, the FSA has powers to require that certain information and plans be prepared to demonstrate how the Society would correct the position. However, if the Society has a positive FFA, and can meet its liabilities as they fall due, it will remain solvent even if the RMM is not met. The FSA plans to introduce new requirements for the measurement of financial strength in the annual regulatory returns. Until the FSA's requirements are finalised, the impact on the Society cannot be ascertained with any certainty.

When assessing solvency, it is the Society's ability to pay its guaranteed obligations to policyholders that is most significant. The guaranteed obligations include reversionary bonuses on with-profits policies that have already been declared in respect of previous years. The guaranteed obligations do not include any allowance for non-guaranteed bonuses.

The current value of policyholders' with-profits policies includes an estimate for the anticipated non-guaranteed final bonus accumulated to date. It is important to recognise that the estimated final bonus, sometimes referred to as the terminal bonus, included in the policy value is not guaranteed and is therefore not included in either the valuation of the long-term business technical provision or as part of the solvency calculations. In accordance with current actuarial and accounting guidance and industry practice, only guaranteed obligations are included in the valuation of the long-term business technical provisions included in the balance sheet. The Society's objective is for net income to be adequate in future years at least to meet those guarantees and any increases in guarantees.

The following reconciliation shows the interaction of the FFA and RMM figures for the Society:

	30 June 2003 £m	**31 December 2002 £m**
FFA	453	556
Subordinated debt (note 1)	334	346
Implicit item (note 2)	150	200
Reserving adjustments and disallowed assets (note 3)	(15)	(23)
Regulatory net assets	922	1,079
RMM (note 4)	668	723
Excess of net assets over RMM (note 4)	254	356

1. For the purposes of RMM reporting, the subordinated debt can presently be treated as capital. This is achieved in practice by disregarding as a liability the inter-company loan from Equitable Life Finance plc (issuer of the subordinated debt) up to an amount not exceeding 50% of the Society's RMM.
2. The implicit item is a concession, available to insurance companies, which is granted in certain circumstances by the FSA to permit margins in the reserving basis, from business previously written, to be taken into account.
3. Certain balances are required to be held at values that are measured on bases different from those adopted for the Accounts or otherwise are treated differently between the FSA Returns and the Accounts.
4. The figures at 30 June 2003 for RMM and the excess of net assets over RMM are estimated, as there is no requirement to prepare full regulatory returns as at that date.

	January to June 2003 £m	January to December 2002 £m
Opening FFA	556	1,105
Changes in net asset values and valuation rates of interest	12	(80)
Elimination of provision for future discretionary guaranteed bonus for non-GIRs	–	241
Change in mortality assumptions	–	(179)
The effect on FFA of policy maturities and surrenders	20	(211)
Increase in provisions and expenses	(97)	(242)
Contractual cost of HBOS past service pension funding (net of payments made)	(10)	(106)
Other movements	(28)	28
Closing FFA	453	556

The movement in the FFA during 2002 and the first half of 2003, is shown in the table above.

It should be noted that, unless the level of provisions and their related uncertainties reduce at the same rate as the number and value of policies decline as a result of maturities and surrenders, their relative importance increases in considering the adequacy of the FFA to address the risks facing the Society.

Investment performance and capacity to pay bonuses

In 2002, the Society accelerated the implementation of a more cautious investment strategy, reducing significantly the proportion of the with-profits fund held in equities in order to match more closely its liabilities. The weighting in favour of fixed-interest securities and bonds within the investment portfolio results in there being limited scope for its growth, as any changes to bond values resulting from movements in bond yields are mirrored in equivalent and largely offsetting changes in the value of liabilities. Any uplift in equity values in the market generally will have little direct impact on the value of the Society's assets and on its ability to boost future rates of bonus. The ability to increase policy values depends to a considerable extent on the returns achieved on the Society's property and private equity portfolios. The value and liquidity of these assets could be affected by adverse market conditions.

Expenses and provisions

The increase in provisions and expenses of £97m arose principally as a result of the impact of increased project, litigation and miscellaneous costs and an increase of £20m in the GAR Rectification and Managed Pension provisions.

