The Board and management team have worked very hard indeed to tackle the daunting challenges we faced when we took charge of the Society just one year ago. In that time much has been achieved but more remains to be done.

Vanni Treves, Chairman
Charles Thomson, Chief Executive
April 2002

Equitable Life

Annual Report and Accounts 2001

Contents

The Chairman's Report

Vanni Treves

The last 18 months have been the most traumatic in the Society's history and a deeply disturbing time for policyholders. All of us – policyholders, Directors and staff – have had to cope with very worrying events. But I do believe that a great deal has been achieved on the road to recovery.

I joined as Chairman on 26 February 2001 and Charles Thomson became Chief Executive a week later on 5 March. Our first task was to put together a new Board because the entire previous Board had announced its intention to resign as soon as new Directors could be appointed. In the event, your new Board met for the first time on 25 April 2001. None of us had had any connection with the decisions that had put the Society and its with-profits fund into difficulties.

In addition to managing the Society on a day-to-day basis in the best interests of all policyholders, the Board faced three hugely important tasks. In a situation such as that which faced the Society last year, it was vital that the Board focused on dealing with the most critical issues first. This meant correcting the financial imbalance in the with-profits fund and making certain that the compromise scheme would deal effectively with the fundamental financial uncertainties overhanging the Society.

We had to create a compromise scheme that would both crystallise the hugely uncertain liabilities resulting from the House of Lords' ruling on guaranteed annuity rates and be acceptable to both GAR and non-GAR policyholders. These liabilities, together with the requirement to reserve conservatively against them, were seriously undermining the stability of the with-profits fund. The only practical way to restore stability to the fund and achieve lasting improvements in customer service was to put in place a compromise scheme, which we now have. The scheme was overwhelmingly agreed by policyholders, approved by the High Court in February and is now in effect.

The second challenge was to assess and then rapidly correct the fundamental imbalance between policy values and the value of the underlying assets in the with-profits fund. The July 2001 reduction was especially unwelcome to those about to retire, but the effect of not doing it on those who had longer to run on their policies would have been extremely damaging.

The third task was to examine what action could be taken to achieve compensation from former Directors, auditors, advisers and regulators to the Society who had been associated with problems the Society was facing. This examination is being undertaken on our behalf by the solicitors Herbert Smith. Their work is moving ahead.

Policyholders have their say on the compromise scheme at one of the 18 consultation meetings.

Because members pulled together to agree an effective compromise, the outlook for the Society is greatly improved although other challenges still need to be met.

However, we have recently announced that legal proceedings are to start against Ernst & Young. A decision on whether any action can be taken against the regulator will have to wait for the outcome of Lord Penrose's independent investigation. The whole legal process will take time. Our overriding concern will be to ensure that any legal action is likely to be cost-effective in terms of generating compensation for policyholders. We have co-operated fully with separate investigations by external bodies such as the Financial Services Authority (FSA), the Treasury Select Committee of the House of Commons and Lord Penrose's Inquiry.

All this activity has taken place in the full glare of the media spotlight, in a year that saw a very difficult investment climate made more uncertain by the dreadful events of 11 September. At the same time, Charles Thomson had to recruit his new management team and get to grips with fundamental changes arising from Halifax's purchase of the Society's sales, administration and investment management operations.

The Board was never impervious to complaints about customer service delays. On the contrary, we were deeply concerned. The extraordinary and sustained pressure on the customer service team meant that there was little that could be done quickly. However, we took measures to increase as rapidly as possible the number of trained staff in our Customer Service department and to get to grips with the backlog. This was much improved by January 2002 and soon policyholders should once again receive the timely, knowledgeable and responsive service which they have been accustomed to receive in the past.

The Board and I are acutely aware of the effect the year's events will have had on policyholders. To feel that your retirement savings are under threat is appallingly unsettling. While we were not involved in the fundamental decisions that created these circumstances, the whole Board fully appreciates the inevitable uncertainty and worry that policyholders have suffered during the year. If we could have reduced it more rapidly we would have done so.

The successful management of all these issues in the circumstances of the Society in 2001, including the timely publication of substantial amounts of information to policyholders, would have stretched many organisations past breaking point. The fact that that breakdown did not happen is a great tribute to the energy, intelligence and sheer hard work of the executive team led by Charles Thomson, backed by an unprecedented level of commitment from the non-executive Directors on your Board.

It has been a ghastly year for the Society, there is no doubt about that. But because members pulled together to agree an effective compromise, the outlook for the Society is greatly improved although other challenges still need to be met.

Your Board is focused on modernising the Corporate Governance of the Society and on the careful management needed in order that policyholders receive the best possible returns on their policies. Charles Thomson and Charles Bellringer set out in their reports the details on how this will be done. It will require further skill, hard work, dedication and some luck would help too; but I am confident that in 12 months' time we will be able to report a year of further progress.

Vanni Treves

Vanni Treves
Chairman

The Chief Executive's Report

Charles Thomson

Before outlining the work of 2001 it is worth reviewing the state of the Society as the year began. The Society was in crisis.

Equitable Life could not be sold and was closed to new business

Early in 2001 some of the assets of the Society and its staff and operations were acquired by Halifax for £500m, leaving the with-profits fund as a continuing, independent mutual. The unit-linked business could not be sold because of the number of policies that combined with-profits and unit-linked, so it was moved to Halifax via a reassurance treaty. As part of the agreement with Halifax, the Society was to benefit from up to a further £500m providing certain conditions were met in the future. Of this, £250m was achieved following the successful completion of the compromise scheme on 8 February 2002.

The Society became a 'virtual' company

Under the agreement with Halifax, the Society's staff and management generally left the Society to join the new Halifax servicing company, HECM. The sales team joined Halifax. The Society became a 'virtual' company with very few staff and almost all of its work outsourced to subsidiary companies within the Halifax group. In order to create greater stability and a platform for the future, it has been necessary to build a new, high-quality team to manage the Society.

The GAR liability was open-ended

The Society faced fundamental problems related to the policies with guaranteed annuity rates. These policies were very flexible in terms of when benefits could be taken. Indeed, in very many cases new premiums could be paid in and benefits could be taken immediately.

Other guaranteed benefits exist

The majority by value of the Society's with-profits policies carry a 3.5% guaranteed investment return (GIR) feature requiring the Society to add to the guaranteed value of the policy each year. Again, many of these policies have considerable flexibility as to when policyholders may take their benefits.

In addition, most financial markets suffered severe falls from the peaks of end-1999.

These factors required the Society to adopt a prudent investment policy with significant holdings in readily saleable, fixed interest investments.

Vanni Treves and Charles Thomson reading responses to the compromise proposal while travelling to the next policyholders meeting.

We have made important progress towards our goal of securing the future of the with-profits fund and managing it in a more normal way.

A growing asset gap

Policyholders departing with more than their share of the fund damage the fund for those who remain. This can occur from time to time in with-profits funds, but is normally 'smoothed' out over many years by using a combination of new premiums, 'free assets' and periods of stronger stock market performance to offset the falls in the market.

The lack of available reserves and closure to new business meant that these options were not available to Equitable Life and the flexible retirement dates on existing policies meant that 'normal' smoothing could not operate.

This poor state of the fund, exacerbated by the significant decline in the stockmarket, was clarified by the financial review that we commissioned. Upon seeing the results, we immediately took the vitally necessary but drastic action of cutting policy values in July to bring them in line with underlying asset values. That action, plus the use of the financial adjustment for those surrendering their policies early, meant that we stemmed the haemorrhaging of excessive payments out of the fund.

Policyholders will have noted that in recent months other insurance companies have announced similar reductions, and have reduced their policy surrender values.

Customer service

The Customer Service department had previously dealt very effectively with 'business as normal'. The circumstances of Equitable Life in 2001 were far from normal. As a result, large backlogs grew of requests for maturity, transfer and surrender values. In addition, large numbers of policyholder queries built up unanswered. We of course took action, asking HECM to increase the number of trained staff able to deal with policyholder queries. As a result we are better placed to deal with members' enquiries effectively and efficiently. However, backlogs of payments were only finally cleared in January 2002.

I nonetheless apologise for the frustration this failure in customer service caused. I also apologise for the apparent discourtesy of my not responding personally to the huge number of letters addressed to me. The volume was such that had I answered them, all other work would have stopped, including work on the vitally important compromise scheme.

The compromise scheme

The future of the Society could only be made more secure by a scheme that removed the instability caused by the open-ended cost of GAR policies.

The scheme was made more complex by the results of legal opinions which indicated that some policyholders without GARs might have claims against the Society for mis-selling, and which gave differing opinions as to the value of such claims. Therefore the scheme had to offer appropriate compensation to these continuing policyholders for giving up their potential claims.

The compromise scheme was a huge initiative involving many different disciplines in a project team ably co-ordinated by the Society's Chief Finance and Investment Officer, Charles Bellringer. In designing the proposed scheme and creating the final version, we consulted a large number of policyholders as well as leaders of policyholder action groups. A proposed scheme was put to policyholders in September 2001. We undertook an extensive programme of consultation with policyholders, the overwhelming majority of whom in their responses backed the proposals contained in the draft scheme.

The Chief Executive's Report
continued

Independent opinion research was conducted which also showed a strong mood in favour of the proposed compromise.

The final compromise scheme was launched on 6 December for voting by policyholders at the class meetings held in London on 11 January. The count was conducted independently and was scrutinised by KPMG. The results announced on 28 January showed huge majorities for the scheme of those voting in each section of all three voting classes, with votes in favour ranging from 97% to 99% by number and value. There had also been a significant policyholder turn-out (nearly half by number and 75% by value) showing that the result genuinely reflected the views of the members of the Society.

The final step in the approval of the scheme was the sanction hearing. The High Court sanctioned the scheme and immediately granted the order that was lodged at Companies House at 13.24hrs on Friday, 8 February 2002, so making the scheme effective at that moment.

The achievement of the compromise scheme represents a hugely important step forward for the Society and its policyholders. It brings greater stability to the fund although there are still many challenges that lie ahead.

Claims from former non-GAR policyholders

While the compromise scheme dealt with the uncapped liabilities of the GARs and the potential legal claims of non-GARs, we still face the potential claims of those policyholders who chose to leave the Society before the effective date of the scheme.

We are clear that there are no generic claims against the Society, although there may well be valid claims from some former policyholders who have both suffered a directly attributable GAR-related loss and can demonstrate that they were mis-sold their policies. Our task is to identify and resolve such claims. As we have announced, we will do this in a fair and efficient way to protect the interests of continuing policyholders from whose assets any settlement will be paid and to ensure proper compensation for those who left.

In developing this approach, and on much else including the compromise scheme, we have worked closely with our regulator, the FSA.

Removing anomalies

Clearly, many practices had grown up within the Society that may have made sense at the time, but now need to be reviewed given our current status and the adoption of the compromise scheme.

An example was the concession of not applying the financial adjustment to policyholders with retirement annuities switching their funds into personal pension plans before benefits could be contractually taken at age 60. In this case, the policyholder benefited from the greater flexibility allowed by personal pension plans. The Society benefited, as the original policy carried GAR rights whereas personal pension plans do not.

Following the compromise scheme, which ended GAR rights and gave these policyholders GAR uplifts, other policyholders get no benefit from the switch, so without a financial adjustment, the burden of the costs of the surrendered contract would fall on continuing policyholders. This would be unfair, so we now apply the financial adjustment to such switches.

The compromise scheme, changed bonus methodology and greater sophistication in our financial management are all examples of significant progress, and we shall work hard to ensure those vital steps are steadily built upon as we take the Society forward.

Similarly, some bulk surrenders by group schemes have in fact been an aggregation of decisions from individual policyholders in group schemes seeking to exploit a loophole in the way our surrender values are calculated. While early surrender by individuals or trustees of group schemes is not a contractual right, we try to give fair value while not damaging the interests of continuing policyholders.

