THE EQUITABLE LIFE ASSURANCE SOCIETY

FOUNDED 1762

Board of Directors

President

J R Sclater CVO

Vice-Presidents

A G Tritton DL

I P Sedgwick

P A Davis

Peter Martin

A Nash

Miss J A Page CBE

D W J Price

J F Taylor

D G Thomas

D W Wilson

General Management

Managing Director and Actuary

A Nash

General Managers

R Q Bowley

C P Headdon

M C A Jones

P Stone

D G Thomas

J M Weller

Directors' Report for 1998

Principal activities

The Equitable Life Assurance Society (the Society) is the ultimate holding company of the Equitable Group of companies (the Group). The principal activities of the Group during 1998 were the transaction of life assurance, annuity, pension and permanent health insurance business in the form of guaranteed, participating and unit-linked contracts, and other financial services.

Financial results

The Society

Earned premiums, net of reinsurance, were £3,729.5m compared with £3,452.1m in 1997. Expenses before deferral of acquisition expenses amounted to £150.8m (*1997 £141.6m*).

The amount of the technical provisions comprising long-term business provision, net of reinsurance, and technical provisions for linked liabilities, increased to £25,043.2m from £21,500.1m. The market value of the assets supporting the technical provisions was £28,068.5m (*1997 £23,676.4m*).

Equitable Unit Trust Managers Limited (EUTM)

EUTM is a wholly-owned subsidiary of the Society.

Total sales of units of the trusts managed by EUTM, including those bought by the Society to back unit-linked policies, amounted to £348.2m (*1997 £227.4m*) during the year and the value of funds under management at the end of the year was £2,413.3m (*1997 £1,935.4m*).

Permanent Insurance Company Limited (Permanent)

The principal activity of Permanent (a wholly-owned subsidiary of the Society) is the transaction of permanent health insurance.

Earned premiums, net of reinsurance, were £44.1m (*1997 £41.0m*).

University Life Assurance Society (University Life)

The Society owns all the shares of this company which ceased transacting new business some years ago. The Society is entitled to 10% of the surplus distributed at each declaration, these currently taking place every three years, and of the surplus distributed as interim and terminal bonuses during each triennium. The most recent valuation for the purpose of establishing the amount of distributable surplus was made as at the end of 1996.

The Society is paid a fee for the services provided to University Life which has no staff of its own and this fee is set against the corresponding incurred expenses.

Valuation and bonus declaration

In accordance with the Society's Articles of Association and insurance company legislation, the Society's Appointed Actuary carried out a valuation of the assets and liabilities of the Society as at 31 December 1998. In the light of the results of that valuation, the Directors decided to allocate declared bonuses with a value of £363.4m (*1997 £508.1m*) from the surplus revealed by the valuation.

In the light of the significant reductions in income yields on both fixed-interest securities and equity shares over 1998 and the likelihood of continuing low income yields in future years, the Directors have decided that it is appropriate to declare lower rates of bonus for 1998 than were declared a year ago in respect of 1997.

For example, the rate of declared bonus on the current series of personal pension plans for 1998 was 5% (*1997 6½%*). For older policies with a 3½% p.a. rate of roll-up guaranteed by the policy, the 1998 declared rate was 1½% (*1997 3%*).

Directors' Report for 1998

continued

The Directors have taken account of the relatively high total return achieved in 1998 by setting the accumulation rates applicable to total policy benefits expressed in cash fund form at a slightly higher level than applied to claims during the year. The rate for U.K. pension contracts for 1998 was 10% (*1997 13%*). The increase in total policy values in excess of the build-up of guaranteed benefits was in the form of final bonus which is a non-guaranteed addition and may be varied at any time before the policy benefits become contractually payable. Bonuses for other classes of policy were set on bases consistent with these rates of return.

Details of the new declared bonuses added to individual policies have been communicated to policyholders in the usual way.

Details of the rates for major classes are given in one of the Society's leaflets, which is available from branch offices on request. A description of the Society's approach to with-profits business is given in the With-Profits Guide, which is similarly available.

Directors

The Directors of the Society during the year were as set out on page 1.

The four Directors retiring at the Annual General Meeting by rotation are Mr P A Davis, Mr J R Sclater, Mr I P Sedgwick and Mr D G Thomas who, all being eligible, offer themselves for re-election.

Details of the Directors seeking re-election, and of the other Directors of the Society, appear on page 2 of the Annual Report and Financial Highlights.

Corporate governance

A statement regarding the Society's approach to corporate governance is given on pages 5 to 8. A statement by the Directors of their responsibilities in respect of the accounts is given on page 9.

Year 2000

Many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions which can arise when either a year is expressed as '00' or when a later year has a lower value than an earlier year; for example, when years 1998, 1999, 2000, 2001 are stored as 98, 99, 00, 01. Any such malfunctions could result in widespread commercial disruption.

The Society has instigated a compliance programme to establish the scope of the risks posed to its business systems and operational infrastructure (buildings, fire and security systems, etc.) by the year 2000 date change and to address these risks.

The Society began its Year 2000 investigation in 1996 and completed testing of the majority of its business critical systems in 1998. The Directors expect all systems to be tested by mid-1999, though testing of business critical systems will continue, in order to confirm continuing compliance, into 2000.

The Society has implemented an evaluation process designed to monitor the Year 2000 status of key suppliers, to minimise business disruption from this source.

Given the complexity of this matter, it is impossible to guarantee that no Year 2000 problems will remain since some level of failure may still occur. However, the Directors believe that the Society will achieve an acceptable state of readiness. A contingency plan will cover the Society's business critical requirements should any relevant third party experience problems in providing services to the Society over the changeover period.

The Year 2000 costs are being treated in accordance with recommended practice and are being written off as incurred. It is estimated that the total costs directly attributable to Year 2000 will amount to £2.5m of which £1.4m had been expended and charged to the Profit and Loss Account by 31 December 1998.

Directors' Report for 1998

continued

Staff

In relation to the employment of disabled persons the Society's policy in 1998 was to give the same consideration to disabled people as to other people, in regard to applications for employment, continuation of employment, training, career development and promotion – having regard to their particular aptitudes and abilities.

During 1998 it was the Society's continuing policy and practice to involve staff by providing and receiving information relevant to the progress, development and performance of the organisation. Matters of concern to staff as employees were communicated through briefing by managers, a system of written circulars (including a monthly core brief), a staff handbook and training courses.

Consultation with staff on matters affecting the interests of staff and the general efficiency of the Society took place in various ways; one of these was through the elected staff representatives on a staff consultative committee which met on five occasions in the year.

All members of staff and executive Directors participate in incentive schemes designed to encourage and reward corporate or individual improvements in performance. Profit-Related Pay Schemes, approved by the Inland Revenue, are in operation for most of the Society's non-field staff. As a mutual company the Society has no employee share scheme in force.

Payment of suppliers of goods and services

It is the Society's policy to agree the terms of payment on commencement of business with all suppliers and to abide by those terms. The proportion of trade creditors included in the Balance Sheet to total supplies invoiced in the year represents 34 days' supplies (*1997 25 days' supplies*).

Auditors

Ernst & Young have expressed their willingness to continue in office as auditors.

John Sclater

President

24 March 1999

John Sclater

Principles of Good Governance

The Society is committed to integrity and professionalism in all its activities. As an essential part of this commitment the Board pursues the highest standards in corporate governance and confirms that the Society has voluntarily adopted the Principles of Good Governance and Code of Best Practice (The Combined Code) appended to the listing rules of the London Stock Exchange.

Directors

The Board

The Board meets regularly, normally monthly, so that it can control key issues and monitor the overall performance of the Society and the Group. The Board decides organisational strategy and has a formal schedule of matters reserved for its decision. Authority is delegated to the Managing Director and Actuary for implementing strategy and for managing the Group. In discharging this responsibility the Managing Director and Actuary works with a General Management Team, comprising all executive Directors and General Managers.

Board Leadership

The Society separates the roles of President and Managing Director. The President and two Vice-Presidents are elected by the Board. One Vice-President is nominated as the senior independent non-executive Director.

Board Balance
Size and Composition

The Society's practice is for the majority of Directors to be non-executive.

Independence of non-executive Directors

The Board considers that independent non-executive Directors should be free of any business or other relationship which could materially interfere with the exercise of their independent judgement. All the Directors hold policies with the Society but in the view of the Board in no instance do these interfere with the independence of the relevant Director. Accordingly, all non-executive Directors are considered to be independent.

Re-election and term limits

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

The terms of service of executive Directors are in line with those of staff and it is normally required that they relinquish their directorships on retirement or leaving service.

Directors' remuneration

The Board's policy on remuneration is set out in the Remuneration Report.

Board Committees

There are four committees of the Board as set out below.

The Audit Committee, which comprises four non-executive Directors, is chaired by Mr A G Tritton DL. It meets at least three times a year and assists the Board in fulfilling the Board's responsibilities in respect of the accounts, which are set out on page 9. It also reports to the Board on the accounting policies of the Society, the contents of annual reports and accounts, the conclusions drawn from internal control reports and the adequacy and scope of the audit. The Auditors attend its key meetings and have direct access to the chairman of the Committee.

The Investment Committee comprises four non-executive and two executive Directors. It normally meets monthly. It is fully involved in strategic asset allocation for the with-profits and managed funds whilst delegating implementation to the General Manager – Investments and his team. It monitors investment results and these are reviewed regularly by the full Board. The Committee retains more detailed control over property investments. The chairman is Mr D W J Price.

The Nominations Committee comprises the President, as chairman, the two Vice-Presidents and the Managing Director and Actuary. It meets as necessary and is responsible for nominating, for the approval of the Board, candidates for appointment to the Board.

Principles of Good Governance

continued

The Remuneration Committee, which is chaired by Mr I P Sedgwick, comprises the President and the two Vice-Presidents. The Committee, which normally meets twice a year, is responsible for recommending to the Board the terms and conditions of employment of Directors including those for executive Directors. It is further responsible for considering management recommendations and advising the Board on the appropriate policy for remuneration and employment terms of the Society's staff, including incentive arrangements for bonus payments.

Supply of information

The President together with the Managing Director and Actuary and the Secretary establish an agenda for each Board meeting. Agenda items are supported by papers distributed five days before the meeting. Executives are available at Board meetings to present papers and to provide answers to questions raised by the Board.

Accountability and Audit

Financial reporting

The Board reviews the Statutory Annual Report and Accounts and the Annual Report and Financial Highlights following detailed review by the Audit Committee and satisfies itself that the reports present a balanced and understandable assessment of the Society's position and prospects.

Internal control

The Directors are ultimately responsible for establishing an appropriate system of internal control for the Society and the Group. Any such system can provide only reasonable but not absolute assurance that there is no material mis-statement or loss. In assessing what constitutes reasonable assurance, the Directors have regard to the materiality of any risks incurred, the likelihood of such risks crystallising and the costs and benefits of particular aspects of the internal control system. During the year the Board reviewed the effectiveness of the systems of internal control.

The main elements of the Society's control framework are as follows:

- An organisational structure which includes clearly defined levels of authority and division of responsibilities.
- An annual presentation to the Board from management responsible for each principal business area.
- A comprehensive system of financial reporting, forecasting and planning.
- A report on the results of the annual valuation by the Appointed Actuary.
- A Risk Management Group which assists the Board in identifying, managing and controlling risk. The Managing Director and three General Managers are currently members of this group, which meets monthly.
- Regular review of significant control issues by the Audit Committee, which receives reports from management and from the Risk Management Group as well as from the Society's external auditors.
- An annual Risks and Controls self-assessment undertaken by management, the results of which are considered by the Risk Management Group and the Audit Committee.
- An annual report on compliance matters by the Society's Compliance Officer.

Going concern

The Directors consider that the Society has adequate resources to continue in business for the foreseeable future. Further, the Society has complied and continues to comply with the appropriate statutory and regulatory requirements. For these reasons, the Board continues to adopt the going concern basis in preparing the accounts.

Statement of Compliance with the Code Provisions

The Society confirms that it complied with the provisions of The Combined Code throughout the year with the following exceptions:

- The senior independent director is indicated for the first time on page 2 of the Annual Report and Financial Highlights (code provision A.2.1).
- The Board does not impose term limits on non-executive Directors (code provision A.6.1). A Director's continued appointment is subject to periodic review by the Nominations Committee at intervals not exceeding five years. The Board considers that such an approach is consistent with the long-term nature and complexity of the Society's business and operates for the benefit of the Society. In any event, Directors are required to seek re-election at General Meetings at least every three years.

Principles of Good Governance

continued

Remuneration Report

The composition and responsibilities of the Society's Remuneration Committee are set out on page 6. The Remuneration Committee's recommendations are made on the basis of rewarding individuals for the size of the jobs they undertake and their performance therein. Proper regard is paid to the need to retain good quality, highly motivated staff at all levels and the remuneration being paid by competitors of the Society is taken into consideration.

The total emoluments of the Directors comprise:

	Notes	Fees and salaries £	Benefits £	Business performance bonus £	Total 1998 £	Total 1997 £
Non-executive Directors						
J R Sclater CVO		45,650	654		46,304	41,300
A G Tritton DL	1	63,480	823		64,303	57,621
T P Sedgwick		30,000	-		30,000	25,000
P A Davis		23,000	-		23,000	21,500
Peter Martin	2	41,293	878		42,171	33,464
Miss J A Page CBE		20,000	142		20,142	18,500
D W J Price		25,500	450		25,950	22,750
J F Taylor	3	26,000	142		26,142	20,000
D W Wilson		20,000	450		20,450	19,340
		294,923	3,539		298,462	259,475
Executive Directors						
A Nash		170,000	9,087	74,559	253,646	227,689
D G Thomas		150,800	7,517	66,138	224,455	239,119
R H Ranson CBE (retired 31.7.97)						219,204
R Q Bowley (retired 31.12.97)						221,630
S M Kinnis (retired 31.7.97)						222,630
		320,800	16,604	140,697	478,101	1,130,272

Notes

1. Includes fees received of £12,850 from a directorship of University Life and £18,130 from a directorship of Permanent.
2. Includes fees received of £14,268 from a directorship of Permanent.
3. Includes fees received of £6,000 from a directorship of Equitable Services and Consultancy.
4. In addition to the sums included in the above table:
   - R Q Bowley retired as a director on 31 December 1997, although he continues to be employed as a General Manager of the Society. His emoluments for the year including benefits and bonuses were £177,886.
   - R H Ranson CBE, a former director was paid £67,167 for consultancy to Equitable Services and Consultancy, fees of £9,000 from a non-executive directorship of Equitable Services and Consultancy and fees of £10,020 from a non-executive directorship of Permanent.

