Equitable Life

Interim Accounts

for the half year ended 30 June 2004

The Equitable Life Assurance Society

Registered office

20-22 Bedford Row
London WC1R 4JS
www.equitable.co.uk

Board of Directors

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

Peter Smith, Deputy Chairman (a, b, c, e)

Charles Thomson, Chief Executive (b, d, e)

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

Ron Bullen, Non-executive Director (a)

Michael Pickard, Non-executive Director (a, d)

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

Andrew Threadgold, Non-executive Director (d)

Jean Wood, Non-executive Director (c, d)

Key to membership of principal Board Committees

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

Appointed Actuary

David Murray

Legal Advisers

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Auditors

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

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Corporate and Financial Review

Dear Members,

Steady and sustained progress

Since publication of the Society's 2003 annual results, we are pleased to report that your Society has continued to make steady and sustained progress.

The remaining major policyholder reviews - GAR rectification and managed pensions - are making good headway; the significant reduction in maturities and surrenders in the second half of 2003 has been maintained in 2004; and our key measure of solvency - the Fund for Future Appropriations (FFA) - remained stable at £532m at the half year with no material change on the year-end (£542m).

Lord Penrose's report

Following publication of the report by Lord Penrose, we carried out a detailed assessment as to whether it might provide a basis for further claims against the Society. However, having taken legal and actuarial advice, your Board's view, as stated in March's Annual Report, that the report would not raise any new issues that could result in any material adverse financial consequence for your Society, remains unchanged. There have been very few complaints received by the Society arising out of the report by Lord Penrose.

We provided our regulator, the Financial Services Authority (FSA) with our assessment as part of its own detailed analysis to consider the issues and to reach its own conclusions about potential Penrose-related claims. In July, the FSA also concluded that generic claims against Equitable Life regarding its basis for allocating bonuses during the 1990s are unlikely to succeed.

Two Government-commissioned reviews into the Corporate Governance of Mutual Life Offices and the Actuarial Profession - led by Paul Myners and Sir Derek Morris respectively - were launched following the publication of the Penrose report. Both the Myners and Morris Reviews have published consultation documents and the Society has provided submissions to both. We met with Paul Myners soon after his review started and, in addition, four of the Society's non-executive Directors each had meetings in September with the Myners Review team as part of its consultation exercise. Your Board will continue to give both reviews every assistance required.

Parliamentary Ombudsman agrees to open new inquiry

At the start of 2004, your Board called on Ann Abraham, the Parliamentary Ombudsman, to open a fresh inquiry once the Penrose report was published into the prudential regulation of the Society in the 1990s. As well as our request, she received a significant lobby from politicians of all parties, policyholders and consumer groups. Following publication of the Penrose report and after a period of consultation, the Parliamentary Ombudsman announced in July her decision to open a new investigation. The Government has also agreed to extend the jurisdiction of the Parliamentary Ombudsman so her inquiry can cover the Government Actuary's Department, criticised along with Government departments by Lord Penrose in his report. Clearly, your Board welcomes this development as it represents the best remaining hope for policyholder compensation from the Government. It is an inquiry that is independent of the Government and can recommend to Parliament that the Government should pay compensation, but it has no jurisdiction over the Society and cannot require the Society to take any particular action. We believe the Parliamentary Ombudsman has the independence and the authority to carry out an inquiry that is fair and fast. Whatever the conclusion, most people should be able to accept her decision as final. Following her decision to open a new inquiry, we have met with Ann Abraham and, as with Lord Penrose, we will provide her with all possible co-operation.

Policyholder reviews

The rectification scheme, relaunched in November 2003, which aims to compensate holders of guaranteed annuity rate (GAR) policies who retired before the House of Lords' ruling in 2000, remains on course to be resolved in the main by the end of this year. Over three-quarters of the individual cases have now been assessed and, where appropriate, offers made. The scheme for group pension policies is also making good progress. The review of the sale of managed pensions (also known as income drawdown policies) has proved more complicated and slower than we had expected, but we still plan to have completed consideration of most cases by early next year.

The vast majority of GAR-related complaints received from former non-GAR policyholders has also now been settled in line with the legal opinion and actuarial advice we published in 2002. Some complaints remain at the Financial Ombudsman Service (FOS), which has given a preliminary view that it is considering a different approach to redress from the Society for some cases. As this is a matter of great importance to continuing policyholders, we continue to make representations that compensation should be based on the legal opinion we have published (which is consistent with the published legal advice obtained by the FSA). It may be some time before this matter reaches a final resolution.

With-profits annuitants

Most with-profits annuities were bought in periods of higher inflation and higher investment returns when, crucially, future investment returns were expected to be higher. In today's economy of low inflation, expected future investment returns are lower.