Historically, Equitable Life's administration of group schemes kept track of the details of premiums paid and investment performance of the underlying assets as they relate to each group scheme. This meant that if trustees took a decision to surrender part of their scheme, a calculation could be made of the assets of that scheme, the cost of a bulk surrender of the scheme and the impact on the fund as a whole. This calculation produces the value for the bulk surrender including a financial adjustment which varies from scheme to scheme. Individual policies cannot as yet be administered in the same way. (We intend to change this system to achieve greater fairness between individual policyholders, but it is a major project that will take many months to achieve.)

This difference led to claims of 'special deals' for group schemes if the calculated financial adjustment for their bulk surrender was less than that applied to individual policies. More importantly, there was the potential to exploit this difference for individuals with AVC schemes. This loophole is now closed. We have also commissioned external research to consider the fairness of the actuarial calculation for bulk surrenders.

Looking to the future

After much hard work our vitally important compromise scheme is in place. The fundamental uncertainties of GARs have been removed and the financial position of the fund in this Report and Accounts has been improved by £1bn. These are real improvements compared to our pre-compromise position.

Over the next year we will also undertake a constitutional review of the Society's Articles of Association to bring them up to date. A sub-committee of the Board has been established to carry out this review. We are seeking members' views and any appropriate amendments will be put to next year's AGM.

I am also encouraged that since last autumn there has been a significant reduction in the outflow of funds from the Society in the form of early surrenders and policy maturities. This decline has continued further since implementation of the compromise scheme, as can be seen in the chart presented in the Financial Review, creating a welcome atmosphere of greater stability.

Looking to the future, there clearly remains much to be done. As noted in our letter to policyholders in April 2002, we have made important progress towards our goal of securing the future of the with-profits fund and managing it in a more normal way. The compromise scheme, changed bonus methodology and greater sophistication in our financial management are all examples of significant progress, and we shall work hard to ensure that these vital steps are steadily built upon as we take the Society forwards.

Charles Thomson
Chief Executive

Vanni Treves, Charles Thomson and Charles Bellringer announcing the successful compromise scheme vote result.

Financial Review

Charles Bellringer

The financial difficulties of the Society in 2001 were exacerbated by the policy of full distribution of investment returns to members which meant there were no free reserves to meet the GAR liabilities after the House of Lords' judgment in July 2000. The former Board tried to sell the Society, but was unable to find a buyer because the open-ended GAR liabilities in the with-profits fund were an uncertain and very substantial risk purchasers would not take on. Following the consequent closure to new business in December 2000, buyers were sought for the Society's assets, excluding the with-profits fund.

The Society's financial position

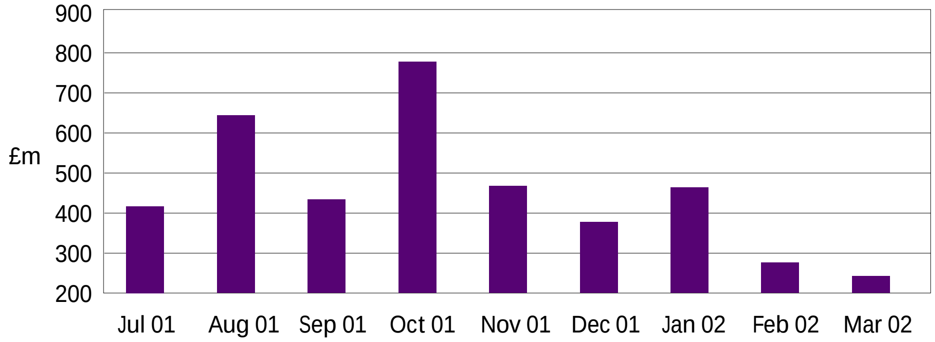
As discussed in the Chief Executive's report, the with-profits fund benefited from the initial £500 million from the Halifax transactions (further details are given in Note 6 on the Accounts). In addition, the sale of the Society's subsidiary, Permanent Insurance Company Limited, to Liverpool Victoria Friendly Society was completed on 16 February 2001, realising £150 million proceeds for the benefit of the with-profits fund. In February 2002 it benefited from a further £250m from Halifax, upon completion of the compromise scheme.

During 2001 bonuses were continuing to accrue while equity markets were falling. Historically, the Society was paying out final bonuses in excess of what could be afforded, despite the additional funds from transactions. The full impact of this was brought home following a review of the Society's financial position completed in early July 2001.

The 16 July 2001 reduction in policy values understandably led to widespread criticism of the Society. The historic policy – unique amongst life offices – of notifying policyholders of their 'accrued' final bonus each year created expectations which could not be fulfilled. The Society's bonus system, while designed to give an indication of policy values, was misinterpreted by some as 'banked value'. Other life offices only indicate policy values through a final bonus disclosed at maturity. Indeed, most other offices also reduced policy values in 2001 and early 2002, for the same market-related reasons as the Society. However, in these cases the reduction was often not readily apparent, as policyholders with other insurers usually only became aware of policy value at the time of encashment.

The Fund for Future Appropriations of the Group, which represents amounts available for final bonuses to policyholders, has fallen by approximately £1.1bn in the year. This fall is largely attributable to declines in asset values (allowing for investment income) of £1.2bn as discussed in 'investment activity' below and final bonuses paid on claims in excess of £0.9bn, together with approximately £0.7bn for the funding of returns on GIR policies and £0.6bn additional mis-selling provisions (including £0.3bn of amounts relating to the compromise scheme). Offsetting these reductions, the Fund for Future Appropriations has benefited from some significant inflows during the period,

UK with-profits fund – claims notified



Throughout the period covered by this report the Society's new management has been working hard to develop more sophisticated systems for financial management and for monitoring activities and risks as closely as possible.

mainly £1bn arising out of the successful completion of the compromise scheme, a further £1bn due to an increased discounting of technical provisions (as deemed appropriate by the Reporting Actuary – see Note 19) and £0.4bn arising from the Halifax transaction.

The reinsurance contract, entered into with Irish European Reinsurance Company in 1998 (as amended) for the purposes of regulatory returns, reduced basic mathematical reserves by £808m in the FSA Annual Returns for 2000. Following successful implementation of the compromise scheme, this contract is no longer in force as GAR liabilities have been removed.

Gross premiums written during the year totalled £1.4bn as compared to £3bn in the year to 31 December 2000. This reduction reflects that the Society was closed to new business. Earned premiums represent an outflow of £3.2m compared to an inflow of £3.0bn last year. This primarily relates to the reassurance of the unit-linked business which had an initial premium payable to Halifax of £4.2bn.

As a result of the adverse reaction to the reduction in 'policy values' and the consequent outflow of funds, there was a considerable reduction in the size of the with-profits fund (a component of the Balance Sheet shown on pages 24 and 25) in the year, from approximately £25.8bn at 31 December 2000 to approximately £18.6bn at 31 December 2001. This reduction is mainly explained by a drop in market values and withdrawals from the fund. However, the level of claims notified reduced during the final months of 2001 and this trend has continued subsequent to the successful completion of the compromise scheme as shown in the chart opposite. This was particularly noticeable after the date of the Court approval of the compromise scheme on 8 February 2002. Further details of policy numbers will be contained in the Society's FSA returns which will be published on our website (www.equitable.co.uk) during May.

As set out in Note 19 on the Accounts, we have continued to review provisions in the light of the most recent relevant experience, such as our experience of the take-up rate of the Rectification scheme, and other factors. The balance of the provision for non-GAR mis-selling set out in the interim financial statements has been set aside to pay costs of compensation that might be payable to former non-GAR policyholders who can demonstrate they were mis-sold their policies and suffered loss directly attributable to the GAR issue.

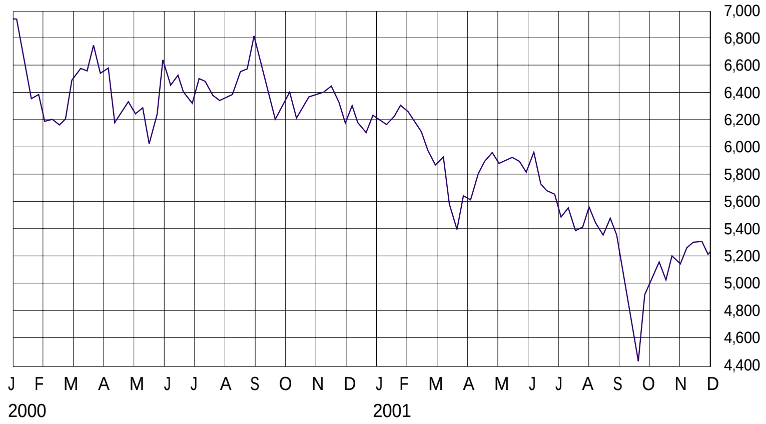
In line with other life offices, we have strengthened the mortality basis of our policyholder reserves to take account of increasing longevity and its impact on annuities in payment. This increased year end liabilities for annuities by £150m.

Investment activity

Our investment policy is overseen by the Investment Committee of the Board. Asset allocation decisions are made by the Committee. Management of each asset class is undertaken by the fund manager, Clerical Medical Investment Management, a major fund manager and part of the Halifax group.

The fall in financial markets has been severe: the stock market reached record highs at the end of 1999 with the FTSE-100 Index close to 7,000. By the end of December 2001 it had fallen to just over 5,200, itself 300 points lower than at the time of the policy reduction in mid-July. The movement in the FTSE-100 index from 31 December 1999 to 31 December 2001 is shown in the chart below.

UK : FTSE-100



Financial Review
continued

The end of the long bull market in equity values, as well as the market reaction following the 11 September tragedy, contributed to our decision to be much more cautious in our investment policy. In addition, the mature nature of the fund and the flexibility of the policies within it, meant that we had to maintain enough liquidity to meet possible maturities. This we did by holding gilt-edged stock and relatively high cash balances.

The open-ended GAR liabilities, which rose in cost as interest rates fell and as additional premiums were paid, meant we maintained a high element of fixed interest securities in order to match assets as closely as possible with liabilities, thereby reducing our exposure from falling interest rates.

At the end of 2001, we had 44% of the with-profits fund in equities and property, compared to 71% at the prior year end, with the balance in fixed interest and cash. In comparison with other with-profits funds, our portfolio mix served us well in the year. Although industry data is not available at the time of writing, we anticipate our fund will have been a relatively strong performer despite an overall return of -6.4%.

Cost control

Inevitably, there were substantial exceptional costs of £153.3m in the year because of the extraordinary level of activity, notably the preparation and administration of the compromise scheme, a hugely complex project delivered in record time, which cost nearly £36m. In addition there was a write down of almost £100m of deferred acquisition costs. This resulted from a re-evaluation of the Society's ability to recover these costs in future years from margins prevailing on existing business following the closure to new business.

Overall non-exceptional net operating expenses fell from £226.8m in 2000 to £157.9m in 2001, primarily as a result of the Society's closure to new business in December 2000 and the resultant removal of costs of the salesforce. However, this was partially offset by an increase in administrative expenses for outsourced activities and a contract with Halifax for the provision of support services to policyholders through the former branch network. This latter contract will terminate at the end of 2002. The increase in investment management expenses during the year of £23.3m reflects the terms of the investment management agreement entered into with Clerical Medical Investment Management as part of the Halifax transaction.

With the compromise scheme now approved and complete, we are working to restore the Society's historically low cost base. Our agreement with Halifax means that we will operate from 2003 onwards on a unit cost basis and to agreed performance standards. We will be seeking to achieve cost savings wherever possible, across the business.

Financial strategy

Throughout the period covered by this report the Society's new management has been working hard to develop more sophisticated systems for financial management and for monitoring activities and risks as closely as possible.

