Equitable Life

Annual Report and Accounts 2007

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

Dear Members

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

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

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

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

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

2007 Bonus declaration

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

The key decisions are:

- Policy values (or their equivalents) will be increased for UK with-profits pensions policies at a non-guaranteed accrual rate of 5.0% p.a. (2006: 5.0% p.a.) for the whole of 2007 (4.0% p.a. for UK life policies – 2006: 4.0% p.a.);
- A non-guaranteed interim bonus in 2008 of 5.0% p.a. for UK with-profits pensions policies (4.0% p.a. for UK life policies) will continue to be added to policy values (or their equivalents);
- Consistent with previous years, there is no guaranteed reversionary bonus for 2007; and
- The financial adjustment applied to the early surrender of with-profits policies was reduced to 5.0% in April 2007 (from 8.0%). This adjustment can be varied at any time and is kept under regular review.

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

Financial position

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

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

Parliamentary Ombudsman and the European Parliamentary Inquiry

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

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

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

Governance

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

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

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

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

Litigation

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

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

Customer service

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

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

Business outlook

The Society's business objectives continue to include:

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

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

- Policyholders will get at least their minimum guaranteed benefits when they fall due;
- Additional, non-guaranteed, benefits will reflect the cautious investment policy – in stable conditions we would expect returns to remain around the current levels (for example, growth of policy values of 5% p.a. for UK pension policies);
- We hold back some assets to cover the risks of the fund. As the fund runs down those extra assets (if they are not needed to cover the risks) will be released to policyholders. The effect is likely to be a gradual release of these assets to policyholders over a long time;
- Members continue to share in the profits and also the losses of the business. So, for example, policy values could be adversely affected by the cost of any unanticipated future claims against the Society (or any other new problems) if the existing money put aside is not enough; and
- Over time, as policies continue to mature, the relative management costs of the Society will increase and the cost of the increase will fall on the remaining policyholders. We have modelled this development and have made allowances in our accounting, but there is a risk that the actual changes will be greater than the models have implied.

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

Your Board

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

Looking forward

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

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

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

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

On behalf of the Society's Board of Directors

Vanni Treves **Chairman**	Charles Thomson **Chief Executive**

Transfer of with-profits annuity policies

On 15 March 2007 the Society announced it had entered into an agreement with The Prudential Assurance Company Ltd. ("Prudential") for the transfer of all its with-profits annuity policies. The transfer of assets, and the resulting impact on liabilities of £1.75bn, took place on 31 December 2007, following a High Court approval of a Part VII Scheme of Arrangement. Further details of the assets and liabilities transferred are provided in Note 10d and Note 16d respectively. These movements are presented in the financial statements as discontinued operations.

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

Excess Realistic Assets and regulatory solvency

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

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

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

Notes:

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

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

A description of the above liabilities is set out in Note 16d on page 48.

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

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

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

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

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

Investment performance and capacity to pay bonuses

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

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

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

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

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

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

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

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

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

Expenses and provisions

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

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

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

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

As shown in Note 16h to the financial statements, balance sheet provisions, included as part of the technical provisions, have reduced over the year. The miscellaneous provisions (including Managed Pension mis-selling and the Rectification Scheme) have reduced by a combined £60m. The provision for exceptional expenses of £82m includes provision for future pension contributions which is also affected by the pension scheme assumption changes noted above.

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

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

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

There remain uncertainties in establishing appropriate values relating to certain provisions and there continues to exist the possibility of changes in provisions arising from regulatory interpretations or requirements. Although the Society, in undertaking its responsibility to be fair to all members, adopts a robust procedure for dealing with mis-selling claims, there remains the risk of exposure to other claims and the possibility that provisions prove insufficient. There also remains the possibility of a return in the future to a situation of volatility in the number of policy exits, with related increases in costs.

Actuarial assumptions and modelling

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

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

Protection of the fund and policyholder behaviour

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

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

Although the Society experienced a stable level of claims during the year, with figures broadly in line with last year, changes in the pattern of surrenders have been reflected in the realistic assumptions which, together with favourable actual experience in the year, result in a gain of £19m in ERA, as shown in the reconciliation table on page 6.

Allowance has been made in realistic liabilities for future discretionary non-guaranteed bonuses. As noted previously, it is the Society's intention that any future bonuses will be in a non-guaranteed form. Allowance is made for continuing contractual commitments, such as the GIR of 3.5% p.a. that is applicable to many policies. If the Society's investment return falls below a rate which covers the guarantees and its expenses and the assumed retirement profile ceases to be appropriate as a result of significant numbers of policyholders deferring their retirement dates, substantially higher technical provisions may be required, as described in Note 16g to the financial statements.

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

Financial Services Authority presentation

In assessing the Society's ability to meet its obligations as they fall due, the amount of ERA is more relevant than the excess of net assets over the regulatory or realistic capital requirements, as reported in the separate set of financial returns sent to the Financial Services Authority ("FSA"). The FSA have established the Capital Resources Requirement ("CRR") which represents the minimum level of regulatory capital which the Society is required to maintain. As a mutual company the ERA surplus are deemed to be part of policyholder liabilities and therefore the Society does not report a capital surplus.

During 2007, the Subordinated Bonds were redeemed at the option of the issuer Equitable Life Finance plc ("ELF"). The Subordinated Debt provided additional capital that resulted in an excess over CRR. With this redemption the CRR now equals the available capital resources and the figure for net assets in excess of CRR is £nil. Note 17 provides greater detail on this.

The table below details the principal reconciling items between the ERA and the excess of net assets over the CRR for the Society.

	2007 £m	2006 £m
Excess Realistic Assets	621	884
Subordinated Debt (Note 1)	-	167
Reserving adjustments and disallowed assets (Note 2)	119	132
Regulatory net assets	740	1,183
Capital Resources Requirement (CRR)	(740)	(1,016)
Net assets in excess of CRR	**-**	**167**

Notes:

(1) For the purposes of regulatory reporting, the carrying value of the Subordinated Debt can be treated as capital. The net assets in excess of CRR in 2006 are represented by the Subordinated Debt balance.

(2) Certain balances are required to be held in the FSA returns at values that are measured on bases different from those adopted for the financial statements.

In addition to the requirement to prepare financial statements on a realistic basis, the Society's particular risks are quantified for the preparation of an annual confidential assessment of its capital needs as required by FSA rules, introduced under the Individual Capital Assessment ("ICA") framework. The calculations are underpinned by consideration of the underlying risks, which include credit risk, market risk, liquidity risk, operational risk and insurance risk.

Accounting basis of preparation

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

FRS 26 introduced a distinction between insurance contracts and investment contracts. This was first presented in the interim accounts for 2007, and Note 1e 'Accounting Policies: Contract Classification' provides an explanation of this approach.

The impact of FRS 26 on the 2007 year-end accounts has removed £45m gross premiums (2006: £61m), and £292m gross claims (2006: £267m) from the Profit and Loss Account. These values are now included in the technical reserves in the Balance Sheet. The FRS 29 disclosure requirements can primarily be seen in Note 18, and specifically include qualitative and quantitative information on market, credit and liquidity risk for the Society.

The introduction of these new accounting policies has had no impact on the profit or ERA of the Society.

Transfer of the bulk of the non-profit pension annuities

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

The business transferred is treated as discontinued operations within the Profit and Loss Account. Further details are explained in Notes 3, 10 and 20 on pages 37, 43 and 62 respectively.

Equitable Life Finance plc

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

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

University Life Assurance Society

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

The Board's conclusions on provisions and going concern

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

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

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

In addition, the Board has considered the potential additional claims referred to in Note 25 to the financial statements, entitled 'Contingent liabilities and uncertainties'. The Board has assessed the probability of these uncertainties arising and on the basis of current information and having taken legal and actuarial advice, has concluded that it is highly unlikely they will result in any material adverse financial consequences. Certain of those risks, in extremely adverse scenarios, could prejudice the continuing solvency of the Society.

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

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

Board of Directors

Vanni Treves (a) (b) (d)

Chairman

Vanni Treves was appointed Chairman in February 2001. He chairs the Nominations Committee. He has been a solicitor for over 40 years, specialising in corporate law. He was 30 years a partner, for twelve of them Senior Partner, at the leading law firm, Macfarlanes. He has extensive experience on Boards, having been a Director (in the majority of cases Chairman) of six public companies, a statutory corporation and London Business School. Vanni is presently Chairman of Intertek Group plc and the National College of School Leadership and a Director of a number of other companies. Age 67.

Peter Smith (a) (b) (d)

Deputy Chairman

Peter Smith joined the Board in April 2001. He chairs the Audit Committee. He is Chairman of Savills plc and Templeton Emerging Markets Investment Trust plc and a non-executive Director of N M Rothschild & Sons Ltd., and Associated British Foods plc. He was Senior Partner of PricewaterhouseCoopers until June 2000. In June 2005, following completion of the acquisition by Aviva, he retired from the Chairmanship and the Board of RAC plc. Age 61.

David Adams OBE (a) (c)

David Adams joined the Board in April 2001. He was Finance Director from 1974 and Chief Executive from 1979 of Harrow Council. In 1987 he became Finance Director of the Railways Pension Scheme and was appointed Chief Executive four years later. From 1997 to 2000 he was Chief Executive of CIPFA. He is a non-executive Director of the Keystone Investment Trust plc. He is honorary Chair of Trustees of the Mencap Pension Plan Trustees and of the Scout Association Pension Scheme Trustees. Age 68.

Ian Brimecome (c)

Ian Brimecome joined the Board in January 2007. He became Chairman of the Investment Committee on 1 January 2008. He is Chairman of Fox-Pitt Kelton Ltd.'s Advisory Board and a non-executive Director of Axa UK plc and Venture Preference Ltd. He was a non-executive Director of Winterthur UK Financial Services Group Ltd. until December 2006. He has over 30 years of experience of the financial services industry in a wide variety of roles. He has advised on more than 80 merger and acquisition transactions in the insurance and asset management industries in more than 20 countries. He is an Associate of the Institute of Financial Services and a Member of the Institute of Management. Age 54.

Andrew Threadgold (c)

Andrew Threadgold joined the Board in April 2001. He chaired the Investment Committee between April 2001 and December 2007. He started his career as a professional economist, holding positions at a range of organisations including the Bank of England. He subsequently moved into investment management, and has been Chief Executive of PosTel (now named Hermes), the Investment Manager for the British Telecom and Post Office pension funds, and Chief Investment Officer for the large Australian life company, AMP. He now holds a number of advisory, consultancy and non-executive directorship positions. Age 64.

Jean Wood (b)

Jean Wood joined the Board in April 2001. She chairs the Remuneration Committee. She has worked for 25 years in the life insurance and pensions industry, in the UK, Ireland and Canada. Jean's work ranged from staff and management development to management of sales and marketing functions, leading to a position as Managing Director of a medium-sized life company, from which she retired in 1998. She is a Director of The Chelsea Building Society. Age 65.

Charles Thomson (c) (d)

Chief Executive

Charles Thomson was appointed Chief Executive of the Society and joined the Board in March 2001. With a career in the management and leadership of mutual societies and proprietary life companies spanning over 30 years and extensive knowledge of corporate transformation within the life and pensions industry, he was formerly Deputy Chief Executive at Scottish Widows and Chairman of the Life Board of the actuarial profession. He has also been a Director of a further five life and pension companies. Since 2001, he has steered the Society to a more stable footing and is leading the strategic review of the options for the future of the Society. Age 59.

Tim Bateman

Finance Director

Tim Bateman joined the Board in January 2008. Tim has experience of consultancy with PwC and was also Appointed Actuary for Sun Life Assurance Company of Canada (UK) Ltd. until 2004. He has been with the Society since 2004 and he has held the posts of With-profits Actuary and Head of Actuarial Function with Equitable Life. He was appointed General Manager (Finance) in April 2007 and Finance Director in January 2008. Age 49.

Ian Reynolds (a) (c)

Ian Reynolds, a Chartered Director, joined the Board in October 2006. He is a non-executive Director of Liverpool Victoria Friendly Society and of Alternative Assets Opportunities, and is a Member of the Council of the Institute of Actuaries. He has over 40 years of experience in the insurance industry. He held the roles of UK Divisional Director and then General Manager Life at Commercial Union plc and a variety of posts at Royal Insurance. He has also worked as a special advisor at the Financial Services Authority and, since 2003, as a senior consultant at Beachcroft Regulatory Consulting. Age 64.

Fred Shedden (c)

Fred Shedden joined the Board in May 2002 and chaired the Legal Audit Committee from January 2004 to January 2008. A solicitor by profession, he retired as Senior Partner of McGrigors in 2002 having spent his entire professional career with that firm. He has been a non-executive Director of a number of listed and unlisted companies, including Standard Life Assurance Company before it demutualised. He is currently a Director of Murray International Trust plc and iomart group plc. He is also Chair of The Centre for Confidence and Wellbeing Ltd. and Vice-Chair of Glasgow School of Art and Glasgow Housing Association. Age 63.

Key to membership of principal Board Committees

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

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 activity of the Group during 2007 was 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. The results of the Group are presented in the Profit and Loss Account on page 29. The operations of the Group are described in the Corporate Review and Financial Review on pages 2 to 5 and 6 to 11 respectively. The Directors' Remuneration Report and details of the governance arrangements of the Group are given in the Corporate Governance report on pages 16 to 25.

Valuation and bonus declaration

In accordance with the Society's Articles of Association and insurance company legislation, a valuation of the assets and liabilities of the Society has been carried out as at 31 December 2007. There is no guaranteed bonus for 2007, although those policies containing a Guaranteed Investment Return ("GIR") (typically 3.5% p.a.) will have this added to the guaranteed value of their policies as usual. The Board has increased policy values, or their equivalent, for UK with-profits pensions policies at an accrual rate of 5.0% p.a. for 2007 (4.0% p.a. for UK life policies and 4.6% p.a. for the Personal Pension 2000 product). The 2007 bonus decision is dealt with in greater detail in the Corporate Review on page 2.