The position is aggravated because the market falls since 2000 necessitated significant reductions in with-profits annuities and because the Society's investment policy is necessarily very cautious (in order to protect our hard-won stability). These fundamental changes have left the outlook for many with-profits annuity holders to be one of a declining income.

You may also be aware that a group of 873 individuals has started legal proceedings against the Society in respect of their with-profits annuities. They have not yet articulated the nature of their claim, so it is impossible to assess the outcome or its financial implications. However, in the interests of all members, the Society will defend any unmerited claim with vigour. From our review of a large sample of cases, we are satisfied that there is no generalised evidence of any mis-selling, a situation supported by the results of the FOS determinations in its review of complaints to date.

Former directors and Ernst & Young

Preparations for the planned April 2005 trial against the Society's former directors and Ernst & Young continue.

We note that the accountancy profession's disciplinary body, the Joint Disciplinary Scheme (JDS), has initiated disciplinary proceedings against Ernst & Young. The actuarial profession's disciplinary body has also announced that it will hear charges of misconduct against four actuaries, three of whom are defendants in the Society's claim against former directors (the fourth retired from the Society's Board in 1994). The FSA announced in June that one of these former directors is not fit and proper to hold a significant management role at a regulated firm and banned him from performing such a role until May 2010.

Other uncertainties

The Serious Fraud Office (SFO) continues to review certain aspects of the Society's past, following submissions made to it by Lord Penrose and HM Treasury. As the Society has previously stated, your Board has found no evidence that could lead to a sustainable case of fraud in relation to allegations against the Society that have been made from time to time. No proceedings have been issued and in the event that any proceedings were issued, they would be defended vigorously. The SFO has yet to report its conclusions and we are co-operating fully with it.

Board changes

Nigel Brinn, Finance and Investment Director, retired in September and we would like to thank him for his significant contribution during his time with the Society.

Review of the Society's financial position

The Society's net resources, after allowing for its liabilities, are represented by the Fund for Future Appropriations (FFA). This amount is available to meet its non-guaranteed bonuses and any unforeseen liabilities or liabilities in excess of those provided for at the balance sheet date.

At 30 June 2004, the FFA was £532m, a reduction of £10m from the position at 31 December 2003. The FFA balance represents 6.0% of with-profits reserves, consistent with the level at December 2003. The movement in the FFA in the period is shown in the following table:

	January to June 2004 £m	January to December 2003 £m
Opening balance	542	556
Increase in provisions and expenses	(13)	(179)
Changes in net asset values and valuation rates of interest	90	159
The effect on FFA of policy maturities and surrenders	(8)	20
Contractual cost of HBOS past service pension funding	(5)	5
Change in mortality assumptions	(75)	-
Other movements	1	(19)
Closing balance	532	542

In assessing the Society's ability to meet its obligations as they fall due, the FFA is a more relevant measure than the excess of net assets over the Required Minimum Margin (RMM), which forms part of the separate set of financial statements sent to the FSA. The RMM is calculated by the application of specified factors to the policy reserves and acts as a minimum level of required capital. If the Society has a positive FFA, and can meet its liabilities as they fall due, it will remain solvent even if the RMM is not met.

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continued

The following table shows the interaction between the figures for the FFA and the excess of net assets over RMM for the Society:

	30 June 2004 £m	31 December 2003 £m
FFA	532	542
Subordinated debt[1]	296	312
Reserving adjustments and disallowed assets	(7)	(8)
Regulatory net assets	821	846
RMM[2]	592	623
Excess of net assets over RMM[2]	229	223

[1] Under FSA regulations, half of the RMM amount can be taken into account in recognising subordinated debt as regulatory capital.

[2] The figures at 30 June 2004 for RMM and the excess of net assets over RMM are estimated, as there is no requirement to prepare full regulatory returns as at that date.

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

The policy value attributable to with-profits policies often includes an element of non-guaranteed final bonus accumulated to date. In accordance with current actuarial and accounting guidance and industry practice, only guaranteed obligations are included in the valuation of the long-term business technical provisions included in the balance sheet.

In addition to its requirement that net assets be compared with RMM, the FSA is to introduce new requirements for the measurement of financial strength in the annual regulatory returns. The Society will be required to report its net asset position under "realistic balance sheet" reporting at the end of 2004. Under this reporting basis, unlike the statutory basis, estimates of non-guaranteed final bonuses are included as liabilities. In determining its realistic position, the Society takes credit for an ongoing margin of 1% per annum against future investment income, in order to meet the cost of guarantees and provide some additional risk capital. If future experience allows, it will be possible to release some or all of those margins to with-profits policyholders gradually over time and increase policy values at a faster pace. With this approach to managing policy values, the Society aims to manage the run-off of the fund without building up excessive amounts of capital. However, if there is adverse experience in future, for example in investment returns, mortality experience or changes in the level of provisions, it may be necessary to reduce policy values.