As discussed in more detail in the Chief Executive's report, following the implementation of the compromise scheme we intend to take the next step to removing uncertainty by dealing with outstanding claims against the Society as speedily and cost-effectively as possible.

With the compromise scheme now approved and complete, we are working to restore the Society's historically low cost base.

Our investment management strategy is designed to ensure that we meet our guaranteed commitments to policyholders. We monitor market movements and investment performance carefully and we take appropriate action.

For policyholder annual statements to be issued in respect of 2001, we intend to re-emphasise that policy values are indicative and should not be considered as the value at maturity. They may include an element of final bonus, which is discretionary at all times and is dependent on the performance of financial markets.

Policyholders seeking to know the maturity value of their policy will be quoted a figure which may be more or less than the indicative policy value set out on their last annual statement. This maturity value will depend on the changes in the value of the underlying assets and the circumstances of the fund. This modification in our approach will bring the Society's bonus policy more into line with other with-profits funds.

Policyholders seeking to break their contract by surrendering their policy early will be quoted a surrender value which will have been subject to a financial adjustment reflecting the value of the underlying assets and the circumstances of the fund, and the need to recover costs which would have otherwise been spread over the life of the policy.

For the next few years, contractual reversionary bonuses only (guaranteed investment returns, where they apply) will be allocated to the guaranteed element of policies. All other bonuses will be allocated as increases in the indicative policy value.

This approach is designed to protect the interests of policyholders to whom we owe a long term responsibility, by striving to ensure that those electing to mature or surrender their policies leave fair shares for those policyholders who remain with the Society.

Charles Bellringer
Chief Finance & Investment Officer

List of Directors

The Board

Vanni Treves, Chairman
Standing for re-election
Audit Committee
Legal Audit Committee
Nominations Committee (Chairman)
Remuneration Committee

Charles Thomson, Chief Executive
Investment Committee
Legal Audit Committee

David Adams OBE
Audit Committee
Investment Committee

Sir Philip Otton
Legal Audit Committee (Chairman)
Nominations Committee
Remuneration Committee (Chairman)

Michael Pickard
Standing for re-election
Investment Committee
University Life Assurance Society (Chairman)

Peter Smith
Standing for re-election
Audit Committee (Chairman)
Legal Audit Committee
Nominations Committee
Remuneration Committee

Andrew Threadgold
Investment Committee (Chairman)

Jean Wood
Investment Committee

New appointments as of 1 May 2002

Charles Bellringer, Chief Finance & Investment Officer

Ron Bullen

Fred Shedden

Directors' Report for 2001

Principal activities and business review

The Equitable Life Assurance Society (the Society) is the ultimate holding company of the Equitable Group of companies (the Group). The principal activities of the Group during 2001 were the transaction of life assurance, annuity and pension business in the form of guaranteed, participating and unit-linked contracts. The Society closed to new business on 8 December 2000.

On 1 March 2001, the Group sold its operating assets and economic interest in its unit-linked and certain non-profit business to Halifax. For further details see Note 6 on the Accounts.

The results of the Group are presented in the Profit & Loss Account on page 23. The operations of the Group are described in the Chief Executive's report and Financial Review on pages 4 to 11.

Compromise scheme

During 2001 a Scheme of Arrangement pursuant to Section 425 of the Companies Act 1985 (compromise scheme) was developed to reach a compromise on the Society's guaranteed annuity rate liabilities and potential liabilities for mis-selling to non-guaranteed annuity rate policyholders. A detailed briefing pack was sent to all with-profits policyholders in September 2001 for consultation. The final compromise scheme was sent to policyholders in December 2001 and 'class meetings' were held in January 2002 for them to vote on the scheme. Policyholders overwhelmingly supported the compromise scheme and it was approved by the High Court on 8 February 2002. For further details see Note 23 on page 44.

Valuation and bonus declaration

In accordance with the Society's Articles of Association and insurance company legislation, the Society's Appointed Actuary carried out a valuation of the assets and liabilities of the Society as at 31 December 2001. There is no guaranteed bonus for 2001 except for those policies containing the 3.5% Guaranteed Investment Return, where the annual 3.5% will be added to guaranteed policy values. The Board have set the non-guaranteed final bonus for all UK with-profits pensions policies at an accrual rate of 4% per annum for the last six months of 2001 (3.25% per annum for UK life policies).

Directors

The Directors at 31 December 2001 are shown on page 12. The dates of appointment and resignation of Directors during the year are detailed in the Remuneration report on pages 18 to 20.

The three Directors retiring at the Annual General Meeting by rotation are Michael Pickard, Peter Smith and Vanni Treves, who offer themselves for re-election.

The Board is pleased to announce the appointment of Ron Bullen and Fred Shedden as non-executive Directors and Charles Bellringer as an executive Director. These appointments are effective from 1 May 2002 subject to approval by the FSA. In accordance with the Articles, any Directors appointed before the Annual General Meeting will be required to retire at that Meeting and to seek re-election.

The Directors retiring at the Annual General Meeting, together with other candidates seeking election as Directors, are shown on the proxy form accompanying the Report and Accounts to members.

Employees

The transaction with Halifax, described in Note 6 on the Accounts on pages 30 to 32, resulted in the majority of staff transferring to Halifax group companies at 1 March 2001. Employees of the Society have been informed of and consulted with on matters of concern to them regularly.

It is the Society's policy to give equal consideration to disabled people as to others regarding applications for employment, continuation of employment, training, career development and promotion – having regard to their particular aptitudes and abilities.

In relation to employment opportunities, the Society treats applications from all sectors of the community fairly and consistently. All applications for employment, consideration for continued employment, training opportunities, career development and promotion are fully considered with regard to an individual's particular aptitudes and abilities.

As a mutual company the Society has no employee share scheme in force.

Supplier payment policy

It is the Society's policy to agree the terms of payment on commencement of business with all suppliers and to abide by those terms. The average duration of amounts owing to suppliers at the year end was 29 days (2000 – 29 days).

Auditors

The Society's former auditors, Ernst & Young, did not seek reappointment at the Annual General Meeting held on 23 May 2001. PricewaterhouseCoopers were appointed as the Society's auditors at that meeting.

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors.

V E Treves
President
15 April 2002

1. Introduction

The events described in the Chief Executive's report, in particular the transfer of the Society's operations to Halifax, radically changed the Society's organisational structure. However, the Society's responsibilities remain unchanged.

The new Board recognised the need to develop effective governance processes to manage the business risks and issues in these new circumstances. Substantial work has already been done but further work will continue throughout 2002.

Extensive work was also required to develop further and formalise governance and compliance arrangements to meet the new requirements of the FSA under the Financial Services and Markets Act 2000, effective from 1 December 2001 – commonly referred to as 'N2'.

The Society will continue to aim to meet the highest standards in corporate governance and voluntarily adopts the relevant provisions of the Principles of Good Governance and Code of Best Practice ('The Combined Code').

This report summarises the Society's governance arrangements and planned enhancements.

2. Governance by Directors

The Society

The key aspects of the Society's governance arrangements are detailed below.

The Board

The Board meets regularly to control key issues and monitor the overall performance of the Society. The President, Chief Executive and Company Secretary produce an agenda for each meeting supported by papers. Senior management are available at Board meetings to present papers and provide answers to questions. The Board decides strategy and has a formal schedule of matters reserved for its decision. Authority is delegated to the Chief Executive for implementing strategy and managing the Society.

The roles of President and Chief Executive are separated and the President, as Chairman of the Board, has primary responsibility for its effective functioning.

Non-executive Directors

All Directors are non-executive except for the Chief Executive (and from 1 May 2002, the Chief Finance & Investment Officer). Their diverse experience, skills and independent perspective provide an effective review and challenge of the Society's activities.

The President and two Vice-Presidents, Philip Otton and Peter Smith, are elected by the Board. Philip Otton has been nominated as the senior independent non-executive Director.

All Directors hold policies with the Society. In the opinion of the Board, in no instance do these interfere with the independence of the relevant Director.

The Remuneration report on pages 18 to 20 explains the basis of remuneration of non-executive Directors.

Appointments to the Board

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

Board Committees

The Board formally delegates specific responsibilities to five Board Committees, supported by senior management, which were established by the Board.

The Audit Committee, comprising three non-executive Directors, is chaired by Peter Smith. It meets at least quarterly, frequently more often, and assists the Board in fulfilling its responsibilities in respect of the Annual Accounts, Interim Accounts, and Annual Regulatory Return to the FSA. It also reports to the Board on the accounting policies, systems of internal control and conclusions from risk management and internal control reports. The External Auditors attend key meetings and have direct access to the Chairman of the Committee. The Committee keeps the relationship between the Society and its auditors under review and considers their independence, including the extent of their fees from non-audit services.

The Investment Committee, comprising four non-executive Directors and the Chief Executive, is chaired by Andrew Threadgold. It normally meets monthly. It sets policy for strategic asset allocation for the with-profits, non-profit and index-linked funds, delegating implementation to the Chief Finance & Investment Officer.

The Legal Audit Committee, comprising three non-executive Directors and the Chief Executive, is chaired by Philip Otton. Established in the year, it considers legal matters relating to the House of Lords' judgment and compromise scheme; the review by Herbert Smith, of the possibility of claims being made by the Society against previous professional advisers, Directors and management of the Society, and other significant legal issues. Meetings are held quarterly, sometimes more frequently. The Chairman invites representatives from Herbert Smith, management and professional advisers to attend as appropriate.

The Remuneration Committee, comprising three non-executive Directors, is chaired by Philip Otton. The Committee is responsible for recommending to the Board the terms of remuneration of executive Directors, including incentive arrangements for bonus payments.

The Nominations Committee, comprising three non-executive Directors, is chaired by Vanni Treves. The Committee meets as necessary to consider and make recommendations to the Board regarding the appointment of Directors and the continuing suitability of the Society's Directors.

Taking advice

The Board and its Committees, subject to defined procedures and parameters, take advice from professional advisers enabling them to manage the risks and issues arising from the Society's affairs.

Each Director has access to the Company Secretary. They may also obtain independent professional advice about any matter concerning the Society relevant to their duties, subject to defined procedures and parameters.

Subsidiary Company Governance

At the year end, the Society's main subsidiary was University Life Assurance Society (University Life), which has been closed to new business since 1976. This has a separate Board of five Directors (three of whom are Directors or executives of the Society) which meets at least four times a year to consider all matters relevant to the effective operation of the company's continuing business, including governance.

The other subsidiary companies each have a Board of Directors that considers the matters relevant to that company and which meets as appropriate in the light of those activities.

3. Management of Society

A new **Executive Team** was established by the Chief Executive which meets regularly, usually weekly, to manage business activities. Papers are prepared and presented to the Board and its Committees, by the Executive Team.

The **Appointed Actuary,** Peter Nowell, who is not an employee of the Society, seeks to ensure fairness between different classes and generations of policyholders. He also provides advice to the Chief Executive and Chief Finance & Investment Officer on matters relating to obligations to policyholders. In addition, he reports to the Board on the financial position of the Society and on regulatory returns to the FSA. The Appointed Actuary acts as Reporting Actuary for the purposes of these Accounts.

The Society retains responsibility for the investment strategy and policy, instructing Clerical Medical Investment Management Limited to implement desired changes to asset allocations within the portfolio. The Chief Executive and Chief Finance & Investment Officer, taking advice from the Appointed Actuary, liaise with them to oversee day-to-day investment matters.

4. Accountability and audit

The Directors are ultimately responsible for the system of internal control and for reviewing its effectiveness. A sound system of internal control provides reasonable but not absolute assurance that a company will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business by circumstances that may be reasonably foreseen. In assessing what constitutes reasonable assurance, the Directors have regard to the materiality of the risks to be managed and the cost-effectiveness of particular aspects of internal control.

