Equitable Life

31 March 2005

Equitable Life's Preliminary Announcement for the year ended 31 December 2004

Business Highlights

- **Directors report that the Society is more stable and secure than at any time since 2000.**
- **Bonuses: 2004 Policy values increased for UK with-profits pensions policies by 3.5% per annum (pa) (2003: 2%) and 2.8% pa for UK life policies (2003: 1.5% pa). Interim non-guaranteed bonus of 2.5% pa (2.0% pa for UK life policies), effective 1st January 2005.**
- **Claims: Surrenders more than halved to £835m (2003: £1788m)**
- **Future: Board exploring business strategy and investment policy**

Vanni Treves, Equitable Life's Chairman, said: "The Society continues to be solvent and is more stable and secure than at any time in the last four years. With the major obstacles being steadily overcome and our improved stability, we can now turn our focus to developing the various options we have identified for the longer term future of the Society and its policyholders."

Charles Thomson, the Society's Chief Executive, said: "Since 2001, the new Board has had to overcome a myriad of hugely difficult challenges and we are now much closer to resolving most of the outstanding issues. While we still have issues from the past to fix, we have made significant progress on all fronts and we are achieving much greater clarity and certainty regarding the Society's current position and prospects."

- Ends -

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Notes:

1. The annual report will be sent to members on 22 April 2005.

2. A copy of this announcement can be found in the Media Centre/latest release section and Financials/financial reports section of our website www.equitable.co.uk

3. Financial Calendar
   22 April 2005 - Annual report and accounts published and sent to members
   18 May 2005 - 11am, AGM, Congress Centre, Great Russell Street, London

4. Non-statutory Accounts
   The information shown in respect of the year ended 31 December 2004 is extracted from the Group Accounts for that year, which were approved by the Board of Directors on 31 March 2005 and will be filed with the Registrar of Companies. The financial information contained in this announcement does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The report of the auditors on these Accounts is unqualified and does not contain a statement under Section 237(2) or (3) of the Companies Act 1985. The audit report refers to fundamental and other uncertainties in respect of the ultimate outcome of various mis-selling provisions, additional expenses and other provisions as described in Notes 17b (v) and 23 to this preliminary announcement. The audit opinion is not qualified in respect of the fundamental uncertainty or the other uncertainties disclosed in note 23 and under the heading 'the Board's conclusion on provisions and going concern' in the Financial Review, which is referred to in note 23.

5. FSA returns
   The Society today submitted its Annual FSA Insurance Returns for the year ended 31 December 2004. Copies, in paper and CD-ROM format, are available from the Society's registered office: 20-22 Bedford Row, London WC1R 4JS. The Returns will also available on the Society's website at www.equitable.co.uk

Corporate Review

The Society's Chairman, Vanni Treves and Chief Executive, Charles Thomson, on behalf of the Board, review 2004

Dear Members,

We are pleased to inform members that your Society continues to be solvent and is more stable and secure than at any time since the House of Lords' judgment.

2004 was a year of significant progress for your Society.

We have made headway in a number of important ways.

- We have made substantial progress with the Rectification and Managed Pensions Reviews;
- The Society repurchased £179m of the £350m Subordinated Debt issued and, in doing so, improved the Society's financial position;
- The Penrose Report, published in March 2004, did not raise any new issues likely to result in material adverse financial consequences for the Society;
- After significant lobbying by your Board and others, the Parliamentary Ombudsman decided to open a fresh statutory investigation into the prudential regulation of the Society in the period up to 2 December 2001;
- We have reduced administrative expenses in line with our stated objectives;
- Some progress has been achieved by HBOS, the third party supplier appointed by the former Board to carry out administration services, to improve policyholder customer services to standards that are now closer to policyholders' expectations;
- Surrenders have continued to fall and in 2004 totalled £835m (2003: £1,788m) and;
- A tangible demonstration of the advances we have made is that policy values have been increased by 3.5% in respect of 2004 (2.8% for life policies),

Notwithstanding the further strengthening of technical provisions, we more than satisfy the minimum regulatory capital requirements of the Financial Services Authority (FSA). New accounting standards have been proposed that will change the way we report the Society's finances from next year. On pages 16 to 18 of the Financial Review we explain the changes in more detail. Under the updated measure to be introduced, the Society's finances remain stable and secure.

Since 2001, we have had to deal with, and overcome, a myriad of difficult challenges. Last year was no exception, but we are now closer to resolving the majority of the outstanding issues.

Progress of reviews

The new Rectification Scheme was launched in November 2003 with the intention of making the scheme simpler and easier to administer. That scheme is now essentially complete for individual policies with over 17,000 cases reviewed and, where appropriate, compensation paid.

The version of the scheme for group pensions was launched in mid 2004 and is progressing on schedule. Information for the assessments has been verified by trustees and offers made.

The review of the sale of managed pensions (also known as income drawdown policies) has continued into 2005 and most of the 15,000 cases have now been reviewed and, where appropriate, compensation offered.

The uncertainty surrounding the outcome of these reviews (and the corresponding accounting provisions) has been a considerable concern for several years. Those uncertainties will greatly diminish when the schemes are completed. The enormous progress achieved in settling them over the last 12 months is a great step forward.

The complaints by former non-GAR policyholders were mostly settled in 2003. However, approximately 1100 complaints have been referred to the Financial Ombudsman Service (FOS). On 22 March 2005, FOS announced a different approach to redress from the Society for non-GAR complaints lodged with FOS. We are disappointed with the FOS determination, which is inconsistent with the legal advice obtained by the Society and by the FSA. The Board is reviewing the lengthy determination and will agree its next steps in the interests of all policyholders in the coming weeks.

Subordinated debt

The subordinated debt is effectively a loan of £350m taken out by the Society in 1997 at a fixed interest rate of 8% per annum. In today's terms that is an expensive rate of interest and, because of the Society's financial difficulties, the loan has traded at less than face value for several years. We have considered whether to repurchase the debt on several occasions but, for various reasons, were unable to do so. Finally, at the end of 2004 and with the approval of the FSA, a pre-requisite to proceeding, we succeeded in repurchasing £179m of the debt at a price of £980 per £1,000 of principal. This made an immediate improvement to the Society's financial position of £3m, which will be accounted for in 2005 but, more importantly, it eliminated a substantial amount of high-coupon debt, saving a considerable sum in interest payments in the future. The Society has the option, subject to certain conditions, to repurchase the remainder of the debt in 2007 and in the meantime, we shall continue to monitor the situation.

Parliamentary Ombudsman

Following the criticisms of the regulatory regime highlighted by Lord Penrose, the Board, supported by policyholder action groups and MPs, called on the Parliamentary Ombudsman, Ann Abraham, to open a new inquiry into the regulation of the Society. If she finds maladministration leading to injustice she has the power to recommend that the Government pays compensation. The inquiry is now under way and she has said that she hopes to report by the end of 2005. Whether or not any compensation is ultimately payable, the inquiry's report should bring independence and finality to the matter. Your Society will give all possible co-operation to her inquiry.

One policyholder and one action group have separately petitioned the European Parliament with regard to the standards of regulation by the UK Government (these are not claims against the Society). The European Parliament has agreed to investigate and we will observe developments.

Litigation by the Society

The trial of the Society's case against Ernst & Young (the Society's former auditors) and the former directors, overwhelmingly supported by policyholders according to the Society's latest independent research, is due to start on 11 April 2005 and the timetable for the hearing runs to the end of the year.

Litigation is very expensive and in 2004 the Society's own costs amounted to £8.4m. The Board regularly reviews with its legal team the cost justification of the claims and we remain of the view that we have strong and substantial claims to assert and a duty to pursue them. Any compensation the Society receives will be added to the with-profits fund for the benefit of continuing with-profits policyholders. Your Board remains ready to consider any serious and substantial settlement offer from the other parties. If a settlement cannot be achieved, we shall have no hesitation in fighting the issues in Court.

Penrose

A year ago, the Penrose report had just been published and the Board gave its considered assessment that it did not raise new issues likely to result in any material adverse financial consequences for the Society. In July 2004, the Financial Services Authority (FSA) completed its own detailed analysis and also concluded that generic claims against Equitable Life regarding its basis for allocating bonuses during the 1990s were unlikely to succeed. There have been very few complaints received by the Society arising out of the report.

We also submitted our view to FOS that it would be inappropriate for FOS to attempt to assess complaints based on Lord Penrose's report. On 22 March 2005, FOS announced that it would not investigate these complaints. We welcome this decision.

Both Lord Penrose and the Treasury asked the Serious Fraud Office (SFO) to consider certain issues in Lord Penrose's report. The Society has co-operated fully with the SFO and we await its conclusion as to whether it wishes to carry out an investigation. Allegations of fraud have been made from time to time although no proceedings have been issued. As we have previously stated, your Board has found no evidence that could lead to a sustainable case of fraud against the Society.

In July 2004, a group of with-profits annuitants started legal proceedings against the Society. By the beginning of March, more than half the original number had withdrawn, leaving 421 individuals. The claimants have served an unspecific statement of their case. A hearing is scheduled to take place in the High Court in May 2005, when instructions as to how the case will be managed will be given by the judge. The current FOS approach to determinations in its review of such complaints to date indicates that there does not appear to be a generic mis-selling issue. In the interests of all members, the Society will continue to defend any unmerited claim with vigour.