Directors

The Directors shown on pages 12 and 13 were Directors throughout the year, except for Ian Brimecome (appointed 12 January 2007) and Tim Bateman (appointed 11 January 2008). The Directors retiring at the Annual General Meeting ("AGM") by rotation are Peter Smith, Andrew Threadgold and Vanni Treves, who offer themselves for re-election. As Tim Bateman has been appointed as a Director of the Society since the last AGM, in accordance with Regulation 40 of the Articles of Association, he will retire at the AGM and seek re-election.

Directors' indemnities

The Society maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its Directors. The Society has also provided an indemnity for each of its Directors, which is a qualifying third party indemnity provision for the purposes of section 234 of the Companies Act 2006.

Subordinated debt

In 1997, the Society's wholly-owned subsidiary, Equitable Life Finance plc ("ELF"), issued £350m 8.0% Undated Subordinated Guaranteed Bonds, the proceeds of which were lent to the Society. Following an invitation by the Society to holders of the Bonds, the Society repurchased Bonds in January 2005, representing a principal value of £179m at a price of £980 per £1,000 of Bonds tendered. Accordingly, the loan from ELF to the Society was reduced by £179m. ELF had the right to redeem the remaining Bonds, at par, on 6 August 2007. This redemption took place and the Society repaid the remaining loan to ELF.

Subsidiary companies

The Society's subsidiary company, University Life Assurance Society ("ULAS"), was sold to Reliance Mutual Insurance Society Ltd. on 31 May 2007.

Following the redemption of the Subordinated Debt on 6 August 2007, the Society had no further purpose for its subsidiary, ELF, and that company was placed into voluntary liquidation on 30 October 2007.

Financial instruments

Financial instruments such as gilts, corporate bonds and equities form a significant proportion of the assets held by the Society to enable it to fulfil its obligations to its policyholders. The Society is exposed to some risks in relation to certain of these assets and has specific objectives and policies for managing these risks. The key risks affecting the financial instruments are market risk (asset price changes), credit risk (bond default) and liquidity risk (cash flow). The Society's risk management processes are described in the Corporate Governance section of the Annual Report and Accounts on pages 20 and 21 and the mechanisms for managing these risks relating to financial instruments are set out in more detail in Note 18 to the financial statements.

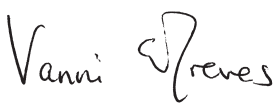
Employees

The majority of staff transferred to HBOS group companies at 1 March 2001. Employees of the Society have been regularly informed of and consulted with on matters of concern to them. 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.

Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution to reappoint them as Auditors to the Society will be proposed at the AGM.

Signed on behalf of the Board



Vanni Treves
Chairman
26 March 2008

1. Introduction

The Society continues to aim to meet the highest standards in corporate governance and voluntarily adopts the relevant provisions of the Principles of Good Corporate Governance and Code of Best Practice ("the Combined Code"). The Board is responsible to the Society's policyholders for good corporate governance.

The Myners Review of the Governance of Life Mutuals, which reported in December 2004, recommended that an annotated version of the Combined Code suitable for life mutuals should be produced. This was taken forward by the Association of Mutual Insurers ("AMI") and the Association of Friendly Societies ("AFS") and the Combined Code on Corporate Governance – An Annotated Version for Mutual Insurers ("the Annotated Code") was published in July 2005. Mutual insurers who are members of the AMI, as is the Society, are required to adhere to this Annotated Code for all financial years beginning on or after 1 April 2005. The Society has adopted the relevant provisions of the Annotated Code.

Reference is made in this report to the provisions of the Combined Code and of the Annotated Code, where the latter extends the relevant provisions of the Combined Code.

This report summarises the Society's governance arrangements.

2. Governance by Directors

The Board

The Board meets regularly to lead, control and monitor the overall performance of the Society. The Board's principal functions are to determine the strategy and policies of the Society, to set out guidelines within which the business is managed and to review business performance. The Board considers and decides on all major matters of Group corporate strategy. There is a formal schedule of matters reserved for the Board's decision. Senior management supply the Board with appropriate and timely information and are available to attend meetings and answer questions. The Directors are free to seek any further information they consider necessary and advice from the Company Secretary or independent professional advisers. Authority is delegated to the Chief Executive for implementing strategy and managing the Society.

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

Directors

The Board has two executive Directors, the Chief Executive and the Finance Director. There are eight non-executive Directors on the Board, whose diverse experience, skills and independent perspective provide an effective review and challenge of the Society's activities. The Chairman, Vanni Treves, and the Deputy Chairman, Peter Smith, are elected by the Board. Peter Smith has been nominated as the Senior Independent non-executive Director. The Board members are described on pages 12 and 13.

Some of the Directors hold policies with the Society. In the opinion of the Board, in no instance do these interests interfere with the independence of the relevant Director. All the non-executive Directors are considered to be independent.

The Remuneration Report on pages 22 to 25 explains the basis of remuneration of the executive and non-executive Directors.

Performance evaluation

During 2007, the Board reviewed its own performance and that of its Committees. With assistance from the Nominations Committee, it also reviewed the performance of individual Directors. The non-executive Directors met under the leadership of the Senior Independent non-executive Director to review the performance of the Chairman. In conducting these reviews, the Board had regard to the guidance on performance evaluation accompanying the Combined Code.

The Board considers that it has the appropriate balance of skills and experience to meet the requirements of the Society's business.

Appointments to the Board

Directors must retire and seek re-election at the first Annual General Meeting ("AGM") following appointment. The Society's Articles require one-third of the Directors who are subject to retirement by rotation to retire at each AGM and also that all Directors must submit themselves for re-election by rotation at an AGM at least every three years.

All appointments are subject to review by the Board, as advised by the Nominations Committee, at intervals not exceeding three years. The Board's policy on remuneration is set out in the Remuneration Report.

Board Committees

The Board formally delegates specific responsibilities to four Board Committees (five up to January 2008 when the Legal Audit Committee was disbanded), supported by senior management, which are established by the Board. The Terms of Reference of the Committees are available on the Society's website (www.equitable.co.uk) or on request.

The Audit Committee

Peter Smith chairs the Audit Committee, currently comprising four non-executive Directors. It meets at least four times a year. The duties of the Audit Committee include reviewing the Society's compliance with the Smith Guidance (accompanying the Combined Code) on financial reporting, internal controls and risk management systems, the internal and external audit processes and procedures for handling allegations from whistleblowers. The Committee receives and reviews reports on these matters during the year. The Committee assists the Board in fulfilling its responsibilities in respect of the Annual and Interim Financial Statements and Annual Regulatory Returns to the Financial Services Authority ("FSA") and reviews these items before their submission to the Board. The minutes of the Audit Committee meetings are circulated to the Board.

The Committee has a meeting at least once a year solely with the external auditors and with the internal auditors. 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. As part of the review, the Audit Committee obtains confirmation from PricewaterhouseCoopers LLP that, in their opinion, their independence as auditors has not been compromised.

The Combined Code states that the Board should satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience. The Board takes the view that, rather than an individual or individuals, the Audit Committee as a whole should be considered and has concluded that it does have the requisite skills and experience.

The Combined Code states that no one other than the Committee Chairman and members should be entitled to be present at a meeting of the Audit Committee, but others may attend at the invitation of the Committee. The Audit Committee has indicated that any Director may attend its meetings if he or she wishes, and this opportunity has been taken up.

The Investment Committee

The Investment Committee currently comprises five non-executive Directors and the Chief Executive. Andrew Threadgold was Chairman of the Committee until 31 December 2007. Ian Brimecome has been the Chairman since that date. Jean Wood was a member of the Committee until 31 December 2007. The Committee normally meets bi-monthly. It is responsible for managing credit, market and liquidity risk in accordance with the risk policies set by the Board. It sets policy for strategic asset allocation for the with-profits, non-profit and index-linked funds, delegating implementation to management. It also oversees the activities of the Society's investment managers. The Committee receives advice from the Head of Actuarial Function.

The Legal Audit Committee

During the whole of 2007 and up to 31 January 2008, Fred Shedden chaired the Legal Audit Committee, which comprised three non-executive Directors and the Chief Executive. The Board considered that following settlement of significant litigation over recent years, the work of the Committee had been completed. The Committee has now been disbanded. Any future matters formerly considered by the Committee will be referred directly to the Board.

The Remuneration Committee

Jean Wood chairs the Remuneration Committee, currently comprising three non-executive Directors. The Committee is responsible for recommending to the Board the terms of remuneration for executive Directors, including incentive arrangements for bonus payments, and the terms of remuneration for non-executive Directors. More information on the work of the Remuneration Committee is given in the Remuneration Report on pages 22 to 25.

The Combined Code states that the Remuneration Committee should have delegated responsibility for setting the remuneration for executive Directors and the Chairman. The Remuneration Committee makes recommendations to the Board on such matters but the decisions are taken by the Board.

The Nominations Committee

Vanni Treves chairs the Nominations Committee, comprising two non-executive Directors and the Chief Executive. The Committee assists the Board in ensuring that the composition of the Board is appropriate to govern the Society effectively, that suitable candidates are identified to fill vacancies or to add to the strength of the Board and that the Society, wherever possible, meets the relevant principles and provisions of the Combined Code and the Annotated Code. The Committee also reviews, on an ongoing basis, the appropriateness and suitability of each Director for continuing membership of the Board. 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.

The Board's intention to make appointments of new non-executive Directors was announced in the Annual Report and Accounts/Summary Financial Statements 2005 issued to members in April 2006. It included the Board's intention to use a search consultancy to interview candidates and make suitable recommendations. It also included an invitation to anyone who believed he or she could add substantial value to the Board to put his or her name forward for consideration in the process. The Board appointed Ian Reynolds as a non-executive Director with effect from 1 October 2006 and Ian Brimecome as a non-executive Director with effect from 12 January 2007.

Board and Committee meetings

Details of the number of meetings of the Board and attendance by Directors are given below. Details of the number of meetings of Committees of the Board and attendance by members of those Committees are also shown below.

	Board	Audit Committee	Investment Committee	Legal Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings during 2007	11	6	6	4	1	2
Attendance by Directors†						
Vanni Treves	11	5	-	4	1	2
Peter Smith	8	6	-	3	1	2
Charles Thomson	11	-	5	4	1	-
David Adams	11	6	6	-	-	-
Ian Brimcome	10	-	6	-	-	-
Ian Reynolds	11	6	6	-	-	-
Fred Shedden	10	-	6	4	-	-
Andrew Threadgold	10	-	5	-	-	-
Jean Wood	9	-	5	-	-	2

† see pages 12 and 13 for details of Committee membership.

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, at the Society's expense, about any matter concerning the Society relevant to their duties, subject to defined procedures and parameters.

Subsidiary company governance

The Society's main subsidiaries during 2007 were University Life Assurance Society ("ULAS") and Equitable Life Finance plc ("ELF").

The Society announced on 20 December 2006 that it had agreed to sell ULAS to Reliance Mutual Insurance Society Ltd. ("Reliance Mutual"). The sale completed on 31 May 2007.

ULAS, a life assurance and annuity business, had been closed to new business since 1976. It had a separate Court of Directors. During 2007, up to the time of its sale to Reliance Mutual, its Chairman was Michael Pickard, who was a former Director of the Society. One of its other Directors was the Society's Chief Executive, Charles Thomson. The existing Directors of ULAS resigned with effect from 31 May 2007 and were replaced by Directors nominated by Reliance Mutual.

ELF issued and managed £350m 8.0% Undated Subordinated Guaranteed Bonds, the proceeds of which were lent to the Society. In January 2005, following offers to Bondholders, the Society repurchased the remaining Bonds. These were redeemed, at par, on 6 August 2007 and the Society repaid the outstanding loan to ELF. ELF was placed into voluntary liquidation on 30 October 2007.The company had a separate Board comprising two Directors (who are Directors of the Society). Its Chairman was Charles Thomson.

3. Management of the Society

The Executive Team meets regularly, usually weekly, to manage business activities. Papers are prepared and presented to the Board and its Committees by the Executive Team. Tim Bateman holds the role of Head of Actuarial Function. Kathryn Payne became the With-profits Actuary on 16 November 2007, a role previously held by Tim Bateman.

The Head of Actuarial Function advises on the Society's ability to meet obligations to policyholders, the risks that could have a material impact on this, and the capital needed to support the business. He also advises the Board on the methods and assumptions to be used for the assessment of the value of the Society's assets and liabilities, and reports on the results. The With-profits Actuary advises the Board on key aspects of the discretion to be exercised in the treatment of with-profits policyholders, including advice on bonus rates.

The Society retains responsibility for investment strategy and policy, instructing independent investment managers and advisers to implement desired changes to asset allocations within the portfolio. The Society's Executive Team, taking advice from the Head of Actuarial Function, liaises with the investment advisers to oversee day-to-day investment matters. The With-profits Actuary has prepared a report to policyholders confirming that the Board has taken into account the interests of policyholders in a reasonable and proportionate manner in exercising its discretion in 2007. A copy of this report will be available on the Society's website and, on request, to members.

4. Accountability and audit

The Directors are ultimately responsible for the Society's system of internal control and for reviewing its effectiveness, including any outsourced activities. This system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material loss or misstatement. The Directors actively seek to minimise the exposure to risks and, in doing so, take into consideration the materiality of the risks to be managed and the cost effectiveness of the relevant aspects of internal control in light of the particular environment in which the Society operates.

The Society has outsourced its administration activities to HBOS and it liaises with HBOS to review the appropriateness of the internal control environment and to consider specific needs or requirements of the Society.

The effectiveness of the Society's system of internal control, including financial, operational and compliance controls and risk management, is reviewed by the Audit Committee on behalf of the Board and the Audit Committee has reported on the outcome of its review to the Board. The principal components of the Society's system of internal control and developments in 2007 are detailed below.

Control environment

The Society is committed to the highest standards of business ethics and conduct, and seeks to maintain these standards across all of its operations. The Society regularly reviews its governance manual confirming the governance structure for the business and the guiding policies for the organisation.

An appropriate organisational structure for planning, executing, controlling and monitoring business operations is in place in order to achieve the Society's objectives. The structure is reviewed and updated on a regular basis, taking into account the pressures on and conflicting priorities of the Society's business, to ensure that it provides clear responsibilities and control for key areas. Separate functions have been established for risk management, internal audit and programme management.