The Society's system of internal control has changed significantly from the prior year, reflecting the change in the Society's business model. The principal components of the Society's system of internal control are detailed below:

- A register of risks identified by senior management and the Executive Team, which is updated regularly. Accountabilities for management of the risks are allocated to appropriate individuals. The development of assurance processes, including internal audit, is in progress. A formal review by the Board of the effectiveness of these control processes will be undertaken upon completion of this work.
- Monthly management information in respect of financial performance, customer service, complaints handling and investment performance. Additionally, projects, such as the compromise scheme, have their own management information processes.
- The contractual arrangements with Halifax, dated 1 March 2001, agreeing operational delegations. Outline service level agreements have been agreed and details will be finalised in 2002.
- Three regular forums exist for the Society's Executive Team and Halifax to consider control and other matters in relation to (i) finance, (ii) operations, and (iii) risk, audit and compliance.
- The Group Compliance Officer monitors Halifax's compliance function on a day-to-day basis in accordance with the Group compliance plan.
- Halifax internal audit and risk management functions review systems and controls operated by Halifax on behalf of the Society, based on Halifax's own audit and risk plans.
- The day-to-day involvement of the Society's management and its external advisers in key projects and the business of the Society.

To provide assurance that internal controls are operating effectively throughout the Group, the Executive Team is developing enhancements to the current internal audit and compliance arrangements. As explained above, it is expected that these enhancements will be in place by the end of 2002.

5. Policyholder communications

The Board is committed to a policy of openness in its communications with policyholders.

During the year, the Board has consulted widely with policyholders through correspondence, newspaper advertisements, open meetings, telephone help lines, the AGM, meetings with policyholder groups and consultation with group scheme trustee representatives.

This communication enabled the Board to respond to policyholders in developing the compromise scheme proposals and on other issues.

6. Going concern

The Directors have considered the appropriateness of the going concern basis used in the preparation of these Accounts, having regard to the ability of the Society to be able to meet its liabilities as they fall due, and the adequacy of available assets to meet liabilities.

In the opinion of the Directors the compromise scheme has substantially reduced the GAR-related uncertainties that had previously been considered fundamental.

The Society is unusual in that it has a relatively high proportion of guaranteed benefits payable in due course to policyholders which will continue to constrain its freedom to invest in equities. It still remains relatively vulnerable to significant changes in equity markets and continues to have a number of uncertainties regarding provisions for mis-selling which are set out in Notes 19 and 26 on the Accounts. The Directors consider that there is little likelihood that all of the adverse uncertainties referred to in Note 26 will arise.

It has also considered the actions that it can take to mitigate the exposure to adverse equity market movements and, as described in the Financial Review, to ensure that payments to policyholders on surrender and maturity are not to the detriment of the continuing policyholders. The Directors will take appropriate action, if financial markets fall to levels which jeopardise the with-profits fund's ability to meet guaranteed obligations to policyholders.

Having considered these matters, the Directors have concluded that the assets of the Society exceed the value of its liabilities, the Society has adequate resources to continue in business for the foreseeable future, and that the going concern basis adopted in the preparation of these Accounts is appropriate.

7. Remuneration report

The composition and responsibilities of the Society's Remuneration Committee are set out on page 16. The Remuneration Committee's recommendations are made on the basis of rewarding individuals for the scope of their responsibilities and their performance. 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.

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

	Notes	Fees and salaries £	Benefits £	Annual bonus £	Total 2001 £	Total 2000 £
Former non-executive Directors						
J R Sclater CVO (resigned 28 February 2001)		10,833	264	-	11,097	65,070
I P Sedgwick (resigned 24 April 2001)		11,429	-	-	11,429	36,000
P Martin (resigned 24 April 2001)	1	21,548	726	-	22,274	75,606
P A Davis (resigned 24 April 2001)		8,254	-	-	8,254	26,000
J D S Dawson (resigned 9 April 2001)		7,143	-	-	7,143	24,250
Miss J A Page CBE (resigned 24 April 2001)		7,143	-	-	7,143	22,500
D W J Price (resigned 24 April 2001)		9,048	-	-	9,048	28,500
J F Taylor (resigned 24 April 2001)		8,810	-	-	8,810	31,458
		84,208	990	-	85,198	309,384
Current non-executive Directors						
V E Treves (appointed 26 February 2001)	2	58,750	-	-	58,750	-
D H Adams OBE (appointed 23 April 2001)		7,183	-	-	7,183	-
Sir Philip Otton (appointed 23 April 2001)		7,183	-	-	7,183	-
M J Pickard (appointed 23 April 2001)		7,183	-	-	7,183	-
P A Smith (appointed 23 April 2001)		7,183	-	-	7,183	-
A Threadgold (appointed 23 April 2001)		7,183	-	-	7,183	-
Mrs J Wood (appointed 23 April 2001)		7,183	-	-	7,183	-
		101,848	-	-	101,848	-
Total for non-executive Directors		**186,056**	**990**	**-**	**187,046**	**309,384**
Former executive Directors						
A Nash (resigned 7 December 2000)		-	-	-	-	498,229
D G Thomas (resigned 24 April 2001)	3	216,939	9,126	-	226,065	270,305
C P Headdon (resigned 1 March 2001)	4	43,807	1,570	-	45,377	227,435
		260,746	10,696	-	271,442	995,969
Current executive Directors						
C G Thomson (appointed 5 March 2001)	5	296,942	20,816	30,000	347,758	-
Total for executive Directors		**557,688**	**31,512**	**30,000**	**619,200**	**995,969**

Notes

1. Includes fees received of £10,358 as Chairman of University Life, from which he resigned as a Director on 18 September 2001
2. The fees for the services of Vanni Treves as Chairman are invoiced by Macfarlanes.
3. D G Thomas retired as a Director on 24 April 2001 and ceased to be an employee of the Society on 16 August 2001. Included within his remuneration above is a payment of £150,000 made on his retirement, to reflect the fact that he agreed to defer his retirement. During the period following his resignation as a Director he received £61,915 remuneration as an employee. These remuneration amounts were contractually agreed by the former Board.
4. Prior to the effective date of the transactions with Halifax set out in these Accounts, the terms of C P Headdon's transfer of his employment to Halifax were agreed between C P Headdon and Halifax. Accordingly, the Directors consider that C P Headdon had a material interest in the transactions for the purposes of reporting under Schedule 6 of the Companies Act 1985. The Society does not have information from Halifax regarding the terms of his employment.
5. The basic remuneration for the Chief Executive is £275,000 per annum. Additional benefits are payable in lieu of pension arrangements and are shown in the table above within fees and salaries. The bonus of £30,000 relates to the period from 15 January 2001 until 31 March 2001.

Benefits

Benefits comprise miscellaneous reimbursed expenses and other benefits regarded as taxable. For former executive Directors these benefits mainly arise from the provision of company cars. Tax legislation requires that the annual benefit is assessed according to the cost of the car provided.

Staff annual bonus

On 3 August 2000, the Society introduced a new bonus scheme. The scheme applied to all staff of the Society, including its executive Directors. Payments under the scheme were made in 2001 and in early 2002. The scheme has now ceased.

The scheme was set up to recognise the importance of the Society continuing to provide high standards of service to its clients by retaining a stable and highly competent workforce capable of running and further developing the Society's business on an ongoing basis. The maintenance of a viable business operation was fundamental to the Society realising a sale of its operations to a third party. Payments under the scheme were non-pensionable.

Service contracts

Former executive Directors had service contracts providing for periods of up to one year's notice. The Chief Executive 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 given. The Society does not operate any long-term benefits scheme.

Directors' remuneration

Non-executive Directors' remuneration comprises a specified fee, plus a potential further fee in respect of their first twelve months. For those other than the Chairman, the additional amounts are payable at the discretion of the Chairman and the Chief Executive after consultation with a leading independent firm of remuneration consultants. In the case of the Chairman, the additional amount will be determined by the Board (excluding the Chairman).

These additional discretionary fees are subject both to a specified limit per individual, and also an overall limit as specified in the Society's Articles of Association as to the amount of Directors' fees payable in aggregate to all Directors in respect of any period of twelve months ending 31 May each year. No amounts are provided for in these Accounts. However, for each non-executive Director, other than the Chairman, the maximum potential additional discretionary amount is £15,000. In the case of the Chairman this amount is £250,000. In determining the amount, the Board (excluding the Chairman) will consider relevant circumstances including the responsibilities he undertook and the time devoted to the Society's affairs.

The bonus of the Chief Executive will be determined on the basis of performance for the period to 31 March 2002, and will be assessed by the Board (excluding the Chief Executive) following a recommendation by the Remuneration Committee. The maximum bonus payable is £275,000. No amounts are provided for in these Accounts. However the actual bonus determined by the Committee will be disclosed in due course.

Directors' pension entitlements

During the year the former executive Directors, one former non-executive Director and some staff participated in the Society's defined benefits pension scheme formerly operated by the Society. The scheme is non-contributory, fully insured under policies held with the Society and governed by an independent trust. Further details on the defined benefits scheme are shown in Note 10.

None of the current Directors participates in the scheme. The pension entitlements of the former Directors are as follows:

The following information is provided as at the date of resignation for J R Sclater, date of retirement for D G Thomas and the date of leaving the Society for C P Headdon.

	Age	Years of pension entitlement (see Note 6)	Increase/ (decrease) excluding inflation in accrued pension during the period £000	Accumulated annual benefit (see Note 6) £000
J R Sclater	60	15	0.5	14.5
C P Headdon	44	22	1.9	95.9
D G Thomas	57	36	2.1	119.0

Notes

1. The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 2001 or, if earlier, to retirement/ leaving date.
2. The Normal Retirement Age for the purposes of the scheme for J R Sclater is 65. Pension entitlement is earned according to the pension formula for each year of service up to retirement.
3. Members of the scheme have the option to pay Additional Voluntary Contributions to secure additional benefit.
4. The pension cost in 2001 for the Society for schemes transferred to Halifax was 21.3% of pensionable pay which takes sufficient account of the increase in accrued entitlement shown in the table above (see Note 6c).
5. Each of the above Directors is married.
6. Under the terms of his retirement, as agreed by the former Board, D G Thomas is entitled to an undiscounted immediate pension. The transfer value of his pension was enhanced by £353,687 to reflect this entitlement. As agreed by the former Board, C P Headdon is entitled to an undiscounted pension from age 55. The Society is committed under the agreement with Halifax to meet an element of funding in respect of the pension scheme for those staff transferred to the employment of Halifax.

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

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

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

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

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

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

8. Statement of compliance with the code of best practice

The Society confirms it complied with all relevant provisions of the Combined Code throughout the year except for matters explained in this report, summarised below:

a) This report refers to the substantial work on governance carried out by the Board and management in the year to the date of this report. The report highlights areas where the Board acknowledges that further work is required to formalise and make further enhancements to current governance processes and disciplines. Work in these areas is well underway and supports the Board's aims for the Society's governance practices to continue to reflect the changing needs of the business. A formal review of the effectiveness of these controls will be completed in 2002.

b) Non-executive Directors are not appointed for specific terms. However, each Director's continued appointment is subject to periodic review by the Nominations Committee at intervals not exceeding five years. The Board has also agreed that all Directors should be required to seek re-election at General Meetings at least every three years.

Directors' Responsibilities in respect of the Accounts

Company law requires the Directors to prepare Accounts for each financial year which give a true and fair view of the state of affairs of the Society and of the Group and of the results of the Group for that period. In preparing those Accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Accounts;
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business (see section 6 of the Corporate Governance report above).

The Directors have complied with the above requirements.

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

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

We have audited the Accounts which comprise the Profit and Loss Account, the Balance Sheets and the related Notes which have been prepared in accordance with the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' Responsibilities in respect of the Accounts.

Our responsibility is to audit the Accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the Accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the Accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our Report if we become aware of any apparent mis-statements or material inconsistencies with the Accounts.