Financial Reporting Exposure Draft 34, published in July by the Accounting Standards Board, proposes far-reaching changes to accounting for life insurance businesses, and is expected to be introduced for our year-end reporting. If the proposals are adopted without change, the result will be to integrate the accounting in financial statements with the new regulatory realistic balance sheet requirements. The FFA as a reported figure will be redefined, reflecting the liabilities as assessed under the realistic balance sheet reporting requirement. Using this new definition of the FFA for the Society, initial estimates suggest a positive number, but it is likely to be significantly less than the reported FFA figure at 30 June 2004.

Other accounting changes, particularly those resulting from the introduction of international accounting standards, if implemented, may result in changes to asset values, reserving bases and differences in accounts presentation.

Investment performance and capacity to pay bonuses

During 2004, the Society continued to operate a cautious investment strategy of retaining a low proportion of the with-profits fund in equities and properties, in order that its assets be matched more closely with its liabilities.

The weighting in favour of fixed-interest securities and bonds within the investment portfolio results in there being limited scope for its growth, as any changes to values resulting from movements in yields are mirrored in equivalent and largely offsetting changes in the value of liabilities. Any uplift in listed equity values in the market generally has little direct impact on the value of the Society's assets and on its ability to boost future rates of bonus.

For the half-year, there was a positive gross return of 2.0% on the with-profits investment assets.

Expenses and provisions

Expenses for the six-month period shown in the Profit and Loss Account, incorporating administration, claims and investment costs, have reduced to £78m in 2004 from £100m in 2003, reflecting lower levels of activity in the period and the reduction in the value of funds under management.

The rectification and managed pension provision has reduced by £60m, partly as a result of payments made but, principally, as a result of a better definition of, and the accordingly lower number of, eligible claimants. The provision for exceptional expenses has declined marginally during the period and other miscellaneous liabilities are largely unchanged.

The FFA reconciliation table on page 5 shows an increase in provisions and expenses, taken together, of £13m. Part of the increase results from adjustments to assumptions in respect of future policy expenses, as those policies run-off. Continuing costs of reviews and other major project expenses, partly offset by the reduced rectification and managed pension provision, account for the balance of the movement.

There remain inherent uncertainties in establishing appropriate values relating to certain provisions, particularly those relating to mis-selling, and there continues to exist the possibility of changes arising from regulatory interpretations or requirements. There remains, moreover, the risk of exposure to other claims or that the 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.

Furthermore, because of the contractual arrangements in place, the outsourcing of administration activities to a third party causes inherent uncertainties in estimating future expense levels.

Actuarial assumptions and asset values

The FFA reconciliation table shows a net figure of £90m for changes in net asset values and valuation rates of interest. Substantial gains, both realised and unrealised, of £86m were recorded in property assets. There were minor changes in other asset values, the fixed interest portfolio being largely matched. Technical and valuation adjustments account for the balance. The valuation rates of interest, applied to calculate technical provisions, have been updated to reflect rising asset yields.

In response to continuing concerns that future mortality improvements may be greater than previously expected, mortality assumptions have been strengthened and, as a result, there is an increase in reserves of £75m. This continues the trend of strengthening mortality assumptions to reflect increasing longevity, but there can be no certainty in respect of the outcome of future experience.

No provision is made for future discretionary guaranteed bonuses. It is the Society's intention that any future bonuses will be in a non-guaranteed form and there is no expectation of any further reversionary bonus being awarded in the near to medium term.

Allowance is made for continuing contractual commitments, such as the Guaranteed Investment Return of 3.5% per annum that is applicable to many policies. In valuing the liabilities in respect of those policies, it is assumed that the relevant duration is to the first contractual date. If the market level of fixed interest yields falls below this rate (which is a lesser concern than at the last year-end), higher reserves would be required to allow for the possibilities of policies remaining in force for a longer period of time and for greater premium income being received.

A review is being undertaken of the likely implications of the simplification of the pensions legislation to be introduced in 2006. An important consideration is likely to be its impact on policyholders' choice of retirement date. The outcome remains uncertain at this time.

Maturities and surrenders

During the period, the Society continued to experience a reduced level of both maturities and surrenders. There is a continuous review of claim payments in order to avoid undue strain on the FFA.

Equitable Life Finance plc (ELF)

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

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

The regulatory returns filed as at 31 December 2003 show the Society's net assets to be in excess of its RMM. This continues to be the position, based on estimated numbers, at 30 June 2004. However, as previously indicated, there exists the possibility that the Society may not meet RMM at all times in the future. There is, therefore, uncertainty in respect of the payment of the interest on and principal of the Bonds, because bondholders' interests are

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subordinated to those of the Society's policyholders and other creditors in the event of a winding up of the Society.

As a result of the new regulatory requirements, we will need to assess whether the subordinated debt may continue to be treated as capital for regulatory reporting purposes. We are reviewing the requirements and will seek appropriate regulatory approvals and waivers.