Benefits

Benefits comprise miscellaneous reimbursed expenses and other benefits regarded as taxable. For executive Directors these benefits mainly arise from the provision of a company car. Tax legislation requires that the annual benefit is assessed according to the cost of the car provided and, in the case of A Nash, with reductions for business mileage.

Business Performance Bonus

The Society operates a Business Performance Bonus Scheme for its non-field staff, including therefore its executive Directors. The scheme operates by comparing on an annual basis the actual costs of running the administration of the Society with the amounts available for that purpose from charges in the new and renewal business in the period. Management fees received by the Society for services provided to subsidiary undertakings are also brought into account. A part of any profit thus made is distributed among the non-field staff, including executive Directors, in proportions which vary according to seniority. Payments under the scheme to both non-field staff and executive Directors are non-pensionable. The scheme forms the basis of the Society's approved Profit-Related Pay Schemes for non-field staff including executive Directors. As a mutual company the Society has no employee share scheme in force.

Principles of Good Governance

continued

Service contracts

No Director, executive or non-executive, has a service contract.

Long-term benefits

No share options are given. The Society does not operate any long-term benefits scheme.

Directors' pension entitlements

The executive Directors, two non-executive Directors and some staff participate in the Society's defined benefits pension scheme. The scheme is non-contributory, fully insured under policies held with the Society and governed by an independent trust.

Further details on the defined benefits scheme are shown in Note 8.c.i. in the Notes on the Accounts on page 22 of this document.

The pension entitlements of the Directors are as follows:

	Age at 31.12.98	Years of pension entitlement at 31.12.98	Increase, excluding inflation, in accrued pension during the year £000	Accumulated annual benefit at 31.12.98 £000
J R Sclater CVO	58	13	1.0	9.2
A G Tritton DL	67	22	0.4	5.3
A Nash	50	27	0.8	76.5
D G Thomas	54	33	0.3	82.9

Notes

1. The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 1998 or, if earlier, to retirement date.
2. The Normal Retirement Age for the purposes of the scheme for J R Sclater CVO and A G Tritton DL is 65. Pension entitlement is earned according to the pension formula for each year of service up to retirement.
3. Members of the scheme have the option to pay Additional Voluntary Contributions to secure additional benefit.
4. The funding rate for the Society's defined benefits scheme in 1998 was 15%, which takes sufficient account of the increase in accrued entitlement shown in the table above.
5. Each of the above Directors is married.

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

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

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

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

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

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

Directors' responsibilities in respect of the accounts

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Society and of the Group and of the result of the Society and of the Group for that period.

In preparing those accounts, the Directors are required to:

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

The Directors have complied with the above requirements.

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

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

We have audited the accounts on pages 11 to 32, which have been prepared on the basis of the accounting policies set out on pages 14 to 16.

Respective responsibilities of Directors and Auditors

As described on page 9, the Society's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Society and of the Group as at 31 December 1998 and of the result of the Society and of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor

London
24 March 1999

Profit and Loss Accounts

For the year ended 31 December 1998

Technical Account – Long-term Business

	NOTES	GROUP 1998 £m	GROUP 1997 £m	SOCIETY 1998 £m	SOCIETY 1997 £m
Earned premiums, net of reinsurance					
Gross premiums written	1	3,783.4	3,499.7	3,732.9	3,454.6
Outward reinsurance premiums		(9.6)	(6.4)	(3.4)	(2.5)
		3,773.8	3,493.3	3,729.5	3,452.1
Investment income	2	1,814.4	1,341.3	1,786.5	1,325.2
Unrealised gains on investments		1,695.1	2,063.9	1,670.0	2,046.3
Other technical income	3	17.3	18.8	9.3	7.4
		7,300.6	6,917.3	7,195.3	6,831.0
Claims incurred, net of reinsurance					
Claims paid – gross amount	4	2,580.4	2,257.7	2,547.5	2,229.0
Reinsurers' share		(2.1)	(1.9)	(1.0)	(1.1)
		2,578.3	2,255.8	2,546.5	2,227.9
Changes in other technical provisions, net of reinsurance					
Value of benefits excluding new declared bonus		2,528.5	2,947.7	2,486.5	2,929.7
New declared bonus		363.4	508.1	363.4	508.1
Long-term business provision – gross amount		2,891.9	3,455.8	2,849.9	3,437.8
Reinsurers' share		(7.8)	(1.6)	(0.6)	(0.5)
		2,884.1	3,454.2	2,849.3	3,437.3
Other technical provisions					
Technical provisions for linked liabilities		689.0	520.0	685.5	512.6
		3,573.1	3,974.2	3,534.8	3,949.9
Net operating expenses	5	142.9	129.5	132.7	117.5
Commission	9	6.1	4.9	nil	nil
Investment expenses and charges	2b	40.0	23.7	39.2	22.9
Taxation	10a	97.6	68.3	92.9	66.0
Minority interests		(3.4)	2.5		
Transfers to the fund for future appropriations	16	866.0	458.4	849.2	446.8
		1,149.2	687.3	1,114.0	653.2
		7,300.6	6,917.3	7195.3	6,831.0
Balance on the Technical Account		–	–	–	–

All significant recognised gains and losses are dealt with in the Profit and Loss Accounts. Exchange gains and losses arising on retranslation of overseas operations are taken directly to reserves.

All the amounts above are in respect of continuing operations.

Balance Sheets

As at 31 December 1998

Assets

		GROUP		SOCIETY	
		1998	1997	1998	1997
	NOTES	£m	£m	£m	£m
Investments					
Land and buildings	11a	**1,505.8**	1,253.1	**1,470.4**	1,224.6
Investments in group undertakings	11b			**184.2**	178.4
Other financial investments	11c	**23,610.9**	20,106.5	**23,247.7**	19,796.1
		25,116.7	21,359.6	**24,902.3**	21,199.1
Assets held to cover linked liabilities	12	**3,156.9**	2,461.6	**3,113.4**	2,421.7
Reinsurers' share of technical provisions					
Long-term business provision		**21.2**	13.4	**4.8**	4.2
Debtors	13				
Debtors arising out of direct insurance operations		**68.7**	55.5	**58.1**	45.4
Debtors arising out of reinsurance operations		**0.3**	–	**–**	–
Other debtors		**53.8**	38.8	**54.6**	49.8
		122.8	94.3	**112.7**	95.2
Other assets					
Tangible assets	14	**21.1**	19.6	**20.5**	19.0
Cash at bank and in hand		**21.0**	23.9	**9.4**	12.0
		42.1	43.5	**29.9**	31.0
Prepayments and accrued income					
Accrued interest and rent		**187.2**	157.1	**184.3**	154.4
Deferred acquisition costs	6	**275.0**	270.9	**245.5**	242.0
Other prepayments and accrued income		**53.8**	56.4	**52.6**	55.5
		516.0	484.4	**482.4**	451.9
		28,975.7	24,456.8	**28,645.5**	24,203.1

Balance Sheets

continued

Liabilities

	NOTES	GROUP 1998 £m	GROUP 1997 £m	SOCIETY 1998 £m	SOCIETY 1997 £m
Minority interests		32.4	26.8		
Subordinated liabilities	15	346.6	346.4	346.2	346.4
Fund for future appropriations	16	3,028.3	2,162.9	3,025.3	2,176.3
Technical provisions	17				
Long-term business provision – gross amount		22,181.3	19,281.4	21,954.3	19,096.3
Technical provisions for linked liabilities	17	3,137.2	2,447.9	3,093.7	2,408.0
Provisions for other risks and charges	18	45.1	22.7	39.1	18.8
Creditors					
Creditors arising out of direct insurance operations		36.0	27.4	33.0	24.4
Creditors arising out of reinsurance operations		0.1	–	0.1	–
Debenture loans	19a	2.3	24.7	2.3	24.7
Amounts owed to credit institutions	19b	34.3	8.9	29.7	8.1
Other creditors including taxation and social security	19c	62.9	60.8	70.5	64.9
		135.6	121.8	135.6	122.1
Accruals and deferred income		69.2	46.9	51.3	35.2
		28,975.7	24,456.8	28,645.5	24,203.1

J R Sclater CVO
President

A G Tritton DL
Vice-President

A Nash
Managing Director and Actuary

24 March 1999

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 with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business dated December 1998. The true and fair override provisions of the Companies Act have been invoked, see note 11.a. Non-linked investments – Land and buildings.

Basis of consolidation

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

Earned premiums

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

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

Investment income

Investment income is included on an accruals basis.

Dividends are included by reference to ex dividend dates.

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

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

Realised gains and losses on investments

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

Unrealised gains and losses on investments

Movements in unrealised gains and losses on investments arising in the year are shown in the Profit and Loss Account. Unrealised gains and losses on investments are calculated as the difference between the valuation of investments at the Balance Sheet date and the original cost.

Claims incurred

Death claims are recorded on the basis of notifications received. Surrenders, maturities and annuity payments are recorded when due. Claims on participating business include bonuses payable and interest. Reinsurance recoveries are credited to match the relevant gross amounts. Claims payable include direct costs of settlement.

New declared bonuses

The new declared bonuses charged to the Profit and Loss Account for a given year are the value of the new reversionary bonuses declared at the end of that year calculated by reference to the policies in force at that time. The Society declares bonuses annually and University Life declares bonuses triennially.

Deferral of acquisition costs

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

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

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

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

Accounting policies

continued

For contracts sold by Permanent, the method of calculating the long-term business provision assumes that acquisition costs will be recovered regularly from the series of premiums payable. The balance of acquisition costs to be recovered from loadings in future premiums is shown as deferred acquisition costs in these accounts.

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

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

Pension costs

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

Leases

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

Deferred taxation

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

Valuation of investments

Investments are stated at current value at the Balance Sheet date, calculated as follows:

- Freehold and leasehold properties are individually valued by qualified surveyors on the basis of open market value, account being taken of the cost of disposal. The valuation is carried out on an annual basis.

- 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 having prudent regard to the likely realisable value.

Fixed assets and depreciation

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

The periods generally applicable are:

• motor vehicles	2½ years
• plant, fixtures and fittings	5 to 10 years
• computer equipment	3 to 5 years

Long-term business provision

The long-term business provisions for the Group are determined by the respective Appointed Actuary of each entity following, in each case, his annual investigation of the long-term business. For the Society and University Life, the long-term business provision is calculated using the gross premium method of valuing the liabilities. In the case of Permanent the calculation uses the net premium valuation method. Provisions for overseas branch business are calculated on a U.K. basis.

Since the Society is a mutual office all assets belong to the policyholders. For the purpose of these accounts, however, the liability to policyholders in respect of these assets has to be divided into two parts. The first part, called technical provisions, is represented by assets needed to meet the guaranteed benefits under contracts, including declared bonuses added up to and including the date of the accounts and making allowance, in accordance with the assumptions used, for specific levels of future declared bonuses.

The balance of the assets, which is mainly represented by the fund for future appropriations, comprises assets which are held on account for future bonus additions of various kinds in excess of the levels allowed for in the technical provisions.

Accounting policies

continued

In the case of University Life a similar treatment applies except that, since this society is a proprietary office, the Proprietor will ultimately be entitled to an appropriate proportion of the surplus to be distributed in the future.

For Permanent, an office writing non-profit business, all unappropriated surpluses arising in the year are available to the shareholder.

Foreign currency translation

Assets and liabilities in foreign currencies are expressed in sterling at the exchange rates ruling at 31 December. Revenue transactions and those relating to the acquisition and realisation of investments have been translated at rates of exchange ruling at the time of the respective transactions.

Segmental reporting

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

Notes on the Accounts

1. Earned premiums

	GROUP		SOCIETY	
	1998	1997	1998	1997
	£m	£m	£m	£m
(a) Analyses of gross premiums written are as follows:				
Individual premiums	3,070.3	2,832.2	3,031.6	2,797.0
Premiums under group contracts	713.1	667.5	701.3	657.6
	3,783.4	3,499.7	3,732.9	3,454.6
Regular premiums	1,606.4	1,549.8	1,556.0	1,504.7
Single premiums	2,177.0	1,949.9	2,176.9	1,949.9
	3,783.4	3,499.7	3,732.9	3,454.6
Premiums from non-profit contracts	306.1	214.5	270.8	170.6
Premiums from with-profits contracts	2,914.9	2,836.2	2,914.6	2,836.0
Premiums from linked contracts	562.4	449.0	547.5	448.0
	3,783.4	3,499.7	3,732.9	3,454.6
Premiums from life business	539.6	402.0	526.9	390.2
Premiums from annuity business	58.9	79.7	58.8	79.7
Premiums from pension business	3,151.9	2,988.7	3,146.4	2,984.1
Premiums from permanent health business	33.0	29.3	0.8	0.6
	3,783.4	3,499.7	3,732.9	3,454.6
Premiums from U.K. business	3,586.1	3,332.3	3,535.6	3,287.2
Premiums from overseas business	197.3	167.4	197.3	167.4
	3,783.4	3,499.7	3,732.9	3,454.6
(b) New business				
Individual premiums	2,396.9	2,203.0	2,389.7	2,196.6
Premiums under group contracts	208.3	250.1	205.8	247.7
	2,605.2	2,453.1	2,595.5	2,444.3
Regular premiums	428.2	503.2	418.6	494.4
Single premiums	2,177.0	1,949.9	2,176.9	1,949.9
	2,605.2	2,453.1	2,595.5	2,444.3
Premiums from non-profit contracts	225.1	133.9	215.8	125.5
Premiums from with-profits contracts	2,003.9	2,005.0	2,003.9	2,005.0
Premiums from linked contracts	376.2	314.2	375.8	313.8
	2,605.2	2,453.1	2,595.5	2,444.3
Premiums from life business	415.1	308.3	412.4	305.5
Premiums from annuity business	41.0	63.1	41.0	63.1
Premiums from pension business	2,143.4	2,076.9	2,141.9	2,075.6
Premiums from permanent health business	5.7	4.8	0.2	0.1
	2,605.2	2,453.1	2,595.5	2,444.3
Premiums from U.K. business	2,433.8	2,326.1	2,424.1	2,317.3
Premiums from overseas business	171.4	127.0	171.4	127.0
	2,605.2	2,453.1	2,595.5	2,444.3

Notes on the Accounts
continued

1. Earned premiums continued

Classification of new business

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

- New 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.
- DSS rebates are classified as new single premiums.
- Funds at retirement under individual pension contracts left 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. Where an amount of fund under a managed pension is applied to secure an annuity in payment, that amount is included in both claims incurred and as a single premium within gross premiums written.
- Increments under existing group pension schemes are classified as new business premiums.