The other information comprises only: the Chairman's report; the Chief Executive's report; the Financial Review; the Directors' Report; the Corporate Governance report and the Statement of Directors' Responsibilities in respect of the Accounts.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Accounts are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Accounts.

Opinion

In our opinion the Accounts give a true and fair view of the state of affairs of the Society and the Group at 31 December 2001 and of the Group's result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors
London
15 April 2002

Profit and Loss Account

For the year ended 31 December 2001

Technical account - long-term business		Group	
		2001	2000
	Notes	£m	£m
Earned premiums, net of reinsurance			
Gross premiums written	2a	1,415.6	3,009.7
Outward reinsurance premiums	3	(4,608.2)	(13.2)
		(3,192.6)	2,996.5
Investment income	4	4,310.3	2,673.6
Other technical income – including reassurance commission	3, 5a, 6a	312.3	67.3
Profit on sale of operations and other income arising			
from transactions with Halifax	6b	409.3	-
		1,839.3	5,737.4
Claims incurred, net of reinsurance			
Claims paid – gross amount	7	6,937.0	2,949.0
Reinsurers' share	3	(566.4)	(3.2)
		6,370.6	2,945.8
Change in provision for claims	7, 19	(86.9)	150.0
		6,283.7	3,095.8
Changes in other technical provisions, net of reinsurance			
Long-term business provision – gross amount	19	(5,008.2)	2,706.6
Reinsurers' share	3	(386.9)	(2.7)
		(5,395.1)	2,703.9
Other technical provisions, net of reinsurance			
Technical provisions for linked liabilities – gross amount	19	(507.0)	317.2
Reinsurers' share	3	(3,334.7)	-
		(9,236.8)	3,021.1
Net operating expenses – non-exceptional	8a	157.9	226.8
Net operating expenses – exceptional	8b	153.3	64.1
Net operating expenses		311.2	290.9
Investment expenses and charges	4b	72.3	43.4
Unrealised losses on investments	4c	5,507.2	1,795.6
Other technical charges	5b	6.5	46.4
Taxation attributable to long-term business	11	68.7	42.5
Minority interests		(0.3)	(0.2)
Transfers from the fund for future appropriations	18	(1,173.2)	(2,598.1)
		4,792.4	(379.5)
		1,839.3	5,737.4
Balance on the technical account		-	-

All significant recognised gains and losses are dealt with in the Profit and Loss Account. All the amounts above are in respect of continuing operations.

Balance Sheets

As at 31 December 2001

Assets		Group		Society	
		2001	2000	2001	2000
	Notes	£m	£m	£m	£m
Investments					
Land and buildings	12a	2,131.8	2,218.9	2,082.1	2,170.7
Investments in group undertakings	12b			65.6	229.5
Other financial investments	12c	20,643.0	27,188.3	20,582.3	26,862.5
		22,774.8	29,407.2	22,730.0	29,262.7
Assets held to cover linked liabilities	13	638.2	4,560.1	637.9	4,516.4
Reinsurers' share of technical provisions	6a				
Long-term business provision		393.1	31.8	393.1	6.2
Technical provision for linked liabilities		3,334.7	-	3,334.7	-
		3,727.8	31.8	3,727.8	6.2
Debtors	14				
Debtors arising out of direct insurance operations		59.1	66.3	59.1	49.2
Debtors arising out of reinsurance operations		44.1	0.5	44.1	-
Other debtors		51.5	223.5	52.7	220.8
		154.7	290.3	155.9	270.0
Other assets					
Tangible assets	15	-	20.9	-	20.0
Cash at bank and in hand		21.1	6.0	17.7	-
		21.1	26.9	17.7	20.0
Prepayments and accrued income					
Accrued interest and rent		197.2	190.4	196.7	187.2
Deferred acquisition costs	9	45.0	220.8	45.0	187.9
Other prepayments and accrued income	16	255.5	26.4	255.3	24.3
		497.7	437.6	497.0	399.4
		27,814.3	34,753.9	27,766.3	34,474.7

Balance Sheets
As at 31 December 2001

Liabilities		Group		Society	
		2001	2000	2001	2000
	Notes	£m	£m	£m	£m
Minority interests		1.5	2.8		
Subordinated liabilities	17	347.5	347.2	346.2	346.2
Fund for future appropriations	18	1,120.8	2,273.3	1,112.1	2,311.3
Technical provisions	19				
Long-term business provision – gross amount		21,622.7	26,857.9	21,592.0	26,611.3
Claims outstanding		63.1	150.0	63.1	150.0
Technical provisions for linked liabilities – gross amount		3,972.9	4,523.6	3,972.6	4,479.9
		25,658.7	31,531.5	25,627.7	31,241.2
Provision for other risks and charges	20	0.8	78.6	1.2	78.6
Creditors					
Creditors arising out of direct insurance operations		154.1	52.1	152.9	48.0
Creditors arising out of reinsurance operations		-	0.3	-	0.1
Amounts owed to credit institutions	21a	353.4	49.4	353.4	36.4
Other creditors including taxation and social security	21b	101.2	354.6	108.0	362.1
		608.7	456.4	614.3	446.6
Accruals and deferred income		76.3	64.1	64.8	50.8
		27,814.3	34,753.9	27,766.3	34,474.7

The Accounts were approved by the Board on 15 April 2002 and were signed on its behalf by:

Vanni Treves
President

Charles Thomson
Chief Executive

15 April 2002

1. Accounting policies

Basis of presentation

The Accounts have been prepared in accordance with sections 255 and 255A of, and Schedule 9A to, the Companies Act 1985 and in accordance with applicable accounting standards and the Association of British Insurers' Statement of Recommended Practice (SORP) on Accounting for Insurance Business dated December 1998. The true and fair override provisions of the Companies Act have been invoked, see Note 12a Non-linked investments – Land and buildings.

With the introduction of FRS 18 (Accounting Policies), the Directors have reviewed the Accounting policies and satisfied themselves as to their appropriateness and that there are no material changes from the prior year.

For the purposes of these Accounts references to Halifax relate to entities within the Halifax Group plc (Halifax) including:

- Clerical Medical Investment Group (Holdings) Limited
- Clerical Medical Investment Group Limited
- HECM Customer Services Limited
- Clerical Medical Investment Management Limited
- Halifax Life Limited
- Halifax Equitable Limited
- Halifax Investment Fund Managers Limited

Basis of consolidation

The Group Accounts consolidate the accounts of the Society and all its subsidiary undertakings drawn up to 31 December each year. The results of subsidiary undertakings sold during the year are included in the consolidated results up to the date of disposal.

Goodwill previously written off to the Fund for future appropriations is included in the calculation of profit/loss on sale.

The Society as permitted under Section 230 of the Companies Act 1985 has not presented its own Profit and Loss Account.

Earned premiums

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

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

Reassurance contracts

Outward reassurance premiums are recognised when payable. Reassurance recoveries are credited to match the relevant gross claims.

Investment income

Investment income is included on an accruals basis.

Dividends are included by reference to ex-dividend dates.

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

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

Realised gains and losses on investments

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

Unrealised gains and losses on investments

Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or if they have been previously valued, their valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Claims incurred

Death claims are recorded on the basis of notifications received. Surrenders, maturities and annuity payments are recorded when due. Claims on participating business include bonuses payable and interest. Claims payable include direct costs of settlement.

Bonuses

The Society declares bonuses annually and University Life declares bonuses triennially. Guaranteed bonuses are included in the long-term business provision. Non-guaranteed final bonuses payable when a claim is made are included in claims paid. No provision is made for non-guaranteed final bonus.

Deferral of acquisition costs

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

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

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

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

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

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

To the extent that deferred acquisition costs are not recoverable from these loadings, the costs are expensed in the Profit and Loss Account.

Pension costs

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

Leases

Payments under operating leases are charged to the Profit and Loss Account over the lease term in equal instalments.

Deferred taxation

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

Valuation of investments

Investments are stated at current value at the balance sheet date, calculated as follows:

- Freehold and leasehold properties are individually valued by qualified surveyors on the basis of open market value, account being taken of the cost of disposal. The valuation is carried out on an annual basis.
- No depreciation is provided in respect of investment properties. The Directors consider that this accounting policy is appropriate for the Accounts to give a true and fair view as required by SSAP 19 (Accounting for Investment Properties). Depreciation is only one of the factors reflected in the annual valuations and the amount which might otherwise have been shown cannot be separately identified or quantified.
- Listed securities are stated at the middle market value.
- Unit trust units are stated at bid value.
- Short-term deposits are included at cost.
- Unlisted investments, including subsidiaries, are stated at Directors' valuation and are valued using appropriate generally accepted valuation bases, including the use of BVCA guidelines where appropriate.

Fixed assets and depreciation

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

The periods generally applicable are:

- motor vehicles 2 1/2 years
- plant, fixtures and fittings 5 to 10 years
- computer equipment 3 to 5 years

Technical provisions – Long-term business provision and provision for linked liabilities

The long-term business provisions for the Group are agreed by the Directors on the recommendation of the Reporting Actuary of each entity following, in each case, his annual investigation of the long-term business. For the Society and University Life, the long-term business provision is calculated using the gross premium method of valuing the liabilities.

In the case of Permanent Insurance Company Limited (Permanent), the calculation used the net premium valuation method. Provisions for overseas branch business are calculated on a UK basis.

Technical provisions represent the amounts needed to meet the guaranteed benefits under contracts, including declared reversionary bonuses added up to and including the date of the Accounts, and make allowance, in accordance with the assumptions used, for specific levels of future contractually guaranteed bonuses and are discounted where appropriate.

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

Fund for future appropriations

The Fund for future appropriations represents amounts which are available for future bonuses of various kinds in excess of the levels allowed for in the technical provisions.

Foreign currency translation

Assets and liabilities in foreign currencies are expressed in sterling at the exchange rates ruling at 31 December. Revenue transactions and those relating to the acquisition and realisation of investments have been translated at rates of exchange ruling at the time of the respective transactions. Exchange gains and losses arising on retranslation of overseas operations are taken directly to the Fund for future appropriations.

Segmental reporting

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

2. Earned premiums

	Group 2001 £m	Group 2000 £m
a. Analyses of gross premiums written are as follows:		
Individual premiums	1,108.9	2,305.2
Premiums under group contracts	306.7	704.5
	1,415.6	**3,009.7**
Regular premiums	640.5	1,494.6
Single premiums	775.1	1,515.1
	1,415.6	**3,009.7**
Premiums from non-profit contracts	675.7	278.1
Premiums from with-profits contracts	390.5	2,156.7
Premiums from linked contracts	349.4	574.9
	1,415.6	**3,009.7**
Premiums from life business	138.6	588.3
Premiums from annuity business	22.1	38.3
Premiums from pension business	1,248.7	2,346.3
Premiums from permanent health business	6.2	36.8
	1,415.6	**3,009.7**
Premiums from UK business	1,390.8	2,819.7
Premiums from overseas business	24.8	190.0
	1,415.6	**3,009.7**
b. New business		
Individual premiums	780.2	1,607.4
Premiums under group contracts	69.5	202.2
	849.7	**1,809.6**
Regular premiums	74.6	294.5
Single premiums	775.1	1,515.1
	849.7	**1,809.6**
Premiums from non-profit contracts	589.8	181.8
Premiums from with-profits contracts	143.8	1,309.6
Premiums from linked contracts	116.1	318.2
	849.7	**1,809.6**
Premiums from life business	17.5	416.4
Premiums from annuity business	2.3	18.5
Premiums from pension business	829.0	1,369.0
Premiums from permanent health business	0.9	5.7
	849.7	**1,809.6**
Premiums from UK business	837.3	1,648.9
Premiums from overseas business	12.4	160.7
	849.7	**1,809.6**

The Society closed to new business on 8 December 2000, however, the Society continues to receive premiums that are classified as new business where policy proceeds at retirement are reinvested in annuity or other contracts and incremental increases are received on existing policies, as noted below.