The Board believes that the funds set aside as provisions are sufficient to deal with the various claims against the Society, but recognises that uncertainties remain in establishing appropriate values relating to provisions, principally in respect of the applicable split of claimants into categories representing the most suitable form of redress and take-up rates. In addition there remains the possibility of changes arising from regulatory interpretations or requirements.

The Society has issued a range of pensions policies incorporating guaranteed investment returns of 3.5% per annum. In valuing the liabilities in respect of these policies, it is assumed that the relevant duration is to the first contractual date. If the market level of fixed interest yields falls below this rate, higher reserves would be required.

Equitable Life Finance plc (ELF)

The payment of principal and interest and all other monies payable by ELF, a wholly owned subsidiary of the Society, in respect of the £350m 8% undated subordinated guaranteed bonds, issued in 1997, has been irrevocably and unconditionally guaranteed on a subordinated basis by the Society.

If, when payment of interest in relation to the Bonds becomes due, the Society does not meet RMM as of the date of its latest actuarial valuation, then the payment will be deferred by ELF unless FSA consent to such payment is obtained.

If regulatory returns were to be prepared as at 30 June 2003, the Society's net assets would be in excess of its estimated RMM. However, as noted above, there exists the possibility that the Society may not meet RMM at all times in the future. There is, therefore, uncertainty in respect of the repayment of the interest on and principal of the Bonds, because Bondholders' interests are subordinated to those of the Society's policyholders and other creditors in the event of a winding up of the Society.

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 accounts. 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.

Considerable time has again been spent by the Board in examining 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, future expense levels (including the costs of the continuing pension obligations to former staff) and mortality risks.

The financial position of the Society has been projected under a very wide range of economic scenarios. The Board has also considered the level of contingent liabilities (that is, liabilities not recorded in the Accounts 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, painful actions could be necessary to adjust maturity values, with-profits annuity payments and surrender values.

In addition, the Board has considered the potential additional claims referred to under the heading "Other uncertainties". The Board has assessed the probability of these uncertainties arising and on the basis of current information and having taken legal advice, has concluded that it is highly unlikely they will result in any material adverse financial consequences.

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 Accounts on a going concern basis.

As a result 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 RMM at all times in the future. As noted above, any failure to satisfy RMM does not, of itself, cause the Society to become insolvent.

The Society will continue to need very diligent management of its risks and your Board will not hesitate to take appropriate action in any circumstances which jeopardise the fund's ability to meet guaranteed obligations to policyholders.

Corporate and Financial Review

continued

Looking forward

Your Board's core focus is to continue to ensure that Equitable Life remains solvent and that we continue to move the Society towards greater stability. We have made further progress towards this goal and, looking forward, we remain cautiously optimistic. As this review makes clear, however, significant challenges, including those that may arise from publication of the Penrose Report, and the continuing fundamental uncertainties – particularly surrounding provisioning levels – remain to be resolved.

We know very well that recent years have been very worrying for policyholders and annuitants. Our aim has been to ensure fairness to all, given the considerable financial constraints within which we have to operate. We can assure you that your Board works extremely hard on policyholders' behalf to move this business towards the calmer water you deserve. We will not decrease our efforts to represent your interests at all times and to deal with the remaining issues as speedily and fairly as we possibly can.

Vanni Treves
Chairman

Charles Thomson
Chief Executive

Profit and Loss Account
for the period ended 30 June 2003

Technical account – long-term business

	Notes	Half year ended 30 June 2003 £m	Half year ended 30 June 2002 £m	Full year to 31 December 2002 £m
Earned premiums, net of reinsurance				
Gross premiums written		169	383	647
Outward reinsurance premiums		(108)	(214)	(418)
		61	169	229
Investment income	2	625	1,164	2,134
Other technical income		1	1	2
		687	1,334	2,365
Claims incurred, net of reinsurance				
Claims paid – gross amount		2,379	3,281	6,876
Reinsurers' share		(330)	(465)	(906)
		2,049	2,816	5,970
Change in provision for claims	6	(37)	(5)	(19)
	4	2,012	2,811	5,951
Changes in other technical provisions, net of reinsurance				
Long-term business provision – gross amount	6	(1,366)	(1,737)	(4,346)
Reinsurers' share		(5)	9	(18)
		(1,371)	(1,728)	(4,364)
Technical provisions for linked liabilities – gross amount	6	(103)	(406)	(927)
Reinsurers' share		118	405	959
		(1,356)	(1,729)	(4,332)
Net operating expenses	3	71	75	288
Investment expenses and charges	2	25	29	52
Unrealised losses on investments	2	36	863	941
Taxation attributable to the long-term business		4	10	16
Transfers from the fund for future appropriations		(105)	(725)	(551)
		31	252	746
		687	1,334	2,365
Balance on the Technical Account		–	–	–