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

2. Investment income

	GROUP		SOCIETY	
	1998	1997	1998	1997
	£m	£m	£m	£m
a. Investment income comprises:				
Group companies			2.0	3.0
Other investments				
land and buildings	96.4	85.6	96.4	85.3
other investments – listed	977.3	907.5	964.0	894.1
– other	109.8	81.9	108.9	81.3
	1,183.5	1,075.0	1,169.3	1,060.7
Gains on realisation of investments	630.9	266.3	615.2	261.5
	1,814.4	1,341.3	1,786.5	1,325.2
b. Investment expenses and charges comprise:				
Investment management expenses	9.3	7.9	8.5	7.1
Interest charges				
payable on loans other than bank loans and overdrafts	0.3	–	0.3	–
payable on all other loans	30.4	15.8	30.4	15.8
	40.0	23.7	39.2	22.9
c. Investment activity account				
Investment income	1,183.5	1,075.0	1,171.3	1,063.7
Realised investment gains	630.9	266.3	615.2	261.5
Movement in unrealised investment gains	1,695.1	2,063.9	1,670.0	2,046.3
	3,509.5	3,405.2	3,456.5	3,371.5
Investment management expenses including interest	(40.0)	(23.7)	(39.2)	(22.9)
Investment return for the year	3,469.5	3,381.5	3,417.3	3,348.6

Notes on the Accounts

continued

3. Other technical income

	GROUP 1998 £m	GROUP 1997 £m	SOCIETY 1998 £m	SOCIETY 1997 £m
Other technical income comprises:				
Profits of Group companies	13.7	16.1		
Income from Group companies			6.5	4.7
Stock lending and underwriting commission	2.6	2.4	2.6	2.4
Other income	1.0	0.3	0.2	0.3
	17.3	18.8	9.3	7.4

4. Claims paid

	GROUP 1998 £m	GROUP 1997 £m	SOCIETY 1998 £m	SOCIETY 1997 £m
Gross claims paid comprise:				
On death	80.8	74.9	76.8	71.8
On maturity and surrender	1,899.7	1,677.7	1,891.0	1,671.1
By way of periodic payments	592.9	498.0	573.6	479.7
Claims handling expenses	7.0	7.1	6.1	6.4
	2,580.4	2,257.7	2,547.5	2,229.0
Life and annuity business	307.1	240.6	297.2	232.6
Pension business	2,247.2	1,992.6	2,243.9	1,989.7
Permanent health business	19.1	17.4	0.3	0.3
Claims handling expenses	7.0	7.1	6.1	6.4
	2,580.4	2,257.7	2,547.5	2,229.0
Linked business	198.6	144.6	191.6	134.6
Non-profit business	246.2	223.3	221.5	212.9
With-profits business	2,128.6	1,882.7	2,128.3	1,875.1
Claims handling expenses	7.0	7.1	6.1	6.4
	2,580.4	2,257.7	2,547.5	2,229.0
U.K. business	2,522.2	2,214.6	2,490.2	2,186.6
Overseas business	51.2	36.0	51.2	36.0
Claims handling expenses	7.0	7.1	6.1	6.4
	2,580.4	2,257.7	2,547.5	2,229.0

Included within claims paid are interim, terminal and final bonuses for the Group of £478.6m (*1997 £390.2m*) and for the Society of £475.0m (*1997 £387.5m*).

5. Net operating expenses

	GROUP 1998 £m	GROUP 1997 £m	SOCIETY 1998 £m	SOCIETY 1997 £m
Net operating expenses comprise:				
Acquisition costs	113.4	105.6	109.1	100.4
Change in deferred acquisition costs	(4.1)	(11.5)	(3.5)	(10.6)
Administrative expenses	33.6	35.4	27.1	27.7
	142.9	129.5	132.7	117.5

Notes on the Accounts

continued

6. Deferred acquisition costs

	GROUP			SOCIETY		
		Deferred	Charge		Deferred	Charge
	£m	£m	£m	£m	£m	£m
Deferred costs at 1 January 1997		259.4			231.4	
Acquisition costs incurred in the year	105.6			100.4		
Dealt with in the technical provisions	(34.5)		34.5	(34.5)		34.5
	71.1			65.9		
Apportionment for the year		62.4	8.7		57.9	8.0
Amortisation of prior year acquisition costs		(50.9)	50.9		(47.3)	47.3
Deferred costs at 31 December 1997		270.9			242.0	
Acquisition costs incurred in the year	**113.4**			**109.1**		
Dealt with in the technical provisions	**(46.4)**		**46.4**	**(46.4)**		**46.4**
	67.0			**62.7**		
Apportionment for the year		**59.0**	**8.0**		**55.3**	**7.4**
Amortisation of prior year acquisition costs		**(54.9)**	**54.9**		**(51.8)**	**51.8**
Deferred costs at 31 December 1998		**275.0**			**245.5**	
Acquisition costs charged for 1998			**109.3**			**105.6**
Acquisition costs charged for 1997			94.1			89.8

7. Expenses before deferral of acquisition costs

	GROUP		SOCIETY	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
a. Expenses before deferral and expense ratio				
Net operating expenses as reported in the Profit and Loss Account	**142.9**	129.5	**132.7**	117.5
Commission	**6.1**	4.9	**nil**	nil
Acquisition costs deferred in the year	**59.0**	62.4	**55.3**	57.9
Amortisation of prior year acquisition costs	**(54.9)**	(50.9)	**(51.8)**	(47.3)
	153.1	145.9	**136.2**	128.1
Claims handling expenses	**7.0**	7.1	**6.1**	6.4
Investment expenses and charges including interest charges	**40.0**	23.7	**39.2**	22.9
Interest charges	**(30.7)**	(15.8)	**(30.7)**	(15.8)
Expenses before deferral	**169.4**	160.9	**150.8**	141.6
Earned premiums	**3,783.4**	3,499.7	**3,732.9**	3,454.6
Expense ratio (expenses before deferral as a % of earned premiums)	**4.5%**	4.6%	**4.0%**	4.1%

Notes on the Accounts

continued

7. Expenses before deferral of acquisition costs continued

	GROUP		SOCIETY	
	1998	1997	1998	1997
	£m	£m	£m	£m
b. Expenses include:				
Depreciation of tangible fixed assets	8.4	8.4	8.1	8.2
Operating lease rentals – land and buildings	8.0	7.8	7.8	7.6

Auditors' remuneration for the Group was £386,487 (*1997 £327,819*) for audit services and £118,220 (*1997 £76,796*) for non-audit services. Auditors' remuneration for the Society amounted to £259,616 (*1997 £236,431*) for audit services and £107,512 (*1997 £56,071*) for non-audit services.

8. Directors and employees

	GROUP		SOCIETY	
	1998	1997	1998	1997
	£m	£m	£m	£m
a. Staff costs comprise:				
Administration				
Salary	28.3	24.9	25.7	24.0
Bonus	4.0	4.8	3.7	4.5
Marketing				
Field staff remuneration	32.7	31.6	32.2	31.4
Non-field staff salary	9.2	8.4	8.6	7.5
Non-field staff bonus	1.2	1.5	1.2	1.5
Investments				
Salary	2.7	2.4	2.7	2.4
Bonus	0.7	0.7	0.7	0.7
	78.8	74.3	74.8	72.0
Social security costs	7.1	6.7	6.7	6.5
Other pension costs	9.5	8.3	8.8	8.1
	95.4	89.3	90.3	86.6

The monthly average number of employees during the year was as follows:

Administration	1,257	1,173	1,108	1,088
Marketing	969	901	921	866
Investment	62	62	62	62
	2,288	2,136	2,091	2,016

Notes on the Accounts

continued

8. Directors and employees continued

	1998 £	1997 £
b. Emoluments of Directors		
The total emoluments of the Directors comprise:		
Fees of non-executive Directors	298,462	259,475
Remuneration of executive Directors		
Basic remuneration	337,404	742,465
Performance-related remuneration	140,697	387,807
	776,563	1,389,747

	1998 £	1997 £
Number of Directors accruing retirement benefits under		
Defined benefit scheme	4	7
Defined contribution scheme	nil	nil

	1998 £	1997 £
Highest paid Director		
Emoluments	253,646	239,119
Accrued pension, accumulated annual benefit	76,500	80,427

Further details of Directors' emoluments are given in the Remuneration Report on pages 7 and 8.

c. Pension arrangements

The Society operates two non-contributory pension schemes for the benefit of the staff of the Society and of the Permanent Insurance Company Limited. The schemes are fully insured under policies held with the Society:

i. Defined Benefits Scheme

The majority of permanent members of staff together with certain Directors (see note 8.b.) are members of this scheme. The scheme actuary is an employee of the Society. The scheme actuary values the scheme triennially using the projected unit method with a 50 year control period and an allowance for new entrants. The most recent actuarial valuation was performed as at 1 January 1998 and the key assumptions used were as follows:

Salary increases	7% per annum
Investment return	8% per annum
Rate of increase to current and future pensions in payment	4% per annum

On this basis the value of the policies of £146.9m represented 111% of the liabilities determined.

Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the Group benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

Notes on the Accounts

continued

8. Directors and employees continued

ii. Defined Contributions Scheme

This scheme was set up during 1995. All employees will normally become eligible to join this scheme upon becoming permanent members of staff.

The schemes' actuary is of the opinion that the pension cost included within management expenses of the Group of £9.5m (*1997 £8.3m*) and Society of £8.8m (*1997 £8.1m*), which was the amount contributed to both schemes during the year, is consistent with the cost of providing the promised pension benefits in accordance with Statement of Standard Accounting Practice 24.

9. Commission

All commission payments are made by Permanent. The Society does not pay commission to third parties.

10. Taxation

	GROUP		SOCIETY	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
a. Taxation charged to the Technical Account				
U.K. corporation tax	**26.7**	21.0	**25.0**	20.0
Double taxation relief	**(0.6)**	(0.6)	**(0.6)**	(0.5)
	26.1	20.4	**24.4**	19.5
Irrecoverable tax credits	**50.3**	41.6	**50.0**	41.2
Overseas taxation	**7.1**	5.8	**6.8**	5.8
Deferred taxation	**18.2**	11.5	**15.1**	9.8
	101.7	79.3	**96.3**	76.3
Adjustments in respect of previous years	**(4.1)**	(11.0)	**(3.4)**	(10.3)
	97.6	68.3	**92.9**	66.0

	GROUP		SOCIETY	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
b. Deferred taxation				
Provided in the accounts:				
Accelerated capital allowances	**–**	0.3	**0.1**	0.1
Short-term timing differences	**27.8**	13.2	**22.9**	12.5
Unrealised appreciation in investments	**6.3**	2.4	**5.2**	0.5
	34.1	15.9	**28.2**	13.1
Not provided in the accounts:				
Accelerated capital allowances	**1.1**	1.4	**1.1**	1.4
Short-term timing differences	**0.1**	0.1	**–**	–
Unrealised appreciation in investments	**100.6**	79.1	**97.9**	75.2
	101.8	80.6	**99.0**	76.6

Notes on the Accounts

, continued

11. Non-linked investments

	GROUP			SOCIETY		
	Long leasehold	Freehold	Total	Long leasehold	Freehold	Total
	£m	£m	£m	£m	£m	£m
a. Land and buildings						
Land and buildings at current value						
At 1 January 1998	222.9	1,030.2	1,253.1	222.9	1,001.7	1,224.6
Additions	104.9	443.0	547.9	104.9	436.7	541.6
Disposals	(4.9)	(194.5)	(199.4)	(4.9)	(194.2)	(199.1)
Deficit on revaluation	(14.7)	(81.1)	(95.8)	(14.7)	(82.0)	(96.7)
At 31 December 1998	**308.2**	**1,197.6**	**1,505.8**	**308.2**	**1,162.2**	**1,470.4**
Land and buildings at cost						
At 31 December 1998	**306.1**	**1,124.9**	**1,431.0**	**306.1**	**1,090.8**	**1,396.9**
At 31 December 1997	206.1	876.6	1,082.7	206.1	848.3	1,054.4

Included in the figures shown for current value is £21.7m (*1997 £22.7m*) in respect of buildings which are owned and occupied by the Society. Notional rent of £1.6m (*1997 £1.8m*), based on market rentals, is charged to expenses and is included in investment income.

95% of the Group's and of the Society's properties were valued individually as at 31 December 1998 by independent professional valuers and are included in the accounts at those valuations. Unit-linked properties were valued by independent professional valuers on a four-month rolling basis over the year. The valuations were carried out by Jones Lang Wootton in respect of commercial properties and by Savills PLC in respect of agricultural properties.

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

	Shares at current value		Loans at current value		Total at current value	
	1998	1997	**1998**	1997	**1998**	1997
	£m	£m	**£m**	£m	**£m**	£m
b. Investments in Group undertakings						
At 1 January	**168.8**	80.6	**9.6**	10.2	**178.4**	90.8
Additions	**26.2**	97.7	**0.8**	1.8	**27.0**	99.5
Transfers from other financial investments	**9.6**	–	–	–	**9.6**	–
Disposals	**(18.8)**	(10.1)	–	–	**(18.8)**	(10.1)
Exchange adjustments	**(0.2)**	0.7	**(0.1)**	0.4	**(0.3)**	1.1
Deficit on revaluation	**(11.0)**	(0.1)	**(0.7)**	(2.8)	**(11.7)**	(2.9)
At 31 December	**174.6**	168.8	**9.6**	9.6	**184.2**	178.4

	Shares at cost		Loans at cost		Total at cost	
	1998	1997	**1998**	1997	**1998**	1997
	£m	£m	**£m**	£m	**£m**	£m
At 31 December	**188.0**	164.1	**13.0**	12.2	**201.0**	176.3

Notes on the Accounts

continued

11. Non-linked investments continued

	Current value 1998 £m	Current value 1997 £m	Cost 1998 £m	Cost 1997 £m
c. Other financial investments				
Group				
Shares and other variable yield securities and units in unit trusts	12,958.1	11,510.9	8,324.7	7,777.9
Debt and other fixed-income securities	9,009.5	7,458.8	7,484.7	6,642.6
Loans secured by mortgages	9.5	10.6	9.5	10.6
Loans secured by policies	7.1	7.5	7.1	7.5
Other loans	–	0.1	–	0.1
Deposits with credit institutions	1,626.0	1,116.8	1,632.2	1,117.2
Other investments	0.7	1.8	0.3	0.6
	23,610.9	20,106.5	17,458.5	15,556.5

	Current value 1998 £m	Current value 1997 £m	Cost 1998 £m	Cost 1997 £m
Society				
Shares and other variable yield securities and units in unit trusts	12,813.8	11,412.1	8,203.0	7,711.1
Debt and other fixed-income securities	8,810.4	7,301.7	7,322.6	6,502.1
Loans secured by mortgages	9.4	10.2	9.4	10.2
Loans secured by policies	6.8	7.4	6.8	7.4
Deposits with credit institutions	1,606.6	1,063.7	1,612.7	1,064.1
Other investments	0.7	1.0	0.4	–
	23,247.7	19,796.1	17,154.9	15,294.9

Investments of £360.3m (*1997 £255.4m*), which have been lent in the normal course of business to authorised money brokers on a secured basis, are included in other financial investments.