Classification of new business

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

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

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

3. Outward reinsurance premiums

	Group	
	2001	2000
	£m	£m
Initial premium on reassurance of business (see Note 6a)	(4,127.0)	-
Ongoing outward reassurance premiums	(481.2)	(13.2)
	(4,608.2)	**(13.2)**

The initial premium on reassurance of business represents the value of the assets transferred to match the liabilities, principally property unit-linked, reassured under the agreement with Halifax.

The reassurance balance, as required to be disclosed by the Companies Act 1985, and as defined by the SORP, represents the aggregate total of all those items included in the technical account which relate to reassurance outward transactions, is a debit of £20.2m (2000 – £7.3m).

4. Investment income

	Group	
	2001	2000
	£m	£m
a. Investment income comprises income from:		
Land and buildings	122.3	126.0
Other investments	1,074.9	1,127.0
	1,197.2	1,253.0
Gains on realisation of investments	3,113.1	1,420.6
	4,310.3	**2,673.6**
b. Investment expenses and charges comprise:		
Investment management expenses	34.6	11.3
Interest charges		
Movement in discount on provisions	0.1	3.7
Bank loans and overdrafts	9.2	-
Other loans	28.4	28.4
	72.3	**43.4**

As from 1 March 2001 under the transaction with Halifax, discussed in Note 6, investment management activities have been undertaken by a member of the Halifax group.

	Group 2001 £m	Group 2000 £m
c. Investment activity account		
Investment income	1,197.2	1,253.0
Realised investment gains	3,113.1	1,420.6
Movement in unrealised investment losses	(5,507.2)	(1,795.6)
	(1,196.9)	878.0
Investment expenses and charges	(72.3)	(43.4)
Investment return for the year	**(1,269.2)**	**834.6**

5. Other technical income and charges

	Group 2001 £m	Group 2000 £m
a. Other technical income comprises:		
Income from non-insurance business	8.0	62.8
Reassurance commission (see Note 6a)	300.0	-
Stock lending and underwriting commission	4.0	3.2
Other income	0.3	1.3
	312.3	**67.3**

b. Other technical charges:

Other technical charges comprise expenses, interest and taxation for non-insurance business of subsidiary companies.

In 2000 both other technical income and charges included £28m of intercompany interest which was not eliminated on consolidation.

6. Significant transactions in the year

a. Reassurance contracts with Halifax

At the time of the sale of the Society's operations to Halifax (see Note 6bii), the Society entered into reassurance contracts with Halifax in respect of certain of its unit-linked and non-profit business, the effect of which was to realise an amount broadly equivalent to the embedded value of that business of £300m (included within other technical income – see Note 5a).

	Group 2001 £m
Initial premium on reassured business	(4,127.0)
Commission	300.0
Technical provisions reassured	4,127.0
Net impact of initial reassurance transaction with Halifax on Profit and Loss Account	**300.0**

The impact of the reassurance contracts on the Balance Sheet includes:

i A reduction in the value of assets held to cover certain linked and non-profit liabilities representing the assets transferred to Halifax.

ii An increase in the Reinsurers' share of technical provisions reflecting the liabilities passed to the reassurers.

The Society has retained substantially all the index-linked business; the assets supporting this business remain on the Balance Sheet as assets held to cover linked liabilities.

Under the terms of the Halifax reassurance contracts, if the Society is insolvent, or reasonably likely to become insolvent in the opinion of the reassurers' Appointed Actuary, then the reassurers can make claims payments directly to policyholders whose policies have been reassured.

b. Profit on sale of operations and other income arising from transactions with Halifax

	Note	Group 2001 £m
Sale of Permanent	i	30.2
Sale of operations to Halifax	ii	129.1
Other income arising from transactions with Halifax	iii	250.0
		409.3

i. Sale of Permanent:

On 16 February 2001 Permanent was sold to Liverpool Victoria Friendly Society for £150m. The Society purchased a majority shareholding in Permanent in 1995 and acquired full control in 1997. The cost of the Society's investment in Permanent was approximately £82m. Permanent was valued by the Directors at £150m as at 31 December 2000 in line with the accounting policy for the valuation of subsidiaries. An increase in value of £68m was recognised in the Profit and Loss Account during the year ended 31 December 2000.

	Group 2001 £m
Proceeds of sale	150.0
Net assets sold	(93.7)
Goodwill previously written off on original acquisition	(23.1)
Sale costs	(3.0)
Profit on sale	**30.2**

ii. Sale transaction with Halifax

On 1 March 2001, the Group sold to Halifax its administrative and sales operations, systems, Equitable Investment Fund Managers Limited and Equitable Services and Consultancy Limited for a cash consideration of £200m.

	Group 2001 £m
Proceeds on sale	200.0
Net assets sold	(59.0)
Sale costs	(11.9)
Profit on sale	**129.1**

iii. Other income arising from transactions with Halifax

At the time of the sale to Halifax, the Society also entered into a loan facility with Halifax under which the Society could immediately draw down loans of up to £250m. At the balance sheet date £200m had been drawn down and deposited with another Halifax company as security for the transaction. The draw down of £200m represented the maximum amount that could be taken at that time as a loan under the Articles of Association.

Under the terms of that loan facility, if the Society achieved the compromise scheme between its guaranteed and non-guaranteed policyholders before 1 March 2002, Halifax would unconditionally waive the repayment of £249m of loans advanced (or to be advanced) to the Society under the loan facility and a further £1m would be waived in 2005.

Amendments to the facility agreement were agreed between the Society and Halifax on 25 January 2002, and a further £50m was drawn down under the facility agreement.

Under the terms of the facility agreement (as amended) on 8 February 2002, Halifax waived the repayment of the full £250m draw down, following Court approval of the compromise scheme (see Note 23). As a result of the Court approval of the compromise scheme income of £250m has been accrued in the Profit and Loss Account in respect of the waiver of these loan balances.

In addition, at the time of the sale to Halifax, the Society agreed with Halifax that, if the compromise scheme was implemented, the Society could draw down a further loan of £250m. Repayment of all or part of this loan would subsequently be waived, the amount depending upon the extent to which targets as to new business volumes and profitability were achieved by the Society's former salesforce up to 31 December 2004. At the same time as the amended security for the initial loans was agreed, the Society and Halifax agreed to the removal of the commitment to provide this further loan under the facility. Instead, Halifax agreed to pay a sum to the Society in the future, of an amount equal to the amount which would have been waived under the original agreement. No income has been recognised in respect of this sum at the balance sheet date.

c. Other details of transactions with Halifax

Halifax has no economic interest in the Society's with-profits fund.

As part of the terms of the offer by Halifax to acquire part of the business of the Society, the Society is committed to meet an element of the funding in respect of the staff pension schemes for those staff who transferred to the employment of Halifax as a result of the sale transaction. A provision of £39.2m, representing an estimate of the current value of those costs over the next 15 years, is included within technical provisions.

The contract also requires policy administration costs in respect of the Society's policies to be apportioned between the Society and Halifax. The apportionment will ensure that a fair share of expenses relating to the administration of the reassured contracts is charged to Halifax, the remaining costs in respect of policies not reassured being borne by the Society.

Under the sale transaction, the leases for all UK branch properties were assigned to Halifax. The Society had previously provided for future losses on vacant branch properties. The provision in respect of UK branches has been released during the year (see Note 20).

7. Claims incurred – gross

Gross claims incurred comprise gross claims paid and the change in provision for claims outstanding. Included within claims paid are interim and final bonuses paid for the Group of £967.3m (2000 – £545.7m).

	Group	
	2001 £m	2000 £m
Gross claims paid comprise:		
On death	102.4	104.7
On maturity and surrender	5,935.0	2,232.2
By way of periodic payments	800.1	753.0
Claims handling expenses	12.6	9.1
	6,850.1	**3,099.0**
Life and annuity business	1,486.7	583.2
Pension business	5,347.1	2,485.0
Permanent health business	3.7	21.7
Claims handling expenses	12.6	9.1
	6,850.1	**3,099.0**
Linked business	692.6	275.2
Non-profit business	317.8	277.3
With-profits business	5,827.1	2,537.4
Claims handling expenses	12.6	9.1
	6,850.1	**3,099.0**
UK business	6,497.3	2,807.4
Overseas business	340.2	282.5
Claims handling expenses	12.6	9.1
	6,850.1	**3,099.0**

8. Net operating expenses

	Group 2001 £m	Group 2000 £m
a. Non-exceptional		
Acquisition costs	3.1	133.4
Change in deferred acquisition costs (see Note 9)	42.8	47.3
Administrative expenses	112.0	46.1
	157.9	**226.8**

Acquisition costs reflect the expenses incurred in processing new business and drawing up insurance documents. The Society closed to new business on 8 December 2000.

Administrative expenses in 2001 include costs of £25m in respect of contracted customer support services provided by Halifax through the former Society branch network. In 2002 these costs will amount to £13m and these contracted services terminate at 31 December 2002.

b. Exceptional

The Group incurred exceptional expenses which are reported separately in the Profit and Loss Account.

	Group 2001 £m	Group 2000 £m
Costs associated with the compromise scheme	35.8	-
Additional write down of deferred acquisition costs (see Note 9)	99.9	-
Costs associated with offering the Society for sale	-	6.5
Provision for field force retention, severance costs and other redundancy costs	6.7	54.1
Non-field force staff retention costs	10.9	3.5
	153.3	**64.1**
c. Expenses include:		
Depreciation of tangible fixed assets	1.3	7.7
Operating lease rentals – land and buildings	2.0	8.1
Commission	0.8	9.0

The Group audit fees and expenses, inclusive of VAT, of £848,000 (2000 – £458,000) comprised £789,000 in respect of statutory audit and £59,000 in respect of regulatory requirements. The element relating to the Society was £781,000 (2000 – £323,000).

The fees payable to the Group's auditors in respect of non-audit fees, inclusive of VAT, were £7,439,000 (2000 – £6,358,000) of which all (2000 – £6,356,000) related to the Society. The non-audit fees payable to PricewaterhouseCoopers in 2001 related to services in the following areas:

	Group 2001 £m
Review of interim accounts and other accounting advice	0.3
Project and management support in respect of the compromise scheme	2.9
Rectification Scheme support services	1.2
Assistance and development of a governance and compliance risk framework	0.9
Secondment of staff to administration and special projects	0.7
Taxation services	0.2
Investigative services	0.5
Other services	0.7
	7.4

As set out in the Corporate Governance statement, the Audit Committee has reviewed all of the above fees. Where appropriate a tender process was carried out. The level of fees shown above reflects the unusual circumstances faced by the Society during the year.

9. Deferred acquisition costs

	Group 2001 £m	Group 2000 £m
Deferred costs at 1 January	220.8	268.1
Change in deferred acquisition costs		
Non-exceptional (see Note 8a)	(42.8)	(47.3)
Exceptional (see Note 8b)	(99.9)	-
Disposal of Permanent	(33.1)	-
Deferred costs at 31 December	**45.0**	**220.8**

During the year the Group has considered its ability to recover acquisition costs in future periods from margins arising on existing business. The exceptional element of change in deferred acquisition costs in the year arises from a review of the likely pattern of receipt of premiums on business in force in future compared to that at previous periods ends, in light of the recent pattern of renewals.

10. Directors and employees

	Group 2001 £m	Group 2000 £m
a. Staff costs		
Wages and salaries		
Non-exceptional	15.1	97.9
Exceptional (see Note 8b)	15.9	51.3
Social security costs		
Non-exceptional	1.6	10.4
Exceptional (see Note 8b)	1.7	6.3
Other pension costs	2.1	15.1
	36.4	**181.0**

Following the sale of the Group's administrative and sales operations to Halifax on 1 March 2001, the overwhelming majority of employees had their contracts of employment transferred to Halifax. This transfer has had a significant impact on the staff costs and employee numbers disclosed.