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

Balance sheet
as at 30 June 2003

Assets

	Notes	30 June 2003 £m	30 June 2002 £m	31 December 2002 £m
Investments				
Land and buildings	5	1,504	1,866	1,676
Investments in group undertakings		132	76	133
Other financial investments	5	14,583	18,397	16,089
		16,219	20,339	17,898
Assets held to cover linked liabilities		685	637	670
Reinsurers' share of technical provisions				
Long-term business provision		416	384	411
Technical provisions for unit-linked liabilities		2,257	2,930	2,375
		2,673	3,314	2,786
Debtors				
Debtors arising out of direct insurance operations		43	70	53
Debtors arising out of reinsurance operations		7	8	22
Other debtors		196	73	54
		246	151	129
Other assets				
Cash at bank and in hand		7	7	9
		7	7	9
Prepayments and accrued income				
Accrued interest		217	228	227
Deferred acquisition costs		9	38	18
Other prepayments and accrued income		3	6	5
		229	272	250
		20,059	**24,720**	**21,742**

Liabilities

	Notes	30 June 2003 £m	30 June 2002 £m	31 December 2002 £m
Subordinated liabilities	7.2	346	346	346
Fund for future appropriations		453	382	556
Technical provisions				
Long-term business provision – gross amount	6	15,911	19,870	17,261
Claims outstanding	6	7	58	44
Technical provisions for linked liabilities	6	2,942	3,567	3,045
		18,860	23,495	20,350
Provisions for other risks and charges	8	87	–	87
Creditors				
Creditors arising out of direct insurance operations		70	124	93
Amounts owed to credit institutions		67	173	168
Other creditors including taxation and social security		150	166	90
		287	463	351
Accruals and deferred income		26	34	52
		20,059	**24,720**	**21,742**

Notes on the Accounts

1. Basis of preparation

The Equitable Life Assurance Society's (the Society's) Interim Accounts do not constitute statutory Accounts as defined in section 240 of the Companies Act 1985. The results for the six month period to 30 June 2003 are unaudited, but have been reviewed by the Society's auditors PricewaterhouseCoopers LLP, as set out in their report on page 17.

Comparative figures for the period ended 30 June 2002 have been extracted from the 2002 Interim Accounts.

The comparatives for the Society for the full year ended 31 December 2002 are consistent with the Society data included in the consolidated Annual Report and Accounts for 2002, which have been filed with the Registrar of Companies, except as stated below.

The Interim Accounts are not consolidated and therefore represent the results of the Society only (and not its subsidiaries). The Group figures are not materially different from those of the Society. The Interim Accounts are intended to provide information to the members of the Society on its assets and liabilities and the fund for future appropriations. The Interim Accounts were approved by the Board of Directors on 11 November 2003.

The Directors have considered the appropriateness of the going concern basis used in the preparation of these Interim Accounts, 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. As explained in the Corporate and Financial Review, in the opinion of the Directors, the going concern basis adopted in the preparation of these Interim Accounts continues to be appropriate.

The Interim Accounts have been prepared on a modified statutory basis and in accordance with the accounting policies set out in the Annual Report and Accounts as at 31 December 2002 other than in respect of the Long-Term Business Provision.

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 in the Interim Accounts have been calculated using the same methodology. Some elements of the provisions have been calculated using an approximate method that adjusts the year-end reserves for changes in the period.