Control procedures

The Society operates a number of control procedures to safeguard the policyholders' assets and investments, including:

- Physical controls, segregation of duties and reviews by management;
- Forums for the Executive Team and HBOS to monitor controls and other matters in relation to (i) finance, (ii) operations, (iii) human resources, (iv) information technology, (v) projects and (vi) risk, audit and compliance;
- The Investment Committee provides oversight and monitoring of the Society's investment managers;
- The Society's Compliance Officer monitors the HBOS compliance function as it relates to the Society on a day-to-day basis in accordance with the Society's compliance strategy;
- The contractual arrangement with HBOS dated 1 March 2001 that establishes operational delegations and outline service levels;
- Implementation and testing of an appropriate Business Continuity Plan;
- Preparation and monitoring of detailed budgets for functional business segments; and
- A programme management function to structure, co-ordinate, monitor and report on the very significant projects within the programme management function.

Information and communication

Monthly management information in respect of financial performance, customer service, complaints handling and investment performance is prepared and reviewed by senior management, the Executive Team and the Board. Additionally, projects have their own management information processes.

The Society prepares an annual business plan and budget to assist in the monitoring of results, assets, liabilities and investment performance. Actual performance against these plans is actively monitored and, where appropriate, corrective action is agreed and implemented.

Risk management

The Audit Committee has delegated authority from the Board for the review of the Society's internal control and risk management systems.

A Risk Committee, consisting of all members of the Executive Team, meets regularly, normally monthly. Significant internal and external risks are identified and evaluated and accountability for their management is allocated to appropriate individuals. The Risk Committee determines the actions required and their adequacy and monitors progress.

There is a clear risk management framework and methodology, which includes:

- The approval of risk policies by the Board covering each of the key risk categories of credit, market, liquidity, operational and insurance risks;
- The agreement by the Board of risk tolerance for each of the key risks facing the Society and key risk indicators for the monitoring of these risks;
- Risk identification and management procedures for major projects;
- The detailed reporting and review of material risks, including operational risks and those that impact the solvency of the Society; and
- The application of detailed modelling to assess the sensitivity of the Society's position to economic and business scenarios.

The framework described above is designed to comply with the regime for prudential management of insurance companies contained in the FSA Handbook.

There is a discussion in the Financial Review on page 11 of significant risks the Society faces.

Internal audit

The Society has an internal audit capability to provide assurance over the operation of the system of internal control. The programme of internal audit reviews is based on the Society's risk register and the internal audit programme is designed to provide assurance that the risk-mitigating actions identified by management and the risk register are working effectively. The internal audit plan and activities are reviewed by the Risk Committee and are reported to, and approved by, the Audit Committee.

The Society also receives regular reports from HBOS in relation to the findings of internal audit reviews HBOS has conducted that are relevant to the Society.

Monitoring and corrective action

The risk management function reports the results of the risk assessment and other significant changes to risks to the Risk Committee, Audit Committee, Investment Committee and the Board. Assurance is provided to the Audit Committee and the Board on the effectiveness of the key controls through:

- Monthly consideration by the Risk Committee of key risks, controls effectiveness and adequacy of mitigating actions;
- Annual review of effectiveness of key internal controls by the Executive Team;
- Reporting by the Society's internal audit function on the key controls reviewed. In performing this work, reliance is placed where possible on the HBOS risk management and internal audit functions that review systems and controls operated by HBOS on behalf of the Society and on information received from and appropriate disclosures having been made by HBOS to the Society;
- Reporting on the compliance environment and the management of significant regulatory risks by the Society's Compliance Officer;
- Reports received from the Society's risk management function on specific elements of risk and their management;
- Reporting by the forums (referred to on page 20 – Control procedures), comprising representatives from the Society and HBOS, of key risks, controls and mitigating actions arising from the processes operated by HBOS on behalf of the Society. This includes tracking the implementation of agreed actions from Internal Audit and Compliance reviews; and
- The work of other independent advisers commissioned to report on specific aspects of internal control.

The Audit Committee monitors the status of corrective actions for the improvement of effectiveness of the system of internal control.

5. Policyholder communications

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

At the AGM, the members of the Board are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration. Resolutions are dealt with on a show of hands unless a poll is called. The Society counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with on a show of hands. Since the 2005 AGM, the proxy form has specifically provided for members to be able to abstain on a resolution or resolutions if they wish. All policyholders can gain access to the Society's Annual Report and Accounts and further information on its website.

During 2007 an Extraordinary General Meeting ("EGM") was held in respect of the transfer of with-profits annuity policies to The Prudential Assurance Company Ltd. ("Prudential"). As with the AGM, members of the Board gave presentations and answered questions from members. The resolution was dealt with on a show of hands and the proxies lodged were reported after the show of hands.

During 2006, the Board adopted a member relations strategy. The purpose of this strategy is to help members of the Society to take an interest in its governance. The strategy is available in the Corporate Governance section of the Society's website.

The member relations function within the Society implements the member relations strategy on behalf of the Chairman and the Chief Executive.

The member relations function is responsible for the provision of realistic, appropriate and proportionate information to members and for organising the AGM (and, in 2007, the EGM).

The member relations function provides answers to members in respect of corporate issues (whereas the customer services staff answer questions relating to members' policies). The member relations function is accessible to members through a dedicated e-mail address: member.relations@equitable.co.uk and through a special postal address: Member Relations, The Equitable Life Assurance Society, Warwick Court, Paternoster Square, London EC4M 7DX.

In order to understand the views of members, the Board has during the year commissioned market research among members. The Board has always sought to keep all relevant stakeholders informed on all major issues and, during the year, letters were sent to all members covering key issues – in particular, in 2007, a great deal of information was sent to policyholders to explain the proposed transfer of with-profits annuities. Further information is made available on the Society's website (and on request for members without internet access).

The member relations strategy is reviewed annually by the Board who also receive reports on issues raised, feedback from members and recommendations for improvement.

6. Going concern

As noted in Note 1 to the financial statements on page 32, the Directors consider the adoption of the going concern basis to be appropriate in the preparation of the financial statements. A detailed assessment of the going concern basis is provided in the Financial Review on page 11.

7. Remuneration report

The composition and responsibilities of the Society's Remuneration Committee are set out on pages 17 and 18. The Remuneration Committee's recommendations are made on the basis of rewarding individuals for the scope of their responsibilities and their performance. Where possible, the Committee seeks to meet the standards set out in the Annotated Code. Proper regard is paid to the need to retain good quality, highly motivated staff and the remuneration being paid by competitors of the Society is taken into consideration. In this respect, during 2007 the Committee has received information and advice from remuneration consultants, Towers Perrin. The Committee considers Towers Perrin to be independent. Towers Perrin had no other connections with the Society.

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

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

Notes:

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

(2) From 1 July 2004 the non-executive Directors (other than the Chairman) have received fees at the rate of £28,000 p.a. The following non-executive Directors have also received additional fees of £5,000 p.a. in relation to specific services: M J Pickard (Chairman, University Life); A R Threadgold (Chairman, Investment Committee); F Shedden (Chairman, Legal Audit Committee); J Wood (Chairman, Remuneration Committee) and D H Adams (Deputy Chairman, Audit Committee). P A Smith (Deputy Chairman and Chairman of Audit Committee) has received an additional fee of £10,000 p.a.

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

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

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

Executive Directors
Salary and bonuses

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

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

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

The annual rate of salary for T J Bateman, who was appointed an executive Director on 11 January 2008, has been £250,000 plus annual benefits of £6,317.52

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

Long-term retention scheme

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

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

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

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

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

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

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

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

Benefits

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

Service contracts

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

Long-term benefits

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

Directors' remuneration

Non-executive Directors' remuneration comprises a specified fee, which includes extra amounts for specific additional responsibilities, as set out on page 23.

Executive bonus entitlements

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

Directors' pension entitlement

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

8. Statement of compliance with the Combined and Annotated Codes and AMI guidance

Combined and Annotated Codes

The Board considers the Society has applied the relevant principles and has complied with all the relevant provisions of the Combined Code and the Annotated Code (and associated guidance) throughout the year except for the matters explained in this report and summarised below. The Board does not regard the exceptions as a material departure from the principles and provisions of the Combined Code and the Annotated Code.

The Board continues to seek to adopt the relevant provisions of the Combined Code, including formalisation of service level agreements with outsourced providers.

Non-executive Directors are not appointed for a specific term. However, each Director's continued appointment is subject to periodic review by the Board, assisted by the Nominations Committee, at least annually. The Society's Articles of Association require that all Directors must seek re-election at the AGM at least every three years.

Decisions regarding the remuneration of executive Directors and the Chairman are taken by the Board, following recommendations from the Remuneration Committee.

The Board considers that, rather than an individual or individuals needing to have recent and relevant financial experience, the Audit Committee as a whole should be considered as having the requisite skills and experience.

AMI guidance

The Society did not, in the instance specified below, comply for part of the year with guidance on the Annotated Code issued by the AMI in December 2005:

The Society's Articles of Association required at least 1,000 members (eligible to vote at General Meetings) to requisition a General Meeting or a resolution to be put to an AGM, whereas the AMI guidance specifies 500 members as a reasonable requirement. A resolution was put to the AGM held in May 2007 to make amendments to the Articles, including bringing them into line with the AMI guidance on requisitioning a General Meeting or a resolution to be put to an AGM. The resolution to amend the Articles, as proposed, was approved at the AGM.

Directors' responsiblities

in respect of the financial statements

Company law requires the Directors to prepare financial statements 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 result of the Group for that period. In preparing those financial statements, 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 financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business (see page 11 of the Financial Review 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 enable them to ensure the financial statements comply with the Companies Act 1985 as described above. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The financial statements are published on the Society's website. The maintenance and integrity of this website is the responsibility of the Directors. Legislation in the UK governing the preparation and dissemination of financial statements may differ from the legislation in other jurisdictions.

Statement of disclosure of information to auditors

As far as the Directors are aware, there is no relevant audit information of which the Group's auditors are unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

We have audited the Group and parent company financial statements ('the financial statements') of The Equitable Life Assurance Society for the year ended 31 December 2007 which comprise the Group Profit and Loss Account, the Group and Society Balance Sheets and the related Notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for, and only for, the members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements 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 financial statements.

In addition, we report to you, if in our opinion, the Society 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 other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Corporate Review, the Financial Review, the Corporate Governance Report, the Directors' Report and the Statement of Directors' Responsibilities in respect of the financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

We also, at the request of the Directors, review whether the Corporate Governance Statement reflects the Society's compliance with the eight provisions of the Annotated Combined Code for Mutual Insurers (2005) specified for our review by the Association of Mutual Insurers, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group and Society'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 financial statements are free from material misstatement, 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 financial statements.

Opinion

In our opinion the financial statements:

- Give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Society's affairs as at 31 December 2007 and of the Group's result for the year then ended;

- Have been properly prepared in accordance with the Companies Act 1985; and

- The information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter – contingent liabilities and uncertainties

In arriving at our opinion we have considered the adequacy of the disclosures made in relation to contingent liabilities and uncertainties in Note 25 and under the heading 'The Board's conclusions on provisions and going concern' in the Financial Review, in respect of the potential additional claims against the Society, expenses and increases in provisions that could arise as a result of different legal and regulatory views on its historical conduct and any changes in provisions arising from GIR policyholder behaviour. If the uncertainties prevail, further obligations would arise in respect of mis-selling and other claims, which in extreme circumstances may also have consequences for the going concern preparation of the financial statements.

Our opinion is not qualified in respect of this emphasis of matter.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
26 March 2008

Technical account – long-term business

	Notes	Group 2007 £m	Group 2007 £m	Group 2006 Restated £m	Group 2006 Restated £m
Earned premiums, net of reinsurance					
Gross premiums written	2a	124		114	
Outward reinsurance premiums	3				
- Continuing operations		(26)		(47)	
- Discontinued operations		-		(4,608)	
			98		(4,541)
Investment income	4a		790		1,060
Other technical income	5a		41		11
Total technical income			**929**		**(3,470)**
Claims incurred, net of reinsurance					
Claims paid - gross amount	6	1,185		1,408	
Reinsurers' share	3	(124)		(358)	
			1,061		1,050
Change in provision for claims - gross amount	6,16b		(12)		13
			1,049		1,063
Changes in other technical provisions, net of reinsurance					
Long-term business provision - gross amount	16a	(6,086)		(1,268)	
Reinsurers' share	3,16c	3,607		(3,502)	
			(2,479)		(4,770)
Comprising - Continuing operations			*(539)*		*(657)*
- Discontinued operations	*16d*		*(1,940)*		*(4,113)*
Technical provisions for linked liabilities - gross amount	16b	(526)		223	
Reinsurers' share	3,16c	516		(879)	
			(10)		(656)
Comprising - Continuing operations			*(10)*		*(6)*
- Discontinued operations	*16d*		*-*		*(650)*
Net operating expenses - non-exceptional	7a	45		55	
Net operating expenses - exceptional	7b	98		28	
Net operating expenses			143		83
Investment expenses including interest	4b		21		30
Other technical charges	5b		1,757		22
Unrealised losses on investments	4c		445		744
Taxation attributable to the long-term business	9a		2		13
Transfer to the Fund for Future Appropriations	15		1		1
			2,369		893
Total technical charges			**929**		**(3,470)**
Balance on the Technical Account			**-**		**-**

All significant recognised gains and losses are dealt with in the Profit and Loss Account. The Notes on pages 32 to 66 form an integral part of these financial statements.