The monthly average numbers of employees employed by the Group during January and February 2001 were: administration 1,478; marketing 907 and investment 67. The monthly average number of employees employed by the Group during the period from March to December 2001 was: administration 10.

The monthly average numbers of employees, calculated in accordance with the Companies Act requirements, of the Group during the year were: administration 330 (2000 – 1,460), marketing 152 (2000 – 1,035) and investment 11 (2000 – 64).

b. Emoluments of Directors

Full details of Directors' emoluments are given in the Remuneration report on pages 18 to 20. The total emoluments of the Directors disclosed for Companies Act 1985 purposes comprise:

	2001 £	2000 £
Fees of non-executive Directors	187,046	309,384
Remuneration of executive Directors:		
Basic remuneration	589,200	612,147
Annual bonus	30,000	127,022
Payment in lieu of notice	-	256,800
Value of enhanced pension benefits	353,687	59,324
	1,159,933	**1,364,677**
Number of Directors accruing retirement benefits under:		
Defined benefit scheme	3	4
Defined contribution scheme	-	-
Highest paid Director:		
Emoluments	347,758	270,305
Accrued pension, accumulated annual benefit	-	115,471

c. Pension arrangements

The Group participates in two non-contributory pension schemes for the benefit of the staff of the Group, both are multi-employer schemes. The Equitable Pension Fund and Life Assurance Scheme is a defined benefits scheme, The Equitable Staff Money Purchase Scheme is a defined contribution scheme. The principal employer of both schemes is a member of the Halifax group.

Following the sale of operations to Halifax on 1 March 2001, the Group has retained a small number of staff. Of those staff retained six remain members of the pension schemes.

The Society is committed to meeting an element of the funding in respect of the pension schemes for those staff transferred to the employment of Halifax. Further details are set out in Note 6c.

11. Taxation

	Group 2001 £m	Group 2000 £m
a. Taxation charged to the technical account		
UK corporation tax		
Current tax on income for the period	57.0	67.6
Adjustments in respect of previous years	15.2	(9.9)
	72.2	57.7
Double taxation relief	(0.4)	(0.7)
	71.8	57.0
Foreign tax		
Current tax on income for the period	4.5	5.5
Deferred tax		
UK	(7.3)	(20.1)
Overseas	(0.3)	0.1
	(7.6)	(20.0)
Total charge	**68.7**	**42.5**

The tax charge for UK corporation tax is provided at rates between 20% and 22% (2000 – 20% and 22%) computed in accordance with the rules applicable to life assurance companies whereby no tax is charged on pension business profits.

	Group		Society	
	2001	2000	2001	2000
	£m	£m	£m	£m
b. Deferred taxation				
Provided in the Accounts:				
Deferred tax of the long-term fund				
Accelerated capital allowances	-	0.1	-	0.1
Unrealised appreciation in investments	1.0	8.5	0.6	7.7
	1.0	8.6	0.6	7.8
Deferred tax other than of the long-term funds	(0.8)	(0.8)	-	-
	0.2	**7.8**	**0.6**	**7.8**
Liabilities not provided in the Accounts:				
Accelerated capital allowances	0.5	1.2	0.5	1.2
Unrealised appreciation in investments	13.8	93.2	13.8	93.2
	14.3	**94.4**	**14.3**	**94.4**

12. Non-linked investments

	Current value		Cost	
	2001	2000	2001	2000
	£m	£m	£m	£m
a. Land and buildings				
Group				
Long leasehold	532.2	596.8	516.5	565.9
Freehold	1,599.6	1,622.1	1,489.9	1,499.0
At 31 December	**2,131.8**	**2,218.9**	**2,006.4**	**2,064.9**
Society				
Long leasehold	532.2	596.8	516.5	565.9
Freehold	1,549.9	1,573.9	1,425.4	1,437.2
At 31 December	**2,082.1**	**2,170.7**	**1,941.9**	**2,003.1**

As at 31 December 2000, the figures shown above for current value included £24.9m in respect of buildings which were owned and occupied by the Society. Those properties were sold to Halifax on 1 March 2001. Notional rent of £0.4m (2000 – £2.1m) based on market rentals is charged to expenses and is included in investment income in respect of the period of ownership.

Independent professional valuers have individually valued the Group's and the Society's properties. The properties are included in these Accounts at those valuations. The valuations of commercial properties were carried out by Jones Lang Lasalle. Properties held under limited partnerships amounting to £590.2m (2000 – £467.2m) for the Group and £538.0m (2000 – £415.2m) for the Society were valued by independent valuers appointed by the respective general partner.

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

	Current value		Cost	
	2001	2000	2001	2000
	£m	£m	£m	£m
b. Investments in Group undertakings				
Shares	39.2	204.5	46.3	151.7
Loans	26.4	25.0	30.1	28.9
At 31 December	**65.6**	**229.5**	**76.4**	**180.6**

The principal changes in Group undertakings during the year were the sales of Permanent, Equitable Investment Fund Managers Limited and Equitable Services and Consultancy Limited.

	Current value		Cost	
	2001	2000	2001	2000
	£m	£m	£m	£m
c. Other financial investments				
Group				
Shares and other variable yield securities and units in unit trusts	5,734.4	15,214.1	4,599.5	9,921.0
Debt and other fixed-income securities	13,139.9	10,241.3	12,681.8	9,266.6
Loans secured by mortgages	5.6	7.2	5.6	7.2
Loans secured by policies	4.0	5.2	4.0	5.2
Deposits with credit institutions	1,758.7	1,720.2	1,781.2	1,761.7
Other investments	0.4	0.3	0.4	0.3
	20,643.0	**27,188.3**	**19,072.5**	**20,962.0**

	Current value		Cost	
	2001	2000	2001	2000
	£m	£m	£m	£m
Society				
Shares and other variable yield securities and units in unit trusts	5,702.8	15,125.9	4,577.1	9,859.9
Debt and other fixed-income securities	13,112.4	10,022.2	12,655.6	9,065.2
Loans secured by mortgages	5.5	6.7	5.5	6.7
Loans secured by policies	3.9	5.0	3.9	5.1
Deposits with credit institutions	1,757.3	1,702.4	1,779.8	1,743.8
Other investments	0.4	0.3	0.4	0.3
	20,582.3	**26,862.5**	**19,022.3**	**20,681.0**

Investments of £2,633.4m (2000 – £2,917.8m), which have been lent in the normal course of business to authorised money brokers on a secured basis, are included in Other financial investments.

The value of listed investments included above at current value under Shares and other variable yield securities and units in unit trusts is £5,020.9m (2000 – £14,268.1m) for the Group and £4,989.3m (2000 – £14,180.0m) for the Society.

The value of listed investments included above at current value under Debt and other fixed-income securities is £13,059.2m (2000 – £10,093.4m) for the Group and £13,031.7m (2000 – £9,874.3m) for the Society.

13. Assets held to cover linked liabilities

	Group		Society	
	2001	2000	2001	2000
	£m	£m	£m	£m
Current value of linked assets	**638.2**	**4,560.1**	**637.9**	**4,516.4**

The cost of assets held to cover linked liabilities is £527.7m (2000 – £3,563.5m) for the Group and £527.4m (2000 – £3,530.6m) for the Society. These relate to index-linked business only for 2001.

14. Debtors

	Group		Society	
	2001	2000	2001	2000
	£m	£m	£m	£m
Debtors arising out of direct insurance operations				
Amounts owed by policyholders	59.1	49.4	59.1	49.2
Amounts owed by intermediaries	-	16.9	-	-
	59.1	**66.3**	**59.1**	**49.2**
Debtors arising out of reinsurance operations	**44.1**	**0.5**	**44.1**	**-**
Other debtors				
Debtors other than Group and related companies	45.2	95.3	44.3	82.3
Outstanding sales of investments	6.3	128.2	6.3	128.2
Group companies			2.1	10.3
	51.5	**223.5**	**52.7**	**220.8**
	154.7	**290.3**	**155.9**	**270.0**

15. Tangible assets

	Motor vehicles	Plant fixtures & fittings	Computer equipment	Total
	£m	£m	£m	£m
Group				
Cost				
At 1 January 2001	10.1	17.4	13.2	40.7
Additions	-	0.7	0.3	1.0
Disposals	(10.1)	(18.1)	(13.5)	(41.7)
At 31 December 2001	**-**	**-**	**-**	**-**
Depreciation				
At 1 January 2001	4.1	8.2	7.5	19.8
Provided in year	0.3	0.4	0.6	1.3
Disposals	(4.4)	(8.6)	(8.1)	(21.1)
At 31 December 2001	**-**	**-**	**-**	**-**
Net book value at 31 December 2001	**-**	**-**	**-**	**-**
Net book value at 31 December 2000	6.0	9.2	5.7	20.9

	Motor vehicles £m	Plant fixtures & fittings £m	Computer equipment £m	Total £m
Society				
Cost				
At 1 January 2001	9.7	16.9	12.2	38.8
Additions	-	0.7	0.3	1.0
Disposals	(9.7)	(17.6)	(12.5)	(39.8)
At 31 December 2001	**-**	**-**	**-**	**-**
Depreciation				
At 1 January 2001	4.0	8.0	6.8	18.8
Provided in year	0.3	0.4	0.6	1.3
Disposals	(4.3)	(8.4)	(7.4)	(20.1)
At 31 December 2001	**-**	**-**	**-**	**-**
Net book value at 31 December 2001	**-**	**-**	**-**	**-**
Net book value at 31 December 2000	5.7	8.9	5.4	20.0

16. Other prepayments and accrued income

	Group		Society	
	2001 £m	2000 £m	2001 £m	2000 £m
Other income arising from transactions with Halifax (see Note 6biii)	250.0	-	250.0	-
Other	5.5	26.4	5.3	24.3
	255.5	**26.4**	**255.3**	**24.3**

17. Subordinated liabilities

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

	Group		Society	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts falling due in five years or more	**347.5**	**347.2**	**346.2**	**346.2**

18. Fund for future appropriations

	Group		Society	
	2001 £m	2000 £m	2001 £m	2000 £m
Movement in the year				
Balance at 1 January	2,273.3	4,868.3	2,311.3	4,841.1
Transfer to the Profit and Loss Account	(1,173.2)	(2,598.1)	(1,197.4)	(2,530.0)
Goodwill previously written off on acquisition of Permanent (see Note 6bi)	23.1	-		
Exchange (loss)/gain on retranslation of overseas operations	(2.4)	3.1	(1.8)	0.2
Balance at 31 December	**1,120.8**	**2,273.3**	**1,112.1**	**2,311.3**

19. Technical provisions

a. The long-term business provision

The long-term business provisions for the Society and University Life have 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 and the comparatives at 31 December 2000 are shown in the table below. The rationale for the changes from 31 December 2000 is set out in Notes i to iv that follow the table. In addition it should be noted that, as a consequence of the compromise scheme adjusting event (see Note 23(a)) there is no provision in respect of the estimated ongoing additional future liability for guaranteed annuity rate (GAR) options in the 2001 provisions (2000 – £1,668m).

As a consequence of the changes in actuarial bases in respect of interest rates, future expense allowances and mortality (set out in Notes i to iv below) the technical provisions at 31 December 2001 are approximately £850m lower than they would have been on the 31 December 2000 actuarial bases. Had the changes in actuarial bases not occurred, the Fund for future appropriations would be correspondingly reduced.