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 Accounts. The going concern basis presumes that the Society will continue to be able to meet its guaranteed obligations to policyholders and other creditors as they fall due. To do this, the Society must have sufficient assets not only to meet the payments associated with its business but also to withstand the impact of other events that might reasonably be expected to happen.

Considerable time has again been spent by the Board in examining the issues relevant to the going concern basis which, in summary, are mainly the exposure to: increases in provisions, investment losses, impact of discretionary bonus payments, future expense levels (including the costs of the continuing pension obligations to former staff), persistency and mortality risks.

The financial position of the Society has been projected under a very wide range of economic scenarios. The Board has also considered the level of contingent liabilities (that is, liabilities not recorded in the Accounts but which could conceivably arise) in its analysis of the Society's financial position. The results of this work show that the probability, over the foreseeable future, of the Society being unable to meet its guaranteed obligations to policyholders is not significant. The Board is confident of its ability to manage adverse scenarios that may arise, but there cannot be absolute assurance and the Society will continue to need diligent management of its risks. In such scenarios, as with any other long-term fund, appropriate actions could be necessary to reduce maturity values, with-profits annuity payments and surrender values.

In addition, the Board has considered the potential additional claims referred to in note 9 to the Accounts, 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 Accounts on a going concern basis.

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

Your Board will not hesitate to take appropriate action in any circumstances which jeopardise the fund's ability to meet guaranteed obligations to policyholders.

Looking ahead

Your Board's objectives have centred on stabilising the Society's affairs – a necessity when faced with the turbulence of recent years. We have made steady progress towards this goal. We continue to work on ideas for the longer-term future to see whether prospects can be improved and, when appropriate, we will give you further details.

We still have many issues to resolve and many uncertainties remain. In particular, the FSA's new requirements in respect of capital assessments relevent to individual companies remain to be finalised and their implications are uncertain. The industry expects such requirements to be onerous, but the impact of their practical application to closed mutual insurance companies, such as the Society, remains unclear. It must be stressed that the reality of the Society's underlying financial position should not change because of new regulatory reporting rules, whatever they may turn out to be, although the Board's freedom of action may be limited as a result.

Policyholders can be assured that your Board's overarching objective will be to act in their long-term interests as we continue on the path towards greater stability and certainty.

Vanni Treves

Vanni Treves,
Chairman

Charles Thomson
Chief Executive

Profit and Loss Account

for the period ended 30 June 2004

Technical account - long-term business

	Notes	Half year ended 30 June 2004 £m	Half year ended 30 June 2003 £m	Full year to 31 December 2003 £m
Earned premiums, net of reinsurance				
Gross premiums written		124	169	363
Outward reinsurance premiums		(66)	(108)	(189)
		58	61	174
Investment income	2	460	625	1,168
Other technical income		1	1	2
		519	687	1,344
Claims incurred, net of reinsurance				
Claims paid – gross amount		1,079	2,379	3,745
Reinsurers' share		(176)	(330)	(546)
		903	2,049	3,199
Changes in provision for claims	6.1	2	(37)	(43)
	4	905	2,012	3,156
Changes in other technical provisions, net of reinsurance				
Long-term business provision – gross amount	6.1	(664)	(1,366)	(2,471)
Reinsurers' share		(6)	(5)	42
		(670)	(1,371)	(2,429)
Technical provisions for linked liabilities – gross amount	6.1	(68)	(103)	(17)
Reinsurers' share		64	118	27
		(674)	(1,356)	(2,419)
Net operating expenses	3	53	71	113
Investment expenses and charges	2	23	25	48
Unrealised losses on investments	2	220	36	470
Taxation attributable to the long-term business		2	4	(10)
Transfers from the Fund for Future Appropriations		(10)	(105)	(14)
		288	31	607
		519	687	1,344
Balance on the Technical Account		-	-	-

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

Balance Sheet

as at 30 June 2004

Assets

	Notes	30 June 2004 £m	30 June 2003 £m	31 December 2003 £m
Investments				
Land and buildings	5	777	1,504	1,234
Investments in group undertakings		35	132	118
Other financial investments	5	13,752	14,583	13,870
		14,564	16,219	15,222
Assets held to cover linked liabilities		676	685	680
Reinsurers' share of technical provisions				
Long-term business provision		375	416	369
Technical provisions for unit-linked liabilities		2,284	2,257	2,348
		2,659	2,673	2,717
Debtors				
Debtors arising out of direct insurance operations		32	43	30
Debtors arising out of reinsurance operations		8	7	5
Other debtors		117	196	59
		157	246	94
Other assets				
Cash at bank and in hand		15	7	12
Prepayments and accrued income				
Accrued interest and rent		214	217	208
Deferred acquisition costs		-	9	-
Other prepayments and accrued income		1	3	2
		215	229	210
Total assets		**18,286**	**20,059**	**18,935**

