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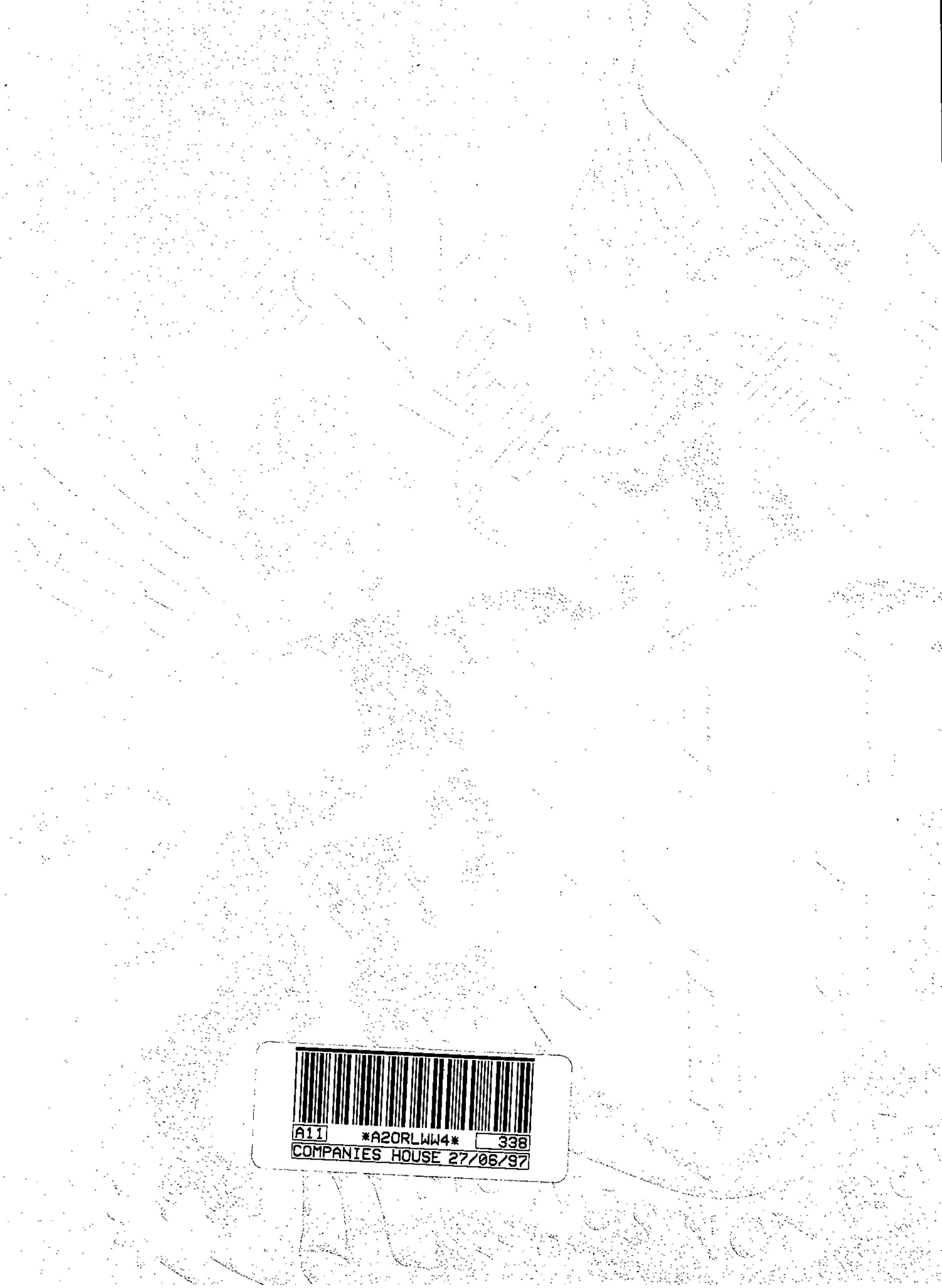
The Equitable Life Assurance Society
Statutory Accounts
1996



THE EQUITABLE LIFE ASSURANCE SOCIETY

FOUNDED 1762

Board of Directors

President
J R Sclater

Vice-Presidents
A G Tritton
I P Sedgwick

R Q Bowley
P A Davis
S M Kinnis
Peter Martin
A Nash
Miss J A Page CBE
D W J Price
R H Ranson CBE
J F Taylor
D G Thomas
D W Wilson