Balance sheets

as at 31 December 2007

Assets

	Notes	Group 2007 £m	Group 2006 Restated £m	Society 2007 £m	Society 2006 Restated £m
Investments					
Land and buildings	10a	625	840	625	837
Investments in Group undertakings	10b	-	-	16	19
Shares and other variable yield securities and units in unit trusts	10c	478	569	466	544
Debt and other fixed-income securities	10c	5,661	11,972	5,661	11,952
Deposits and other investments	10c	337	558	337	555
		7,101	**13,939**	**7,105**	**13,907**
Assets held to cover linked liabilities	11	**76**	**87**	**76**	**87**
Reinsurers' share of technical provisions					
Long-term business provision	16c	315	3,922	315	3,922
Technical provisions for linked liabilities	16c	2,477	3,240	2,477	3,240
		2,792	**7,162**	**2,792**	**7,162**
Debtors					
Debtors arising out of direct insurance operations	12	5	31	5	31
Other debtors		36	48	36	47
		41	**79**	**41**	**78**
Other assets					
Cash at bank and in hand		**18**	**16**	**14**	**11**
Prepayments and accrued income					
Accrued interest and rent		111	208	111	207
Other prepayments and accrued income	13	70	111	70	111
		181	**319**	**181**	**318**
Total assets		**10,209**	**21,602**	**10,209**	**21,563**

The Notes on pages 32 to 66 form an integral part of these financial statements.

Liabilities

	Notes	Group 2007 £m	Group 2006 Restated £m	Society 2007 £m	Society 2006 Restated £m
Subordinated liabilities	14	**-**	**171**	**-**	**167**
Fund for future appropriations	15	**-**	**10**	**-**	**-**
Technical provisions	16a & 16g				
Long-term business technical provision - gross amount		7,474	13,583	7,474	13,559
Claims outstanding		3	15	3	15
		7,477	**13,598**	**7,477**	**13,574**
Linked liabilities	16b	**2,553**	**3,327**	**2,553**	**3,326**
		10,030	**16,925**	**10,030**	**16,900**
Provision for other risks and charges	19	**53**	**37**	**53**	**36**
Creditors					
Creditors arising out of direct insurance operations		43	47	43	47
Deposits received from reinsurer - secured	20	-	4,316	-	4,316
Creditors arising out of reinsurance operations		1	25	1	25
Amounts owed to credit institutions	21a	16	19	16	19
Other creditors including taxation and social security	21b	41	20	41	27
		101	**4,427**	**101**	**4,434**
Accruals and deferred income		**25**	**32**	**25**	**26**
Total liabilities		**10,209**	**21,602**	**10,209**	**21,563**

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

Vanni Treves
Chairman

Charles Thomson
Chief Executive

The Notes on pages 32 to 66 form an integral part of these financial statements.

1. Accounting policies

a. Basis of presentation

The financial statements have been prepared in accordance with sections 255 and 255A of, and Schedule 9A to, the Companies Act 1985 and in accordance with applicable accounting standards and the Association of British Insurers' Statement of Recommended Practice ("SORP") on Accounting for Insurance Business dated December 2005 and revised in December 2006, which, inter alia, incorporates the requirements of 'FRS 27 Life Assurance'. The true and fair override provisions of the Companies Act 1985 have been invoked.

The Directors have considered the appropriateness of the going concern basis used in the preparation of these financial statements, having regard to the ability of the Society to be able to meet its liabilities as and when they fall due, and the adequacy of available assets to meet liabilities. In the opinion of the Directors, the going concern basis adopted in the preparation of these financial statements continues to be appropriate. A more detailed explanation is provided in the Financial Review on page 11.

Where relevant, Profit and Loss Account line items are analysed separately between continuing and discontinued operations. An explanation of the discontinued operations is provided in Notes 3 and 5.

Certain administrative expenses were incurred in respect of customer support services provided by HBOS. For the purposes of these accounts, references to HBOS relate to various HBOS plc group companies.

b. Change in accounting policies

During 2007 the Society has invested in derivatives. Therefore the Group has amended its accounting policy to adopt 'FRS 26 Financial Instruments: Recognition and Measurement'. As described in sections e., f., and g., adoption of this standard requires the Group to classify its contracts into three categories with resulting differing measurement approaches. The introduction of these new accounting policies had no impact on the profit or ERA of the Society.

As a result of adopting FRS 26, the Group has also adopted 'FRS 23 The Effects of Changes in Foreign Exchange Rates', and 'FRS 29 Financial Instruments: Disclosures'. The adoption of these standards represents a change in accounting policy and prior year comparatives have been provided accordingly. The accounting policy changes above have no overall impact on reported profit and loss. The introduction of 'FRS 24 Financial Reporting in Hyperinflationary Economies' has had no impact on the financial statements.

The Directors have reviewed the accounting policies and satisfied themselves as to their appropriateness. Other than the adoption of the standards referred to above, there are no other changes in accounting policy from the prior year.

c. Basis of consolidation

The financial statements for the Group consolidate the financial statements of the Society and all its subsidiary undertakings, drawn up to 31 December each year.

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

Equitable Life Finance plc ("ELF") passed a resolution for voluntary winding up on 30 October 2007 following the redemption of the Bonds in August as described in the Financial Review on page 11. The results to the date of liquidation are consolidated in the Group Profit and Loss Account. The position of ELF at 31 December 2007 is not consolidated in the Group Balance Sheet.

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

d. Accounting for Part VII Transfers

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

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

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

e. Contract classification

The Group has classified its Long Term Assurance business in accordance with 'FRS 26 Financial Instruments: Recognition and Measurement'. Insurance contracts are contracts that transfer significant insurance risk such as non unit-linked non-profit contracts. Investment contracts are those contracts where no significant insurance risk is transferred. Investment contracts that contain a discretionary participation feature entitling the policyholder to receive additional bonuses or benefits, such as with-profit contracts, are classified as investment contracts with discretionary participation feature. Those investment contracts that do not have this feature are classified as investment contracts without discretionary participation feature.

Hybrid policies that include both discretionary participation features and unit-linked components have been unbundled and the two components have been accounted for separately.

Reassurance contracts have been classified in the same manner as direct contracts, with those reinsurance contracts which do not transfer significant insurance risk classified as financial assets.

A major treaty with HBOS reinsures unit-linked business. Some of the reinsured policies are classified as insurance and others as investment. Rather than classifying the reinsurance treaty as a whole, the underlying policies have been considered and classified.

f. Insurance contracts and investment contracts with discretionary participation feature

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.

Many pension policies 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, arising from policies within the Group, are included in claims paid. Where such lump sums are used to purchase annuities from the Group, these are included in premium income.

Claims

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

Reassurance contracts

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

Liabilities

Liabilities for insurance contracts and investment contracts with discretionary participation feature are measured on an amortised cost basis as described in section m. on page 35.

g. Investment contracts without discretionary participation feature

Contracts classified as investment without discretionary participation feature are classified as financial instruments under FRS 26 and have been accounted for using the principles of deposit accounting. Deposits are no longer accounted through the Profit and Loss Account, but accounted for directly in the Balance Sheet as an adjustment to technical provisions. Fees receivable from investment contracts without discretionary participation features are reported in 'Other technical income'.

Withdrawals notified have been accounted for directly in the Balance Sheet as an adjustment to technical provisions and not through the Profit and Loss Account as claims.

Liabilities for contracts classified as investment without discretionary participation feature are measured on an amortised cost basis as described in section m. on page 35.

1. Accounting policies (continued)

h. Investment return

Investment return comprises all investment income, realised gains and losses, movements in unrealised gains and losses, net of investment expenses, including interest payable on financial liabilities.

All income from listed stocks and shares is included in the accounts when the security becomes ex-dividend. Other investment income, including interest income from fixed-interest investments and rent, is accrued up to the balance sheet date.

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

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 represent the difference between the valuation of investments 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.

i. Bonuses

The Society declares bonuses annually and the Society's former subsidiary, ULAS, declared bonuses triennially. Guaranteed bonuses are included in the long-term business provision. Non-guaranteed final bonuses are payable when a claim is made and an estimate of these non-guaranteed benefits, including any future discretionary increases to policy values, is included in the long-term business provision. Non-guaranteed final bonuses, payable when a claim is made, are included in claims paid.

j. Valuation of investments

All financial assets are initially recognised at cost, being the fair value at the date of acquisition. Subsequently all financial assets are valued at fair value through the Profit and Loss Account. Fair value is determined on either bid market prices for listed investments if readily available, broker or dealer quotations, or market values of another instrument that is substantially the same. If prices are not readily available, the fair value is based on appropriate valuation techniques, supported by observable market data, where available. An impairment review is an integral part of establishing the fair value of financial assets.

A financial asset is recognised when the Group commits to purchase the asset, and is derecognised when the contractual right to receive cash flows expires or when the asset is transferred.

Financial assets at fair value through the Profit and Loss Account have two sub categories: financial assets held for trading; and those designated at fair value through the Profit and Loss Account at inception. Derivative instruments have been classified as held for trading. All other financial assets have been classified as fair value through profit and loss category. No material financial assets have been classified as held to maturity or as available for sale under FRS 26 classification.

The Society's derivatives are primarily concentrated in interest rate swaptions and FTSE 100 Futures. Hedge accounting has not been used for these Instruments. Collateral received to back derivative positions is recognised on the Balance Sheet as cash, with a corresponding liability in 'Other creditors'.

Securities lent, where substantially all the risks and rewards of ownership remain with the Society, are retained on the Balance Sheet at their current value. Collateral received in respect of securities lent is not recorded on the Balance Sheet.

k. Property

Freehold and leasehold properties are valued individually by the qualified surveyors Jones Lang LaSalle on the basis of open market value, less the estimated costs of disposal.

No depreciation is provided in respect of investment properties. The Directors consider that this accounting policy is appropriate for the financial statements 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.

l. Impairment policy

The Group reviews the carrying value of its assets (other than those held at fair value through profit and loss) at each balance sheet date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the income statement. Impairment is only recognised if the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

m. Technical provisions - long-term business provision and provision for linked liabilities

The long-term business provision is determined separately for each insurance company in the Group, following an investigation of the long-term funds, and is calculated in accordance with the rules contained in The FSA Handbook of Rules and Guidance. The investigations are carried out as at 31 December. For the with-profits business of the Society, the liabilities to policyholders are determined in accordance with the FSA realistic capital regime and in accordance with the requirements of FRS 27. These liabilities include an estimate of non-guaranteed benefits, including future discretionary increases to policy values, and provision for any guaranteed values which are in excess of policy values. Also included in the liability is an amount representing the excess of assets over other realistic liabilities. This amount is referred to as Excess Realistic Assets ("ERA") in these financial statements and is a key measure of the Society's resources, representing the amount available to meet any unforeseen liabilities and liabilities in excess of those provided for at the balance sheet date, and to enhance bonuses in the future.

The calculation of the long-term business provision for all non-profit business is calculated using the gross premium valuation method.

The technical provision in respect of index-linked annuities in payment is equal to the discounted value of the annuity benefits which allows for indexation.

The provisions in respect of with-profits investment contracts are not at fair value as there is no active market for such instruments and the basis to measure future supplementary discretionary returns is unreliable.

The Group's investment contracts without discretionary participation feature consist almost entirely of unit-linked contracts. The liability in respect of unit-linked contracts is equal to the value of assets to which the contracts are linked, and is included in 'Technical provisions' in the Balance Sheet.

n. Other financial liabilities

Borrowings are initially recognised at fair value and subsequently stated at amortised cost, using the effective interest method where appropriate.

o. Fund for Future Appropriations ("FFA")

The FFA for ULAS represents the 2006 balance shown in the Group financial statements. ULAS was not affected by the Financial Services Authority ("FSA") realistic capital regime, and its FFA represented amounts, which were available for future bonuses of various kinds, in excess of levels allowed for in the technical provisions and for transfer to the shareholders' funds.

The Society's FFA is presented as a nil balance because the amounts available to enhance bonuses in the future are now included in 'Technical provisions'.

The Group FFA is nil for 2007 following the sale of ULAS.

p. Taxation

The charge for taxation in the Profit and Loss Account is based on the method of assessing taxation for long-term funds. Provision has been made for deferred tax assets and liabilities using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the Profit and Loss Account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and has not been discounted.

q. Foreign currency translation

Assets and liabilities in foreign currencies are expressed in Pounds Sterling at the exchange rates ruling at the balance sheet date. Revenue transactions have been translated at rates of exchange ruling at the time of the transactions.

r. Segmental reporting

In the opinion of the Directors, the Group operates in one business segment, being that of long-term insurance business.

2. Earned premiums

Annual equivalent premiums in respect of new business received during the year were £8m (2006 restated: £9m). New premiums in respect of reassured business during the year were £8m (2006 restated: £4m).

Following the adoption of FRS 26, deposits received in respect of investment contracts without discretionary participation feature are not included in the Technical Account or in the tables opposite. Total deposits received in 2007 were £45m (2006: £61m) and new premium deposits were £11m (2006: £26m).

Classification of new business

The Society closed to new business on 8 December 2000. However, the Society continues to recognise new business premiums and deposits in the following instances:

- Recurrent single premiums are classified as regular where they are deemed likely to renew at or above the amount of initial premium or deposit. Incremental increases on existing policies are classified as new business premiums;
- Department for Work and Pensions rebates are classified as new single premiums;
- Unless classified as investment without discretionary participation feature, 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 immediate annuity, 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; and
- Where regular premiums are received other than annually, the regular new business premiums are stated on an annualised basis.

	Group	
	2007 £m	2006 £m
a. Analyses of gross premiums written are as follows:		
Individual premiums	121	108
Premiums under group contracts	3	6
	124	**114**
Regular premiums	55	61
Single premiums	69	53
	124	**114**
Premiums from non-profit contracts	55	48
Premiums from with-profits contracts	58	55
Premiums from linked contracts	11	11
	124	**114**
Premiums from life business	34	44
Premiums from annuity business	2	2
Premiums from pension business	88	68
	124	**114**
Premiums from UK business	121	111
Premiums from overseas business	3	3
	124	**114**

b. Gross new business premiums		
Individual premiums	69	56
Premiums under group contracts	1	1
	70	**57**
Regular premiums	1	3
Single premiums	69	54
	70	**57**
Premiums from non-profit contracts	27	23
Premiums from with-profits contracts	35	30
Premiums from linked contracts	8	4
	70	**57**
Premiums from life business	-	-
Premiums from annuity business	1	1
Premiums from pension business	69	56
	70	**57**
Premiums from UK business	70	57
Premiums from overseas business	-	-
	70	**57**

3. Outward reinsurance premiums

On 1 March 2001, the Society entered into reinsurance contracts with HBOS in respect of certain of its unit-linked and non-profit business. The establishment of the reinsurance contracts effectively transferred the risks and rewards in respect of the reinsured business to HBOS.