Liabilities

	Notes	30 June 2004 £m	30 June 2003 £m	31 December 2003 £m
Subordinated liabilities	7.2	346	346	346
Fund for Future Appropriations		532	453	542
Technical provisions				
Long-term business provision - gross amount	6	14,134	15,911	14,809
Claims outstanding	6	3	7	1
Technical provisions for linked liabilities	6	2,960	2,942	3,028
		17,097	18,860	17,838
Provisions for other risks and charges	8	59	87	63
Creditors				
Creditors arising out of direct insurance operations		49	70	53
Amounts owed to credit institutions		50	67	27
Other creditors including taxation and social security		121	150	42
		220	287	122
Accruals and deferred income		32	26	24
Total liabilities		**18,286**	**20,059**	**18,935**

Notes on the Accounts

1. Basis of preparation

The Equitable Life Assurance Society's (the Society's) Interim Accounts do not constitute statutory Accounts as defined in section 240 of the Companies Act 1985. The results for the six-month period to 30 June 2004 are unaudited, but have been reviewed by the Society's auditors PricewaterhouseCoopers LLP, as set out in their report on page 19.

Comparative figures for the period ended 30 June 2003 have been extracted from the 2003 Interim Accounts.

The comparatives for the Society for the full year ended 31 December 2003 are consistent with the Society data included in the consolidated Annual Report and Accounts for 2003, which have been filed with the Registrar of Companies.

The Interim Accounts are not consolidated and therefore represent the results of the Society only (and not its subsidiaries). The Group figures are not materially different from those of the Society. The Interim Accounts are intended to provide information to the members of the Society on its assets and liabilities and the Fund for Future Appropriations. The Interim Accounts were approved by the Board of Directors on 27 September 2004.

The Directors have considered the appropriateness of the going concern basis used in the preparation of these Interim Accounts, having regard to the ability of the Society to be able to meet its liabilities as and when they fall due, and the adequacy of available assets to meet liabilities. In the opinion of the Directors, the going concern basis adopted in the preparation of these Interim Accounts continues to be appropriate. A more detailed explanation is provided in the Corporate and Financial Review on page 8 and in Note 9 to the Accounts on pages 17 and 18.

The Interim Accounts have been prepared on a modified statutory basis and in accordance with the accounting policies set out in the Annual Report and Accounts as at 31 December 2003 other than in respect of the long-term business provision.

Long-term business provision

A full valuation of the provisions in the long-term fund is carried out annually for the Annual Report and Accounts. The majority of provisions in the Interim Accounts have been calculated using the same methodology. Some elements of the provisions have been calculated using an approximate method that adjusts the year-end reserves for changes in the period.

2. Analysis of investment return

	Half year ended 30 June		Full year to 31 December
	2004	2003	2003
	£m	£m	£m
Interest and dividend income	408	437	861
Rental income	33	42	79
Realised investment gains	19	146	228
Investment income	460	625	1,168
Movement in unrealised investment losses	(220)	(36)	(470)
	240	589	698
Investment management expenses, including interest	(23)	(25)	(48)
Investment return for the period	**217**	**564**	**650**

3. Net operating expenses

	Half year ended 30 June		Full year to 31 December
	2004	2003	2003
	£m	£m	£m
Acquisition and administrative expenses	53	62	95
Change in deferred acquisition costs	-	9	18
	53	**71**	**113**

4. Analysis of claims

	Half year ended 30 June		Full year to 31 December
	2004 £m	2003 £m	2003 £m
Contractual claims			
Deaths	15	18	35
Maturities	331	721	1,116
Surrenders	27	118	171
	373	857	1,322
Non-contractual claims			
Surrenders	224	793	1,135
	597	1,650	2,457
Periodic payments	306	358	692
Claims expenses	2	4	7
	905	**2,012**	**3,156**

All claims presented above are net of reinsurance.

5. Other financial investments

	30 June 2004		30 June 2003		31 December 2003	
	£m	%	£m	%	£m	%
a) Land and buildings[1]	777	5	1,504	9	1,234	8
b) Other financial investments						
Shares and other variable yield securities and units in unit trusts[2]	1,052	7	698	4	552	4
Debt and other fixed-income securities[3]	12,055	83	13,108	82	12,465	82
Loans	5	-	7	-	6	-
Deposits with credit institutions	640	5	770	5	847	6
	13,752	95	14,583	91	13,870	92
	14,529	100	**16,087**	100	**15,104**	100

[1] During the first six months of 2004, a number of property limited partnerships, with a value of £267m, have converted to Property Unit Trusts. In addition, £252m (31 December 2003: £249m) of property limited partnerships have been reclassified to reflect the nature of the investments. There has, as a result, been a switch in asset value of £519m from "Land and Buildings" to "Shares and other variable yield securities and units in unit trusts". Total property-related investments at 30 June 2004 are £1,466m (31 December 2003: £1,434m).