The value of listed investments included above at current value under shares and other variable yield securities and units in unit trusts is £12,593.6m (*1997 £11,123.1m*) for the Group and £12,448.0m (*1997 £11,046.8m*) for the Society.

The value of listed investments included above at current value under debt and other fixed-income securities is £8,945.0m (*1997 £7,388.9m*) for the Group and £8,775.4m (*1997 £7,234.9m*) for the Society.

12. Assets held to cover linked liabilities

	GROUP 1998 £m	GROUP 1997 £m	SOCIETY 1998 £m	SOCIETY 1997 £m
Cost of linked assets	2,485.8	1,994.0	2,452.8	1,962.0

Notes on the Accounts

continued

13. Debtors

	GROUP 1998 £m	GROUP 1997 £m	SOCIETY 1998 £m	SOCIETY 1997 £m
Debtors arising out of direct insurance operations				
Annuities due in early January, paid in December	38.2	27.3	38.0	27.3
Tax relief due on premiums	5.9	5.5	5.9	5.5
Other policyholder debtors	14.2	13.0	14.2	12.6
Amounts owed by policyholders	58.3	45.8	58.1	45.4
Amounts owed by intermediaries	10.4	9.7		
	68.7	55.5	58.1	45.4
Debtors arising out of reinsurance operations	0.3	–	–	–
Other debtors				
Debtors other than Group and related companies	41.4	17.9	37.4	11.9
Outstanding sales of investments	12.4	20.9	9.4	20.0
Group companies			7.8	17.9
	53.8	38.8	54.6	49.8
	122.8	94.3	112.7	95.2

14. Tangible assets

	GROUP Motor vehicles £m	GROUP Plant fixtures & fittings £m	GROUP Computer equipment £m	GROUP Total £m	SOCIETY Motor vehicles £m	SOCIETY Plant fixtures & fittings £m	SOCIETY Computer equipment £m	SOCIETY Total £m
Cost								
At 1 January 1998	8.8	16.4	17.4	42.6	8.7	16.1	17.0	41.8
Additions	3.5	3.3	4.3	11.1	3.3	3.2	4.1	10.6
Disposals	(2.9)	(1.8)	(3.4)	(8.1)	(2.8)	(1.6)	(3.4)	(7.8)
At 31 December 1998	9.4	17.9	18.3	45.6	9.2	17.7	17.7	44.6
Depreciation								
At 1 January 1998	3.8	9.5	9.7	23.0	3.8	9.4	9.6	22.8
Provided in year	1.8	2.6	4.0	8.4	1.7	2.6	3.8	8.1
Disposals	(1.8)	(1.7)	(3.4)	(6.9)	(1.7)	(1.7)	(3.4)	(6.8)
At 31 December 1998	3.8	10.4	10.3	24.5	3.8	10.3	10.0	24.1
Net book value at 31 December 1998	5.6	7.5	8.0	21.1	5.4	7.4	7.7	20.5
Net book value at 31 December 1997	5.0	6.9	7.7	19.6	4.9	6.7	7.4	19.0

Notes on the Accounts
continued

15. Subordinated liabilities

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

	GROUP		SOCIETY	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
Amounts falling due in five years or more	**346.6**	346.4	**346.2**	346.4

16. Fund for future appropriations

The fund for future appropriations comprises all funds the allocation of which to policyholders has not been determined by the end of the financial year.

	GROUP		SOCIETY	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
Movement in the year				
Balance at 1 January	**2,162.9**	1,717.5	**2,176.3**	1,733.0
Transfer from the Profit and Loss Account	**866.0**	458.4	**849.2**	446.8
Goodwill on acquisition	**–**	(10.4)		
Exchange loss on retranslation of overseas operations	**(0.6)**	(2.6)	**(0.2)**	(3.5)
Balance at 31 December	**3,028.3**	2,162.9	**3,025.3**	2,176.3

The exchange loss on retranslation of overseas operations has not been included in a separate statement of recognised gains and losses owing to its insignificance.

Notes on the Accounts

continued

17. Technical provisions

a. The long-term business provision

The long-term business provisions for the Society and University Life were calculated using the gross premium method of valuing the long-term, non-linked liabilities. In the case of Permanent, the net premium method of valuing that company's long-term, non-linked liabilities was used.

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

Class of business	Mortality	Interest rate %	Future expense allowance	Rates of future bonus On sum assured %	On existing bonus additions %
Endowment assurances					
Basic Life and General Annuity business	AM80	3.25	3.00%	1.50	1.50
Pension business	AM80	3.75	4.00%	2.50	2.50
Non-profit temporary assurances					
Basic Life and General Annuity business	TM80 Adj	3.50	3.00%	–	–
Pension business	TM80 Adj	4.50	4.00%	–	–
Recurrent single premium (with profits)					
Life business	–	0.00	0.25% p.a.	i.	i.
Pension annuity in payment – old series	PMA80-2 (C=2010)	3.50	£40 p.a.	i.	i.
Pension annuity in payment – new series	PMA80-2 (C=2010)	0.00	£40 p.a.	i.	i.
Pension business – old series	–	3.50	0.25% p.a.	i.	i.
Pension business – new series	–	0.00	0.25% p.a.	i.	i.
Non-profit annuity in payment					
Basic Life and General Annuity business	IM80 (C=2010)	4.50	£40 p.a.	–	–
Pension business	PMA80-2 (C=2010)	5.00	£40 p.a.	–	–

i. For recurrent single premium business the interest rate shown is the effective discount rate applied i.e. the valuation interest rate reduced by the future expense allowance and the assumed rate of future bonus.

ii. Except for annuities in payment and recurrent single premium business, expense allowances are a percentage of future premiums. Additionally, for certain assurance contracts, the value of a policy fee of £3.00 p.a. is included in the provision.

iii. The adjustment to the mortality table for temporary assurances is a five year age deduction plus a flat addition of 0.0005 to the resultant mortality rates. For female lives the equivalent rates are based on the AF80 table with a four year age deduction and a flat addition of 0.0002. For annuities in payment on female lives, the equivalent standard female lives mortality tables to those shown above are used.

iv. The basis used for calculating the provision at 31 December 1997 had the following key differences from the basis detailed above:
- the interest rates for non-profit annuities were 6.75% p.a. for pension business and 6.25% p.a. for general annuity business.
- The adjustment to the mortality table (TM80) for temporary assurances was a five year age deduction plus a flat addition of 0.0009 to the resultant mortality rates. For female lives the equivalent rates are based on the AF80 table with a four year age deduction and a flat addition of 0.00035.
- the rates of interest, future bonus on sum assured and future bonus on existing bonus additions for endowment business were 4.00% p.a., 1.75% p.a. and 1.75% p.a. for life business and 4.75% p.a., 2.50% p.a. and 2.50% p.a. for pension business respectively.

v. An additional reserve of £70m (*1997 £75m*) is held in respect of the Society's potential liability for compensation relating to the pensions transfers and opt- outs review.

vi. An additional amount of £200m is included as a prudent provision for any additional liabilities which may arise through clients choosing to exercise guaranteed annuity options under their policies.

Notes on the Accounts

continued

b. Technical provisions 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. For index-linked annuities in payment the technical provision is equal to the investment liability, calculated using the same mortality assumptions as shown above for the Society non-profit annuities in payment and using an interest rate of 1.75% p.a. for general annuity business and 2.00% p.a. for pension business (2.75% p.a. and 3.00% p.a. respectively at 31 December 1997).

An additional 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.

	GROUP		SOCIETY	
	1998	1997	1998	1997
	£m	£m	£m	£m
c. Gross technical provisions movements				
Balance at 1 January				
Long-term business provision	19,281.4	15,847.1	19,096.3	15,680.0
Provisions for linked liabilities	2,447.9	1,928.3	2,408.0	1,895.8
	21,729.3	17,775.4	21,504.3	17,575.8
Retranslation of opening foreign branch technical provisions	8.3	(21.9)	8.3	(21.9)
Changes in long-term business provision – gross amount	2,891.9	3,455.8	2,849.9	3,437.8
Change in technical provisions for linked liabilities	689.0	520.0	685.5	512.6
Balance at 31 December	25,318.5	21,729.3	25,048.0	21,504.3
Balance at 31 December				
Long-term business provision	22,181.3	19,281.4	21,954.3	19,096.3
Provisions for linked liabilities	3,137.2	2,447.9	3,093.7	2,408.0
	25,318.5	21,729.3	25,048.0	21,504.3

18. Provisions for other risks and charges

	GROUP		SOCIETY	
	1998	1997	1998	1997
	£m	£m	£m	£m
Provisions for deferred taxation	34.1	15.9	28.2	13.1
Other provisions	11.0	6.8	10.9	5.7
	45.1	22.7	39.1	18.8

Notes on the Accounts

continued

19. Creditors

a. Debenture loans

Debenture loans were issued by a limited partnership located in the U.S.A.. The Society's interest in the investments of the limited partnership is included in the Balance Sheet under other financial investments.

	GROUP		SOCIETY	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
Amounts falling due				
Between two and five years	–	1.1	–	1.1
In five years or more	**2.3**	23.6	**2.3**	23.6
	2.3	24.7	**2.3**	24.7

b. Amounts owed to credit institutions

Bank loans were raised by two limited partnerships located in the U.S.A. The Society's interests in the investments of the limited partnerships are included in the Balance Sheet under other financial investments. The loans are secured as a first charge on the limited partnerships' assets.

	GROUP		SOCIETY	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
Bank loans – secured				
Amounts falling due				
Between two and five years	**4.4**	–	**4.4**	–
In five years or more	**2.1**	–	**2.1**	–
Bank overdrafts	**27.8**	8.9	**23.2**	8.1
	34.3	8.9	**29.7**	8.1
Total borrowings	**36.6**	33.6	**32.0**	32.8

c. Other creditors including taxation and social security

	GROUP		SOCIETY	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
Outstanding purchases of investments	**13.0**	23.6	**13.0**	23.6
Group companies			**50.8**	32.5
Other creditors	**49.9**	37.2	**6.7**	8.8
	62.9	60.8	**70.5**	64.9

Notes on the Accounts
continued

20. Subsidiary and associated undertakings

a. Principal subsidiary undertakings

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

	Nature of business
Equitable Life Finance plc	Arranging and managing loan finance
Equitable Life – Finanzberatung und Versicherungsvermittlung GmbH	Sales and marketing of life assurance and pensions
Equitable Services and Consultancy Limited	Consultancy, insurance services and sale/hire of computer systems
Equitable Unit Trust Managers Limited	Unit trust management
Permanent Insurance Company Limited	Permanent health insurance, life assurance and annuity business
University Life Assurance Society	Life assurance and annuity business. Closed to new business

All the above holdings are of ordinary or like shares. Other holdings in subsidiary undertakings do not materially affect the result or assets of the Group. Equitable Life – Finanzberatung und Versicherungsvermittlung GmbH is registered in Germany.

b. Significant holdings

At 31 December 1998 the Group and Society held more than 20% of the nominal value of a class of equity shares in 36 companies. None of these companies is regarded by the Directors as an associated undertaking and none of the holdings materially affects the result or assets of the Group or of the Society. These investments are included in the Balance Sheet at current value.

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

21. Related Party Transactions

The aggregate of premiums paid and amounts transferred into policies with the Society, University Life Assurance Society and Permanent Insurance Company Limited and of amounts paid into personal equity plans managed by Equitable Unit Trust Managers Limited in 1998 by Directors was £794,213 (*1997 £700,240*).

The aggregate of payments under policies with the Society in 1998 to Directors was £277,101 (*1997 £77,244*).

THE EQUITABLE LIFE ASSURANCE SOCIETY

FOUNDED 1762

Board of Directors

President

J R Sclater CVO

Vice-Presidents

A G Tritton DL

I P Sedgwick

P A Davis

Peter Martin

A Nash

Miss J A Page CBE

D W J Price

J F Taylor

D G Thomas

D W Wilson

General Management

Managing Director and Actuary

A Nash

General Managers

R Q Bowley

C P Headdon

M C A Jones

P Stone

D G Thomas

J M Weller

John Sclater CVO, 58
President* (a, i, n, r)
Appointed a director in 1985 and President in 1994. Chairman of Foreign & Colonial Investment Trust plc and Berisford plc, and a director of a number of other companies.

Alan Tritton DL, 67
Vice-President* † (a, i, n, r)
Appointed a director in 1976 and a Vice-President in 1983. Chairman of Permanent Insurance Company Limited and University Life Assurance Society, having retired as a main Board director of Barclays Bank plc.

Peter Sedgwick, 63
Vice-President* (i, n, r)
Appointed a director in 1991 and a Vice-President in 1995. Deputy Chairman of Schroders plc, as well as being a director of a number of investment trusts.

Alan Nash, 50
Managing Director and Actuary (i, n)
Appointed an executive director in 1993. Joined the Society in 1971 and has held various senior management roles. Became Managing Director and Actuary on 1 August 1997.

Peter Davis, 57 *(a)
Appointed a director in 1995. A director of Provident Financial plc and Boosey & Hawkes plc. Formerly Director General of the National Lottery.