External developments

The Society's financial position has strengthened over the last year with the Fund for Future Appropriations, the measure of the Society's "free" assets available to provide capital support to the with-profits fund, at £547m, representing 6.2% of the with-profits fund, compared with 5.7% last year.

For the next Report and Accounts, new accounting standards will change the way the Society's financial position is reported. Further details are given in the Financial Review and we have taken this opportunity to give you an early view of how some of the figures would have changed this year. This is a technical and complex area and some policyholders may be concerned to see some of the figures in the accounts being altered. It is important to understand that the Society's true financial position will not be affected by the new standards, which only change the way in which that position is presented. The supplementary information provided in the Financial Review shows a position largely unchanged, measured on this new basis.

On the subject of the complexity of the Annual Report & Accounts, we are aware that many members would prefer a simplified presentation. Although many businesses now publish summary financial statements to shareholders and members, surprisingly, there are legislative barriers which have prevented us from moving to a simpler presentation. However, a change to the relevant legislation is currently going through a DTI consultation process and we hope to be able to make available these simpler form accounts in future. This would enable significant cost savings to be made and a simpler presentation of the Society's annual performance to be presented to members. This is not to say that the current format for our Annual Report & Accounts will be eliminated. It will continue to be available to those who would like it and, of course, we shall also continue to publish it on our website. We shall keep you informed of developments.

Last year we produced a detailed statement, called Principles and Practices of Financial Management (PPFM), about how the Society manages the with-profits fund. The document complies with new requirements laid down by the FSA and is intended to allow knowledgeable observers to understand the way in which our with-profits business is conducted. We will keep members informed by updating the PPFM, as necessary.

Following the publication of Lord Penrose's report, Paul Myners was commissioned by the Government to review the Corporate Governance of Mutual Life Offices. We naturally participated fully in the consultation exercise with the Chairman, Chief Executive and three of the Society's non-executive Directors each meeting the review team. We welcome his report, published in December 2004. Much of what he proposes is already in place at Equitable Life, as we already adopt, to the extent possible, the relevant principles of the Combined Code for listed companies. Mr Myners also recommended that the Association of Mutual Insurers lead the work in developing a governance code of practice for mutual insurers and the Society has accepted an invitation to join this recently-formed trade body for mutual insurers.

The Pensions Act 2004 introduces a whole raft of new rules and regulations for pensions, often referred to as 'pensions simplification'. Some changes are being introduced in April 2005, but the major changes will be in April 2006. We shall be analysing the changes as they are finalised and briefing policyholders of any impact on their Equitable policies at the appropriate time.

There has been recent comment from the Inland Revenue and, subsequently, in the Press that individual annuitants will be allowed to transfer their annuities to other pensions offices when the new legislation comes into force next year. It does not appear to us that the Pensions Act offers anything new in respect of individual annuity transfers. It is likely to remain impractical to transfer individual pensions in payment from one office to another. We will, of course, keep this matter under review and inform annuitants of any developments.

Unlimited liability

As we have noted before, there is some uncertainty around whether it would be possible for the Society's creditors to look to policyholders if the Society were to become insolvent in some particular and severely adverse circumstances. We have participated in consultation on legislation which would protect policyholders in those circumstances. In the autumn, in spite of our strong representations, the Treasury said that the

Government will not enact the legislation unless it is needed. Although this is untidy, policyholders can take comfort from the fact that the Government is on record confirming that if the relevant circumstances arose, it would immediately pass legislation to protect policyholders fully. We should emphasise that your Board does not envisage the need for it to be necessary to call on the Government to do so.

2004 bonus declaration

The Society has maintained its cautious investment strategy. The gross return on the with-profits fund was a pleasing 8.2%. However, a significant part of this resulted from gains in fixed interest securities, which are matched by similar increases in liabilities. After adjusting for this, and other deductions such as expenses, tax and changes to provisions and technical provisions, the net return was about 4.5%. Details of the Board's considerations in reaching its bonus decisions are given in the Financial Review.

The key highlights are:

- Policy values (or their equivalents) will be increased for all UK with-profits pensions policies at an accrual rate of 3.5% per annum p.a. (2003: 2%) for the whole of 2004 (2.8% p.a. for UK life policies - 2003: 1.5%). This applies equally to GIR and non-GIR policies;
- From 1 January 2005 until further notice, a non-guaranteed interim bonus will be added to policy values (or their equivalents) at the overall rate of 2.5% p.a. for UK with-profits pensions policies, 2% p.a. for UK life policies.
- For 2004, there is no reversionary bonus.

The impact of reduced investment returns and correspondingly reduced bonuses on with-profits annuity policies remains a major concern. While the Society still intends to recover with-profits annuitants' share of the cost of Guaranteed Annuity Rates (GAR) by withholding 1.5% of final bonus for two more years, the Board has decided to defer recovery for this year. This means that all with-profits annuitants will get the full benefit in their policy values of the 3.5% award for 2004. However, the majority of with-profits annuity policies anticipated a higher level of bonus than is achievable by a predominantly fixed interest fund in the current low inflation environment. For this reason, income from many with-profits annuity policies can be expected to fall year on year.

Strategic objectives

The Society's business objectives continue to be to:

- Resolve outstanding claims against the fund;
- Stabilise the with-profits fund to ensure its continued solvency and maintain an appropriate level of free assets;
- Treat policyholders fairly, including leavers, and ensure we meet the guarantees provided to policyholders by pursuing an appropriate investment strategy;
- Reduce expenses and restore an efficient business model.

You can see from the progress with the reviews that outstanding claims are being addressed. The rate of policyholders leaving the fund has now been at more normal levels for a couple of years and the Society's investment strategy – with its heavy weighting in fixed interest investments - is very risk averse. You will also see evidence in these accounts of further progress in reducing the Society's administrative expenses.

We continue to work with HBOS – to whom our administration is outsourced – to make improvements in the quality and timeliness of our service to policyholders and we would expect to see further improvements as we continue to return to more normal workload volumes.

Looking ahead

After several years when a major effort was required just to prevent the financial condition of the Society worsening, it is refreshing to be able to report progress on so many fronts. We do not underestimate the problems and uncertainties still facing the Society and we recognise that the outlook for policies remains limited (particularly as we still need to keep the fund in primarily fixed interest investments). However, we are achieving much greater clarity and certainty regarding the Society's current position and prospects.

We mentioned last year that, with improved stability, we would develop ideas for the longer term future of the Society. The major obstacles – in particular the rectification schemes, Penrose, incoming litigation, mis-selling allegations, the FOS determinations - are now steadily being overcome. We shall now develop the various options we have identified and we shall be able to start sharing some of those ideas and seeking your views later in the year.

Financial Review

Fund for Future Appropriations and regulatory solvency

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 in the future and any unforeseen liabilities or liabilities in excess of those provided for at the balance sheet date.

At 31 December 2004, the FFA balance was £547m, an increase of £5m over the prior year.

The key movements in the FFA during 2004 are shown in the following table:

	2004 £m	2003 £m
Opening balance	542	556
Increase in provisions and expenses	(59)	(179)
Contractual cost of HBOS past service pension funding	(20)	5
Changes in net asset values, valuation assumptions and valuation rates of interest	116	159
The effect on FFA of policy maturities and surrenders	(5)	20
Interest on subordinated debt	(28)	(28)
Other movements	1	9
Closing balance	547	542

The principal changes in the FFA are explained in more detail in later sections of this Review.

The Society seeks to maintain the FFA balance at a level that protects solvency whilst treating continuing and exiting policyholders fairly. The FFA balance at 31 December 2004 represents 6.2% of with-profits technical provisions, which represents an improvement to the equivalent figure of 5.7% at 31 December 2003.

As the number and value of policies decline, the relative importance of the level of provisions and their related uncertainties increases in considering the adequacy of the FFA to address the risks facing the Society, unless those provisions and related uncertainties can be reduced proportionately. When assessing solvency under current accounting standards, 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. Estimated final bonus, sometimes referred to as the terminal bonus, included in the policy value, is not guaranteed and is therefore not included in the valuation of the long-term business technical provision in these financial statements, which are prepared under current accounting standards. Accordingly, only guaranteed obligations are included in the valuation of the long-term business technical provisions included in the balance sheet. Under current statutory reporting, any such final bonus has to be met from the FFA.

As noted on pages 16 to 18 in the section on realistic reporting later in this Financial Review, the FSA has introduced new requirements in respect of "realistic balance sheet" reporting for the measurement of financial strength in the annual regulatory returns. These changes take effect from the 2004 Financial Services Authority (FSA) returns. The statutory reporting changes, which will mirror the regulatory changes, come into effect for the Society's 2005 financial statements. Under this reporting basis, unlike the present statutory basis, non-guaranteed final bonuses are included as liabilities.