Premiums and deposits received from policyholders in respect of reinsured business are immediately forwarded to HBOS. HBOS reimburse the Society for any claims and withdrawals the Society has paid to policyholders in respect of reinsured business. As a result of these processes, after allowing for special features of the reinsurance contracts, the impact to the Society of these contracts is minimal.

Under the terms of the reinsurance contracts with HBOS, if the Society were to become insolvent, or reasonably likely to become insolvent in the opinion of the reinsurer's board, HBOS can then make payments directly to policyholders whose policies have been reassured.

On 11 May 2006, the Society entered into an agreement where a substantial proportion of the Society's non-profit pension annuity business was reassured with Canada Life. Following the completion of the High Court process, this business was subsequently transferred to Canada Life on 9 February 2007 as a Part VII Transfer under the Financial Services and Markets Act 2000. Until that date, this business was subject to a reassurance arrangement, under which Canada Life bore substantially all the risks and rewards from this business with effect from 1 January 2006. The initial premium of £4,608m for the reassurance of this business is included in 'Outward reinsurance premiums'. This business has been treated as 'Discontinued operations' in the Profit and Loss Account. The reassurance agreement was unwound when the business was transferred.

The Society has several other outward reinsurance contracts under which relatively small volumes of business are reinsured.

The reinsurance balance, as required to be disclosed by the Companies Act 1985, and as defined by the Statement of Recommended Practice ("SORP"), which represents the aggregate total of all those items included in the Technical Account which relate to reassurance transactions, net of related gains of £195m (2006: £101m), is a net debit of £2m (2006: £9m credit).

4. Total investment return

	Group 2007 £m	Group 2006 £m
a. Investment income comprises income from:		
Land and buildings	32	33
Other investments	498	751
	530	784
Net gains on realisation of investments	260	276
Investment income and net realised gains at fair value through the Profit and Loss Account	**790**	**1,060**
b. Investment expenses including interest comprise:		
Investment management expenses	12	14
Interest charges on loans	9	16
	21	**30**
c. Investment activity account		
Investment income	530	784
Realised investment gains	260	276
Unrealised investment losses	(445)	(744)
Total fair value investment income and net gains at fair value through the Profit and Loss Account	345	316
Investment management expenses and charges	(21)	(30)
Investment return for the year	**324**	**286**

Included within the tables above is £5m (2006: £nil) of net gain in respect of derivative instruments designated as held for trading, and £16m (2006: £6m) of unrealised gain resulting from the retranslation of balances in connection with overseas business.

There have been no material gains or losses arising on the disposal of subsidiary companies.

d. Interest income and expense not included in the investment return

Contracts classified as investment with discretionary participation feature are measured at amortised cost. The interest income and expense in respect of such contracts is included within the Technical Account under the heading 'Change in long-term business provision'.

5. Other technical income and charges

	Group 2007 £m	Group 2006 Restated £m
a. Other technical income comprises:		
Income from non-insurance business	2	2
Investment return on secured assets deposited with the Society by Canada Life	35	-
Other income	4	9
	41	**11**
b. Other technical charges comprise:		
Investment return on secured assets deposited with the Society by Canada Life	-	19
Transfer of assets to Prudential	1,754	-
Expenses of non life subsidiary companies	3	1
Other charges	-	2
	1,757	**22**

On 15 March 2007 the Society entered into an agreement with Prudential for the transfer of its with-profits annuity policies. Following the completion of the High Court process, this business was subsequently transferred to Prudential on 31 December 2007 as a Part VII Transfer under the Financial Services and Markets Act 2000. The final value of assets to be transferred will be known in mid 2008 once all actuarial work is complete. The value of assets transferred and accrued is reported in the Profit and Loss Account, in table b. above, and is described in Note 10d.

As part of the reassurance between the Society and Canada Life referred to in Note 3, the initial premium was deposited back with the Society. There existed a charge over investments of the Society equal to the value of the deposit. The investment returns from those secured assets were attributed to Canada Life and payments of related annuities deducted from the deposited assets.

If the secured assets earned a positive return in the period, the attribution to Canada Life is reported as 'Other technical charges', and if negative as 'Other technical income'.

Following Court approval of the Part VII Scheme of Arrangement, the charged assets were transferred to Canada Life. This resulted in a nil charge to the Profit and Loss Account as the value of charged assets was equal to the value of deposits received from Canada Life as at the date of the transfer.

6. Claims incurred - gross

	Group 2007 Claims £m	Group 2006 Claims Restated £m
Claims paid - gross amount	1,185	1,408
Change in provision for claims - gross amount	(12)	13
Gross claims	**1,173**	**1,421**

Gross claims incurred comprise gross claims paid and the change in provision for claims outstanding.

	Group 2007 Claims £m	Group 2006 Claims Restated £m
Gross claims paid comprise:		
On death	38	41
On maturity	519	504
On surrender	310	298
By way of periodic payments	304	575
Claims handling expenses	2	3
	1,173	**1,421**
Life and annuity business	175	164
Pension business	996	1254
Claims handling expenses	2	3
	1,173	**1,421**
Linked business	66	76
Non-profit business	110	335
With-profits business	995	1,007
Claims handling expenses	2	3
	1,173	**1,421**
UK business	1,143	1,389
Overseas business	28	29
Claims handling expenses	2	3
	1,173	**1,421**

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

Following the adoption of FRS 26, withdrawals made in respect of investment contracts without discretionary participation feature are not included in the Technical Account or in the tables above. Total withdrawals in 2007 were £292m (2006: £267m).

The gross claims incurred include £42m (2006: £306m) relating to discontinued operations which were transferred to Canada Life on 9 February 2007, as described in Note 3, and £178m (2006: £189m) relating to discontinued operations which were transferred to Prudential on 31 December 2007, as described in Note 5.

7. Net operating expenses

	Group 2007 £m	Group 2006 £m
a. Non-exceptional		
Administrative expenses	**45**	**55**

b. Exceptional

The Group incurred the following exceptional expenses during the year:

	Group 2007 £m	Group 2006 £m
Rectification and other GAR-related expenses	1	2
Costs of pursuing litigation against third parties	-	-
Pension costs for former staff	44	5
Costs of strategic initiatives	51	18
Other projects	2	3
	98	**28**

As explained in the Financial Review on page 8, savings on recurring expenses have been offset by increases in exceptional expenses due to strategic activity (the cost of implementing the arrangements with Canada Life and Prudential) and a review of pension commitments.

c. Services from auditors

PricewaterhouseCoopers LLP ("PwC") is one of a number of professional firms that undertake advisory work for the Society. Where PwC has been engaged to perform such non-audit work, in circumstances where it is to the Society's advantage that it does so, the Society's regular commitments procedures are followed and the Audit Committee reviews them to ensure that auditor independence is preserved.

During the year, the Group received the following services from the Group's auditor as detailed below:

	Group 2007 £m	Group 2006 £m
Fees payable for the audit of the Society and Group accounts	0.7	1.0
Fees payable to the Society's auditor and its associates for other services:		
Other services pursuant to legislation	0.1	0.2
Tax services	0.1	0.1
All other services	0.6	0.3
	1.5	**1.6**

8. Directors and employees

	Group 2007 £m	Group 2006 £m
a. Staff costs		
Wages and salaries	5	4
Social security costs	1	1
	6	**5**

The monthly average number of employees employed by the Group during the year, including Executive Directors, required to be disclosed in accordance with the Companies Act 1985, was 26 (2006: 28). In addition, the Society employs a number of contractors and, under its agreement with HBOS, uses the services of HBOS staff.

b. Emoluments of Directors

Full details of Directors' emoluments, pensions and interests, as required by the Companies Act 1985, are included in the Remuneration Report on pages 22 to 25.

c. Former staff pension arrangements

As a result of contractual commitments arising as part of the agreement entered into with HBOS in March 2001, when the Society sold its administrative and sales operations, the Society meets the major part of the funding in respect of the pension schemes for those staff that transferred to the employment of HBOS as a result of the sale transaction. An amount of £59m (2006: £34m) is provided in respect of the contractual commitment to HBOS in relation to the defined benefit scheme, following the triennial actuarial valuation performed as at 31 December 2004, as modified for relevant changes to the balance sheet date. An additional provision of £46m (2006: £45m), representing an estimate of the current value of the contractual commitment to HBOS in respect of future service costs over the next nine years (2006: 10 years), is included within 'Technical provisions: long-term business'.

9. Taxation

	Group 2007 £m	Group 2006 £m
a. Taxation charged to the Technical Account		
UK corporation tax		
Current tax on income for the period	9	10
Adjustments in respect of previous years	(6)	(1)
	3	9
Foreign tax		
Current tax on income for the period	-	3
Deferred tax		
Unrealised gains on investments	(1)	1
Total charge	**2**	**13**

The UK corporation tax charge is provided at 20% (2006: 20%), computed in accordance with the rules applicable to life assurance companies, whereby no tax is charged on pension business profits.

	Group		Society	
	2007	2006	2007	2006
	£m	£m	£m	£m
b. Deferred taxation				
Provided in the financial statements:				
Deferred tax of the long-term fund				
Unrealised appreciation in investments	(2)	(3)	(2)	(3)

10. Non-linked investments

	Current Value		Cost	
	2007	2006	2007	2006
	£m	£m	£m	£m
a. Land and buildings				
Group				
Leasehold	177	203	129	136
Freehold	448	637	396	449
	625	**840**	**525**	**585**
Society				
Leasehold	177	203	129	136
Freehold	448	634	396	445
	625	**837**	**525**	**581**

The Group invests indirectly in property through specialised unit trusts, which are classified as 'Other financial investments' (see Note 10c). Total property-related investments at 31 December 2007 are £766m (2006: £1,080m).

	Current Value		Cost	
	2007	2006	2007	2006
	£m	£m	£m	£m
b. Investments in Group undertakings				
Shares	**16**	**19**	**18**	**24**

10. Non-linked investments (continued)

	Current Value		Cost	
	2007	2006	2007	2006
	£m	£m	£m	£m
c. Other financial investments held at fair value through the Profit and Loss Account				
Group				
Shares and other variable yield securities and units in unit trusts				
Shares and units in unit trusts (1)	444	569	473	574
Other variable income and securities (2)	34	-	29	-
	478	**569**	**502**	**574**
Debt securities and other fixed-income securities(3)	**5,661**	**11,972**	**5,703**	**11,733**
Deposits and other investments				
Loans secured by mortgages and policies	2	3	2	3
Deposits with credit institutions	335	555	334	562
	337	**558**	**336**	**565**
	6,476	**13,099**	**6,541**	**12,872**
Society				
Shares and other variable yield securities and units in unit trusts				
Shares and units in unit trusts (1)	432	544	459	548
Other variable income and securities (2)	34	-	29	-
	466	**544**	**488**	**548**
Debt securities and other fixed-income securities(3)	**5,661**	**11,952**	**5,703**	**11,712**
Deposits and other investments				
Loans secured by mortgages and policies	2	3	2	3
Deposits with credit institutions	335	552	334	558
	337	**555**	**336**	**561**
	6,464	**13,051**	**6,527**	**12,821**

Notes:

(1) Includes listed investments of £199m (2006: £194m) for the Group and £199m (2006: £182m) for the Society at fair value.

(2) Comprise derivatives including FTSE 100 Futures and interest rate swaptions. The interest rate swaption is valued on a mark-to-model basis. Both categories are classified as held for trading.

(3) Includes listed investments of £5,198m (2006: £11,326m) for the Group and £5,198m (2006: £11,306m) for the Society at fair value.

Investments of £2,134m (2006: £2,204m), which were lent in the normal course of business to authorised money brokers on a secured basis, are included in 'Other financial investments'. Cash and similar investments of £2,154m (2006: £2,256m) were received as collateral from brokers. Income earned on stock lending during the year, net of fees paid, was £2m (2006: £1m).

The agreement entered into with Canada Life on 11 May 2006 included reassurance of non-profit annuities with a deposit back arrangement. The amount deposited with the Society was equal to the value of the non-profit annuity business ceded, and was valued at £4,316m at 31 December 2006. There was a charge over the Society's investments to the value of the deposit received from the reinsurer, at the balance sheet date. This charge was released after the transfer of assets following Court approval of the Part VII Transfer under the Financial Services and Markets Act 2000 in February 2007. This deposit back arrangement had the effect of increasing the Group's and the Society's total assets and total liabilities by the deposited amount.

	Assets transferred to Prudential on 31 December 2007 £m	Assets transferred to Canada Life on 9 February 2007 £m
d. Assets transferred under Part VII Transfer in 2007		
Society		
Leasehold property	65	-
Freehold property	7	-
	72	-
Shares and other variable yield securities and units in unit trusts	133	-
Debt and other fixed-income securities	1,371	4,122
Deposits with credit institutions	150	43
Accrued interest	20	69
Accrued transfer of assets	8	-
Total transferred and accrued	**1,754**	**4,234**

The total value of assets transferred to Prudential is reported in the Profit and Loss Account within 'Other technical charges' as £1.754bn and in Note 5. The final transfer total will be agreed mid 2008, once all year-end values have been agreed with Prudential.

The total value of assets transferred to Canada Life was equal to the value of secured deposits received from Canada Life at the date of the transfer, and so net to nil within 'Other technical charges' and in Note 5.

11. Assets held to cover linked liabilities

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Current value of linked assets held at fair value through the Profit and Loss Account	76	87	76	87

The cost of assets held to cover linked liabilities is £65m (2006: £80m) for the Group and the Society.

12. Debtors

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Debtors arising out of direct insurance operations				
Amounts owed by policyholders	5	31	5	31
Other debtors				
Debtors other than Group and related companies	36	38	36	37
Outstanding sales of investments	-	10	-	10
	36	48	36	47
	41	**79**	**41**	**78**

The carrying values of these items equate closely to fair values and are expected to be realised within a year of the balance sheet date.