General Management

Managing Director and Actuary
R H Ranson CBE

General Managers
R Q Bowley
S M Kinnis
A Nash
D G Thomas

Directors' Report for 1996

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 1996 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 of the Society and its principal operating subsidiaries

The Society

Earned premiums, net of reinsurance, were £2,830.3m compared with £2,361.8m in 1995. Expenses before deferral of acquisition expenses amounted to £122.9m (*1995 £114.4m*).

The amount of the technical provisions comprising long-term business provision, net of reinsurance, and technical provisions for linked liabilities, increased to £17,572.1m from £14,907.1m. The market value of the assets supporting the technical provisions was £19,305.1m (*1995 £16,612.3m*).

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.

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 £170.9m (*1995 £151.7m*) during the year and the value of funds under management at the end of the year was £1,590.2m (*1995 £1,374.1m*).

Permanent Insurance Company Limited (Permanent)

The Society owns a majority holding of shares in Permanent. The remaining shares in that company are held by Medical Sickness Annuity and Life Assurance Society Limited. The principal activity of Permanent is the transaction of permanent health insurance.

Premium income in 1996 was £40.5m (*1995 £36.3m*).

Valuation and bonus declaration

In accordance with the Society's Articles of Association and insurance company legislation, the Society's Actuary carried out a valuation of the assets and liabilities of the Society as at 31 December 1996. In the light of the results of that valuation, the Directors decided to allocate declared bonuses with a value of £503.6m (*1995 £417.4m*) from the surplus revealed by the valuation.

In previous years the Directors have progressively reduced declared bonus rates in order to reflect the downward trend in the rates of interest available on gilt-edged stock. As a result of that strategy, the rates declared for 1993 were consistent with then current interest rates. Since then interest rates have remained at broadly the same level. Accordingly, the rates for 1993 were maintained for 1994 and 1995. The Directors have considered it appropriate to maintain declared bonus rates at the same levels again for 1996.

For example, the rate of declared bonus for personal pension plans for 1996 was £4% (*1995 £4%*) which, with the rate of roll-up already guaranteed by the policy, gave an overall accumulation of benefits in guaranteed form of just over 7½%. For new series policies written since July 1996 the declared bonus rate was 7½%. The accumulation rate for total policy benefits allocated to this type of policy was 10% which was the rate which had applied for determining actual pay-outs during the course of 1996. 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.

Directors' Report for 1996

continued

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, except for Mr D W J Price who was appointed a Director on 1 July 1996.

The three Directors retiring at the Annual General Meeting in accordance with Regulation 34 of the Articles of Association are Mr A Nash, Miss J A Page and Mr D W Wilson who, all being eligible, offer themselves for re-election.

In accordance with Regulation 40 of the Articles of Association Mr D W J Price retires at the Annual General Meeting and is eligible for re-election.

Details of the Directors seeking re-election, and of the other Directors of the Society, appear on page 3 of the Annual Report and Financial Highlights.

Corporate governance

A statement regarding the Society's approach to corporate governance is given on pages 4 to 7 and includes a statement by the Directors of their responsibilities in respect of the accounts.

Staff

In relation to the employment of disabled persons the Society's policy in 1996 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 1996 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 (including the Central Training Unit). 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 now 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.

Auditors

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

John Sclater

President

26 March 1997

Corporate governance

The Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee) was set up to review those aspects of corporate governance specifically related to financial reporting and accountability. The Code of Best Practice ('the Code') recommended by the Cadbury Committee is designed to achieve high standards of corporate behaviour and focuses on the control and reporting functions of boards and on the role of auditors. Companies listed on the London Stock Exchange are now required to comply with the Code. The Board of Directors considers that the Society, a mutual company, meets in all material respects the spirit and approach of the Code.

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.

The Board of Directors

The Board meets regularly, normally monthly, so that it can control key issues and monitor the overall performance of the Society and the Group, and has a formal schedule of matters reserved for its decision.