In assessing the Society's ability to meet its obligations as they fall due, the FFA, and its equivalent measure under realistic reporting (realistic net assets, or working capital), remains more relevant than the excess of net assets over the Capital Resources Requirement (CRR), which forms part of the separate set of financial statements sent to the FSA. The CRR represents a minimum level of required regulatory capital. If the Society's net assets fall below CRR, the FSA has powers to require that certain information and plans be prepared to demonstrate how the Society would correct the position. However, if the Society has a positive FFA, and can meet its liabilities as they fall due, it will remain solvent even if the CRR is not met.

The CRR subsumes the previous regulatory measure of RMM (Required Minimum Margin), now called the Long Term Insurance Capital Requirement (LTICR), and requires any additional capital requirement over LTICR, resulting from consideration of realistic liabilities, to be taken into account, under a test known as the "twin peaks" test. The result of this test is to require that the capital to be held for regulatory purposes (CRR) is the higher of the amounts calculated under the regulatory and realistic peaks, the former broadly representing the test applied in previous years and the latter reflecting the new realistic valuations of assets and liabilities. For the Society in 2004, it is the regulatory peak that applies and, accordingly, the CRR is represented by the LTICR.

The excess capital over that required for regulatory purposes has reduced at the balance sheet date. In addition to tracking the reducing fund size, the lower excess reflects the reduction in subordinated debt that may be treated as capital, as a result of the repurchase of £179m of bonds, following the offer made to bondholders in December 2004. The net effect of that transaction on the amount of subordinated debt that may be taken into account in calculating regulatory capital is shown in the following table, which details the principal reconciling items between the FFA and the excess of net assets over CRR for the Society:

	2004 £m	2003 £m
FFA	547	542
Subordinated debt (note 1)	167	312
Reserving adjustments and disallowed assets (note 2)	(11)	(8)
Regulatory net assets	703	846
Long Term Insurance Capital Requirement (2004) or Required Minimum Margin (2003)	(599)	(623)
Net assets in excess of RMM (for 2003)		223
Net assets in excess of LTICR (for 2004)	104	

(1) For the purposes of regulatory reporting, the carrying value of the subordinated debt can be treated as capital. This was achieved in practice in 2003 by disregarding as a liability the inter-company loan from Equitable Life Finance plc (issuer of the subordinated debt) up to an amount not exceeding 50% of the Society's RMM. In 2004, the subordinated debt is treated as if it were capital without requiring any restriction in value under the new rules.

(2) Certain balances are required to be held at values that are measured on bases different from those adopted for the financial statements or otherwise are treated differently between the FSA returns and financial statements.

(3) The figures in the above table relate to regulatory amounts for the Society. Its FSA returns aggregate certain data for University Life Assurance Society, a subsidiary undertaking of the Society.

In addition, other accounting changes, particularly those resulting from the convergence of UK accounting standards with international accounting standards, will result in some differences in presentation and in the measurement of assets and liabilities in future financial statements.

Protection of the fund and policy surrenders

Where a policyholder surrenders his 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. The financial adjustment can be changed at any time without advance notice to policyholders. In setting the financial adjustment, the aim is for the amounts paid to 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. There has been no change to the level of the financial adjustment in 2004, being 11.1 % for most products.

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 would necessitate policy value reductions. Where the Society is forced to sell fixed-interest securities to its disadvantage before their relevant maturity dates, in order to make payments to surrendering policyholders, the position of assets and liabilities ceases to be matched. In such circumstances, those policyholders would be expected to bear the related costs incurred, by way of a higher financial adjustment.

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 property, in order that its assets match closely its liabilities. The weighting in favour of fixed-interest securities and bonds within the investment portfolio results in there being limited scope for growth of the fund, as any changes to values resulting from movements in yields are mirrored in equivalent and largely offsetting changes in the value of liabilities under current accounting standards.

The with-profits assets produced a gross return of 8.2% during the year. However, the return adjusted for bond yield movements (which affect both assets and liabilities) was around 6.5%, reducing to about 4.5% after allowing for the impact of expenses, tax and adjustments to provisions and technical provisions.

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 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, miscellaneous profits and losses and possible changes in the level of provisions.

As reported in last year's financial statements, a margin was held back from the investment return to meet the cost of guarantees and provide additional risk capital. After consideration of all risks, reserving and capital matters, the Board has increased, for applicable with-profits pension policies for 2004, policy values at the rate of 3.5% per annum (2% in 2003) and 2.8% per annum (1.5% in 2003) for life assurance policies. The Board has also reviewed the projected financial position and, taking into account the stronger solvency position, considers that future prospects for policy value increases have improved. Accordingly, the assumption for the future margin against investment returns has been reduced from 1% per annum, as previously reported, to 0.5% per annum, in accordance with the range of values stated in the Society's Principles and Practices of Financial Management (PPFM). The Board will keep this percentage under review – the margin can be reduced or increased, depending on the financial position of the Society.

From 1 January 2005 and until further notice, a non-guaranteed interim bonus will be added to policy values (or their equivalents) at a rate of 2.5% per annum (2% in 2003) for pension policies and 2% for life policies (1.5% in 2003). The Board may change interim 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 2004. However, for those policies with guaranteed investment returns (GIRs), 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% per annum.

Expenses and provisions

Expenses shown in the Profit and Loss Account, incorporating administration, exceptional, claims, investment and interest costs, have increased slightly to £174m in 2004 from £168m in 2003. Exceptional expenses have increased, reflecting the significant costs of completing the GAR Rectification and Managed Pension reviews and uplift in provisions for future costs in respect of pension obligations. Lower administration and claims costs reflect reduced levels of activity. Investment costs have declined in line with the reduction in funds invested.

As shown in note 17(v) to the financial statements, balance sheet provisions, included as part of the technical provisions, have reduced over the year. The rectification and managed pension provision has reduced by £190m, as a result of payments made and as a result of a better definition, and the accordingly lower number, of eligible claimants. The provision for exceptional expenses of £138m includes an increase in the provision as a result of higher contractual costs relating to the pension obligations to former staff being applicable following the assumption of revised mortality expectations, largely offset by reductions in other provisions resulting from payments made. There is also a new provision of £45m to allow for current estimates of VAT expected to be levied on the outsourced services from HBOS, if UK Customs and Excise implement a European Court judgment announced on 3 March 2005, the effect of which would be to eliminate exemption to VAT on the provision of insurance services.

The above FFA reconciliation table shows an increase in provisions and expenses, taken together, of £59m. Reference has been made above to the reduction in the rectification and managed pension provision due to the lower number of eligible claimants at the balance sheet date. However, this reduction is offset by the strengthening of expense assumptions incorporated in the technical provisions in recognition of the absence of a policy-related charging basis for the Society's outsourced services with HBOS and, accordingly, the increased risk that future costs will not decline directly in line with policy volumes. Although the volume of transactions per policy is declining, the continuing complexity of the Society's affairs and related uncertainties continue to result in a requirement for provision for an organisational infrastructure substantially greater than would be the norm in run-off situations, with resultant higher costs.

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. 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 asset values

The FFA reconciliation table shows a net figure of £116m for changes in net asset values, valuation assumptions and valuation rates of interest. Gains were recorded in equities, unit trusts and properties of £276m. The valuation rates of interest, applied to calculate technical provisions, have been updated to reflect yields and technical provision requirements at the balance sheet date. Technical and valuation adjustments account for the balance, the more significant of which are described below.

As explained in the interim results and following further analysis in the second half of the year of expected future experience, the Society has strengthened its mortality assumptions in response to continuing concerns that future mortality improvements may be greater than previously expected, with a resultant increase of £62m in technical provisions.

As the run-off profile of the book of policies has stabilised, the Society has been able to review policyholders' activity in relation to likely choice of retirement dates compared with their contractual dates. For some of the group products, actual retirement ages are significantly different from the normal scheme retirement age. Updating the assumed retirement ages has resulted in an increase in technical provisions of £90m.

In addition, to meet the explicit requirements of the FSA's Prudential Source Book, the Society has amended the actuarial basis used to reserve for policies with an option to take an immediate surrender value, with a resultant increase in technical provisions of £60m.

An additional provision of £50m has been made for guaranteed minimum pensions on certain transfer policies.

No provision is made for future discretionary guaranteed bonuses. As noted above, 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% 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, and this assumption ceased to be appropriate as a result, higher technical provisions 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.

Maturities and surrenders

During the year, the Society experienced further reductions in the level of both maturities and surrenders. Surrenders in 2004 were £835m (2003: £1,788m). Maturities and other claims totalled £1,373m (2003: £1,910m). There is an ongoing 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 8% undated subordinated guaranteed bonds, issued in 1997, has been irrevocably and unconditionally guaranteed on a subordinated basis by the Society.

In December 2004, the Society made an offer to Bondholders to repurchase bonds at £920 per £1,000 of principal, subsequently increased to £980. Acceptances were received for £179m of bonds and settlement was made on 4 January 2005. As a result, there are now subordinated bonds with a principal value of £171m outstanding. The transaction resulted in an increase, net of expenses, in FFA of £3m, which will be accounted for in 2005.