Peter Martin, 64 *(a)
Appointed a director in 1984. Solicitor. A director of Wren plc, Hucklecote Manufacturing Limited, Permanent Insurance Company Limited and Sterling Underwriting Agencies Limited.

Jennifer Page CBE, 54 *
Appointed a director in 1994. Chief Executive of The New Millennium Experience Company Limited, the operating company for the Greenwich Millennium Exhibition. A director of Railtrack Group PLC.

David Price, 51 *(i)
Appointed a director on 1 July 1996. A director of Booker plc and a number of investment trusts. Formerly Deputy Chairman of Mercury Asset Management Group plc.

Jonathan Taylor, 63 *
Appointed a director in 1995. Chairman of Ellis & Everard plc, and a director of Equitable Services and Consultancy Limited, MEPC plc and Tate & Lyle plc.

David Thomas, 54 (i)
Appointed an executive director in 1989. Joined the Society in 1984, following other senior investment management roles, and took over responsibility for the Society's investment area. Currently holds the position of General Manager – Investments.

David Wilson, 57 *
Appointed a director in 1994. Chairman and Chief Executive of Wilson Bowden plc.

Members of:
Audit Committee (a)
Investment Committee (i)
Nominations Committee (n)
Remuneration Committee (r)
* Directors considered to be independent
† Senior independent director

PRESIDENT'S STATEMENT TO MEMBERS

1998 was an unusual year for The Equitable. Over the last few months of the year we received unfavourable publicity over guaranteed annuity rates and I comment on that topic below. The Equitable has generally enjoyed favourable press comment and to be the subject of criticism has caused many of our members, your Board and our staff great concern – particularly as the Society's approach stems from its principle of treating all of its members in a scrupulously fair and correct way.

The controversy over guaranteed annuity rates does not, however, overshadow what has been another successful year in the Society's long history. In that context, I usually start my statement with a few indications of our success, and this year is no exception.

- Total premium income in the year was again a record at £3.7bn, some 8% higher than in 1997. Premiums from our international business represented £197m of the total, being an increase of 18% over 1997.
- Total new premium income for the year was a record at £2.6bn, although 1998 saw a greater emphasis on single premium business than in some recent years.
- The market value of our assets stood at over £28bn at the end of 1998.
- Our expense ratio (that is the ratio of our expenses of management to our total premium income) fell for the 10th consecutive year to 4.0%, which we again expect to be the lowest in the industry.
- The overall return earned on the with-profits fund during the year was 13.3%.

Further details of these and other important aspects of the year are given in the Management Report on pages 8 to 22.

Mutuality

In my statement in the 1997 Report and Accounts, I commented in some detail on our commitment to the continued mutual status of The Equitable. Our view on this as being in the best interests of our members has not changed. The Society's Board, management and staff at all levels remain convinced of the benefits of mutuality to our members and regard our mutuality as one of the major foundations of our success.

Debate about the merits of mutuality continues in the financial press and there is no doubt that a number of our competitors would like to see us demutualise and thus lose one of our key competitive advantages. We, in contrast, remain clear regarding the benefits which our mutual status brings to our members, in terms of our delivering consistently good value across our entire product range. We are widely regarded as being the most efficient life office in the U.K. We are also recognised as one that adheres to the philosophy of distributing profits fairly to members and without deliberate cross subsidy between different contract types or durations of saving. We thus strive to ensure that each and every one of the Society's members receives benefits which represent a fair and highly competitive return on the contributions he or she has made.

With our clear vision of how a mutual society should be run, solely for the benefit of its members, we are convinced that The Equitable can maintain the success and expansion it has accomplished in recent years – in the interests of its members, both present and future.

Developments in the year

We continued to introduce new and innovative products during the year, including adding to our stable of investment products and permanent health plans. That has continued in 1999, with the introduction of our Individual Savings Account (ISA) in April. Our level of charges and other product terms have enabled our ISA to meet the Government's CAT standards.

Our telephone sales arm, Equitable Direct, has seen significant development with staff numbers in the area increasing from 30 at the beginning of 1998 to 90 at the year-end and with enquiries dealt with increasing to over 15,000 per month towards the end of the year.

Our Internet site was enhanced extensively in late 1998, enabling policyholders to have direct access to information and data and to undertake policy servicing transactions.

I am pleased to report that, early in the year, we were re-appointed as the in-house provider for the Additional Voluntary Contribution scheme of the National Health Service, a contract for which all European AVC providers were invited to tender.

The introduction of Economic and Monetary Union (EMU) on 1 January 1999 saw no disruption to the Society's activities, thanks to the extensive preparatory work undertaken. The Society's preparations for the Year 2000 have continued according to plan. We have taken the action necessary to ensure that the Society's systems will continue to operate satisfactorily over the year-end and in the new millennium. Much testing of our systems, and of their interfaces with our major suppliers' systems, has been undertaken, with pleasing results. We believe that, barring problems with matters over which the Society has no control – such as transport or utility failures, all the Society's operations will continue without interruption at the year-end and beyond.

The Society was presented with a National Training Award, in a competition promoted by the Department for Education and Employment, and sponsored by the CBI, The Times and the Institute of Personnel and Development. To achieve this award, competitors had to demonstrate excellence in their use of training and development to bring business success. The Society's Business Trainee Scheme was able to show how the training of young people accelerated their development and contributed to providing excellent customer service for our clients.

Bonuses

Members will have received notice of the bonus additions arising from the recent bonus declaration. In view of the lower yields generally available on investments and the fact that this is likely to continue in future, the Directors concluded that the rates of declared bonus should be reduced. This is in line with the approach taken by most other life offices. When a policy becomes due for payment, the fair share of the Society's assets attributable to the policyholder's contributions is provided by way of the guaranteed benefits including declared bonuses and, where appropriate, by applying a final bonus. In this way, the Directors can ensure that each member receives a fair return on the contributions he or she has made.

Guaranteed annuities

As I have already mentioned, the Society has been criticised in the press and by some policyholders for the approach it has taken to its treatment of certain pension policies containing annuity rate guarantees which were issued in the period up to and including 1988.

In January 1999, members will have received a letter on this subject from the Society's Managing Director and Actuary, Alan Nash. In this letter he explained that the issues were of such significance that the Society had decided to fund a representative action in the High Court. In this way, the Society seeks to confirm that what it has done is lawful, within the terms of the relevant policy wordings and within the Board's powers under the Articles of Association of the Society. A leaflet explaining the Society's approach to guaranteed annuities was at the time made available, and remains available on request.

The litigation has now begun and involves a representative defendant, whose policies contained annuity rate guarantees and under which benefits were recently taken. The Court has appointed this defendant to represent the interests of all policyholders or former policyholders who are or may be interested under a policy which contains provision for the application of guaranteed annuity rates. As a result, the outcome of the representative action will bind not merely the Society and the representative defendant but also the policyholders whom he represents, although it will not prevent an individual policyholder claiming in respect of additional facts which were not before the Court in the representative action relating to the circumstances or manner in which a policy was sold to that individual. The Society has been appointed by the Court to represent the interests of all other with-profits policyholders. In this way, the interests of all with-profits policyholders are accounted for in the Court action. The Society has agreed to pay the costs of both parties in the representative action.

The case is expected to be heard in the week beginning 5 July 1999. Between now and then, affidavit evidence is being exchanged so that the positions of each side can be fully known in good time and the arguments of counsel prepared.

The representative defendant's solicitors are Norton Rose of Kempson House, Camomile Street, London, EC3A 7AN, telephone (0171) 283 6000 (reference PAH). Policyholders represented in the action by the representative defendant are welcome to contact Norton Rose if they wish. The Society is represented by Denton Hall.

I must not, in this report, debate the merits of the Society's case. I will simply say that the Directors have been concerned throughout, and remain concerned, to ensure fairness between all policyholders in line with the Society's much valued principles of mutuality. In applying their discretion in the allocation of bonuses, the Directors have sought to ensure that each policyholder receives a fair share of the Society's assets when the time comes for payment to be made under his or her policies.

Although there has been criticism, I am pleased to say that there has also been much support from policyholders, not only for the approach we have taken to ensure fairness but also for our decision to take legal proceedings in order to obtain confirmation from the Court that the approach which the Society has taken is proper.

For the purposes of establishing accounting provisions, a specific provision of £200m in respect of guaranteed annuities has been included as at 31 December 1998. In current financial conditions, the Directors do not expect the cost of meeting the guarantees to exceed £50m. They consider it prudent, however, to provide an allowance for possible future changes in financial conditions and mortality experience which could lead to an increase in the number of policyholders exercising the guarantee option over the level experienced to date.

Corporate governance

During the year the Hampel Committee on corporate governance published its final report and this has subsequently been included in the Combined Code on Corporate Governance published by the London Stock Exchange. Although, as it is not a listed company, the Society is not subject to the Combined Code, it fully supports good corporate governance and applies the Code to its own practices.

The Society takes seriously its responsibilities as an institutional investor and seeks to vote at general meetings of U.K. companies in which it invests, wherever possible. During 1998, the Society voted on 3,905 resolutions out of a possible total of 4,976.

Regulation

I have commented in previous statements on the review of past sales of pension transfers and opt-outs with which the industry has been involved for some years. I am pleased to report that the Society met the deadline set by the regulators for completion of Phase I of the review. Phase II, covering those at younger ages, has now commenced. Compensation of £47m was paid under Phase I and we estimate that compensation of £59m in total will be payable in Phase II. Having regard to changes in the compensation basis set by the regulators, in response to changing financial conditions, these amounts are consistent with the figures shown in my statement in the 1997 Report and Accounts. Given that our total assets are in excess of £28bn, we remain of the view that compensation payable as a result of the review will have no material impact on policyholders' benefits.

The Government Actuary has issued guidance as to how reserves for contracts including guaranteed annuity options should be established in life offices' statutory returns to HM Treasury. Reserving in accordance with that guidance is included in the Society's statutory returns. For the purposes of these Accounts, which are drawn up on a 'true and fair' basis in accordance with the Companies Act, a provision has been included as described in the earlier section on guaranteed annuities.

The Financial Services and Markets Bill is expected to pass into legislation in the current Parliament. This will give the legal framework to the future regulation of the financial services industry. Even before the Bill is passed, much work has been done on these changes – in particular with the establishment of the Financial Services Authority (FSA). The FSA has consulted widely on the manner in which it intends to regulate the industry. The FSA's proposals have generally made good sense and should enable a fair form of regulation providing appropriate safeguards for investors. It must be recognised, however, that the FSA will have very significant powers. The FSA's stated intentions appear reasonable but we must see how it applies its powers in practice, both initially and in the future.

The future

The Government has given further details about its approach to pension provision for the future and in particular to stakeholder pensions. The Society will be well placed to provide both stakeholder pensions and other forms of pension, with its low charging, fair and flexible contracts and its highly efficient administration systems.

For the same reasons, the Society will be in a good position to provide products for other needs, as more and more people will be expected to make provision for themselves rather than rely on the State.

The Board, management team and staff

I give my thanks to my fellow Directors, for their help and wise counsel over the year.

I also wish to put on record my and the rest of the Board's gratitude to the Society's management and staff. They have served us admirably throughout the year.

Particular mention of the Managing Director, Alan Nash, is due. He has provided strong and wise leadership and has made clear his continued commitment to the principles by which the Society has operated for many years.

Our thanks go to him, to his management team and to all members of staff. I am confident that the Society is in good hands to take it yet further forward in the years ahead for the benefit of members.

John Sclater

John Sclater
24 March 1999

John Sclater

ANNUAL GENERAL MEETING

The Annual General Meeting of the Society will be held at the Barbican Hall, The Barbican Centre, London EC2 at 10.45a.m. on Wednesday, 19 May 1999.

Only members are entitled to attend the meeting. Formal notice of the meeting and an attendance card are enclosed for members only.

Management Report

This management report comprises:

The Society's principles of operation

Features of 1998

This section of the report describes the Society's principles of operation and how they are applied for the benefit of members and policyholders generally. The format of the section is similar to that used last year.

The development of the principles of operation

The Society was founded in 1762 as the first mutual life assurance society in the world.

The use of the word 'equitable' in the Society's name indicated that it would be operated on 'equitable' or 'fair' principles.

'Start up' capital was raised from the initial policyholders and eventually repaid to them.

The concept of membership was introduced at the beginning so that members could share (as effective proprietors) in the profits (or losses) of the Society.

In 1765 the Society rejected an approach from a third party for the payment of commission for the introduction of business and decided to carry on dealing only directly with customers. That decision still stands today.

Methods of distribution of profits by way of bonuses on contracts began to be developed in the 1770s and much effort was made to determine a fair means of their distribution. In particular, attention was paid to the problems arising if profits were held back from one generation and paid to a succeeding one. In 1793 the concept of 'policyholder expectations' was introduced.

Statement of the principles on which the Society operates today

The Society still essentially operates according to principles consistent with the intentions of its founding members. In modern terms they are:

- to operate as a mutual body providing financial and associated services directly to the policyholders at cost.
- to run a full distribution of profits policy and to avoid the unfairness created by the retention of profits earned by one generation of policyholders for the benefit of successors. Furthermore, to aim at 'fair' bonuses between all classes and durations of policy.

Because the Society is self-financing, that is it has no shareholder capital, it still essentially looks to its members for development capital and still expects to repay individual members. Today that is managed through the bonus policy.

Application of the principles

There are two main areas where application of the principles directly affects policyholder benefits:

- expense control.
- investment performance.

The next section looks at each of these areas in turn and then the resulting policy benefits. The final section looks at more general matters of a corporate nature.

expense
1997

Equitable Life 14.38%
competitor 35.52%
88.66%

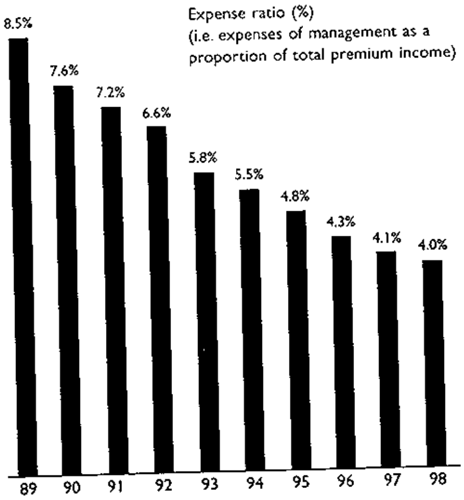
expense
1997

Equitable Life 3.30%
competitor 7.18%
18.06%

Savings, October 1998

Expense control

Over the last decade the Society has seen substantial growth and, at the same time, has steadily driven down its costs of operation.