2. Analysis of investment return

	Half year ended 30 June		Full year to 31 December
	2003	2002	2002
	£m	£m	£m
Interest and dividend income	437	517	1,069
Rental income	42	51	96
Realised investment gains	146	596	969
Investment income	625	1,164	2,134
Movement in unrealised investment losses	(36)	(863)	(941)
	589	301	1,193
Investment management expenses including interest	(25)	(29)	(52)
Investment return for the period	**564**	**272**	**1,141**

3. Net operating expenses

	Half year ended 30 June 2003 £m	Half year ended 30 June 2002 £m	Full year to 31 December 2002 £m
Acquisition and administrative expenses	62	68	261
Change in deferred acquisition costs	9	7	27
	71	**75**	**288**

4. Analysis of claims

	Half year ended 30 June 2003 £m	Half year ended 30 June 2002 £m	Full year to 31 December 2002 £m
Contractual claims			
Deaths	18	33	61
Maturities	721	1,033	2,193
Surrenders	118	177	348
	857	1,243	2,602
Non-contractual claims			
Surrenders	793	1,163	2,561
	1,650	2,406	5,163
Periodic payments	358	398	775
Claims expenses	4	7	13
	2,012	**2,811**	**5,951**

All claims presented above are net of reinsurance

5. Investments

	30 June 2003		30 June 2002		31 December 2002	
	£m	%	£m	%	£m	%
a) Land and buildings	1,504	9	1,866	9	1,676	9
b) Other financial investments						
Shares and other variable yield securities and units in unit trusts[1]	698	4	2,634	13	732	4
Debt and other fixed-income securities[2]	13,108	82	14,113	70	14,149	80
Loans	7	–	8	–	7	–
Deposits with credit institutions	770	5	1,642	8	1,201	7
	14,583	91	18,397	91	16,089	91
	16,087	100	**20,263**	100	**17,765**	100

[1] Includes listed investments of £209m (31 December 2002: £192m) at current value.

[2] Includes listed investments of £13,065m (31 December 2002: £14,069m) at current value.

6. Technical provisions

6.1 Gross technical provisions movements

	30 June 2003 £m	30 June 2002 £m	31 December 2002 £m
Opening balance	20,350	25,628	25,628
Retranslation of opening foreign branch technical provisions	16	15	14
Changes in long-term business provision	(1,366)	(1,737)	(4,346)
Changes in provision for claims	(37)	(5)	(19)
Change in technical provisions for linked liabilities	(103)	(406)	(927)
Closing balance	**18,860**	**23,495**	**20,350**
Analysed as follows:			
Long-term business provision	15,911	19,870	17,261
Claims outstanding	7	58	44
Provisions for linked liabilities	2,942	3,567	3,045
	18,860	**23,495**	**20,350**

6.2 Long-term business provision

The long-term business provision for the Society has been calculated using the gross premium method of valuing the long-term, non-linked liabilities.

The provisions are based on guaranteed benefits only and do not include non-guaranteed final bonuses.

The technical provisions have been calculated on the actuarial bases considered most appropriate by the Reporting Actuary.

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

Class of business	Interest rate		Future expense allowance	
	30 June 2003 %	31 December 2002 %	30 June 2003 %	31 December 2002 %
Endowment assurances (with-profits)				
Basic Life and General Annuity business	2.000	2.000	3.00% of premium	3.00% of premium
Pension business	2.500	2.500	4.00% of premium	4.00% of premium
Recurrent single premium (with-profits)				
Life business	3.625	3.625	See Note ii	See Note ii
Pension annuities in payment – old series	4.500	4.625	£40 p.a.	£40 p.a.
Pension annuities in payment – new series	4.500	4.625	£40 p.a.	£40 p.a.
Pension business – old series	4.500	4.625	See Note ii	See Note ii
Pension business – new series	4.500	4.625	See Note ii	See Note ii
Non-profit annuities in payment				
Basic Life and General Annuity business – pre 1992	4.500	4.750	£40 p.a.	£40 p.a.
Basic Life and General Annuity business – post 1991	4.000	4.250	£40 p.a.	£40 p.a.
Pension business	4.500	4.750	£40 p.a.	£40 p.a.

i. For with-profits business, the interest rates shown are the valuation rates of interest. In general, valuation interest rates have been reduced to reflect changes in fixed interest rates at the balance sheet date. Accordingly, at 30 June 2003, the valuation rates have been marginally strengthened, compared with the prior year-end but because of the close matching of assets and liabilities, there is minimal effect on net assets.

ii. The aggregate amount for ongoing expenses, grossed up for taxation where appropriate, allowed for in the provisions for the next twelve months, is £66m (31 December 2002: £68m). The amount allowed for each successive year allows for the effect of policy exits and inflation.