If, when payment of interest in relation to the Bonds becomes due, the Society does not meet RMM, as defined under the issue terms, as of the date of its latest actuarial valuation, then the payment will be deferred by ELF unless FSA consent to such payment is obtained. As at 31 December 2004, the Society's net assets are in excess of RMM, as so defined under the issue terms. However, there exists the possibility that the Society may not meet RMM, as so defined, 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 subordinated to those of the Society's policyholders and other creditors in the event of a winding up of the Society.

The Board's conclusions on 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.

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, effect of lower interest rates on the behaviour of policyholders with GIRs, 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 very wide 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, painful actions could be necessary to adjust maturity values, with-profits annuity payments and surrender values.

In addition, the Board has considered the potential additional claims referred to in note 23 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 CRR at all times in the future. As noted above, any failure to satisfy CRR 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.

Realistic reporting

As noted in the Corporate Review and in the analysis of regulatory capital on pages 10 and 11 above, the introduction of a new accounting standard, FRS 27, will change the way the Society's financial position is reported. FRS 27 will introduce "realistic" reporting, already required for regulatory reporting as of this balance sheet date, for reporting in the principal financial statements.

Anticipating the changes to be introduced, and under the auspices of the Association of British Insurers, principal members of the life assurance and bancassurance sector are making voluntary disclosures in their 2004 financial statements, in accordance with a Memorandum of Understanding (MOU) agreed with the Accounting Standards Board. Although not applicable to the Society, certain key MOU disclosures relating to the Society's realistic position as at 31 December 2004 are set out below in order to provide relevant information to policyholders. These disclosures will be further developed when, the Society implements FRS 27 in its 2005 annual financial statements.

Realistic reporting requires accounting for liabilities (including options and guarantees) to be "realistic". Unlike current statutory reporting, realistic liabilities include an estimate of non-guaranteed benefits, including future discretionary increases to policy values. The effect of possible changes in market conditions and recognition of the further impact of guarantees in adverse conditions are taken into account in realistic reporting.

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 were 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.

Under realistic reporting, options and guarantees are valued and included in policyholders' liabilities. For the Society's with-profits fund, the vast majority of options and guarantees are valued on a market consistent basis calculated on the basis of multiple projections. The valuation involves constructing a large number of scenarios, aggregating the results of each scenario and then calculating the expected or average liability.

Though the realistic balance sheet incorporates realistic liabilities, it provides for guarantees to policyholders. For policies where the guaranteed value at maturity is likely to exceed the policy value, the excess would be paid at maturity and such payments form part of the realistic liabilities. The cost of those guarantees is estimated at £706m at the balance sheet date.

Assessment on a realistic reporting basis

The realistic reporting basis values assets and liabilities consistently, using assumptions which are closer to those expected in practice than the more prudent assumptions that have been required to be used hitherto in financial statements. However, discretionary benefits are included in realistic liabilities, as noted above. The resultant surplus capital available is referred to as working capital.

The principal assumptions which are important in determining the realistic balance sheet position include the following: experience in respect of the performance of the portfolios, equity market volatility, interest rate trends, surrender rates, mortality experience, expense experience and the amounts at which provisions are settled.

In calculating realistic liabilities, reference is made to the detailed analyses of past experience, together with any factors which might affect the position in future, to determine the underlying assumptions. Examples include those assumptions relating to mortality, expenses and expected policyholder choice of retirement date. An appropriate margin for prudence is applied to the best estimate available to derive the assumptions to be adopted.

Accordingly, in deciding the assumptions to be used for annuitant mortality experience, a reduced margin is applied in the realistic valuation, sufficient to allow for some statistical variation in experience results. In considering expense assumptions, different methodologies are applied for regulatory and realistic reporting, which result in realistic expenses being less than those calculated for regulatory reporting. In the principal financial statements, the assumption adopted for retirement dates is that policyholders will retire at the earliest possible date and that there will be no earlier exits on non-contractual terms, whereas realistic reporting adopts analyses of the expected retirement dates and anticipated earlier withdrawals to generate a more realistic run-off profile.

A key assumption in the realistic valuation of the liabilities is the choice of the rate at which future payments should be discounted. For the realistic balance sheet, the assessment of guarantees utilises gilt yields, thereby incorporating some prudence into the calculation

Realistic liabilities include an allowance for future non-guaranteed bonuses and provision for any shortfall in policy values relative to guaranteed values in adverse financial conditions.

In addition, the following underlying principles are applicable: firstly, it is assumed that the Society will apply an annual charge to policy values (assessed under current conditions as 0.5% per annum as noted above under the title “Investment performance and the capacity to pay bonuses”) in order to retain an appropriate level of capital; secondly, there is an assumption that, in adverse conditions, the Board will act to cut policy values to the extent required to maintain solvency.

Under FSA rules for realistic reporting the Society also has to assess the amount of capital required to cover a prescribed set of adverse conditions. The requirement is to test the effect on the balance sheet of: 20% fall in equity values; 12.5% fall in property values; rise in fixed interest yields of 17.5% (of the yield) combined with losses in corporate bond values and reducing level of surrenders. The capital requirement that results from this calculation is referred to as the Risk Capital Margin (RCM) and this is one of the new key measures emerging under realistic reporting. At the balance sheet date, the RCM amounted to £330m. The table below summarises the balance sheet and capital position at that date.

	£m

Realistic assets	10,723
Realistic liabilities	10,192
Working capital (realistic surplus assets)	531
Risk capital margin	(330)
Realistic excess capital	201
Risk capital margin –times covered by working capital	1.6

The above table, which excludes reassured liabilities from both assets and liabilities, shows that, if realistic reporting were to be incorporated in the principal financial statements at the balance sheet date, the FFA would be restated as £531m, described in the table above as working capital. This compares with a reported FFA for the Society of £547m on the current reporting basis.

The Society's capital under realistic reporting would be represented by its working capital of £531m, in addition to the economic value of its subordinated debt, calculated at £188m by the addition, to the principal outstanding, of the present value of the future interest payable to August 2007, at which time the Society has the option to repurchase the outstanding bonds. Accordingly, the Society's total capital under this measure amounts to £719m.

Risks and Risk Assessment

As noted above, the Board assesses the risks that the Society faces as part of its consideration of the appropriateness of its assumption of a going concern basis for the preparation of its financial statements under the current reporting basis.

In addition to the requirement to introduce realistic reporting, and the resultant calculation of the RCM required by the Society, the FSA also require that the Society's particular risks be quantified for the preparation of an assessment of its capital needs as required by new rules, introduced under the Individual Capital Adequacy (ICAS) framework. The calculations are underpinned by consideration of the underlying risks, which include credit risk, market risk, liquidity risk, operational risk and insurance risk.

Although this assessment does not require to be publicly disclosed, the Society has reported its preliminary ICAS figures to the FSA and plans to continue to manage its funds in accordance with its published PPFM.

Profit and Loss Account

For the year ended 31 December 2004

Technical account - long-term business

	Notes	Group 2004 £m	Group 2003 £m
Earned premiums, net of reinsurance			
Gross premiums written	2a	274.3	362.7
Outward reinsurance premiums	3	(128.7)	(188.7)
		145.6	174.0
Investment income	4a	947.1	1,170.9
Unrealised gains on investments	4c	339.6	-
Other technical income	5a	7.5	14.5
		1,439.8	1,359.4
Claims incurred, net of reinsurance			
Claims paid – gross amount	6	2,206.0	3,747.7
Reinsurers' share	3	(372.5)	(545.8)
		1,833.5	3,201.9
Change in provision for claims - gross amount	6,17a	6.0	(42.9)
		1,839.5	3,159.0
Changes in other technical provisions, net of reinsurance			
Long-term business provision – gross amount	17a	(602.6)	(2,472.5)
Reinsurers' share	3	(5.2)	41.6
		(607.8)	(2,430.9)
Technical provisions for linked liabilities - gross amount	17a	(18.0)	(17.3)
Reinsurers' share	3	34.3	27.1
		(591.5)	(2,421.1)
Net operating expenses - non-exceptional	7a	54.0	69.6
Net operating expenses - exceptional	7b	71.8	43.7
Net operating expenses		125.8	113.3
Investment expenses including interest	4b	44.4	47.7
Unrealised losses on investments	4c	-	476.6
Other technical charges	5b	5.6	3.0
Taxation attributable to the long-term business	10a	11.4	(16.7)
Transfer to / (from) the fund for future			

appropriations	16	4.6	(2.4)
		191.8	621.5
		1,439.8	1,359.4
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. The notes on pages 23 to 49 form an integral part of these financial statements.