If one looks into the expense position more deeply, using data from the HM Treasury returns, there is clear evidence of the Society's low operating costs. The adjacent table shows acquisition and renewal expense ratios as published in *Planned Savings*.

The Society places great store on continually improving its productivity. That is given practical effect by operating a notional 'Management Company' whose income each year is the aggregate explicit amount built into premiums for administration (less the rebate given at the end of each year to pension cases) and whose outgoings are the actual costs of operation plus a repayment of an agreed tranche of the system development cost with interest. Because the Management Company has been used over the past six years to operate a Profit-Related Bonus Scheme for staff, these accounts are objective and are audited. The profits made on the renewal charges (that is the amount by which the allowances were undershot) are shown in the table 'Improved productivity' below.

The implementation of the new systems has led to further productivity gains for the benefit of policyholders. All pension plans for individuals share the same simple standard charging structure regardless of size.

In 1994-6 a rebate of charges was made at the end of the calendar year for such policies where the aggregate contribution paid by the policyholder over the year was over £5,000. From 1 January 1997 these rebates were improved and extended to the first £5,000 of premiums also.

Similarly, since 1994 a rebate of charges has been made for larger group pension schemes, the level of rebate being based on the average annual level of contribution. The Society further improved those rebates with effect from 1 January 1998.

In 1995 the fund charge on the internal linked funds was reduced to 1/2% p.a. (from 3/4% p.a. for pension funds and 11/16% p.a. for life funds).

The combined effect of these changes means that virtually all pension policyholders still contributing to their contracts are paying less than the charges specified in their policy documents.

The table below summarises these benefits and compares them to the total operating costs of the Society. The table shows that in 1998 the Society's expenses could have been £46m higher without exceeding the standard policy charges.

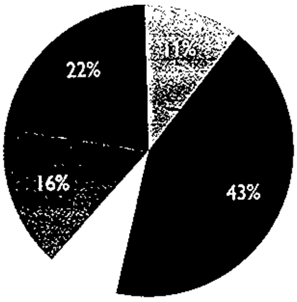
Improved productivity – the benefits to policyholders

	Profits on renewal charges	Rebates to individual pension plans	Rebates to larger group pension schemes	Benefit from reduction in fund charge	Total benefit to policyholders	Total operating costs
1992	£1.6m	–	–	–	£1.6m	£124.3m
1993	£1.6m	–	–	–	£1.6m	£121.0m
1994	£2.5m	£10.9m	–	–	£13.4m	£113.0m
1995	£2.4m	£12.4m	£4.5m	£2.8m	£22.1m	£114.4m
1996	£3.7m	£15.9m	£4.9m	£3.6m	£28.1m	£122.9m
1997	£3.8m	£27.0m	£6.7m	£4.4m	£41.9m	£141.6m
1998	£3.8m	£28.1m	£9.2m	£5.6m	£46.7m	£150.8m

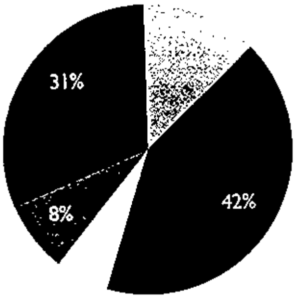
The Society's principles of operation – mutuality working in practice

Investment mix of with-profits assets

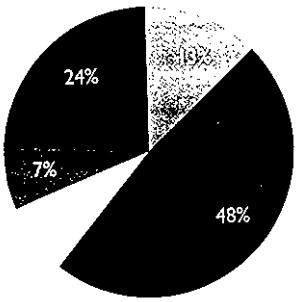
31 December 1988



31 December 1993



31 December 1998



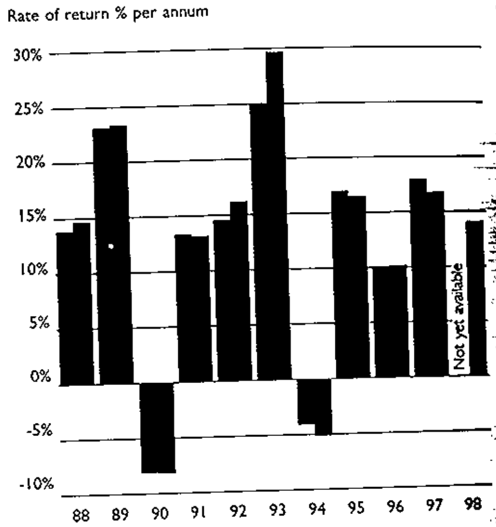
- U.K. EQUITIES
- OVERSEAS EQUITIES
- FIXED INTEREST
- PROPERTY
- OTHER

Investment performance

The asset mix of the Society's with-profits fund from time to time reflects relative price movements and preferences on investment grounds over the years rather than blind adherence to any particular 'culture'. Despite operating a full distribution policy the aim is to let investment strategy be driven by investment, rather than technical, considerations.

The Society has published the return it has achieved on its with-profits fund for a number of years now. Few other offices make that information available so direct comparisons are difficult. A general view can be obtained from the return on total policyholder assets which is available from published data.

Rates of return on total policyholders' funds



- Average rate of return of 14 major with-profits life offices
- Rate of return achieved by The Equitable Life

Rates of return are calculated from data in HM Treasury (formerly DTI) returns and therefore relate to the total business covered by the returns. Where business is transacted through subsidiaries, the calculations are based on the returns for the main office only.

Cumulative rates of return
Period to 31 December 1997

The Equitable Life Assurance Society

5 years 84.6% 10 years 215.[illegible]

Average of 14 major with-profits life offices

5 years 81.7% 10 years 205.4%

The 14 major with-profits life offices used in the comparison

AXA Equity & Law	Clerical Medical
Friends Provident	Legal & General
NPI	Norwich Union*
Prudential	Scottish Amicable**
Scottish Equitable	Scottish Life
Scottish Provident	Scottish Widows
Standard Life	Sun Alliance

Financial year end 31 December (except Standard Life 15 No[illegible]
*1997 figure unavailable owing to demutualisation on 15 [illegible]
**Funds transferred to Prudential on 30 September 1997

Policy performance

The combination of strong expense control, leading to low policy charges, and good investment performance leads to highly attractive policy results.

This is evidenced by the Society's placing in tables of relative performance created by independent commentators, of which the following are examples.

Please note: Past performance is no guarantee of future performance.

Since July 1997, pension funds can no longer recover tax credits on the dividends from U.K. equities.

The value of units can fall as well as rise.

Money Management Personal Pensions Survey

Five Star 'Best Buy' for monthly premiums

October 1998 and March 1999

Source: *Money Management*, October 1998 and March 1999

Pensions Management Free-Standing AVC Survey

The Equitable Life unit-linked Pelican Pension Fund

5 years 1st out of 28 U.K. equity funds surveyed

The Equitable Life unit-linked Managed Pension Fund

5 years 1st out of 31 managed funds surveyed

Source: *Pensions Management*, July 1998

Money Marketing Unit-Linked Personal Pensions Survey

The Equitable Life unit-linked Managed Pension Fund

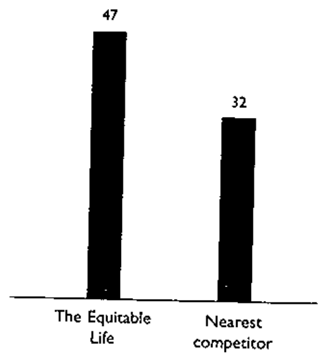
5 years 1st out of 41 managed funds surveyed

The Equitable Life unit-linked Pelican Pension Fund

5 years 1st out of 37 U.K. equity funds surveyed

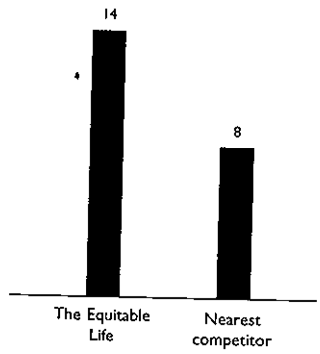
Source: *Money Marketing Focus*, June 1998
With-Profits and Unit-Linked Survey – monthly contributions to unit-linked Personal Pensions.

Top ten appearances for Personal Pension Plans 1974-1998



Source: *Planned Savings* surveys of regular contribution with-profits personal pension plans published 1974 to 1998

Top three appearances for 10 year with-profits endowments 1974-1998



Source: *Money Management* surveys of with-profits endowments published 1974 to 1998

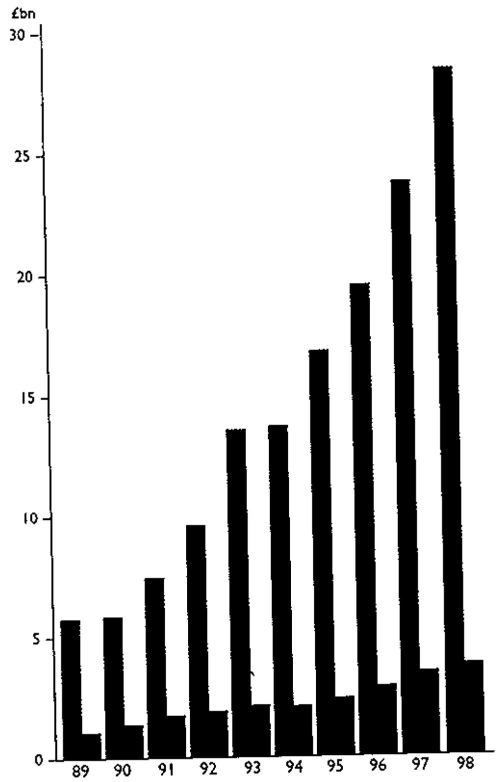
The Society's principles of operation – mutuality working in practice

Corporate matters

As well as actual policy performance, policyholders need the reassurance that they are investing with a dynamic, efficient and forward-thinking organisation. This section considers those aspects.

Business growth

The Society has seen strong growth in its business in recent years.



Capital management

The useful discipline of needing to raise development capital internally is a powerful incentive toward effective use of capital. The prime need for capital is to finance the up-front costs of new business, although there will also be the occasional need for, say, a major investment in developing new systems.

Both the costs of new business and operating the business are covered by explicit charges in the various premium rates which are publicly disclosed. The costs of acquiring new single premium business are met at the outset.

For new annual premium business, costs are incurred at the outset and are recouped over the lifetime of the policy. That requires a loan from the main fund to cover acquisition costs which the Society identifies and manages explicitly as repayments are made. The adjacent table shows the additional loan required in 1998 to finance new business.

The outstanding loan is 'rolled up' with an allowance for interest. The total U.K. with-profits reserves as at 31 December 1998 were £18,587m. The outstanding loan, which is effectively an investment in the business on behalf of the with-profits policyholders, thus represents only 2.6% of those reserves. The amount of these loans is taken into account in determining the appropriate level of policy proceeds for with-profits policyholders leaving the fund.

Investments in U.K. new business

New U.K. annual premium business in 1998	**£397.9m**
New business loan	
Outstanding amount invested in acquiring new U.K. annual premium business to end 1997	**£446.4m**
Additional net loan to finance 1998 new U.K. annual premium business	**£37.3m**
Total	**£483.7m**

Development of systems

Over the last 10 years, the Society has 'invested' some £70m in the complete redevelopment of all operating systems. These 'investments' are explicitly accounted for in the management accounts and as each tranche of the system has come on line, the managers concerned are required to produce sufficient gains in productivity to repay the respective 'investment' over an agreed period of time.

Through the activities of the Society's systems consultancy subsidiary, the systems are made available to selected organisations thereby creating another source of profits for policyholders.

Summary

This report shows how the Society is putting mutual principles into everyday practical operation to bring benefits to policyholders. Because the Society is a self-financing mutual organisation it can concentrate solely on policyholders and pass all of the profits of the operation back to them. The focus on customers has caused the Society to lead the industry in offering low-cost, flexible, penalty-free contracts.

It is fair to say that the Society presents a very good example of mutuality working in practice.

Quality advice forms the backbone of our business. Now our direct operation has extended this service as a complementary sales channel. Clients can receive advice and start plans quickly and easily over the telephone.

MANAGEMENT REPORT

Features of 1998

Introduction

The Society's President, in his Statement, sets out a number of highlights of 1998. This report gives more details of some of those and comments on other aspects of our operations on which the Society normally reports to policyholders.

Some of the financial highlights for 1998 are set out on page 23, together with comparisons for previous years.

New business and sales

For different reasons the life industry in general, and the pensions industry in particular, was the subject of considerable Government and media attention in 1998. There was much comment on the review of past sales of pension transfers and opt-outs with which the industry was engaged, in particular after a number of companies had failed to meet the deadlines set by the regulators. Later in the year a Green Paper on the future of pension provision was published.

Further consolidation took place within the industry as companies attempted to maintain or improve competitiveness. The Society's competitive position was enhanced through a number of measures. Of particular note is Equitable Direct, a complementary channel to our branch-based sales force, which was strengthened considerably during 1998. In addition to an increase in staff, an advanced telephone system was introduced and operating hours extended thereby improving levels of client service.

Compared with 1997 there was little external stimulation to sales. The difference was particularly apparent when comparing the two Budget periods. Consequently, sales for 1998 show a mixed picture.

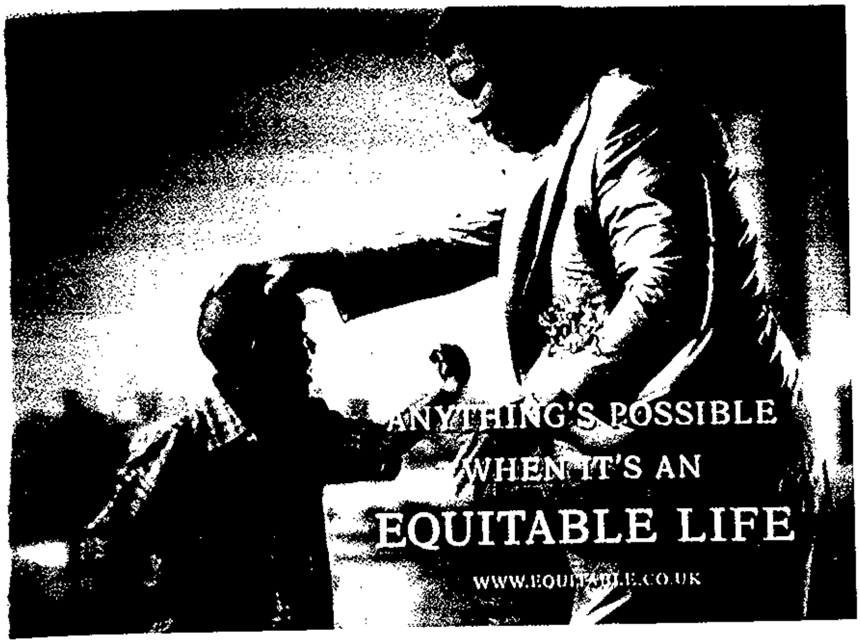
Overall new premiums increased by 6% compared with 1997. New single premiums were £2.18bn representing an increase of 12% while new annual premiums decreased 15% to £418m.