[2] Includes listed investments of £175m (31 December 2003: £190m) at current value.

[3] Includes listed investments of £12,024m (31 December 2003: £12,410m) at current value.

Notes on the Accounts
continued

6. Technical provisions

6.1 Gross technical provisions movements

	30 June 2004 £m	30 June 2003 £m	31 December 2003 £m
Opening balance	17,838	20,350	20,350
Retranslation of opening foreign branch technical provisions	(11)	16	19
Changes in long-term business provision	(664)	(1,366)	(2,471)
Changes in provision for claims	2	(37)	(43)
Change in technical provisions for linked liabilities	(68)	(103)	(17)
Closing balance	**17,097**	**18,860**	**17,838**
Analysed as follows:			
Long-term business provision	14,134	15,911	14,809
Claims outstanding	3	7	1
Provisions for linked liabilities	2,960	2,942	3,028
	17,097	**18,860**	**17,838**

6.2 The long-term business provision

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

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

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

6. Technical provisions (continued)

6.2 The long-term business provision (continued)

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

Class of business	Interest rate %		Future expense allowance	
	30 June 2004	31 December 2003	30 June 2004	31 December 2003
Endowment assurances (with-profits)				
Basic Life and General Annuity business	2.000	2.000	3.00% of premium	3.00% of premium
Pension business	2.500	2.500	4.00% of premium	4.00% of premium
Recurrent single premium (with-profits)				
Life business	4.000	3.875	See Note ii	See Note ii
Pension annuities in payment – old series	5.000	4.875	£70 p.a.	£70 p.a.
Pension annuities in payment – new series	5.000	4.875	£70 p.a.	£70 p.a.
Pension business – old series	5.000	4.875	See Note ii	See Note ii
Pension business – new series	5.000	4.875	See Note ii	See Note ii
Non-profit annuities in payment				
Basic Life and General Annuity business – pre 1992	5.125	4.875	£50 p.a.	£50 p.a.
Basic Life and General Annuity business – post 1991	4.625	4.375	£50 p.a.	£50 p.a.
Pension business	5.125	4.875	£50 p.a.	£50 p.a.

i For with-profits business, the interest rates shown are the valuation rates of interest. In general, valuation interest rates have been increased compared with the prior year-end to reflect changes in fixed interest rates at the balance sheet date. Due to the close matching of assets and liabilities, there is minimal effect on net assets.

ii The aggregate amount of expected incurred expenses for the next 12 months, excluding exceptional expenses and grossed up for taxation where appropriate, incorporated in provisions, is £57m (31 December 2003: £58m). The amount allowed for each successive year allows for the estimated effect of policy exits and inflation.

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

- For with-profits recurrent single premium business, expenses are allowed for by an explicit per policy expense differing by policy type, increasing by 3.875% p.a. (31 December 2003: 3.75% p.a.) and an expense allowance for fund management, expressed as a percentage of the value of the fund.
- For annuities in payment, an expense amount per policy per annum is applied, varying with any changes in the annuity.
- For other business, expense allowances are a percentage of future premiums. For certain assurance contracts, the discounted value of a policy fee of £3.00 p.a. (31 December 2003: £3.00 p.a.) is included in the provision.

iii The mortality assumptions are detailed in the table below. In response to continuing industry concerns over the possibility that future mortality improvements will be greater than previously expected, mortality assumptions have been strengthened (by moving from 100% to 95% of the relevent mortality tables) and, as a result, there is an increase in reserves of £75m.

Notes on the Accounts

continued

6. Technical provisions (continued)

6.2 The long-term business provision (continued)

Mortality assumptions by class of business	30 June 2004	31 December 2003
Endowment assurances (with-profits)		
Basic Life and General Annuity business	AM80 ultimate for males AF80 ultimate for females	AM80 ultimate for males AF80 ultimate for females
Pension business	AM80 ultimate for males AF80 ultimate for females	AM80 ultimate for males AF80 ultimate for females
Recurrent single premium (with-profits)		
Pension annuities in payment – old series	95% PMA92MC (U=2012.5) for males 95% PFA92MC (U=2010.5) for females	PMA92MC (U=2012) for males PFA92MC (U=2010) for females
Pension annuities in payment – new series	95% PMA92MC (U=2012.5) for males 95% PFA92MC (U=2010.5) for females	PMA92MC (U=2012) for males PFA92MC (U=2010) for females
Non-profit annuities in payment		
Basic Life and General Annuity business	85% IMA92 (U=2004) for males IFA92 (U=2004) for females	85% IMA92 (U=2003) for males IFA92 (U=2003) for females
Pension business	95% PMA92MC (U=2012.5) for males 95% PFA92MC (U=2010.5) for females	PMA92MC (U=2012) for males PFA92MC (U=2010) for females

iv Technical provisions include amounts in respect of specific provisions:

- An amount of £370m (31 December 2003: £430m), which is the current estimate of the compensation or adjustments to future benefits which may be payable under the rectification scheme to policyholders who had policies with guaranteed annuity options which matured prior to the House of Lords' decision and compensation and other costs which may be payable under the review of managed pensions sales. This provision is based on an assessment of the likely level of claims, the level of current interest rates and the possible form of compensation which may be payable on individual cases, if a claim is found to be appropriate.
- Anticipated additional expenses of £130m (31 December 2003: £134m) over future years, including rectification scheme and managed pensions review administration costs, contractual commitments to HBOS in respect of pension scheme future service costs, cost of litigation being pursued against third parties and anticipated additional costs associated with servicing policies in the second half of 2004, 2005 and 2006.
- An amount of £7m (31 December 2003: £8m) in respect of the Society's potential liability for compensation relating to the pensions transfers and opt outs review and the review of free-standing AVCs.
- An amount of £183m (31 December 2003: £184m) for other miscellaneous liabilities including, inter alia, potential mis-selling liabilities. This amount includes provisions for mis-selling claims from non-GAR policyholders who left the Society prior to the GAR compromise scheme, liabilities in respect of GAR policy endorsements, provisions relating to the reassurance of the linked and non-profit book to HBOS in 2001 and other items.

6. Technical provisions (continued)

6.3 Technical provision for linked liabilities

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

For index-linked annuities in payment, the technical provision is equal to the discounted value of the annuity benefits which allow for indexation, calculated using the same mortality assumptions as for non-profit annuities in payment and using an interest rate of 1.975% p.a. (31 December 2003: 1.875% p.a.) for pension business, 1.975% p.a. (31 December 2003: 1.875% p.a.) for pre-1992 general annuity business and 1.725% (31 December 2003: 1.625% p.a.) for post-1991 general annuity business.

7. Commitments

7.1 Investment commitments

Property investment commitments in relation to property development programmes not provided for in the Interim Accounts amount to £68m (31 December 2003: £87m). Commitments in respect of uncalled capital on private equity fund interests amount to £80m (31 December 2003: £94m).

7.2 Subordinated debt

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

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

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

8. Provisions for other risks and charges

	30 June 2004 £m	30 June 2003 £m	31 December 2003 £m
Former staff pension commitments to HBOS	**59**	**87**	**63**

9. Contingent liabilities and uncertainties

The Society has made appropriate provisions for mis-selling and other risks based on currently available information. Over time, as more information becomes available, the range of possible outcomes in relation to these issues can be expected to continue to narrow and the degree of confidence around the levels of the individual provisions can be expected to increase. However, as discussed in the Corporate and Financial Review on pages 4 to 8, in the context of the amount of the balance of the Fund for Future Appropriations, which is expected to continue to reduce as the with-profits liabilities decline, the potential impact of the range of uncertainties relating to the provisions is significant.

In March 2001, the Society entered into a reassurance arrangement with a subsidiary undertaking of HBOS in respect of all of the Society's insurance policies except with-profits policies and immediate annuities. Assets were transferred by the Society following a provisional calculation of the initial premium payable under the agreement. After discussions, the parties have still to agree the final amount of assets transferable in respect of this initial premium. The Society has provided in its Accounts an amount considered appropriate to satisfy its estimated liability for any balance of assets to be transferred. As the Society has been unable to reach agreement with HBOS as to the relevant amount of the initial premium, the matter has been referred to an umpire for resolution, as contemplated by the reassurance arrangement in the event of a dispute arising.

Although there exists a fundamental uncertainty in relation to the amounts of provisions, the Directors do not consider that this extends to the going concern basis of preparation of the Accounts. The Board has therefore concluded that it remains appropriate to prepare these Accounts on a going concern basis.

Notes on the Accounts

continued

9. Contingent liabilities and uncertainties (continued)

In addition, as noted in the Corporate and Financial Review on page 8 and in the following sections of this note, there exist other uncertainties that, in the event they materialised, could adversely impact on the appropriateness of the going concern basis of preparation. Certain of those risks, in extremely adverse scenarios, could prejudice the continuing solvency of the Society.

Potential additional claims

- The report of the Equitable Life inquiry, led by Lord Penrose, was published on 8 March 2004. His terms of reference precluded his opining on the subjects of individual fault for past problems of the Society and to whom any redress may be due. However, Lord Penrose has 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. In addition to matters dealt with in this note, he commented on the existence of "weak" valuation bases in relation to liabilities, practices considered to be of dubious actuarial merit, policyholders' reasonable expectations, bonus policy, smoothing policy and policy in respect of payouts to surrendering and maturing policies. The Society is currently advised that it has very substantial defences to claims that might be asserted and indeed that any such claims are likely to be complex and enormously difficult to litigate.