Balance Sheets
As at 31 December 2004

Assets

	Notes	Group 2004 £m	Group 2003 £m	Society 2004 £m	Society 2003 £m
Investments					
Land and buildings	11a	813.6	1,336.8	806.5	1,234.5
Investments in group undertakings	11b	-	-	19.2	118.0
Other financial investments	11c	13,678.0	13,921.7	13,625.5	13,869.5
		14,491.6	15,258.5	14,451.2	15,222.0
Assets held to cover linked liabilities	12	696.6	680.3	696.4	680.1
Reinsurers' share of technical provisions					
Long-term business provision		374.6	369.4	374.6	369.4
Technical provisions for unit-linked liabilities		2,313.8	2,348.1	2,313.8	2,348.1
		2,688.4	2,717.5	2,688.4	2,717.5
Debtors	13				
Debtors arising out of direct insurance operations		33.1	29.5	33.1	29.5
Debtors arising out of reinsurance operations		10.1	4.9	10.1	4.9
Other debtors		203.4	44.2	238.7	58.6
		246.6	78.6	281.9	93.0
Other assets					
Cash at bank and in hand		32.6	23.7	15.8	12.2
		32.6	23.7	15.8	12.2
Prepayments and accrued income					
Accrued interest and rent		202.4	208.5	202.0	207.8
Other prepayments and accrued income	14	1.2	1.9	1.2	1.8
		203.6	210.4	203.2	209.6
Total assets		**18,359.4**	**18,969.0**	**18,336.9**	**18,934.4**

The notes on pages 23 to 49 form an integral part of these financial statements.

Balance Sheets
As at 31 December 2004

Liabilities

	Notes	Group 2004 £m	Group 2003 £m	Society 2004 £m	Society 2003 £m
Subordinated liabilities	15	170.3	348.3	167.1	346.2
Fund for future appropriations	16	556.4	552.0	547.4	542.2
Technical provisions	17a				
Long-term business provision - gross amount		14,231.7	14,833.8	14,206.8	14,808.5
Claims outstanding		7.0	1.0	7.0	1.0
Linked liabilities		3,010.4	3,028.4	3,010.2	3,028.2
		17,249.1	17,863.2	17,224.0	17,837.7
Provisions for other risks and charges	18	64.2	63.1	64.0	63.1
Creditors					
Creditors arising out of direct insurance operations		54.5	53.9	53.7	53.3
Amounts owed to credit institutions	19a	25.6	26.8	25.6	26.8
Other creditors including taxation and social security	19b	200.9	25.8	228.1	41.6
		281.0	106.5	307.4	121.7
Accruals and deferred income		38.4	35.9	27.0	23.5
Total liabilities		**18,359.4**	**18,969.0**	**18,336.9**	**18,934.4**

These accounts were approved by the board on 31 March 2005 and were signed on its behalf by:

Vanni Treves
Chairman

Charles Thomson
Chief Executive

The notes on pages 23 to 49 form an integral part of these financial statements.

Notes on the Accounts

1. Accounting policies

Basis of presentation

The Accounts have been prepared in accordance with sections 255 and 255A of, and Schedule 9A to, the Companies Act 1985 and in accordance with applicable accounting standards and the Association of British Insurers' Statement of Recommended Practice (SORP) on Accounting for Insurance Business dated November 2003. The true and fair override provisions of the Companies Act have been invoked; see valuation of investments below.

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 pages 15 and 16.

The Directors have reviewed the accounting policies and satisfied themselves as to their appropriateness. There are no material changes from the prior year.

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, including HECM Customer Services Ltd, Halifax Life Ltd and Clerical Medical Investment Group (Holdings) Ltd.

Basis of consolidation

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

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

Earned premiums

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

All pension policies 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.

Reassurance contracts

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

Investment income

Interest income is included on an accruals basis.

Dividends are included by reference to ex-dividend dates.

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

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

Realised gains and losses on investments

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

Unrealised gains and losses on investments

Unrealised gains and losses on investments represent the difference between the valuation 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.

Claims incurred

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.

Bonuses

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

Deferral of acquisition costs

To the extent that past acquisition costs are recoverable from future loadings these are deferred and amortised over the pattern of receipt of these future loadings. Other acquisition costs are expensed in the Profit and Loss Account.

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.

Valuation of investments

Investments, including assets held to cover linked liabilities are stated at current value at the Balance Sheet date, calculated as follows:

- Freehold and leasehold properties are valued individually by qualified surveyors on the basis of open market value, account being taken of the estimated cost of disposal.
- Investments in limited partnerships are held at net asset value.
- No depreciation is provided in respect of investment properties. The Directors consider that this accounting policy is appropriate for the Accounts to give a true and fair view as required by SSAP 19 (Accounting for Investment Properties). Depreciation is only one of the factors reflected in the annual valuations and the amount which might otherwise have been shown cannot be separately identified or quantified.
- Listed securities are stated at the middle market value.
- Unit trust units are stated at bid value.
- Short-term deposits are included at cost.
- Unlisted investments are stated at Directors' valuation which are generally valued using local industry valuation guidelines.
- Investments in subsidiaries are held at net asset value.
- Securities lent, where substantially all the risks and rewards of ownership remain with the Society, are retained on the balance sheet. Collateral received in respect of securities lent is not recorded on the balance sheet.

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

The long-term business provision for the Group is agreed by the Directors of each entity following, in each case, the annual investigation of the long-term business. For the Society and University Life, the long-term business provision is calculated using the gross premium method of valuing the liabilities. Provisions for overseas business are calculated on a UK basis.

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

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

Fund for Future Appropriations

The Fund for Future Appropriations represents the amount, which is available for future bonuses of various kinds in excess of the levels allowed for in the technical provisions.

Foreign currency translation

Assets and liabilities in foreign currencies are expressed in sterling at the exchange rates ruling at 31 December 2004. Revenue transactions and those relating to the acquisition and realisation of investments have been translated at rates of exchange ruling at the time of the respective transactions. Exchange gains and losses arising on retranslation of overseas operations are taken directly to the fund for future appropriations.

Segmental reporting

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

2. Earned premiums

	Group 2004 £m	Group 2003 £m
a. Analyses of gross premiums written are as follows:		
Individual premiums	236.4	295.1
Premiums under group contracts	37.9	67.6
	274.3	**362.7**
Regular premiums	149.2	182.5
Single premiums	125.1	180.2
	274.3	**362.7**
Premiums from non-profit contracts	56.2	72.1
Premiums from with-profits contracts	116.3	171.5
Premiums from linked contracts	101.8	119.1
	274.3	**362.7**
Premiums from life business	59.5	70.0
Premiums from annuity business	3.9	6.6
Premiums from pension business	209.8	285.0
Premiums from permanent health business	1.1	1.1
	274.3	**362.7**
Premiums from UK business	268.5	357.4
Premiums from overseas business	5.8	5.3
	274.3	**362.7**
b. Gross new business premiums		
Individual premiums	132.8	169.3
Premiums under group contracts	9.3	22.7
	142.1	**192.0**
Regular premiums	17.0	11.8
Single premiums	125.1	180.2
	142.1	**192.0**
Premiums from non-profit contracts	25.7	32.3
Premiums from with-profits contracts	76.1	111.0
Premiums from linked contracts	40.3	48.7
	142.1	**192.0**
Premiums from life business	0.8	0.1
Premiums from annuity business	0.4	0.7
Premiums from pension business	140.9	191.2
	142.1	**192.0**
Premiums from UK business	142.1	192.0
Premiums from overseas business	-	-
	142.1	**192.0**

Annual equivalent premiums in respect of new business received during the year were £29.5m (2003: £29.8m). New premiums in respect of reassured business during the year were £40.3m (2003: £48.7m).

Classification of new business

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

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

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

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 has effectively transferred the risks and rewards in respect of the reinsured business to HBOS.

Premiums received from policyholders in respect of reinsured business are immediately forwarded to HBOS. Similarly, HBOS reimburse the Society for any claims 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.

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

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

Ongoing outward reinsurance premiums paid under the contracts during 2004 were £128.7m (2003: £188.7m).

The reinsurance balance, as required to be disclosed by the Companies Act 1985, and as defined by the 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 £213.2m (2003: £287.2m), is a net credit of £1.5m (2003: £1.2m credit).

4. Total investment return

	Group	
	2004	2003
	£m	£m
a. Investment income comprises income from:		
Land and buildings	58.5	78.5
Other investments	813.5	862.7
	872.0	941.2
Gains on realisation of investments	75.1	229.7
	947.1	**1,170.9**
b. Investment expenses including interest comprise:		
Investment management expenses	16.0	19.3
Interest charges		
Bank loans and overdrafts	0.4	0.4
Other loans	28.0	28.0
	44.4	**47.7**

	Group	
	2004	2003
	£m	£m
c. Investment activity account		
Investment income	872.0	941.2
Realised investment gains	75.1	229.7
Unrealised investment gains / (losses)	339.6	(476.6)
	1,286.7	694.3
Investment management expenses and charges	(44.4)	(47.7)
Investment return for the year	**1,242.3**	**646.6**

5. Other technical income and charges

	Group	
	2004	2003
	£m	£m
a. Other technical income comprises:		
Income from non-insurance business	5.4	12.4
Other income	2.1	2.1
	7.5	**14.5**

b. Other technical charges:

Other technical charges of £5.6m (2003: £3.0m) comprise expenses for non-insurance business of subsidiary companies.