Annuity business especially showed strong growth during 1998. More than £1,289m of new business was completed compared with £1,013m in 1997, an increase of 27%.

Permanent Health Insurance sales continued to grow as did sales within the group pensions market. The number of employers starting Grouped Personal Pension Plans increased by 10% as the Society continued to focus efforts in this area. Competitive charges, consistent performance and efficient administration proved to be key success factors.

Continuing product development has enabled the Society to match client needs. The launch of The Equitable Personal Investment Plan during 1998 was well received and sales have been buoyant. With initial charges capped at just £375 no matter how large the investment, the plan has proved popular with clients who have larger lump sums to invest.

A new facility for clients to link their contributions under personal pension and free-standing additional voluntary contribution (FSAVC) plans to the Retail Price Index has recently been introduced. This facility will be of great value to those clients who wish to maintain the real value of their contributions.



Continuing our advertising theme of visions of the future, Mohammed Ali agreed to give a personal vision in our latest television advertisement. His appearance was part of his charitable efforts to promote self-belief among disadvantaged children.

Plans were laid in 1998 for the launch of The Equitable Individual Savings Account (ISA) through the Society's wholly-owned subsidiary, Equitable Unit Trust Managers Limited. The Equitable ISA is one of the few to meet the Government's voluntary CAT standards on Charges, Access and Terms.

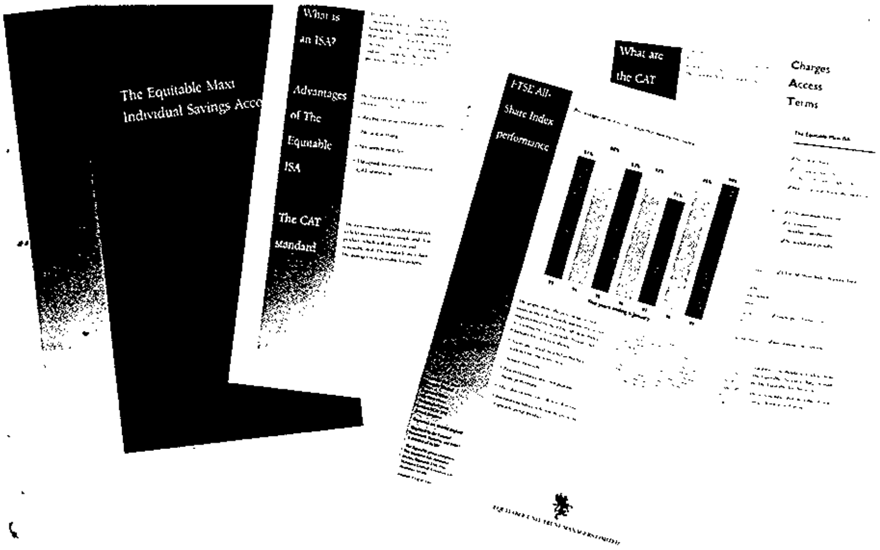
It is interesting to note that all this progress has been achieved with such a relatively small sales force; in fact a sales force marginally down in size compared with 1997. Ensuring the professional competence of the Society's field sales staff is a high, and continuing, priority. Many internal training and development courses ran during the year and all sales staff hold the industry's professional qualification – The Financial Planning Certificate. A substantial proportion of representatives also hold the demanding Advanced Financial Planning Certificate.

A significant contribution to new business was made by the Society's International operation. New annual premiums increased by 44% and new single premiums by 32%. Prospects for further growth are good, particularly in the Middle East where the Society's sales structure has been enlarged and strengthened.

It was pleasing to note that the Society was voted Best Offshore Investment Company over one and five years by the offshore advisers' magazine, *Portfolio.*

Investment

The global economic background in recent years has been one of steady growth in a low inflation environment and this trend continued into 1998. In the first half of the year, equity markets remained buoyant and the deflationary concerns that affected the Far East at the end of 1997 were thought to be only a regional problem. By the third quarter, however, events in Asia had taken on a more global significance as deflationary pressures and credit quality fears spread to Latin America and Russia. With many emerging economies experiencing sharply declining economic activity, it became impossible to isolate western markets from the problems in the rest of the world. In particular, the default of some Russian debt and the near collapse of Long Term Capital Management, a large U.S. hedge fund, led to liquidity fears. Such a situation arises when deteriorating loan quality in the international banking system and fears of rising defaults lead to a contraction in bank lending, thereby heightening solvency concerns in the corporate sector. Concern over this prospect and the accompanying sharp falls in equity markets prompted a series of global interest rate reductions. This ensured a return of confidence in the fourth quarter and most equity markets traded back towards the highs experienced earlier in the year.



The Equitable U.K. All-Share Index Tracking Trust is a new unit trust and is the investment vehicle for our Individual Savings Account.

During this volatile year, the safety of fixed-interest investments has proved attractive to investors, moving the 15 year gilt yield down from 6.3% p.a. at the start of the year to under 4.5% p.a. at the end. Over the year, 26% of new money arising in the with-profits fund was invested in fixed-interest stocks, of which just under half was bought in the first two months when yields were at their highest. Of the balance, 11% was invested in U.K. equities (the lowest for some years) and 35% in property. We disinvested 15% from index-linked securities in the closing weeks of the year and committed no new money to overseas equities over the year. There was therefore a significant increase to the cash balance by the year-end, indicating our cautious view of near-term prospects.

Markets by their nature are volatile in the short term. In order to protect the assets of the with-profits policyholders and to be able to provide certain guarantees to policy values, the Society owns a range of assets in several categories. Guarantees are provided with the help of a suitable proportion of assets being held in U.K. Government securities, while volatility is reduced by diversification through an appropriate combination of asset categories. In any year there will usually be a category which has a modestly adverse impact, for example, emerging markets in 1998, but overall a suitably diversified portfolio should exhibit lower volatility than exposure to a narrow range of assets.

Performance within asset categories is, of course, also important and in 1998 outperformance of the relevant indices was achieved in the Japanese and Continental European equity portfolios without taking undue risk. Within U.K. equities (the largest category), our exposure to investment trusts was unhelpful but the element committed to large/medium capitalisation stocks outperformed the FTSE All-Share Index by 1.25%. Having said that, there is increasing concern that the major indices are dominated by a small number of large companies in several equity markets (most notably those of the U.K. and the U.S.), with the result that one consequence of attempting to reduce portfolio risk relative to an index is less genuine diversification in monetary terms.

The overall result arising from the chosen mix of assets and the investment activity during the year was a return of 13.3% for the with-profits fund. This is the fourth year of double digit returns and is higher than we had expected at the start of 1998. It compares with 17.2% for 1997, 10.7% for 1996 and 16.6% for 1995. The better than expected result was largely because of the strength of fixed-interest securities which rose as the interest rate outlook improved. This feature contributed to the good returns from U.K. and U.S. equities and particularly from Continental European equities – the latter providing a return of 33.3% in sterling terms. Thus the fund's average annual return over the past four years has been almost 14.5% – significantly above inflation which has averaged less than 3% p.a.

However, it must be remembered that these returns include the capital appreciation on fixed-interest securities which is essentially a short-term phenomenon in view of the fixed maturity value of such securities. It is also unrealistic to expect longer term returns to be substantially higher than the average rate of inflation plus the real rate of economic growth. Nevertheless, recent returns have obviously, in this context, been very satisfactory for with-profits policyholders.

This year's results for The Equitable's range of unit-linked funds show that six out of the 16 gross funds achieved first quartile rankings within their particular peer groups for returns over the one year period to end 1998. Of these funds, Pelican, Far Eastern, Property and Money have also all attained first quartile positions in the relevant league tables over the two, three, four and five year periods to end 1998.

The Society continues to pursue an active (though generally low-key) role in corporate governance, exercising its voting rights wherever possible and engaging in valuable dialogue with directors and/or executives of the companies in which it invests. The Board believes in the premise that its principal responsibility is always to act in the best financial interests of all the Society's policyholders, and companies that clearly depart from acceptable environmental and ethical policies are unlikely in the longer term to produce sustained growth in shareholder value. This is taken into account in the investment process.

Bonus declaration

Reports in recent years have described the general trend towards lower average returns, in a climate of relatively low inflation. Reflecting that trend, the rate of return to apply to claims in 1998 was set at 9% p.a. for recurrent single premium pension contracts, with corresponding rates for other classes. That rate was at the same level as had been introduced at the start of 1997, although the overall growth rate eventually applied in respect of 1997 was somewhat higher.

Investment conditions during 1998 were again volatile reflecting the effect on investor sentiment of various economic factors. Those factors are commented on in more detail in the preceding section of this report. Despite that volatility, the result for the year was a reasonably high return, although not as high as that experienced in 1997.

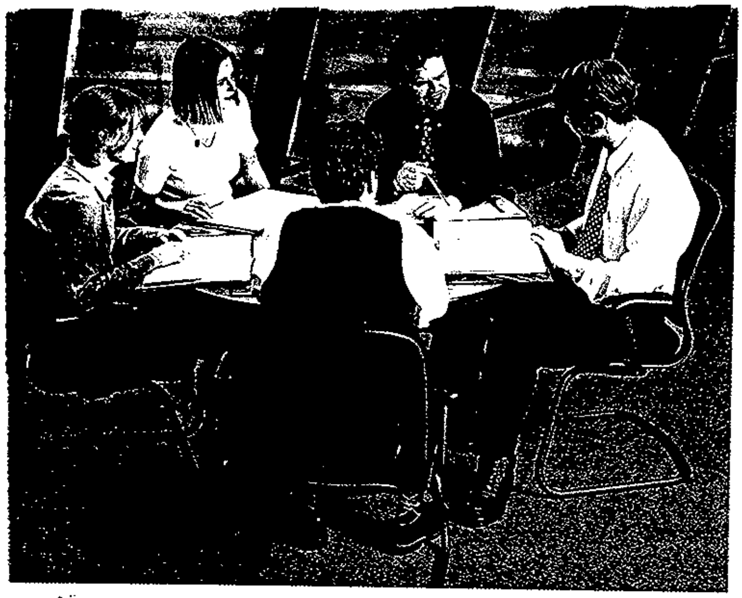
As in 1997, the rise in asset values over 1998 was accompanied by a corresponding fall in income yields. The reduction in yields was again particularly notable on long-term, fixed-interest stocks where rates fell to around 4.5% p.a. Yields at that level indicate considerable optimism amongst investors regarding the prospects for future inflation, which has implications for the likely level of returns going forward.

In the light of the actual earnings and taking account of the likely future position, the Directors decided to allocate a return of 10% p.a. to with-profits recurrent single premium pension contracts for 1998. That represents a substantial real rate of growth for the year. Other types of business have been treated consistently.

Taking account of the prospects for future returns, as discussed above, the Directors have decided that, for policies becoming claims in 1999, a rate of return of 9% p.a. should apply to the period since 31 December 1998.

Declared bonus rates were reduced last year after having been held unchanged for the four years 1993 to 1996. In the face of the further sharp fall in yields over the year, as described above, which reinforces the likelihood of a sustained period of future low returns, the Directors decided that it was appropriate to make another reduction in the element of the return which is given in guaranteed form. Accordingly, declared bonus rates for 1998 are lower than the rates which applied for 1997 with, for example, the declared bonus on the current series of personal pension plans being 5.0% (*1997 6.5%*).

Recently, holders of with-profits policies will have received bonus notices and statements showing the effect of the 1998 bonuses on their contracts.



Training is an ongoing process for staff in our Client Servicing Centre as new products and procedures are introduced.

In recent years a table has been included in this report showing the yield achieved under various of the Society's contracts compared to investment in a building society account and the Retail Price Index (RPI). Updated tables, showing yields for policies maturing on 1 April 1999, are shown below.

		The Equitable Life % p.a.	Building Society % p.a.	Effective rate of RPI* % p.a.
With-profits bond	5yrs	7.8	4.2	2.9
	10yrs	9.4	6.3	3.9
Endowment assurance	10yrs	9.4	4.9	2.9

Bond figures are for a single premium of £10,000. Endowment assurance figures are for a monthly premium of £50 for a male age 30 next birthday at outset. Building Society figures are for a typical high income account, net income reinvested. Past performance is no guarantee of future performance.

Comparable figures for pension contracts are as follows:

	The Equitable Life % p.a.	Building Society % p.a.	Effective rate of RPI* % p.a.
5 years	9.0	5.2	2.5
10 years	10.1	6.5	2.9
15 years	12.2	8.2	3.7
20 years	14.7	9.2	4.2

Results are all for a monthly premium of £200. Building Society figures are for a typical high income account, gross income reinvested. Past performance is no guarantee of future performance.

Since July 1997, pension funds can no longer recover tax credits on the dividends from U.K. equities.

*The effective rate of RPI takes into account the frequency of the investment.

Source of Building Society and RPI figures: *Hindsight.*

Customer service

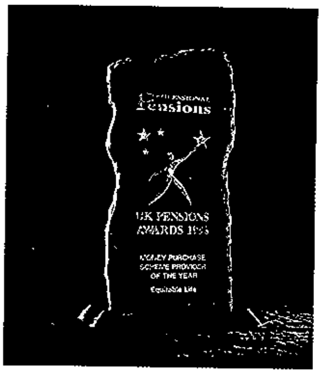
Policies for individuals

Some 250 staff work in the Client Servicing Centre in Aylesbury, dedicated to providing a speedy, efficient, convenient and courteous after-sales service to all of the Society's individual clients in the U.K. and internationally.