6. Technical provisions (continued)

6.2 Long-term business provision (continued)

Future expenses are allowed for in different ways depending on the nature of the product:

- For with-profits recurrent single premium business, expenses are allowed for by an explicit per policy expense differing by policy type, as shown in the table above, increasing by 3.5% p.a. of the basic benefit at maturity and an expense allowance for fund management, expressed as a percentage of the value of the fund.
- For annuities in payment, an expense amount per policy per annum is applied, varying with any changes in the annuity.
- For other business, expense allowances are a percentage of future premiums. For certain assurance contracts, the discounted value of a policy fee of £3.00 p.a. is included in the provision.

iii. The mortality assumptions used to value annuities in payment are the same as those used for the 31 December 2002 valuation.

iv. Technical provisions include amounts in respect of specific provisions:

- An amount of £440m (31 December 2002: £420m), 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 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 expenses of £130m (31 December 2002: £130m) over future years, including Rectification Scheme and managed pensions review administration costs, contractual commitments to HBOS in respect of pension scheme future service costs, litigation being pursued against third parties and anticipated additional costs associated with servicing policies in the second half of 2003 and 2004.
- An amount of £10m (31 December 2002: £15m) in respect of the Society's potential liability for compensation relating to the pensions transfers and opt outs review and the review of free-standing AVCs.
- An amount of £179m (31 December 2002: £147m) for other miscellaneous liabilities, including potential mis-selling liabilities. The principal components are provisions for mis-selling claims from non-GAR policyholders who left the Society prior to the GAR compromise scheme, liabilities in respect of GAR policy endorsements and miscellaneous costs.

6.3 Technical provision for linked liabilities

The technical provision in respect of property-linked business is equal to the value of the assets to which the contracts are linked. This business is wholly reassured to HBOS.

For index-linked annuities in payment, the technical provision is equal to the discounted value of the annuity benefits which allow for indexation, calculated using the same mortality assumptions as non-profit annuities in payment and using an interest rate of 1.875% p.a. (31 December 2002: 2.00% p.a.) for pension business, 1.875% p.a. (31 December 2002: 2.00% p.a.) for pre-1992 general annuity business and 1.625% p.a. (31 December 2002: 1.75% p.a.) for post-1991 general annuity business.

7. Commitments

7.1 Investment commitments

Property investment commitments in relation to property development programmes not provided for in the Interim Accounts amount to £119m (31 December 2002: £132m). Commitments in respect of uncalled capital on private equity fund interests amount to £113m (31 December 2002: £142m) for the Society.

7.2 Subordinated debt

On 6 August 1997, Equitable Life Finance plc (ELF), a wholly-owned subsidiary of the Society, issued £350m 8% undated subordinated guaranteed bonds (the Bonds), which are guaranteed by the Society. The proceeds, after deduction of costs associated with the issue, were loaned to the Society on similar terms as to interest, repayment and subordination as to those applicable to the Bonds. All (but not some only) of the Bonds are repayable at the option of ELF on 6 August 2007 and each fifth anniversary thereafter so long as the Bonds are outstanding.

7. Commitments (continued)

7.2 Subordinated debt (continued)

The payment of principal and interest in respect of the Bonds has been irrevocably and unconditionally guaranteed by the Society. The obligations of the Society under the guarantee constitute direct and unsecured obligations of the Society. In the event of a winding up of the Society, the claims of the bondholders under the guarantee will be subordinated in right of payment to the claims of all creditors of the Society.

In accordance with the Trust Deed, where the payment of any amount in relation to the Bonds is due and the Society cannot meet the Required Minimum Margin (RMM) of assets over liabilities required under the Trust Deed, by reference to the Insurance Companies Act 1982, as of the date of its latest actuarial valuation (or would not be able to meet RMM immediately after such payment), then the payment (or an appropriate part thereof) will be deferred unless the FSA's consent is obtained.