6. Claims incurred - gross

	Group	
	2004 £m	2003 £m
Claims paid - gross amount	2,206.0	3,747.7
Change in provision for claims	6.0	(42.9)
Gross claims	**2,212.0**	**3,704.8**

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

	Group	
	2004 £m	2003 £m
Gross claims paid comprise:		
On death	45.9	58.2
On maturity	683.6	1,155.9
On surrender	834.9	1,787.9
By way of periodic payments	643.7	695.8
Claims handling expenses	3.9	7.0
	2,212.0	**3,704.8**
Life and annuity business	246.6	494.0
Pension business	1,961.5	3,203.8
Claims handling expenses	3.9	7.0
	2,212.0	**3,704.8**
Linked business	392.4	546.1
Non-profit business	364.4	375.8
With-profits business	1,451.3	2,775.9
Claims handling expenses	3.9	7.0
	2,212.0	**3,704.8**
UK business	2,147.1	3,613.3
Overseas business	61.0	84.5
Claims handling expenses	3.9	7.0
	2,212.0	**3,704.8**

Attributable final and interim bonuses for the Society and University Life were £58.6m (2003: £171.5m).

7. Net operating expenses

	Group 2004 £m	Group 2003 £m
a. Non-exceptional		
Change in deferred acquisition costs (see Note 8)	-	6.0
Acquisition costs	0.5	0.7
Administrative expenses	53.5	62.9
	54.0	**69.6**

Acquisition costs reflect the expenses incurred in processing new business and drawing up insurance documents. The Society has been closed to new business since 8 December 2000 and continues to administer existing policies.

b. Exceptional

The Group incurred the following exceptional expenses during the year:

	Group 2004 £m	Group 2003 £m
Rectification and other GAR-related expenses	34.7	12.7
Costs of pursuing litigation against third parties	8.4	7.9
Administration and legal costs of Non-GAR leavers review	0.6	6.4
Other projects	7.4	5.2
Former staff pension scheme costs	20.7	(0.5)
Additional write down of deferred acquisition costs	-	12.0
	71.8	**43.7**

The litigation costs of £8.4m (2003: £7.9m) include an amount of £2.5m (2003: £2.7m) for litigation support services shown in Note 7c below, within the table of non-audit fees payable to PricewaterhouseCoopers LLP (PwC).

The exceptional costs of £20.7m in respect of the former staff pension scheme principally relate to the impact of changes to mortality expectations of the scheme's members in the light of revised mortality tables.

c. Expenses include:

The Group audit fees and expenses, inclusive of VAT, of £1,343,000 (2003: £915,000) comprised £988,000 (2003: £857,000) in respect of statutory audit and £355,000 (2003: £58,000) in respect of regulatory matters, including costs relating to the introduction of new regulatory reporting requirements. The element of the total fees and expenses relating to the Society was £1,259,000 (2003: £857,000).

The fees payable to PwC in respect of non-audit fees, inclusive of VAT and expenses, were £3.2m (2003: £3.8m) all of which related to the Society.

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 to do so, the Society's regular commitments procedures are followed and the Audit Committee ensures that auditor independence is preserved.

The non-audit fees, including VAT and expenses related to services in the following areas:

	Group 2004 £m	Group 2003 £m
Further assurance services:		
Review of interim accounts and other accounting advice	0.2	0.2
Tax advisory services	0.2	0.5
Other non-audit services:		
Governance and compliance work	-	0.2
Services to support litigation against third parties	2.5	2.7
Other services:		
Secondment of staff to administration and special projects	-	0.1
Other services	0.3	0.1
	3.2	3.8

Other services of £0.3m (2003: £0.1m) were mainly incurred in connection with Society's new regulatory reporting requirements. Other services in 2003 were mainly incurred in connection with employment agency advice.

8. Deferred acquisition costs

In 2003, the Group considered its ability to recover acquisition costs in future periods from margins arising on existing business and, as a result, has written off all costs with an exceptional charge of £12m (see Note 7b). This was in addition to the annual amortisation of £6m (see Note 7a). At 31 December 2003 no acquisition costs were deferred, consequently there are no similar charges in 2004.

9. Directors and employees

	Group 2004 £m	Group 2003 £m
a. Staff costs		
Wages and salaries	3.2	3.1
Social security costs	0.4	0.3
	3.6	**3.4**

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 23 (2003: 18).

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.

c. Former staff pension arrangements

The Society is contractually committed to meeting the major part of the funding in respect of the pension schemes for those staff transferred to the employment of HBOS as a result of the sale transaction. An amount of £64m (2003: £63m) has been 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 2001, as modified for relevant changes to the Balance Sheet date. An additional provision of £48.3m (2003: £32.9m), representing an estimate of the current value of the contractual commitment to HBOS in respect of future service costs over the next 12 years (2003: 13 years), is included within technical provisions for long-term business. These contractual commitments to HBOS arise as part of the agreement entered into with HBOS in March 2001 when the Society sold to HBOS its administrative and sales operations. Finalisation of the triennial actuarial valuation at 31 December 2004 is expected later this year.

10. Taxation

	Group	
	2004 £m	2003 £m
a. Taxation charged to the technical account		
UK corporation tax		
Current tax on income for the period	6.5	0.9
Adjustments in respect of previous years	2.4	(20.7)
	8.9	(19.8)
Foreign tax		
Current tax on income for the period	0.2	1.4
Deferred tax		
Unrealised gains on investments	0.5	0.3
Accelerated capital allowances	-	(0.2)
Deferred expenses carried forward	1.8	1.6
	2.3	1.7
Total charge / (credit)	**11.4**	(16.7)

The UK corporation tax charge is provided at rates between 20% and 22% (2003: 20% and 22%) computed in accordance with the rules applicable to life assurance companies whereby no tax is charged on pension business profits.

	Group		Society	
	2004 £m	2003 £m	2004 £m	2003 £m
b. Deferred taxation				
Provided in the accounts:				
Deferred tax of the long-term fund				
Accelerated capital allowances	(0.6)	(0.6)	(0.6)	(0.6)
Unrealised appreciation in investments	(0.8)	(0.3)	(0.6)	(0.1)
Deferred expenses carried forward	2.0	3.8	2.0	3.8
	0.6	2.9	0.8	3.1

	Group		Society	
	2004 £m	2003 £m	2004 £m	2003 £m
c. Deferred taxation				
Not provided in the accounts:				
Deferred tax of the long-term fund				
Unrealised appreciation in investments	-	0.6	-	0.6
	-	0.6	-	0.6

Deferred taxation not provided for in the accounts represents the proportion of unrealised losses in excess of anticipated future gains. There are no such losses in 2004.

11. Non-linked investments

	Current value		Cost	
	2004 £m	2003 £m	2004 £m	2003 £m
a. Land and buildings				
Group				
Leasehold	214.1	391.1	192.3	367.9
Freehold	599.5	945.7	518.4	896.1
	813.6	**1,336.8**	**710.7**	**1,264.0**
Society				
Leasehold	214.1	313.4	192.3	292.3
Freehold	592.4	921.1	511.3	875.8
	806.5	**1,234.5**	**703.6**	**1,168.1**

Independent professional valuers have valued the Group's and the Society's properties individually. The properties are included in these Accounts at those valuations. The valuations of commercial properties were carried out by Jones Lang Lasalle. During

2004, a number of the Society's property limited partnerships, with a value of £420m, have converted to Property Unit Trusts. In addition, £63m 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 £483m from "Land and buildings" to "Shares and other variable yield securities and units in unit trusts". Total property-related investments at 31 December 2004 are £1,482m (2003: £1,434m).

	Society			
	Current value			Cost
	2004	2003	2004	2003
	£m	£m	£m	£m
b. Investments in Group undertakings				
Shares	14.2	13.3	16.7	30.2
Loans	5.0	104.7	5.0	102.0
	19.2	**118.0**	**21.7**	**132.2**

On 20 September 2002, the Society transferred one leasehold property interest to a limited partnership within the Group, increasing loans by £81.2m. The Society subsequently sold its interest in this limited partnership in February 2004.

	Current value		Cost	
	2004	2003	2004	2003
	£m	£m	£m	£m
c. Other financial investments				
Group				
Shares and other variable yield securities and units in unit trusts[1]	1,075.5	569.7	974.6	697.8
Debt and other fixed-income securities[2]	12,077.4	12,488.1	11,672.6	12,130.7
Loans secured by mortgages	2.1	3.2	2.1	3.2
Loans secured by policies	1.5	2.0	1.5	2.0
Deposits with credit institutions	521.1	858.3	533.0	871.1
Other investments	0.4	0.4	0.4	0.4
	13,678.0	**13,921.7**	**13,184.2**	**13,705.2**

	Current value		Cost	
	2004	2003	2004	2003
	£m	£m	£m	£m
Society				
Shares and other variable yield securities and units in unit trusts[1]	1,056.2	552.0	955.7	682.9
Debt and other fixed-income securities[2]	12,055.4	12,465.0	11,650.6	12,107.5
Loans secured by mortgages	2.1	3.2	2.1	3.2
Loans secured by policies	1.5	1.9	1.5	1.9
Deposits with credit institutions	509.9	847.0	521.6	859.8
Other investments	0.4	0.4	0.4	0.4
	13,625.5	**13,869.5**	**13,131.9**	**13,655.7**

Investments of £3,663.4m (2003: £2,485.1m), which have been lent in the normal course of business to authorised money brokers on a secured basis, are included in other financial investments. Similar investments of £3,846.4m (2003: £2,571.9m) were received as collateral from the broker. Income earned on stock lending during the year, net of fees paid, was £1.8m (2003: £1.7m).