13. Other prepayments and accrued income

	Group 2007 £m	Group 2006 £m	Society 2007 £m	Society 2006 £m
Prepayments	**70**	**111**	**70**	**111**

The prepayments include an interest-bearing advance payment made to a service provider. These amount to £70m and are not expected to be realised for over five years.

14. Subordinated liabilities

	Group 2007 £m	Group 2006 £m	Society 2007 £m	Society 2006 £m
Amounts falling due after more than five years	**-**	**171**	**-**	**167**

On 6 August 1997, Equitable Life Finance plc ("ELF"), a wholly-owned subsidiary of the Society, issued £350m 8.0% Undated Subordinated Guaranteed Bonds (the "Bonds"), which were guaranteed by the Society. The proceeds, after deduction of costs associated with the issue, were loaned to the Society on similar terms as to interest, repayment and subordination as to those applicable to the Bonds. All (but not some only) of the Bonds were repayable at the option of ELF on 6 August 2007 and each fifth anniversary thereafter. It was decided to exercise the option at the earliest date. In accordance with the terms of the loan agreements, the Bonds were redeemed and the related loan to the Society was repaid on 6 August 2007.

15. Fund for Future Appropriations

	Group 2007 £m	Group 2006 £m	Society 2007 £m	Society 2006 £m
At 1 January	10	9	-	-
Transfer from the Profit and Loss Account	1	1	-	-
University Life Assurance Society sold from Group	(11)	-	-	-
At 31 December	**-**	**10**	**-**	**-**

University Life Assurance Society was part of the Group at 2006 but was sold to Reliance Mutual Insurance Society Ltd. during 2007, as described in Note 1.

16. Technical provisions

a. Gross long-term business technical provisions

	Group		Society	
	2007	2006 Restated	2007	2006 Restated
With-profits technical provisions	£m	£m	£m	£m
With-profits insurance technical provisions				
Policy values	486	2,272	486	2,272
Future charges	(35)	(100)	(35)	(100)
Impact of early surrenders	(1)	(3)	(1)	(3)
Cost of guarantees	65	138	65	138
Other long-term liabilities	99	151	99	140
	614	**2,458**	**614**	**2,447**
With-profits investment technical provisions				
Policy values	4,897	5,287	4,897	5,287
Future charges	(171)	(188)	(171)	(188)
Impact of early surrenders	(30)	(47)	(30)	(47)
Cost of guarantees	377	428	377	428
Other long-term liabilities	285	255	285	255
	5,358	**5,735**	**5,358**	**5,735**
Excess Realistic Assets	**621**	**884**	**621**	**884**
	6,593	**9,077**	**6,593**	**9,066**

Non-profit technical provisions				
Non-profit insurance technical provisions	876	4,500	876	4,487
Non-profit investment technical provisions	5	6	5	6
	881	**4,506**	**881**	**4,493**
Total long-term business technical provisions	**7,474**	**13,583**	**7,474**	**13,559**

b.Gross linked liabilities

Index-linked annuities	80	707	80	707
Other linked insurance liabilities	225	256	225	255
Other linked investment liabilities	2,248	2,364	2,248	2,364
Total linked liabilities	**2,553**	**3,327**	**2,553**	**3,326**

16. Technical provisions (continued)

c. Reinsurers' share of technical provisions: insurance and investment contracts

	Group		Society	
	2007	2006 Restated	2007	2006 Restated
	£m	£m	£m	£m
Non-profit insurance technical provisions	310	3,916	310	3,916
Non-profit investment technical provisions	5	6	5	6
	315	**3,922**	**315**	**3,922**
With-profits insurance technical provisions	-	-	-	-
With-profits investment technical provisions	-	-	-	-
Index-linked annuities	4	621	4	621
Other linked insurance liabilities	225	255	225	255
Other linked investment liabilities	2,248	2,364	2,248	2,364
	2,477	**3,240**	**2,477**	**3,240**
Total reinsurers' share	**2,792**	**7,162**	**2,792**	**7,162**

d. Discontinued operations

The Part VII Transfer of policies to Canada Life on 9 February 2007 and to Prudential on 31 December 2007, described in Notes 3 and 5 respectively, resulted in the following movements to long-term business technical provisions:

	Group 2007	Group 2006
	£m	£m
Gross provisions – transfer to Canada Life	(4,133)	(403)
Gross provisions – change during 2007 re Prudential	(186)	(141)
Gross provisions – transfer to Prudential	(1,754)	-
Gross provisions - all discontinued operations	**(6,073)**	**(544)**
Reinsurer's share of provisions - transfer to Canada Life	**4,133**	**(4,219)**
Net provisions - all discontinued operations	**(1,940)**	**(4,763)**

e. Movement of gross technical provisions investment contracts without discretionary participation feature

	Group		Society	
	2007	2006 Restated	2007	2006 Restated
	£m	£m	£m	£m
At 1 January	2,370	2,356	2,370	2,356
Change arising from new deposits	45	61	45	61
Change arising from withdrawals	(292)	(267)	(292)	(267)
Other changes	130	220	130	220
At 31 December	**2,253**	**2,370**	**2,253**	**2,370**

f. The long-term business provision - non-profit and index-linked annuities

The long-term business provisions for the Society's non-profit and index-linked annuities have been calculated using the gross premium method. The principal assumptions and their comparatives are shown in the table below. Actuarial bases have been modified in respect of valuation interest rates, mortality assumptions and future expense allowances. Explanations of the effect of those changes are set out in Notes (1) and (2) below.

The principal assumptions used in valuing the non-profit and index-linked annuities in payment were as follows:

Class of business	Interest rate %		Future expense allowance	
	2007	2006	2007	2006
Non-profit annuities in payment				
Basic Life and General Annuity business – pre 1992	4.80	4.70	£24 p.a.	£24 p.a.
Basic Life and General Annuity business – post 1991	4.32	4.20	£24 p.a.	£24 p.a.
Pension business	4.80	4.70	£24 p.a.	£24 p.a.
Index-linked annuities in payment				
Basic Life and General Annuity business – pre 1992	1.38	1.48	£24 p.a.	£24 p.a.
Basic Life and General Annuity business – post 1991	1.24	1.23	£24 p.a.	£24 p.a.
Pension business	1.38	1.48	£24 p.a.	£24 p.a.

Notes:

(1) Valuation interest rates are based on the yields on the assets held, reduced for risk. Reductions from the yield for risk for corporate fixed-interest securities are based on credit ratings. In general, fixed-interest and index-linked yields are broadly at a similar level to those at the end of 2006. The changes to the valuation interest rates in aggregate have increased the index-linked annuity provision by £1m and decreased the non-profit technical provisions by £6m. Similarly, the market value of the backing assets has decreased as yields have changed and this offsets a large proportion of the change in technical provisions. Future expenses in respect of non-profit and index-linked annuities in payment are allowed for in two ways – an explicit per policy allowance, increasing by 3.0% p.a. (2006: 3.0% p.a.) and an expense allowance for fund management, expressed as a percentage of the value of the fund, of 0.06% p.a. (2006: 0.06% p.a.). The amount allowed for expenses has been assumed to increase by an additional 4.6% p.a. (2006: 4.0% p.a.) to allow for diseconomies of scale as the size of the business declines. The amount included for each successive year allows for the effect of inflation throughout the expected future lifetime of the policies.

(2) The Society continues to make allowance for future improvements in longevity of annuitants. The Society's valuation has been carried out using recently published mortality tables and an investigation into the Society's actual mortality experience. The overall effect of this review has been to increase index-linked annuity and non-profit annuity technical provisions by £4m (2006: decrease of £11m – this amount included business subsequently transferred to Canada Life).

A sensitivity analysis, carried out in connection with the effect of a change in mortality basis on the technical provisions, has demonstrated that a 10% change in the mortality basis would result in a £22m (2006: £152m – this amount included business subsequently transferred to Canada Life) increase in the non-profit and index-linked annuity technical provisions. This change is equivalent to the life expectancy of a 65-year-old male increasing by an additional 12 months (2006: 10 months).

Mortality assumptions by class of business	2007	2006
Non-profit and index-linked annuities in payment		
Basic Life and General Annuity business	70.0% IML00 ult (U=2007)* for males	75.0% IML00 ult (U=2006)* for males
	75.0% IFL00 ult (U=2007) * for females	80.0% IFL00 ult (U=2006)* for females
Pension business	90.0% PNMA00MC (U=2010) ** for males	82.5% PNMA00MC (U=2009)** for males
(both reassured and retained business)	97.5% PNFA00MC (U=2010) ** for females	82.5% PNFA00MC (U=2009)** for females

Notes:

* The allowance for future mortality improvements is based on implied mortality improvements as per IML92/IFL92 (subject to a minimum improvement of 1.5% p.a. where U=2007).

** The allowance for future mortality improvements is based on the implied future improvements as per PMA/PFA92 MC tables (subject to a minimum improvement of 1.5% p.a. where U=2010).

16. Technical provisions (continued)

g. The long-term business provision - with-profits business

The long-term business provisions for the Society's with-profits business have been calculated in accordance with the FSA realistic capital regime. The principal assumptions used to calculate these provisions and the comparatives are described below.

The calculation of realistic liabilities for the Society is based upon the projection of 5,000 different scenarios and includes an estimate of any future non-guaranteed bonuses that may be payable. The value of the liabilities is made up of the following components:

- Policy values – the total of policy values for all with-profits policies (or their equivalents for with-profits annuities and conventional with-profits contracts);

- Future charges – the margin assumed to be retained each year before making future increases to policy values;

- Impact of early surrenders – the value of the financial adjustment assumed to be deducted on non-contractual surrenders;

- Cost of guarantees – the cost of meeting contractual guarantees in excess of the policy values; and

- Other long-term liabilities include miscellaneous provisions (as described in Note 16h), with-profits reassured business, less a deduction for the present value of future profits from non-profit business as described below.

The present value of future profits from non-profit business represents the future profits expected from cash flows of the in-force non-profit and index-linked annuity business, less an amount to meet the cost of holding capital in respect of this business. These profits have been deducted as a capitalised amount from the technical provisions in accordance with the requirements of FRS 27. The resulting anticipated present value of future profits is a loss of £17m (2006: £11m).

(i) Options and guarantees

Options and guarantees are features of life assurance contracts that confer potentially valuable benefits to policyholders. They expose the Society to two types of risk: insurance (such as mortality and morbidity) and financial (such as market prices and interest rates). The value of an option or guarantee comprises two elements: the intrinsic value and the time value. The intrinsic value is the amount that would be payable if the option or guarantee was exercised immediately. The time value is the additional value that reflects the possibility of the intrinsic value increasing in future, before the expiry of the option or guarantee. In adopting FRS 27, the intrinsic and time values of all options and guarantees are included in policyholder liabilities.

The Society now has in issue two principal types of with-profits policy: Recurrent Single Premium ("RSP") policies and Conventional With-Profits ("CWP") policies. These policies represented 97% and 3%, respectively, of the total policy values at 31 December 2007 (97% and 3% of the total policy values excluding with-profits annuities at 31 December 2006). For the majority of RSP policies issued before 1 July 1996, each premium (after charges) secures a Guaranteed Investment Return ("GIR"), typically at the rate of 3.5% p.a. For the majority of RSP policies issued after 1 July 1996, the GIR is 0%. For CWP policies, guarantees are payable at specified dates or on the occurrence of specified events.

The options and guarantees in respect of the Society's with-profits business relate to a guarantee on contractual termination (for example, on retirement, maturity, death or on payment of an annuity). The terms of the guarantee vary by contract. For the Society's RSP contracts where there is a GIR, the value of that guaranteed return is assessed based on assumed retirement ages of policyholders. Certain policies also contain a guaranteed minimum level of pension as part of the condition of the original transfer of state benefits to the policy.

For CWP business, there is a guarantee that the amount payable on death or at maturity (where appropriate) will not be less than the sum assured and any declared reversionary bonuses.

All the Society's material options and guarantees are valued on a market-consistent stochastic basis. The valuation involves constructing 5,000 scenarios, aggregating the results under each scenario and then calculating the average liability.

For policies where the guaranteed value at contractual termination exceeds the policy value at that date, the excess would be paid and estimates of such excess form part of the realistic liabilities. In calculating the amount payable to policyholders, account is taken of any management actions such as making changes to policy values in response to changes in market conditions. The cost of these guarantees has reduced from £566m in 2006 to £442m at 31 December 2007 principally as a result of transferring with-profits annuities to Prudential and the increases made in policy values for 2007. This amount is included within 'Technical provisions' (see Note 16a).

There is inherent uncertainty in calculating the cost of these guarantees and options, as the value depends on future economic conditions, policyholder actions (such as early or late retirement and surrenders) and mortality. In calculating the value of the guarantees, account has been taken of actual experience to date, in addition to industry benchmarks and trends. For economic assumptions, prices for relevant quoted and non-quoted derivatives are used to confirm market consistency.

(ii) Assumptions – with-profits business

Mortality

Using the results of an investigation into the Society's actual mortality experience, mortality assumptions have been derived for the with-profits business as detailed in the table below:

Mortality assumptions by class of business	2007	2006
Endowment assurances (with-profits)		
Basic Life and General Annuity business	90.0% AMC00 ultimate for males	87.5% AMC00 ultimate for males
	97.5% AFC00 ultimate for females	92.5% AFC00 ultimate for females
Pension business	90.0% AMC00 ultimate for males	87.5% AMC00 ultimate for males
	97.5% AFC00 ultimate for females	92.5% AFC00 ultimate for females

Mortality assumptions for other classes of business are not material and, for this reason, are not shown above.

Future charges

A charge of 0.5% p.a. (2006: 0.5% p.a.) is assumed to be retained before making future increases to policy values. This charge provides capital to meet the expected cost of guarantees (the additional cost where a policy's guaranteed benefits exceed its policy value, now or expected in the future).

Expenses

A further charge of 1.0% p.a. (2006: 1.0% p.a.), is assumed to be deducted each year before making future increases to policy values. In addition, an expense provision of £142m for expenses (2006: £60m) has been incorporated with the aim of maintaining a stable expense charge as the business declines. Taken together, these allowances are intended to provide for future expenses in respect of with-profits business. A 10% increase in future expenses would decrease the ERA by £50m (2006: £58m).