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	
	2001	2000	2001	2000
Endowment assurances (with-profits)				
Basic Life and General Annuity business	2.25	1.75	3.00%	3.00%
Pension business	2.50	1.75	4.00%	4.00%
Recurrent single premium (with-profits)				
Life business	2.75	0.25	See Note ii	0.25% p.a.
Pension annuities in payment – old series	4.75	3.50	£40 p.a.	£40 p.a.
Pension annuities in payment – new series	2.75	0.00	£40 p.a.	£40 p.a.
Pension business – old series	4.75	3.75	See Note ii	0.25% p.a.
Pension business – new series	2.75	0.25	See Note ii	0.25% p.a.
Non-profit annuities in payment				
Basic Life and General Annuity business	4.75	4.75	£40 p.a.	£40 p.a.
Pension business	5.25	5.25	£40 p.a.	£40 p.a.

Mortality assumptions by class of business	2001	2000
Endowment assurances (with-profits)		
Basic Life and General Annuity business	AM80	AM80
Pension business	AM80	AM80
Recurrent single premium (with-profits)		
Pension annuities in payment – old series	PMA92-2 (U=2005) for males	PMA80-4 (C=2010) for males
	PFA92-1 (U=2005) for females	PMA80-3 (U=2010) for females
Pension annuities in payment – new series	PMA92-2 (U=2005) for males	PMA80-4 (C=2010) for males
	PFA92-1 (U=2005) for females	PMA80-3 (C=2010) for females
Non-profit annuities in payment		
Basic Life and General Annuity business	IMA92 (U=2001) for males	IMA80 (C=2010) for males
	IFA92 (U=2001) for females	IF80 (C=2010) for females
Pension business	PMA92-2 (U=2005) for males	PMA80-4 (C=2010) for males
	PFA92-1 (U=2005) for females	PMA80-3 (U=2010) for females

i For with-profits business, the interest rates shown are the valuation rates of interest reduced by the assumed rates of future bonus. This is a different presentation from that used in previous years as it allows the movement in the effective discount rate applied to be more clearly shown and because expenses are now more explicitly valued (see Note ii and iii below). At 31 December 2001, the Society has assumed that no future bonus is to be added in guaranteed form which is consistent with the Society's stated intention not to make additions to discretionary guaranteed benefits. The effective discount rates have increased for with-profits business, reflecting the changes in economic conditions and the financial position of the fund during 2001, which taken together with the changes in notes ii and iii below reduce the with-profits technical provisions by approximately £1bn.

ii The aggregate amount for ongoing expenses, grossed up for taxation where appropriate, allowed for in the provisions for the next twelve months, is £71m. The amount allowed for each future year changes as business is assumed to go off the books and inflationary effects are included.

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 annual loading of 0.4% increasing by 3.75% p.a. of the basic benefit at maturity. This is different from the allowance included in the rate of interest used for discounting in 2000, to allow more explicitly for such expenses.
- For annuities in payment an expense amount per policy per annum, changing in line, with the annuity.
- For other business, expense allowances are a percentage of future premiums. Additionally for certain assurance contracts, the discounted value of a policy fee of £3.00 p.a. is included in the provision.

iii A provision of £116m is held at 31 December 2001 for anticipated additional expenses over future years, including contractual charges from Halifax for advice to the Society's clients; staff pension scheme costs; anticipated additional costs associated with servicing policies in 2002 and Rectification Scheme administration costs.

iv The mortality assumptions used to value annuities in payment have been updated to move to more up-to-date mortality tables which allow for improvements in mortality explicitly and to reflect the Society's recent mortality experience. These changes increased the closing provisions by about £150m.

v A provision of £87m (2000 – £130m) is held 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.

vi The technical provisions include an amount of £340m (2000 – £200m) which is the current estimate of the compensation or adjustments to future benefits which will be payable under the Rectification Scheme to policyholders who had policies with guaranteed annuity options which matured prior to the House of Lords' decision. The current estimate, which reflects improved information, uses the method and level of rectification set out in the Rectification Scheme (see Note 26). The 16 July 2001 bonus changes and the levels of markets had an impact on policy values which resulted in an increase in the estimated cost of compensation.

vii The Society is undertaking a review of sales of Managed Pension (income drawdown) policies. A provision of £80m (2000 – £nil) has been included in the technical provisions for the potential liability which could arise as a result of this review. This is based on an assessment of the likely level of claims, the possible form of any compensation that would be payable on individual cases should a claim be found to be appropriate and the level of current interest rates (see Note 26).

viii An additional amount of £120m (2000 – £nil) has been included as an appropriate provision for other potential mis-selling liabilities about which the Society is informed (see Note 26). This includes amounts for:

- potential claims from non-GAR policyholders who left the Society prior to the effective date of the compromise scheme.
- group policies where GAR policy endorsements may be challenged.
- individual claims with the Financial Ombudsman service.
- other potential mis-selling claims.

b. 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 Halifax.

For index-linked annuities in payment, the technical provision is equal to the investment liability, calculated using the same mortality assumptions as shown above for non-profit annuities in payment and using an interest rate of 2.00% p.a. for general annuity business and 2.25% p.a. for pensions business (unchanged from 31 December 2000).

A provision in respect of future expenses on all linked business and mortality risks on property linked business is included in the Long-term business provision – gross amount. The future expenses on property linked business are wholly reassured.

c. Gross technical provisions movement

	Group 2001 £m	Group 2000 £m	Society 2001 £m	Society 2000 £m
Balance at 1 January				
Long-term business provision	26,857.9	24,137.4	26,611.3	23,905.2
Claims outstanding	150.0	-	150.0	-
Provisions for linked liabilities	4,523.6	4,205.4	4,479.9	4,161.5
	31,531.5	**28,342.8**	**31,241.2**	**28,066.7**
Retranslation of opening foreign branch technical provisions	(8.9)	14.9	(8.9)	14.9
Change in long-term business provision	(5,008.2)	2,706.6	(5,010.7)	2,692.2
Change in provision for claims	(86.9)	150.0	(86.9)	150.0
Change in technical provisions for linked liabilities	(507.0)	317.2	(507.0)	317.4
Sale of Permanent	(261.8)	-	-	-
Balance at 31 December	**25,658.7**	**31,531.5**	**25,627.7**	**31,241.2**
Balance at 31 December				
Long-term business provision	21,622.7	26,857.9	21,592.0	26,611.3
Claims outstanding	63.1	150.0	63.1	150.0
Provisions for linked liabilities	3,972.9	4,523.6	3,972.6	4,479.9
	25,658.7	**31,531.5**	**25,627.7**	**31,241.2**

20. Provision for other risks and charges

	Group 2001 £m	Group 2000 £m	Society 2001 £m	Society 2000 £m
Pension provisions	-	4.6	-	4.6
Provisions for deferred taxation	0.2	7.8	0.6	7.8
Provisions for field force retention and severance costs	-	54.1	-	54.1
Branch properties provisions	0.6	12.1	0.6	12.1
	0.8	**78.6**	**1.2**	**78.6**

The movement in the pension provisions represents the release of the provision as a result of the majority of staff leaving the employment of the Society (see Note 10).

The movement in the provisions for deferred taxation is included in Note 11.

The movement in the provisions for the field force retention and severence costs represents the release of the provision to match the expenditure during the year.

Branch property provisions are calculated on a discounted cash flow basis. The increase in the provision arising from the unwinding of the discount and change in discount rate in the year amounted to £0.1m (2000 – £3.7m), this amount has been recognised in interest charges, the remainder of the movement is charged to net operating expenses.

21. Creditors

	Group		Society	
	2001	2000	2001	2000
	£m	£m	£m	£m
a. Amounts owed to credit institutions				
Bank overdrafts	153.4	49.4	153.4	36.4
Bank loan – secured	200.0	-	200.0	-
	353.4	**49.4**	**353.4**	**36.4**

The bank loan from Halifax is secured by a charge over a deposit placed in an assigned account with a subsidiary of the lender (see Note 6biii).

	Group		Society	
	2001	2000	2001	2000
	£m	£m	£m	£m
b. Other creditors including taxation and social security				
Outstanding purchases of investments	8.3	294.5	8.3	294.5
Group companies			14.9	45.3
Corporation tax	57.2	2.4	57.2	2.4
Other creditors	35.7	57.7	27.6	19.9
	101.2	**354.6**	**108.0**	**362.1**

22. Subsidiary and associated undertakings

a. Principal subsidiary undertakings

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

	Nature of business
Equitable Life Finance plc	Arranging and managing loan finance
University Life Assurance Society	Life assurance and annuity business. Closed to new business

All the above holdings are of ordinary shares. Other holdings in subsidiary undertakings do not materially affect the result or assets of the Group.

b. Significant holdings

At 31 December 2001, the Group and the Society held more than 20% of the nominal value of a class of equity shares in 24 companies. None of these companies is regarded by the Directors as an associated undertaking and none of the holdings materially affects the results or assets of the Group or of the Society. These investments are included in the Balance Sheet at current value.

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

23. Post balance sheet events

a. Compromise scheme – adjusting event

On 6 December 2001, a proposal for a compromise scheme pursuant to Section 425 of the Companies Act 1985 was put to the with-profits policyholders of the Society. Voting on the compromise scheme was completed on 11 January 2002, and the announcement that all three classes of policyholders were in favour of the proposal was made on 28 January 2002. The compromise scheme was sanctioned by the Court and registered with the Registrar of Companies on 8 February 2002, and the compromise scheme became effective on the same day.

As the compromise scheme was initiated prior to the year end and was effective prior to the date of approval of the Accounts, in accordance with SSAP 17 (Accounting for Post balance sheet events), the effects of the compromise scheme are reflected within these Accounts.

The effect of the compromise scheme is as follows:	Group and Society 2001 £m
Reduction in provision for future GAR liabilities	1,454.0
Reduction in provision in respect of potential GAR related mis-selling claims	220.0
Increase in provisions in respect of guaranteed policy benefits	(920.0)
Overall reduction of technical provisions	**754.0**
Other income arising from transaction with Halifax (see Note 6biii)	250.0
Overall impact on Fund for future appropriations	**1,004.0**

The costs of completing the compromise scheme have been fully reflected as exceptional expenses within the year.

b. Loan renegotiation – non-adjusting event

On 25 January 2002, amendments to the facility agreement between the Society and Halifax were agreed which allowed for the security backing the loan to be changed from cash on deposit to gilts. In addition to the loan of £200m drawn down at 31 December 2001, a further £50m of the facility was drawn down.

The conditions for the loan renegotiation did not exist at the balance sheet date and consequently, in accordance with SSAP 17, no adjustments have been made in the Accounts.

24. Related party transactions

The aggregate of premiums paid and amounts transferred into policies with the Society and of amounts paid into individual savings accounts managed by Equitable Investment Fund Managers Limited, which was sold to Halifax (see Note 6) in 2001, by Directors was £78,460 (2000 - £301,750).

Payments to Directors in 2001 under policies with the Society were immaterial (2000 – £102,351).

25. Commitments

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

	Group		Society	
	2001 £m	2000 £m	2001 £m	2000 £m
Between two and five years	0.1	0.4	0.1	0.4
After five years	0.1	8.7	0.1	8.7
	0.2	**9.1**	**0.2**	**9.1**

Property investment commitments not provided for in the Accounts amounted to £269.1m (2000 – £394.2m) for the Group and for the Society.

Commitments in respect of uncalled capital on certain investments amounted to £208.9m (2000 – £256.7m) for the Group and for the Society.

26. Contingent liabilities and uncertainties in provisions

Additional specific mis-selling provisions have been established during the course of the year and some of the provisions have increased as detailed in Note 19. The compromise scheme has substantially reduced uncertainties in respect of GAR-related liabilities that had previously been considered fundamental.

The Society has made appropriate provisions based on information available. Should the actual experience not conform to the assumptions made, the costs could be significantly higher or lower.

As more information has become available, the range of potential outcomes on these issues has narrowed and the degree of uncertainty regarding the level of provisions based on information available, while still significant, is no longer considered fundamental.

The Board has considered these remaining uncertainties and concluded that the going concern basis adopted in the preparation of these Accounts is appropriate.