[1] Includes listed investments of £194.6m (2003: £202.4m) for the Group and £183.0m (2003: £190.2m) for the Society at current value.

[2] Includes listed investments of £12,021.7m (2003: £12,433.0m) for the Group and £11,999.7m (2003: £12,409.9m) for the Society at current value.

12. Assets held to cover linked liabilities

	Group 2004 £m	Group 2003 £m	Society 2004 £m	Society 2003 £m
Current value of linked assets	**696.6**	**680.3**	**696.4**	**680.1**

The cost of assets held to cover linked liabilities is £520.1m (2003: £543.6m) for the Group and £520.1m (2003: £543.6m) for the Society. In respect of the Society, assets relate to index linked business only.

13. Debtors

	Group 2004 £m	Group 2003 £m	Society 2004 £m	Society 2003 £m
Debtors arising out of direct insurance operations				
Amounts owed by policyholders	33.1	29.5	33.1	29.5
Debtors arising out of reinsurance operations	10.1	4.9	10.1	4.9
Other debtors				
Debtors other than Group and related companies	202.2	38.3	202.9	37.2
Deferred tax	0.8	3.0	0.8	3.2
Outstanding sales of investments	0.4	2.9	0.4	2.0
Balances with group companies	-	-	34.6	16.2
	203.4	44.2	238.7	58.6
	246.6	**78.6**	**281.9**	**93.0**

Included within other debtors is an amount of £175.5m transferred to the Society's tender agent for the settlement of the invitation to purchase subordinated guaranteed bonds (see Note 15).

14. Other prepayments and accrued income

	Group 2004 £m	Group 2003 £m	Society 2004 £m	Society 2003 £m
Prepayments	**1.2**	**1.9**	**1.2**	**1.8**

15. Subordinated liabilities

	Group 2004 £m	Group 2003 £m	Society 2004 £m	Society 2003 £m
Amounts falling due after more than five years	**170.3**	**348.3**	**167.1**	**346.2**

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 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, on the due date (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. The measure of RMM is in accordance with previous FSA regulatory rules and continues to be applicable to the Group's ability to make payments under the Trust Deed.

Following an invitation by the Society to holders of the Bonds, an amount of £175.5m was paid on 4 January 2005 as settlement of accepted, tendered Bonds, representing a principal value of £179.1m at a price of £980 per £1,000 of Bonds tendered. Accordingly, the amount payable for the cancelled Bonds are shown as other creditors at the balance sheet date (see Note 19). The resulting gain will be recognised in 2005.

16. Fund for future appropriations

	Group 2004 £m	Group 2003 £m	Society 2004 £m	Society 2003 £m
Movement in the year				
At 1 January	552.0	554.3	542.2	556.2
Transfer from/(to) the Profit and Loss Account	4.6	(2.4)	5.4	(14.1)
Exchange (loss)/gain on retranslation of overseas operations	(0.2)	0.1	(0.2)	0.1
At 31 December	**556.4**	**552.0**	**547.4**	**542.2**

17. Technical provisions

a. Gross technical provisions movement

	Group 2004 £m	Group 2003 £m	Society 2004 £m	Society 2003 £m
At 1 January				
Long-term business provision	14,833.8	17,287.8	14,808.5	17,260.8
Claims outstanding	1.0	43.9	1.0	43.9
Provisions for linked liabilities	3,028.4	3,045.7	3,028.2	3,045.5
	17,863.2	20,377.4	17,837.7	20,350.2
Retranslation of opening foreign branch technical provisions	0.5	18.5	0.5	18.5
Change in long-term business provision	(602.6)	(2,472.5)	(602.2)	(2,470.8)
Change in provision for claims	6.0	(42.9)	6.0	(42.9)
Change in technical provisions for linked liabilities	(18.0)	(17.3)	(18.0)	(17.3)
At 31 December	**17,249.1**	**17,863.2**	**17,224.0**	**17,837.7**
At 31 December:				
Long-term business provision	14,231.7	14,833.8	14,206.8	14,808.5
Claims outstanding	7.0	1.0	7.0	1.0
Provisions for linked liabilities	3,010.4	3,028.4	3,010.2	3,028.2
	17,249.1	**17,863.2**	**17,224.0**	**17,837.7**

b. The long-term business provision

The long-term business provisions for the Society and University Life have been calculated using the gross premium method of valuing the long-term, non-linked liabilities. The provisions are based on guaranteed benefits only and do not include non-guaranteed final bonuses. The technical provisions have been calculated on the actuarial bases considered most appropriate by the Board. The principal assumptions and the comparatives at 31 December 2003 are shown in the table below.

Actuarial bases have been modified in respect of valuation interest rates, valuation term assumptions, mortality assumptions and the future expense allowances. Explanations of the effect of those changes are set out in Notes i, ii, iii and iv below.

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

Class of business	Interest rate % 2004	Interest rate % 2003	Future expense allowance 2004	Future expense allowance 2003
Endowment assurances (with-profits)				
Basic Life and General Annuity business	3.500	2.000	3.00% of premium	3.00% of premium
Pension business	4.400	2.500	4.00% of premium	4.00% of premium
Recurrent single premium (with-profits)				
Life business	3.500	3.875	See Note ii	See Note ii
Pension annuities in payment	4.400	4.875	See Note ii	£70 p.a.
Pension business - old series	4.400	4.875	See Note ii	See Note ii
Pension business - new series	4.400	4.875	See Note ii	See Note ii
Non-profit annuities in payment				
Basic Life and General Annuity business - pre 1992	4.600	4.875	See Note ii	£50 p.a.
Basic Life and General Annuity business - post 1991	4.100	4.375	See Note ii	£50 p.a.
Pension business	4.600	4.875	See Note ii	£50 p.a.

i. 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 yields decreased during 2004, and the valuation interest rates have also decreased. In previous years, valuation interest rates on endowment assurances have been lower than those for recurrent single premium pension business in order to satisfy a technical requirement of the valuation regulations. That technical requirement has now been removed and, to ensure consistent valuation interest rates across the business, the valuation interest rates for endowment business have been increased. The effect of the removal of the technical requirement is to decrease the technical provisions by approximately £25m. The changes to the valuation interest rates in aggregate have increased the technical provisions by approximately £350m, including a strengthening of technical provisions of circa £60m to reflect changes to the regulations relating to resilience reserves. Similarly, the market value of the backing assets has increased as yields have risen and because of the close matching of assets and liabilities there is little net effect on the fund for future appropriations. There is no allowance for future discretionary increases to guaranteed benefits.

ii. The aggregate amount for ongoing expenses, grossed up for taxation where appropriate, allowed for in the calculation of the long-term business provisions for the next twelve months, is £50m (2003: £58m). The amount included for each successive year allows for the effect of inflation and policy exits at a rate consistent with policy terms.

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

- For with-profits recurrent single premium business and annuities in payment, expenses are allowed for by an explicit per policy expense differing by policy type, increasing by 3.0% p.a. (2003: 3.75% p.a.) and an expense allowance for fund management, expressed as a percentage of the value of the fund. The amount allowed for expenses has been assumed to increase by an extra 2.5% p.a. to allow for diseconomies of scale as the size of the business declines.

- For other business, expense allowances are a percentage of future premiums. For certain assurance contracts, the discounted value of a policy fee of £3.00 p.a. is included in the provision.

iii. The mortality assumptions are detailed in the table below. An analysis of mortality experience has been carried out and a number of changes have been made to the mortality assumptions. The most significant change has been to have different assumptions for future mortality experience of with-profits pension annuitants and of non-profit pension annuitants reflecting differences in past experience. The effect of the change in mortality assumptions has been to increase the technical provisions by £62m.

A sensitivity analysis has been carried out in connection with the effect of a change in mortality basis on the technical provisions and that has demonstrated that a 10% change in the mortality basis would result in a £165m change in the long-term business provisions. That is equivalent to the life expectancy of a 65-year-old male increasing by an additional 10 months.

Mortality assumptions by class of business	2004	2003
Endowment assurances (with-profits)		
Basic Life and General Annuity business	65% AM92 ultimate for males	100% AM80 ultimate for males
	90% AF92 ultimate for females	100% AF80 ultimate for females
Pension business	65% AM92 ultimate for males	100% AM80 ultimate for males
	90% AF92 ultimate for females	100% AF80 ultimate for females
Recurrent single premium (with-profits)		
Pension annuities in payment	80% PMA92MC (U=2013) for males	100% PMA92MC (U=2012) for males
	75% PFA92MC (U=2011) for females	100% PFA92MC (U=2010) for females
Non-profit annuities in payment		
Basic Life and General Annuity business	85% IMA92 (U=2004) for males	85% IMA92 (U=2003) for males
	100% IFA92 (U=2004) for females	100% IFA92 (U=2003) for females
Pension business	100% PMA92MC (U=2013) for males	100% PMA92MC (U=2012) for males
	100% PFA92MC (U=2011) for females	100% PFA92MC (U=2010) for females

iv. An investigation into the ages at which policyholders take their benefits from with-profits policies has been carried out and, as a result of that investigation, the assumed term in the valuation assumptions for several policy classes has been changed to reflect current policyholder behaviour. For group pensions business and individual pensions business, it has now been assumed that benefits are taken 4 years earlier than the normal retirement date rather than at normal retirement date. There are no changes to the assumptions for other policy classes. The changes to the term assumption for group and individual pensions have increased the technical provisions by around £90m. In addition, to meet the explicit requirements of the FSA's Prudential Source Book, the Society has amended the actuarial basis used to reserve for policies with an option to take an immediate surrender value, with a resultant increase in technical provisions of £60m. Technical provisions have also been increased by £50m for the estimated cost of guarantees arising under guaranteed minimum pension rules applicable to certain transfer policies.