8. Provisions for other risks and charges

	30 June 2003 £m	30 June 2002 £m	31 December 2002 £m
Former staff pension commitments to HBOS	**87**	–	**87**

9. Contingent liabilities and uncertainties

The Society has made appropriate provisions for 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, as discussed in the Corporate and Financial Review on pages 2 to 8, in the context of the size of the Fund for Future Appropriations, which will continue to reduce as the with-profits liabilities decline, the potential impact of the range of uncertainties relating to the provisions is significant. Although there exists a fundamental uncertainty in relation to the amounts of provisions, the Directors do not consider that this extends to the going concern basis of preparation of the Interim Accounts.

In addition, as noted in the Corporate and Financial Review on page 4 there exist other uncertainties that, in the event they arose, could adversely impact on the appropriateness of the going concern basis of preparation. There exists the possibility that further claims could be made against the Society, alleging fraud or mis-selling not addressed hitherto or otherwise seeking compensation. Although no proceedings have been initiated, allegations of fraud have been made by former non-GAR policyholders in respect of the non-disclosure of GAR risks after 1998. Having taken legal advice, the Board believes that there is no sustainable case of fraud and, in the event that any proceedings were issued, they would be defended vigorously. In addition, potential claims could arise as a result of any criticism of the conduct of the Society following publication of the Penrose report, or of former management and advisers following any FSA investigations and reviews by the actuarial and accounting professions. Moreover, there remains the possibility of adverse regulatory interpretation of the definition of claims and quantum of any possible redress, including the FOS review of claims by certain former non-GAR policyholders, as noted in the Corporate and Financial Review on page 3. The Board has assessed the probability of these other uncertainties arising and, on the basis of current information and having taken legal advice, has concluded that it is highly unlikely they will result in any material adverse financial consequences. The Board has therefore concluded that it remains appropriate to prepare the Interim Accounts on a going concern basis.

The uncertain nature of the provisions, the incidence of other uncertainties and risks, the potential volatility of asset values and potential strains on the FFA arising from surrenders and maturities could, in adverse outcomes, result in the possibility that RMM (which is a measure of the capital that the FSA requires life assurance companies to hold in excess of that required to meet guaranteed obligations to policyholders) may not be satisfied at all times in the future.

Attention is also drawn to the implications of these uncertainties on the ability of the Society to meet payments of interest and principal in relation to the subordinated debt as explained in Note 7.2.

Independent Review Report to The Equitable Life Assurance Society

Introduction

We have been instructed by the Directors of The Equitable Life Assurance Society ('the Society') to review the financial information, which comprises the Profit and Loss Account for the six months ended 30 June 2003, the Balance Sheet at 30 June 2003 and related Notes 1 to 9. We have read the other information contained in the Interim Accounts and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The Interim Accounts, including the financial information contained therein, are the responsibility of, and have been approved by, the Directors. The Directors are responsible for preparing the Interim Accounts using accounting policies and presentation which are consistent with those applied in preparing the preceding Annual Report and Accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Society for the purpose of presenting Interim Accounts and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Fundamental uncertainty

In arriving at our review conclusion we have considered the adequacy of the disclosures in Note 6.2 (iv) and Note 9 in respect of the uncertainties regarding the:

- Estimates of compensation payments 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, and compensation and other costs which may be payable under the review of managed pension sales;
- Estimates of anticipated additional expenses; and
- Estimates of other miscellaneous liabilities including potential mis-selling liabilities, including those in respect of non-GAR policyholders who left the Society prior to the GAR compromise scheme, GAR policy endorsements and other miscellaneous costs.

In the context of the current level of the fund for future appropriations, there is fundamental uncertainty as to whether the provisions will prove to be overstated or understated when compared with the actual cost of anticipated additional expenses, GAR rectification and other mis-selling liabilities.

Other uncertainties

In arriving at our review conclusions we have also considered the adequacy of the disclosures made in Note 9 and on pages 3 and 4 of the Corporate and Financial Review in respect of the potential claims against the Society that could arise as a result of different legal and regulatory views on its historical conduct. If these different views prevail, further obligations would arise in respect of mis-selling and other claims, which may also have consequences for the going concern basis of preparation of the Interim Accounts.

Our review opinion is not qualified either in respect of the fundamental uncertainty or the other uncertainties.

Review conclusion

On the basis of our review, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2003.

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 November 2003

Equitable Life