  In particular, Lord Penrose referred to the possibility of "over-allocation" of bonuses. The Board has been advised that any claims regarding alleged "over-allocation" would face very significant difficulties and that a claim effectively seeking to recover losses relating to investment conditions would be highly unlikely to succeed. Moreover, the FSA has undertaken a review of the report by Lord Penrose and has concluded that generic claims against the Society regarding its basis for allocating bonuses during the 1990s are unlikely to succeed.

  There have been very few complaints received by the Society arising out of the report by Lord Penrose.

  Following publication of the report and after a period of consultation, the Parliamentary Ombudsman announced in July 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 inquiry's report may result in findings that could result in policyholders trying to assert claims against the Society.

- Both Lord Penrose and the Treasury have asked the Serious Fraud Office (SFO) to consider certain issues in Lord Penrose's report. Following SFO investigations, potential claims could arise as a result of any criticism of the conduct of the Society or its former management and advisers.

- The Institute of Chartered Accountants of England and Wales has announced that disciplinary proceedings are to be initiated against Ernst & Young in respect of its conduct in certain of its audits of the Society. The Institute of Actuaries has announced its intention to investigate the conduct of certain of the Society's actuaries, who were also directors of the Society, for their actions during varying periods of time up to February 2000. Although these proceedings and investigations cannot result in a requirement for the Society to take any particular action, they may result in findings that could result in policyholders trying to assert claims against the Society.

- There remains the possibility of adverse regulatory interpretation of the definition of claims and quantum of any possible redress, including claims by certain former non-GAR policyholders and other miscellaneous claims. The position with regard to former non-GAR policyholder complaints to FOS is set out in the Corporate and Financial Review in the section entitled "Policyholder reviews" on page 4.

- A notice of claim has been received by the Society from 873 policyholders, which alleges mis-selling of with-profits annuities. As set out in the Corporate and Financial Review on page 5, the Society is awaiting details of the claim but it has no reason to believe that there has been any generic mis-selling of with-profits annuities.

- Although no proceedings have been initiated, allegations of fraud have been made by former non-GAR policyholders in respect of the non-disclosure of GAR risks after 1998. Having taken legal advice, the Board believes that there is no sustainable case of fraud and, in the event that any proceedings were issued, they would be defended vigorously. There exists the possibility that further claims could be made against the Society, alleging fraud or mis-selling not addressed hitherto or otherwise seeking compensation.

  The Board has assessed the probability of these other 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. The Board is resolved to resist vigorously any unsubstantiated claims and will resort to court action where appropriate. The Board has therefore concluded that it remains appropriate to prepare these Accounts on a going concern basis.

The uncertain nature of the provisions, the incidence of other uncertainties and risks, the potential volatility of asset values and potential strains on the FFA arising from surrenders and maturities could, in adverse outcomes, result in the possibility that RMM (which is a measure of the capital that the FSA requires life assurance companies to hold in excess of that required to meet guaranteed obligations to policyholders) may not be satisfied at all times in the future. Attention is also drawn to the implications of these uncertainties on the ability of the Society to meet payments of interest and principal in relation to the subordinated debt as explained in Note 7.2 to the Accounts.

Independent review report to The Equitable Life Assurance Society

Introduction

We have been instructed by the Directors of The Equitable Life Assurance Society (the Society) to review the financial information, which comprises the Profit and Loss Account for the six months ended 30 June 2004, the Balance Sheet at 30 June 2004 and related Notes 1 to 9. We have read the other information contained in the Interim Accounts and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

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

Review work performed

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

Fundamental uncertainty

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

- Estimates of compensation payments or adjustments to future benefits which may be payable under the rectification scheme to policyholders who had policies with guaranteed annuity options which matured prior to the House of Lords' decision, and compensation and other costs which may be payable under the review of managed pension sales;
- Estimates of anticipated additional expenses; and
- Estimates of other miscellaneous liabilities including potential misselling costs, including those in respect of non-GAR policyholders who left the Society prior to the GAR compromise scheme, GAR policy endorsements, provisions relating to the reassurance of the linked and non-profit book to HBOS in 2001 and other costs.

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

Other uncertainties

In arriving at our review conclusions we have also considered the adequacy of the disclosures made in Note 9 and on page 8 of the Corporate and Financial Review in respect of the potential claims against the Society that could arise as a result of different legal and regulatory views on its historical conduct . If these different views prevail, further obligations would arise in respect of mis-selling and other claims, which may also have consequences for the going concern basis of preparation of the Interim Accounts.

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

Review conclusion

On the basis of our review, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2004.

PricewaterhouseCoopers LLP
Chartered Accountants
London
27 September 2004

Equitable Life