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

- An amount of £240m (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. The principal reduction in the provision is as a result of further assessment and settlements during the year.
- Anticipated additional exceptional expenses of £138m (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, litigation being pursued against third parties and anticipated additional costs associated with servicing policies in the medium term.
- A provision for future cost increases of £45m (2003: £Nil) due to the potential introduction of VAT on outsourced administration services. This follows a recent European Court judgment which is likely to change existing UK VAT practice.
- An amount of £6m (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 AVC's.
- An amount of £193m (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.

c. 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 (see note 3).

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 shown above for non-profit annuities in payment and using an interest rate of 1.700% p.a. (2003: 1.875% p.a.) for pension business, 1.700% p.a. (2003: 1.875% p.a.) for pre-1992 general annuity business and 1.450% p.a. (2003: 1.625% p.a.) for post-1991 general annuity business.

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

18. Provision for other risks and charges

	Group		Society	
	2004 £m	2003 £m	2004 £m	2003 £m
Provisions for deferred taxation	0.2	0.1	0.0	0.1
Former staff pension commitments	64.0	63.0	64.0	63.0
	64.2	**63.1**	**64.0**	**63.1**

The movement in the provisions for deferred taxation assets and liabilities is included in Note 10a.

Repayments in line with the contractual agreement with HBOS as described in Note 9c of £18.7m have been made during the year. This has been offset by the impact of reflecting changes to the scheme's liabilities in light of revised mortality expectations (see Note 7b) resulting in a net increase of £1m.

19. Creditors

	Group		Society	
	2004 £m	2003 £m	2004 £m	2003 £m
a. Amounts owed to credit institutions				
Bank overdrafts	**25.6**	**26.8**	**25.6**	**26.8**

The bank overdraft was partly matched by an amount of £16.5m (2003: £19.0m) placed in an assigned account owned by HSBC. The amount is included in debtors in note 13.

	Group		Society	
	2004 £m	2003 £m	2004 £m	2003 £m
b. Other creditors including taxation and social security				
Outstanding purchases of investments	1.6	0.2	1.6	0.2
Balances with group companies	-	-	29.2	22.1
Corporation tax	13.6	9.0	13.6	9.0
Other creditors	185.7	16.6	183.7	10.3
	200.9	**25.8**	**228.1**	**41.6**

Included within other creditors is an amount of £175.5m payable for the cancelled subordinated guaranteed bonds, which were settled on 4 January 2005 (see Note 15).

20. Subsidiary and associated undertakings

a. Principal subsidiary undertakings

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

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

The above holdings are of ordinary shares. Both companies are incorporated in the UK. During 2003 the Society had an interest in the loan capital of Covent Garden Retail LP, a property investment vehicle. The Society sold its interest in this limited partnership on 13 February 2004. Other holdings in subsidiary undertakings do not materially affect the results or assets of the Group.

b. Significant holdings

At 31 December 2004, the Group and the Society held more than 20% of the nominal value of a class of equity shares in 16 (2003: 20) companies.

At 31 December 2004, the Group and the Society held more than 20% of the partnership interests in 1 (2003: 5) limited partnership investing in properties. In 2003 these assets were disclosed with Land and Buildings. During the year, 4 of those holdings were transferred to Unit Trusts. Both the remaining Limited Partnership and the Unit Trusts are now classified as Shares and other variable yield securities. (See Note 11a).

At 31 December 2004, the Group and Society held more than 20% of the partnership interest in 10 (2003: 12) 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 affect 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 Society's share of the 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.

21. Related party transactions

There were no material related party transactions during 2004 (2003: nil).

22. Commitments

The Society has no material operating lease commitments.

Property investment commitments not provided for in the Accounts amounted to £65.8m (2003: £87.1m) for the Group and for the Society. The commitment is to finance the estimated costs of developments to completion and final costs may be more than currently expected.

Commitments in respect of uncalled capital on certain investments not provided for in the Accounts amounted to £56.8m (2003: £93.5m) for the Group and for the Society.

23. Contingent liabilities and uncertainties

The Society has made appropriate provisions for 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, as discussed in the Financial Review on pages 9 to 18, in the context of the amount of the balance of the Fund for Future Appropriations, the potential impact of the range of uncertainties relating to the provisions is significant.

FOS issued a final determination on 22 March 2005, which rejects the Society's approach to redress for claims by certain former non-GAR policyholders. The Society is reviewing the determination and, although there remains some uncertainty, the Board has concluded that its provision is adequate and that no material adverse financial consequences should result from the application of the determination.

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 failed to agree the final amount of assets transferable in respect of this initial premium. The Society has provided in its financial statements an amount considered appropriate to satisfy its estimated liability for any balance of assets to be transferred. As the Society was unable to reach agreement with HBOS as to the relevant amount of the initial premium, it was agreed in March 2004 that the matter be referred to an umpire for resolution, as contemplated by the reassurance arrangement in the event of a dispute arising. The umpire has not yet completed his deliberations.

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 financial statements. The Board has therefore concluded that it remains appropriate to prepare these financial statements on a going concern basis.

In addition, as noted in the Financial Review on pages 15 and 16 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. The potential additional claims are as follows:

- As reported in last year's financial statements, the report of the Equitable Life inquiry, led by Lord Penrose, was published in 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 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 particular, Lord Penrose referred to the relationship between aggregate policy values and aggregate assets. This is also an issue in the Society's litigation against its former directors and auditors. 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. The Board has also 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. FOS announced on 22 March 2005 that it will not investigate such complaints.

  Although some complaints have been received by the Society that have included matters commented upon by Lord Penrose, there has only been a small number of complaints received arising directly out of the report by Lord Penrose.

  Following publication of the report, the Parliamentary Ombudsman announced in July 2004 her decision to open a new investigation. It is an inquiry that is independent of the Government and can recommend to Parliament compensation payable by the Government, but cannot require the Society to take any particular action. However, the terms of reference of the inquiry's report will 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 Parliamentary Ombudsman announced that she expects to publish her report in 2005.

- Both Lord Penrose and the Treasury asked the Serious Fraud Office (SFO) to consider certain issues in Lord Penrose's report. Following the conclusion of SFO's deliberations, which commenced in 2003, as to whether it should undertake an investigation, potential claims could arise as a result of any criticism of the conduct of the Society or its former management and advisers. There have been no developments of which the Society is aware.

- The Institute of Chartered Accountants of England and Wales has initiated disciplinary proceedings against Ernst & Young in respect of its conduct in certain of its audits of the Society. The Institute of Actuaries has also initiated disciplinary proceedings against 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. Both disciplinary proceedings have been deferred until completion of the Society's litigation against its former directors and former auditors. Although these proceedings and investigations cannot result in a requirement for the Society to take any particular action, they may make findings that could influence the way in which claims are presented against the Society.

- In relation to with-profits annuities, there have been a number of complaints made to FOS and to date there have been a very limited number upheld. The FOS approach to these complaints has not been on the basis of generic mis-selling. However, an action has been brought by 421 with-profits annuity policy claimants which does allege, amongst other things, generic mis-selling. Those proceedings have been served and a master Particulars of Claim has been received that raises some issues that are also raised in the Society's litigation against its former directors and auditors. The issues are being carefully considered by the Society which intends to defend the action vigorously.
- The Society holds provisions for various guarantees and options arising under certain policies, including options to surrender early, GARs for a small class of policies and Guaranteed Minimum Pension entitlements for other policies. Although technical provisions are held for all material guarantees or options, there exists the possibility that those provisions may require to be adjusted as a result of an analysis of benefits arising in the case of less commonly occurring policies or where special practices apply.
- As noted in last year's financial statements, 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.
- In April 2002, the Society announced that it was to begin legal action against 15 former directors, being certain directors who had served on its previous Boards at various times between 1993, when the original decision was taken to implement differential terminal bonuses, and 2000, when the House of Lords made its ruling that such differentiation was unlawful. Also, in April 2002, the Society announced that it would take legal action against the Society's previous auditors, Ernst & Young. The trial against its former directors and auditors is expected to start in April 2005. The Society has provided in its financial statements for legal and other expenses incurred and those expected to be incurred for this litigation. It has not provided for the expenses of any resultant appeal or for the costs of the defendants in the event that the Society loses against such defendant and the court orders payment of costs to that defendant. In the course of the trial, matters may arise which may influence the way in which claims are presented against the Society by policyholders.

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 financial statements 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 CRR (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 15 to the financial statements.