16. Technical provisions (continued)

g. The long-term business provision - with-profits business (continued)

Retirement and surrender assumptions

For the majority of RSP contracts, benefits can be taken on contractual terms at a range of ages. For example, benefits from Retirement Annuity policies can be taken at any age between 60 and 75, whereas benefits from Group Pension policies are expected to be taken at the scheme's normal retirement age. This date is referred to as the Earliest Contractual Date ("ECD"). A proportion of policyholders take their benefits before the earliest expected retirement date.

An investigation of the actual retirement ages for the Society's with-profits policyholders, analysed by type of contract, has been carried out based on actual experience during 2006 and 2007. The results of that investigation have been used to set the assumed retirement ages for the valuation.

The retirement assumptions vary between different product types. The range of retirement dates assumed varies between policyholders being assumed to retire two years (2006: 2 years) earlier than ECD and up to 13 years (2006: 13 years) later than ECD.

A sensitivity analysis has been carried out to illustrate the potential impact on ERA, at 31 December 2007, of GIR on RSP business under certain scenarios modelled on a stochastic basis, where the results are aggregated and the average liability is calculated. If interest rates fall below a given level, it is possible that policyholders with policies that have a guaranteed return (usually 3.5% p.a.) and variable retirement dates may choose to defer retirement. If policyholders wait until interest rates fall below 2.5% and defer their retirement by up to five years (from that previously assumed), while the interest rate in the scenario is below 2.5%, ERA would reduce by £40m (2006: £75m). If the level of interest rates at which behaviour changes is 3.5% and the same period of deferment is assumed, the reduction is £70m (2006: £105m). If the deferral were for a period of up to 10 years, the reduction is £65m (2006: £140m) at 2.5% and £115m (2006: £210m) at 3.5%.

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

An investigation of the actual surrender rates for the Society's with-profits business, analysed by type of contract, has been carried out based on actual experience during 2006 and 2007. The results of that investigation have been used to set the assumed surrender rates for the valuation.

Non-contractual surrender rates are assumed to fall steadily over the next few years to a long-term rate of 1.5% p.a.(2006: 1.5% p.a.). The effect of the change in the surrender rates has been to increase the ERA by £10m (2006: increase by £15m).

A financial adjustment of 5.0% (2006: 8.0%) of policy values is assumed as a deduction on surrender prior to contractual termination.

Economic assumptions
In order to produce many projections of different scenarios of the business, an economic model is required. The economic model used by the Society in the valuation is 'The Smith Model'. The model has been calibrated to the gilt yield curve at the valuation date and this determines the risk-free rates used in the projections. The effect of the change in yield curve from 2006 to 2007 was to reduce the ERA by £2m (2005: reduce by £58m). Assumptions are also required for the volatility of the asset values for different asset categories. Bond volatilities vary by term and duration and are calibrated to those implied by swap option volatilities obtained from Bloomberg. For equity values, the model produces a 10 year volatility of 26% (2006: 21%). Property (including property-related assets) is modelled using a proxy index with a volatility of 15% (2006: 15%) and a correlation with equities of 30% (2006: 30%).

h. The long-term business provision - miscellaneous provisions

Technical provisions include amounts in respect of specific provisions:

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

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

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

i. Technical provision for other linked liabilities (excluding index-linked annuities)

The technical provision in respect of other linked business (excluding index-linked annuities) is equal to the value of the assets to which the contracts are linked. This business is wholly reassured to HBOS (see Note 3).

A provision in respect of future expenses and mortality risks on other linked insurance business is included in the long-term business provision. The future expenses on other linked business are wholly reassured.

17. Capital statement

a. Analysis of capital

The capital statement in respect of the Group's life assurance business at 31 December 2007 is set out below. These figures are calculated in accordance with the regulations set out in The FSA Handbook of Rules and Guidance. At 31 December 2006, the Subordinated Debt provided additional capital that resulted in an excess over the Capital Resources Requirement ("CRR"). With the redemption of the Subordinated Debt during 2007, the CRR at 31 December 2007 now equals the available capital resources and the excess over CRR is £nil. On 31 May 2007, the Group transferred ULAS to Reliance Mutual Insurance Society Ltd. and at balance sheet date, has one with-profits fund as follows:

	Notes	2007 Equitable Life £m	2007 University Life £m	2007 Total £m
Available capital resources				
Fund for Future Appropriations		-	-	-
Subordinated Debt	14	-	-	-
Regulatory adjustments - valuation differences(1)		742	-	742
Regulatory adjustments - inadmissible assets		(2)	-	(2)
Total available capital resources		**740**	**-**	**740**
Long-term Insurance Capital Requirement (LTICR)		(273)	-	(273)
With-profits Insurance Capital Component (WPICC)		(467)	-	(467)
Total regulatory Capital Resource Requirements (CRR)		**(740)**	**-**	**(740)**
Excess of available capital resources over CRR		**-**	**-**	**-**

	Notes	2006 Equitable Life £m	2006 University Life £m	2006 Total £m
Available capital resources				
Fund for Future Appropriations		-	10	10
Subordinated Debt	14	167	-	167
Regulatory adjustments - valuation differences(1)		1,017	(2)	1,015
Regulatory adjustments - inadmissible assets		(1)	-	(1)
Total available capital resources		**1,183**	**8**	**1,191**
Long-term Insurance Capital Requirement (LTICR)(2)		(467)	(2)	(469)
With-profits Insurance Capital Component (WPICC)		(549)	-	(549)
Total regulatory Capital Resource Requirements (CRR)		**(1,016)**	**(2)**	**(1,018)**
Excess of available capital resources over CRR		**167**	**6**	**173**

Notes:

(1) Valuation differences represent any difference placed on the valuation of liabilities in the financial statements compared with those reported in the regulatory return to the FSA.

(2) For University Life Assurance Society, the regulatory capital requirement is the minimum amount defined by the regulations.

The tables above show the regulatory capital position for Equitable Life. Equitable Life's FSA return presents the figures on a solo basis.

b. Available capital resources

The total available capital resources show the capital, calculated on a regulatory, rather than a realistic basis, in accordance with regulations set out in The FSA Handbook of Rules and Guidance, that is available to meet the capital requirements of the business. The available capital resources for the Group amount to £740m (31 December 2006: £1,191m).

The table below shows the effect of movements in the total amount of available capital of the Society during the year:

Available capital resources	2007 £m	2006 £m
At 1 January	1,183	888
Investment return and interest rate movements	147	207
Mortality assumption change	(2)	56
Transfer of with-profits annuities to Prudential	(372)	-
Repayment of Subordinated Debt	(167)	-
Other movements	(49)	32
At 31 December	**740**	**1,183**

c. Restrictions on available capital resources

It is the Society's aim to manage its business in a sound and prudent manner for the benefit of all policyholders. The Society closed to new business in 2000 and new policies are only issued where there is a regulatory or contractual obligation to do so. The Society has no shareholders and all surpluses and deficits belong to the with-profits policyholders. The Society seeks to ensure that it can meet its contractual obligations to both policyholders and creditors as they fall due. Any new distributions of surplus will be made in non-guaranteed form.

The Society had guaranteed £171m (par value) of 8.0% Undated Subordinated Bonds which were issued by ELF (a subsidiary company). These were redeemed at par on 6 August 2007. Payments of interest and repayment of the Bonds were subject to certain conditions (see Note 14).

d. Capital requirements

Each life assurance company must retain sufficient capital to meet the capital requirements specified by the FSA. The minimum level of capital required is represented by the CRR.

For the Society, the CRR comprises the Long Term Insurance Capital Requirement ("LTICR") and any additional capital requirement over LTICR, which results from consideration of realistic liabilities. This additional amount of capital required is referred to as the With-Profits Insurance Capital Component ("WPICC").

In order to derive the value of the WPICC, it is necessary to compare the excess available capital resources over LTICR (after deducting the value of Subordinated Debt) with the amount of the FFA (representing the balance of realistic capital), after deduction of a risk capital margin as required by FSA regulations (Adjusted FFA). A value for the WPICC is required where the excess capital resources, as so calculated, are greater than the Adjusted FFA and comprises that difference. Where the excess capital resources, as so calculated, are less than the Adjusted FFA, there is a nil value for the WPICC.

Actuarial guidance for closed with-profits funds issued in 2006 following the introduction by the FSA in 2004 of new rules for the determination of capital requirement, results in a requirement to anticipate the distribution of all assets to policyholders. For this reason, the realistic capital for the Society is a nil balance in 2007 and is lower than the excess capital resources over LTICR and, as a result, a WPICC applies.

17. Capital statement (continued)

d. Capital requirements (continued)

Throughout 2007 and the prior year, all life insurers in the Group met the capital requirements specified by the FSA.

e. Sensitivity to market conditions of liabilities and components of capital

The with-profits realistic liabilities are sensitive to both market conditions and changes to a number of non-economic assumptions that affect the valuation of the liabilities of the fund. The available capital resources (and capital requirements) are most sensitive to the level of fixed-interest yields and the values of equities and property, with the reduction in capital resources being more pronounced at lower levels of yields, as a result of the guarantees to policyholders increasing in value. Reductions in the value of property and equities directly reduce the available capital resources. The Board may take actions, such as changes to policy values, to mitigate reductions in capital resulting from an adverse change in market conditions.

The principal non-economic assumptions are the level of future mortality rates, level of future expenses, changes in future retirement ages and future surrender rates.

18. Management of financial risk

a. Risk management framework

As described in the Corporate Governance section, the Group has established a comprehensive risk management framework. Through this framework, the Group seeks to manage and monitor the various risks to which the Group is exposed. These include other risks such as operational risk and insurance risk.

Also included within this process are the various financial risks, namely:

- Market risk: covering interest rate risk, equity and property price risk, derivative risk and currency risk;
- Credit risk; and
- Liquidity risk.

These risks are discussed in more detail below, and form part of the FRS 29 disclosures.

The Group uses a number of tools to manage the above risks. In addition to the regulatory testing described in Notes 16 and 17, the Society prepares an Individual Capital Assessment ("ICA") report in accordance with FSA requirements on an annual basis where a number of scenarios are tested to assess the potential effect on capital. Other tools more specific to managing an individual risk are included below.

b. Market risk

The Society holds a portfolio of investments which are subject to movements in market price. Market risk is the risk of adverse financial changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity and property prices, and foreign currency exchange rates. The main responsibility for monitoring this risk lies with the Investment Committee of the Society. The majority of these assets are held to support contractual liabilities arising from both with-profits and non-profit classes of business.

For these long-term business classes, the Society's asset liability management framework aims to hold assets whose values will, as far as possible, move in line with the corresponding guaranteed liabilities to limit the overall impact of market risk on capital.

In line with the Society's with-profits investment policy, investments are mainly in fixed-interest securities, gilts (46%: 2007, 52%: 2006) and corporate bonds (30%: 2007, 24%: 2006).

With regard to unit-linked business, liabilities are reinsured with HBOS and no market risk is considered to arise on this class of business.

As an overall indication of the sensitivity of the Society to changes in market price, consideration is given to the impact on the ERA as a consequence of a number of adverse changes simultaneously occurring. These changes are detailed in the table below and include: reductions in the market price of key asset categories; adverse changes on the yields of corporate bond relative to government backed fixed-interest securities; and adverse changes in the assumed level of future policy surrenders. These adverse changes are consistent with the requirements for the Society's regulatory risk capital margin tests. The adverse changes used are detailed in the following table:

Adverse Changes	2007	2006
Reduction in market price of equities	20.0%	20.0%
Reduction in market price of properties	12.5%	12.5%
Percentage change in long-term gilt yields	17.5%	17.5%
Widening of spread of corporate bonds relative to gilts	0.7%	0.5%
Reduction in surrender rates	32.5%	32.5%

In such adverse investment conditions, the Society could make appropriate reductions to with-profits policy values. These reductions would mitigate market risk, but do not remove the risk entirely for with-profits policies because of the guarantees provided. After adjusting for the reductions, the adverse impact on the ERA of the Society would be as follows:

Adverse Changes	2007 £m	2006 £m
Above adverse changes – including where long-term gilt yields rise	191	203
Above adverse changes – including where long-term gilt yields fall	164	81

In the scenario where long-term gilt yields are assumed to fall, the figures above exclude the gain in the value of the Society's swaptions. However, where long-term gilt yields are assumed to rise the corresponding loss has been included. In both scenarios, any potential impact in policy liabilities as a result of changes to flexible retirement dates assumptions has been excluded.

(i) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Society’s exposure to changes in interest rates is concentrated in the investment portfolio, and historically to a lesser extent, the Subordinated Debt obligations. However, changes in investment values attributable to interest rate changes are mitigated by corresponding and partially offsetting changes in the economic value of the insurance provisions, investment contracts liabilities and debt obligations. A potential market risk for the Society is in respect of GIR on with-profits policies, which are typically 3.5% p.a. If market returns fall below this rate, the cost of providing these guarantees rises accordingly. To mitigate this risk the Society has purchased a series of interest rate swaptions.

The Society monitors this exposure to changes in interest rates through regular periodic reviews of the asset and liability position. Estimates of cash flows, as well as the impact of interest rate fluctuations relating to the investment portfolio and insurance provisions, are modelled and reviewed periodically.

The Society is also exposed to the risk of changes in future cash flows from variable income securities arising from the changes in interest rates.

18. Management of financial risk (continued)

The Society's sensitivity to interest rate risk is included in the overall market risk sensitivity included in the stress scenario table above, excluding the impact of the Society's swaptions.

(ii) Equity and property price risk

The Society invests in equity and property assets, whose market values are typically more volatile than other classes of asset held by the Society, but which we believe provide long-term benefits for the Society's members. To mitigate the risk of changes in the market price of these asset classes, the Society limits the proportion of the total assets invested in these categories. In addition, as indicated in section (i) above, further mitigation takes place by partially offsetting changes in the liabilities of the Society.

The Society's sensitivity to equity and property price risk is included in the overall sensitivity to market risk described above.