The Society's front-line staff are supported by systems which allow them immediate access to all of the relevant information about clients and their policies, including current and past correspondence, and to operate in a virtually paper-free, modern office environment. Comprehensive training and development programmes are in place to equip staff with the skills and knowledge necessary to provide the speed and quality of service clients expect.

In addition to speed and quality, the Society recognises how important it is that its service is convenient to access. During 1998 clients have continued to show their preference for contacting the Society by telephone, rather than in writing. The Client Servicing Telephone Desk is available from 7a.m. to 8p.m. on weekdays and from 9a.m. to 3p.m. on Saturdays, when skilled staff are available to respond to enquiries and instructions relating to individual policies. At the beginning of 1999 a new call arrival system was installed which will help to improve the service clients receive on those occasions when they cannot immediately talk to one of the Society's staff.

Satisfying client needs in terms of information was also enhanced with the introduction of an expanded Internet site. The Society became the first life assurance company in the U.K. to give clients direct access to data such as fund values, contribution histories and bank details. This was a further step to increasing choice and convenience for clients, and is more fully described in the Systems and Consultancy section of this report.



In April 1998 *Professional Pensions* magazine voted the Society *Money Purchase Provider of the Year.*

This award covers all aspects of our group money purchase and additional voluntary contributions business and demonstrates that pension professionals throughout the U.K. consider the Society to be an outstanding company in this competitive market.

Policies for group pension clients

The Society's objective is to provide a first-class service to all its clients, which enables them to receive the information they want in the way in which they need it. For a number of years the Society's group administration areas have received plaudits from clients who regularly use the service. In addition, customer surveys conducted by both the Society and external organisations have shown that clients feel the service provided is of high quality.

The Society was pleased that in 1998 it was nominated for the Money Purchase Provider of the Year award, organised by the weekly pensions news magazine *Professional Pensions*. Once nominated the Society was required to make a written submission which was judged by a panel of pensions professionals. The Society came through this stage as the winner and was accordingly presented with the award 'Money Purchase Provider of the Year'.

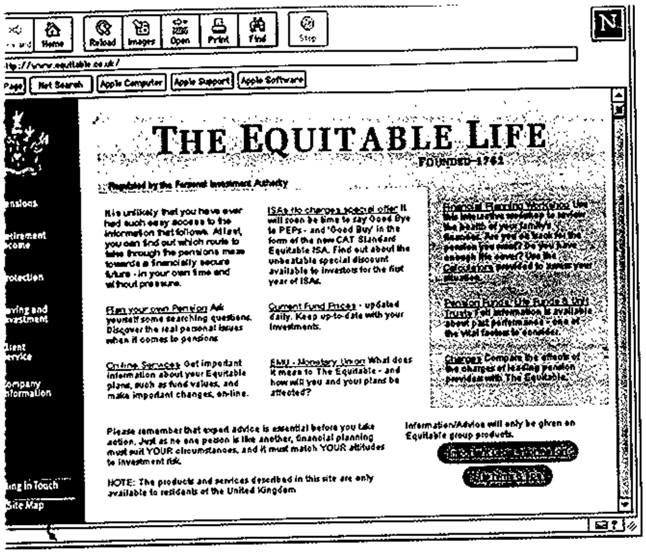
Most new money purchase schemes being set up currently are Grouped Personal Pension arrangements. The Society has been offering this type of arrangement for over 10 years, since legislation allowed Personal Pensions business to be written. There are now over 2,000 employers with Grouped Personal Pension Plans from the Society.

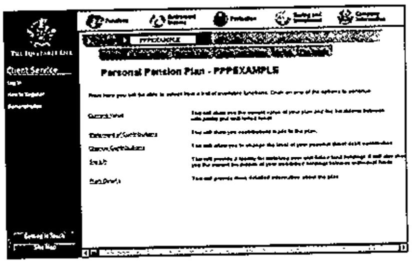
In December 1998 the Government published its Green Paper 'A new contract for welfare – Partnership in Pensions'. This paper makes a number of proposals for future provision in the U.K., including the launching of a new type of pension arrangement, known as a Stakeholder Pension. It is currently not clear how existing pension arrangements will fit into the new proposed arrangements and further details are awaited from the Government. Once the Government's intentions have been clarified the Society will be providing advice to all its group clients, including the over 2,000 Grouped Personal Pension employers, on what actions they need to take to continue to provide quality, tax efficient, pension provision for their employees.

One of the ways that advice and regular contact is provided to our group clients is through a network of Group Client Managers throughout the U.K. During 1998 the Group Client Managers helped many organisations to create more awareness of their pension scheme and to increase the number of employees joining the scheme. For instance, over 40,000 individuals attended presentations, conducted by the Group Client Managers, to encourage them to join their employer's pension arrangement insured with the Society. Publicity campaigns, involving leaflets, posters, videos, etc., were also arranged. This led to over 100,000 individuals joining group pension arrangements operated by the Society during 1998.

AVC publicity during the year included a major campaign to remind every NHS employee about the opportunities available to them following the Society's re-appointment as in-house provider. Working closely with the three NHS Pension Schemes, the Society's staff took part in a number of seminars across the U.K. for local employers. A leaflet distribution followed and, by the end of the campaign, all of the over 1.5m employees within the NHS should have received a copy.

1999 is likely to be another busy year, in which the Government will publish further details of its pensions strategy for the future. The Society will be analysing all such output from the Government so that clear guidance can be provided to both our existing and new group clients at the appropriate time.





The Equitable was the first life company in the U.K. to give clients direct control of their plans over the Internet. Our on-line client service facility provides an unparalleled level of support.

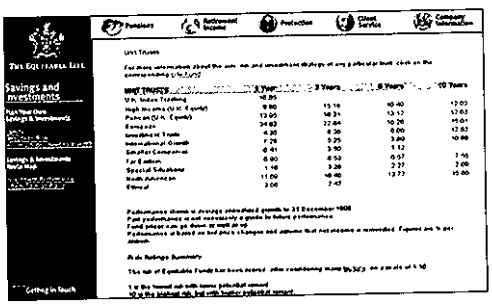
Systems and consultancy

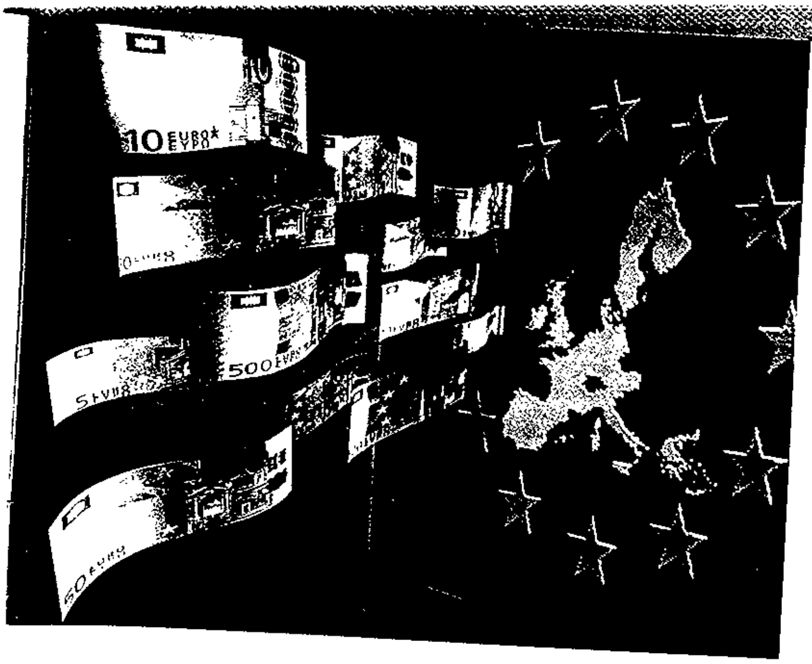
The Society continues to aim to develop advanced systems and computing infrastructures to support its business and to give it competitive advantage in standards, in breadth of service and in cost effectiveness.

New business requirements and enhanced business processes supported by complementary, cost-effective computing solutions continued apace in 1998. In addition, two critical one-off assignments were required in connection with the introduction of Economic and Monetary Union and preparation for Year 2000. Representatives of the Society's business departments worked closely with its computer specialists to address each requirement. Capability to deal with the euro was successfully introduced from 1 January 1999, an essential requirement for the Society's investment department and of increasing importance to the Society's businesses in Germany and the Republic of Ireland. Similarly, the extensive project to prove full compliance, for operation from 1 January 2000, of all computer systems and dependent electronic components across the business continued on schedule throughout 1998. Compliance of all key in-house computer systems had been confirmed during the year, though further work will continue in 1999 to ensure continued compliance. Outstanding work is mainly to ensure compliance of computer links with key third parties, some of whose compliance projects run to later timescales than the Society's.

Key computing developments included the steady evolution of the Society's highly regarded customer service systems, where facilities were added to enhance staff productivity and to support new products. However, the most significant computing development saw the creation of the Society's enhanced Internet-based electronic trading service. This includes capability to enable clients to obtain marketing, investment performance and product information from our Internet site. The site's most important new function enables clients to undertake their own servicing activities – to obtain up-to-date fund values, switch investments, vary contributions and change certain personal and banking information. All these facilities are supplied with enhanced security provisions essential to protect other clients' data from view or adjustment.

This new service, a first for the U.K. life assurance industry, has been very favourably received by clients and the press. The Internet service will be expanded further in 1999 to provide another sales channel for the Society's products, to complement our long-established, branch-based sales force and the rapidly growing Equitable Direct.





Preparations were made during 1998 for the introduction of the euro by 11 members of the European Union. As stock exchange prices in those countries are quoted in euros from 1 January 1999, there is a significant impact on our investment area. A smooth conversion of our internal systems was achieved without any disruption to investment activity or customer service.

The Society's wholly-owned subsidiary, Equitable Services and Consultancy Limited (ESC), aims to produce earnings for the Society by providing systems and consultancy services to other organisations on a commercial basis, generating profits for the benefit of the Society's members. ESC provides access to the Society's expertise in client servicing and policy administration, and in life office and computing consultancy, together with the sale or hire of its computer systems. These services are offered subject always to protecting the Society's own market and its competitive advantages in the financial services industry.

ESC entered its fourth full year in 1998 and obtained its fourth client, Royal Liver Assurance Limited, a major friendly society with substantial business in the U.K. and the Republic of Ireland but having a different market from that of The Equitable. The Royal Liver project will be ESC's largest and most challenging assignment to date, encompassing the whole range of ESC services. The initial project is of three years' duration, and saw the introduction of a policy administration service in Aylesbury in November 1998.

During 1998, ESC's services to its first three clients have continued successfully. The first client, Marks & Spencer Life Assurance Limited, has extended its contract with ESC for the supply of computer services and consultancy. Mercury Asset Management has steadily grown the administration services ESC provides to it and the third client, Southampton Assurance Company of Zimbabwe, has completed the transfer of its group pensions portfolio on to the Society's computer systems in Aylesbury. ESC helped to re-engineer client servicing operations for Southampton and now all client and policy administration on the portfolio is undertaken by Southampton staff in Harare connected to the Society's computers in Aylesbury via a high speed satellite-based data communication link. The remainder of Southampton's business will be transferred to our computers in a similar way in 1999.

Staff

The Society's staff policies are aimed at obtaining the best from our staff for the benefit of our clients and also encouraging staff to carry on developing themselves. The Society has continued to develop the capacity of staff to deliver the key corporate aims of high standards of service and control of costs.

The overall total of permanent and temporary U.K. staff at the end of the year stood at 2,110 (*1,991 at the end of 1997*). The increase in staff numbers can largely be accounted for by the growth of Equitable Direct and the growth of other customer servicing areas. This growth will benefit members by increasing the Society's capacity to provide services to them even more effectively. Productivity gains by staff have continued to be impressive and a business performance bonus of 14.6% was paid to staff in recognition of the improved levels of productivity.

Business Trainee Scheme staff have quickly settled into their new roles.

Staff turnover remains low which means the Society can continue to maintain and enhance high standards of service. Training and development programmes stress the joint needs of delivering quality service to customers and maintaining strong control of costs. There are specific training programmes for staff in areas having most customer contact, such as the Client Servicing Centre and Equitable Direct. In these areas there is a particular focus on induction training, effective use of the telephone and a range of other skills designed to help staff serve customers better.

Staff are encouraged to be innovative and the further development of the Society's systems has largely been through the ingenuity and innovation of its own staff.

The Society will continue to develop staff with the skills and values vital to its current and future success. Those skills and values include customer focus, integrity, innovation, flexibility and cost consciousness.

The Society received a National Training Award for demonstrating excellence in training through the Business Trainee Scheme. The award was made by Falkland's war veteran Simon Weston to Sue Ascott the Society's Scheme Manager.

NATIONAL TRAINING AWARD MCMXCVIII

Looking ahead

This report and the President's Statement give evidence of the Society's continued development for the benefit of its members.

There are exciting opportunities ahead, with significant changes expected to pension and welfare provision, in which the Society will participate to the full continuing to offer its good value, flexible contracts to meet its clients' changing needs.

A Nash
Managing Director and Actuary

24 March 1999

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m	1989 £m
New business										
New annual premiums	**418.6**	494.4	414.9	326.4	308.5	323.0	294.2	281.2	258.2	234.0
Single premiums	**2,176.9**	1,949.9	1,590.2	1,289.5	1,035.2	1,087.4	931.7	834.7	577.6	408.0
Income										
Premium income	**3,729.5**	3,452.1	2,830.3	2,361.8	2,052.0	2,100.8	1,876.6	1,715.4	1,345.4	1,040.2
Investment income (excluding realised gains)	**1,180.6**	1,071.1	997.3	841.7	740.7	668.4	571.6	459.0	376.1	298.4
Expenditure										
Payments under policies	**2,540.4**	2,221.5	1,734.9	1,428.4	1,108.0	1,121.7	946.3	838.7	659.2	471.8
Expenses of management	**150.8**	141.6	122.9	114.4	113.0	121.0	124.3	124.3	101.6	88.1
Commission	**nil**	nil	nil	nil	nil	nil	nil	nil	nil	nil
Taxation	**92.9**	66.0	46.2	28.0	11.7	19.5	6.9	1.2	6.3	(2.1)
Expense ratio	**4.0%**	4.1%	4.3%	4.8%	5.5%	5.8%	6.6%	7.2%	7.6%	8.5%
Assets										
Value of total net assets	**28,068**	23,676	19,305	16,612	13,545	13,407	9,497	7,368	5,786	5,705

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