(iii) Derivative risk

The Society invests in derivatives within strict guidelines agreed by the Board of Directors and overseen by the Investment Committee. Derivatives are used for efficient investment management, particularly FTSE 100 Futures to increase exposure to the equity markets as part of a strategy to increase the Society's equity backing ratio. Interest rate swaption derivatives are also used to mitigate interest rate risk. Derivative transactions are fully covered by cash or corresponding assets and liabilities. Derivative contracts are entered into only with approved counterparties, thereby reducing the risk of credit loss.

(iv) Currency risk

The Society's principal transactions are carried out in Pounds Sterling and its exposure to the risk of movements in foreign exchange rates is limited. The risk arises primarily with respect to the US Dollar.

The Society's financial assets are primarily denominated in the same currencies as its insurance and investment liabilities, which mitigate the foreign currency exchange rate risk for any overseas operations. Therefore the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled.

The relative exposure of the Group to currency risk is shown in the table below.

	2007				2006			
	Assets		Net Liabilities		Assets		Net Liabilities	
	£m	%	£m	%	£m	%	£m	%
Currency								
Sterling	9,861	97	9,407	98	21,146	98	20,487	99
Euro	222	2	174	2	302	1	214	1
US Dollar	120	1	7	-	149	1	7	-
Other	6	-	-	-	5	-	-	-
Total	**10,209**	**100**	**9,588**	**100**	**21,602**	**100**	**20,708**	**100**

The excess of the total value of assets over the total value of liabilities represents the Society's ERA, plus for 2006, University Life Assurance Society's FFA. A change of 10% in Pounds Sterling to Euro/US Dollar exchange rates at the reporting date would have changed ERA by £16m (2006: £23m).

c. Credit risk

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

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

- The risk of default by any of its reinsurers.

These risks are monitored by the Society's Investment Committee. A key aspect of this is the Society's policy of investing predominantly in high-quality corporate bonds and government issued debts.

The Society's objective is to earn competitive relative returns by investing in a diversified portfolio of securities. The Society manages this risk by up-front stringent underwriting analysis, reviews by the Investment Committee and regular meetings to review credit developments. Watch lists are maintained for exposures requiring additional review and all credit exposures are reviewed at least annually.

With regard to reinsurance, wherever possible, steps are taken to limit counterparty risk. In particular and, as described below in Note 20, prior to the transfer of the non-profit pension annuity business to Canada Life on 9 February 2007, the initial reinsurance premium was deposited back with the Society, thereby essentially removing credit risk on the transaction.

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

The Group's exposure to credit risk is summarised below according to the lowest of the external credit ratings supplied by Moody, Standard & Poor, and Fitch:

2007	AAA £m	AA £m	A £m	BBB £m	Other £m	Total £m
Credit ratings						
Debt and other fixed-income securities	4,184	377	954	88	37	5,640
Other variable yield securities	81	-	16	-	-	97
Total of fixed and variable yield securities	**4,265**	**377**	**970**	**88**	**37**	**5,737**
Deposits with credit institutions	-	-	337	-	-	337
Cash at bank and in hand	-	-	18	-	-	18
Other financial assets	73	6	19	3	121	222
Reinsurers' share of technical provisions and liabilities (Note 16c)	-	2,792	-	-	-	2,792
	4,338	**3,175**	**1,344**	**91**	**158**	**9,106**

18. Management of financial risk (continued)

2006	AAA £m	AA £m	A £m	BBB £m	Other £m	Total £m
Credit ratings						
Debt and other fixed-income securities deposited back by Canada Life	2,391	601	528	-	32	3,552
Debt and other fixed-income securities	6,036	648	992	85	21	7,782
Other variable yield securities deposited back by Canada Life	594	-	36	-	4	634
Other variable yield securities	75	-	16	-	-	91
Total of fixed and variable yield securities	**9,096**	**1,249**	**1,572**	**85**	**57**	**12,059**
Deposits with credit institutions	-	-	558	-	-	558
Cash at bank and in hand	-	-	16	-	-	16
Other financial assets	141	20	30	2	205	398
Reinsurers' share of technical provisions and liabilities (Note 16c)	-	2,943	4,219	-	-	7,162
	9,237	**4,212**	**6,395**	**87**	**262**	**20,193**

The total of fixed and variable yield securities includes assets held to back linked liabilities. Other financial assets comprise debtors and prepayments and accrued income.

When calculating technical provisions in respect of non-profit business, when deriving the discount rate to be used, appropriate reductions are made to the published yields of invested assets exposed to credit risk. This reduction to the discount rate results in an increase to the assessed technical provision, thereby providing an implicit margin against the risk of default by the counterparties.

The potential credit risk exposure from default by swaption counterparties is mitigated by the receiving of collateral. Collateral of £14.8m (2006: £nil) has been received in cash and has been invested in assets similar in nature to cash. The value of these assets at the year end was £14.8m and is included in 'Deposits with credit institutions' in Note 10c.

The largest single credit risk exposure amounts to £2,972m for HBOS reinsurance (2006: £2,942m for HBOS reinsurance).

At the reporting date, no material financial assets were past due nor impaired (2006: £nil) and management expects no significant losses from non-performance by these counterparties.

d. Liquidity risk

An important aspect of the Society's management of assets and liabilities is ensuring that cash is available to settle liabilities as they fall due. Monitoring of this risk is undertaken by the Investment Committee. The Society maintains cash and liquid deposits to meet these demands on a daily basis, thereby mitigating liquidity risk. The ratio of illiquid assets to total invested assets is monitored monthly.

Over the longer term, the Society monitors its forecast liquidity position by estimating both the guaranteed and expected cash outflows from its insurance and investment contracts and purchasing assets with similar durations to meet these obligations. The sensitivity of these outflows to changes in policyholder behaviour is also monitored.

The Society's liquidity exposure is relatively limited, as the vast majority of investment assets held backing insurance and investment liabilities, are held in liquid assets which can normally be quickly realised. Also, in times of market uncertainty and potentially poorer liquidity, market adjustments may be borne by those with-profits insurance and investment contract customers who decide to transfer or withdraw their benefits.

As noted in section Note 16g (ii), the majority of RSP benefits can be taken on contractual terms at a range of ages. The table below details the cash flows using retirement assumptions based on recent experience, that vary between different product types. The range of retirement dates assumed varies between policyholders being assumed to retire two years (2006: 2 years) earlier than ECD and up to 13 years (2006: 13 years) later than ECD. The cash flows based on ECD would vary from those detailed below, as policies past the ECD would result in a cash flow in the category '0-1 year' and policies yet to reach ECD would be earlier than shown. For with-profits policies where ECD was prior to 31 December 2007, contractual benefits payable will be no lower than total guaranteed benefits which equalled £1.4bn at 31 December 2007. In the case of unit-linked contracts, with the exception of unit-linked annuities, the benefits can be terminated on guaranteed terms at any time which would result in a cash flow in the category '0-1 year'.

2007 **Estimated cash flows (undiscounted)**	0-1 year £m	1-5 years £m	5-10 years £m	10 years and over £m	Total £m	Carrying value £m
Subordinated liabilities	-	-	-	-	-	-
Unit-linked investment contracts	180	836	764	1,625	3,405	2,248
Other non-profit investment contracts	5	-	-	-	5	5
With-profits investment contracts	747	1,755	1,567	2,832	6,901	5,358
Deposits received from reinsurer	-	-	-	-	-	-
Other financial liabilities	101	-	-	-	101	101
	1,033	**2,591**	**2,331**	**4,457**	**10,412**	**7,712**

2006 **Estimated cash flows (undiscounted)**	0-1 year £m	1-5 years £m	5-10 years £m	10 years and over £m	Total £m	Carrying value £m
Subordinated liabilities	171	-	-	-	171	171
Unit-linked investment contracts	191	840	844	1,956	3,831	2,364
Other non-profit investment contracts	6	-	-	-	6	6
With-profits investment contracts	783	1,921	1,708	2,969	7,381	5,735
Deposits received from reinsurer	4,316	-	-	-	4,316	4,316
Other financial liabilities	111	-	-	-	111	111
	5,578	**2,761**	**2,552**	**4,925**	**15,816**	**12,703**

All liabilities relating to unit-linked and other non-profit investment contracts are reassured so that, in practice, the Group is not exposed to any liquidity risk in respect of such contracts.

Part of the Group's assets is invested in property (including property unit trusts), amounting to £766m at year end 2007 (2006: £1,080m). In adverse market conditions, it may not be possible to realise these investments without delay.

19. Provision for other risks and charges

	Group		Society	
	2007	2006	2007	2006
	£m	£m	£m	£m
Provisions for deferred taxation	2	3	2	3
Pension commitments for former staff	51	34	51	33
	53	**37**	**53**	**36**

The movement in the provisions for deferred taxation assets and liabilities is included in Note 9b.

The provision for pension commitments for former staff of £51.5m is in addition to a creditor to HBOS for payments up to May 2008 totalling £7.8m (2006: £nil). Pension payments for former staff relate to the contractual agreement with HBOS (described in Note 8c) under which £18.7m (2006: £18.7m) was paid during the year. The balance of the movements is due to changes in mortality assumptions.

20. Deposits received from reinsurer – secured

On 11 May 2006, the Society entered into an agreement where a substantial proportion of the Society's non-profit pension annuity business was reassured with Canada Life. Following the completion of the High Court process, this business was transferred to Canada Life on 9 February 2007 as a Part VII Transfer under the Financial Services and Markets Act 2000. Until that date, this business was subject to a reassurance arrangement, under which Canada Life bore substantially all the risks and rewards from this business with effect from 1 January 2006. This reassurance arrangement was unwound when the business was transferred.

In order to protect the policyholders from a large counterparty credit exposure, the initial premium was deposited back with the Society until the final transfer was approved by the High Court and completed. This deposit was held in assets with a similar investment mix to that previously held by the Society. Canada Life held a secured charge over these assets. The investment returns from those secured assets were attributed to Canada Life and payments of related annuities deducted from the deposited assets. The net balance due to Canada Life at 31 December 2006 was £4,316m. At that date, this deposit back arrangement had the effect of increasing the Group's and the Society's total assets and total liabilities by the deposited amount. This reassurance agreement was unwound when the business was transferred.

21. Creditors

	Group		Society	
	2007	2006	2007	2006
	£m	£m	£m	£m
a. Amounts owed to credit institutions	**16**	**19**	**16**	**19**

Amounts owed to credit institutions represent bank overdrafts partly matched by an amount of £17m (2006: £17m) placed in an assigned account owned by HSBC. The amount is included in 'Debtors' in Note 12.

	Group		Society	
	2007	2006	2007	2006
	£m	£m	£m	£m
b. Other creditors including taxation and social security				
Balances with Group companies	-	-	-	10
Corporation tax	5	13	5	13
Other creditors	36	7	36	4
	41	**20**	**41**	**27**

22. Subsidiary and associated undertakings

a. Principal subsidiary undertakings

The principal subsidiary undertaking, which is wholly and directly owned, is as follows:

	Nature of business
Equitable Life Finance plc	Arranging and managing loan finance

The above holding is of ordinary shares. The company is incorporated in the UK.

Equitable Life Finance plc, a subsidiary for 2006, is no longer a subsidiary for 2007. The company redeemed the Bonds on 6 August 2007 and passed a resolution for voluntary winding up on 30 October 2007.

On 20 December 2006, the Society announced that it had reached agreement to sell the share capital of University Life Assurance Society, a wholly-owned subsidiary, to Reliance Mutual Insurance Society Ltd. The sale completed on 31 May 2007.

22. Subsidiary and associated undertakings (continued)

b. Significant holdings

At 31 December 2007, the Group and the Society held more than 20% of the nominal value of a class of equity shares in 10 (2006: 14) companies.

At 31 December 2007, the Group and the Society held more than 20% of the partnership interests in 1 (2006: 1) limited partnership investing in properties.

At 31 December 2007, the Group and the Society held more than 20% of the partnership interests in 10 (2006: 10) portfolios investing in private equity investment companies included in shares and other variable yield securities.

None of the above holdings are regarded by the Directors as associated undertakings as the Society does not exert significant influence. None of the holdings materially affects the results or net assets of the Group or of the Society. These investments are included in the Balance Sheet at current value, which is based upon the Group and the Society's share of relevant net assets.

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

23. Related party transactions

There were no material related party transactions during 2007 (2006: £nil).

24. Commitments

The Society has no material operating lease commitments.

There are no property investment commitments provided for in the financial statements (2006: £4m) for the Group and for the Society.

Commitments in respect of uncalled capital on private equity fund interests, not provided for in the financial statements, amounted to £21.9m (2006: £28m) for the Group and for the Society.

In line with usual business practice, warranties have been provided for the strategic transactions completed in the year.

25. Contingent liabilities and uncertainties

As noted in the Financial Review on page 11 and in the following sections of this Note, there exist certain uncertainties that, in the event they were to materialise, could adversely impact on the appropriateness of the going concern basis of preparation of these financial statements. The Board has assessed the probability of these uncertainties arising and, on the basis of current information and having taken legal and actuarial advice, has concluded that it remains appropriate to prepare these financial statements on a going concern basis.

These uncertainties and potential additional claims are as follows:

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

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

- As noted in Note 8c to the financial statements, the Society has contractual commitments in respect of two pension schemes for which HBOS is the principal employer. Although full provision is made for estimated contractual liabilities, the basis of calculation to be adopted by the Scheme Actuary in his triennial valuation (as at 31 December 2007) will not be finalised for some time. There also remains the possibility that it may be necessary for a more conservative basis to be adopted in future in calculating the Society's obligations.

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

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

- As noted in the Financial Review on page 8, it is the Society's intention that any future bonuses will be in a non-guaranteed form. Allowance is made for continuing contractual commitments, such as the GIR of 3.5% p.a. that is applicable to many policies. In valuing policy liabilities, guarantees are valued under a range of economic scenarios. The calculation of the technical provisions is based on a projection of current market conditions, allowing for current retirement experience. There remains a risk to the Society that investment conditions change or that policyholders defer their retirement. To mitigate this risk the Society has purchased a series of interest rate swaptions. Further provisions would be required if greater premium income were to be received in such circumstances.

25. Contingent liabilities and uncertainties (continued)

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

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

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

Equitable Life