Brief details of the Directors appear on page 3 of the Annual Report and Financial Highlights. It has long been the Society's approach for the majority of Board members to be non-executive. Currently there are nine, namely the President, the two Vice-Presidents and six further non-executive Directors: the Managing Director and four General Managers are executive Directors. Non-executive Directors' appointments are subject to a process of regular review; the terms of service of the executive Directors are in line with those of staff and it is normally required that they relinquish their directorships on retirement or leaving service.

There are four Sub-Committees of the Board as set out below.

The Audit Committee, which comprises three non-executive Directors, is chaired by Mr A G Tritton. It meets at least three times a year and assists the Board in observing the Board's responsibilities in respect of the accounts, which are set out above. 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 meetings and have direct access to the chairman of the Committee.

Corporate governance
continued

The Investment Committee comprises three 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 which are reviewed regularly by the Board. The Committee retains more detailed control over property investments. The chairman was Mr I P Sedgwick until 24 July 1996 when the chairmanship passed to the President. Mr I P Sedgwick left the Committee and Mr D W J Price joined the Committee in July 1996.

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.

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.

Internal control

The Directors are ultimately responsible for establishing and monitoring that the Society has in place an appropriate system of controls, financial and otherwise, to provide reasonable assurance with respect to:

- the business being operated efficiently and effectively;
- the safeguarding of assets against unauthorised use or disposition;
- the maintenance of proper records and the reliability of financial information used within the business or for publication;
- compliance with laws and regulations.

In assessing what constitutes reasonable assurance, the Directors have regard to the materiality of any financial risks incurred, the likelihood of such risks crystallising and the cost of and benefits from particular aspects of the internal control system. The effectiveness of the system of control is reviewed regularly by the Board.

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 statutory and regulatory requirements of the Department of Trade and Industry. For these reasons, the Board continues to adopt the going concern basis in preparing the accounts.

Corporate governance
continued

Report of the Remuneration Committee

The Society is compliant with all those parts of the Report of a study group on Directors' Remuneration which was chaired by Sir Richard Greenbury and for which recommended practices have been set. The composition and responsibilities of the Society's Remuneration Committee are set out on page 5.

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 1996	Total 1995
		£	£	£	£	£
Non-executive Directors						
J R Sclater		40,225	-		40,225	38,411
A G Tritton	1	54,597	-		54,597	47,102
I P Sedgwick		27,917	-		27,917	27,836
T G Abell	2					11,458
P A Davis	3	20,750	-		20,750	10,000
Peter Martin	4	32,381	-		32,381	24,558
Miss J A Page CBE		17,750	-		17,750	16,168
D W J Price	5	10,750	-		10,750	
J F Taylor		17,750	-		17,750	16,336
D W Wilson		17,750	-		17,750	16,000
		239,870	-		239,870	207,869
Executive Directors						
R H Ranson CBE		191,973	15,169	106,989	314,131	256,551
R Q Bowley		128,273	7,059	72,216	207,548	167,409
S M Kinnis		138,473	10,188	77,565	226,226	180,897
A Nash		115,573	8,275	64,194	188,042	151,075
D G Thomas		139,698	9,789	77,565	227,052	182,415
		713,990	50,480	398,529	1,162,999	938,347

Notes

1. Includes fees received of £12,850 from a directorship of University Life and £11,797 from a directorship of Permanent.
2. Retired 19 May 1995
3. Appointed 1 July 1995
4. Includes fees received of £8,000 from a directorship of Permanent.
5. Appointed 1 July 1996.

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 R Q Bowley, S M Kinnis and 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.

Service contracts

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

Corporate governance

continued

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. in the Notes on the Accounts on page 21 of this document.

Following the Greenbury Report on Directors' Remuneration, the Institute of Actuaries and the Faculty of Actuaries jointly issued a Consultation Paper dealing with disclosure of pensions and other benefits. The disclosures recommended in the report of the actuaries include:

a. the amount of the increase in the accrued pension to which a director has become entitled during the year, over and above any general increase to compensate for inflation to which early leavers would be entitled, together with the accumulated benefit at the year end. (The relevant disclosures for the Society are set out in the table below.)

	Age at 31.12.96	Years of pension entitlement at 31.12.96	Additional annual pension earned during the year ended 31.12.96 £000	Accumulated annual benefit at 31.12.96 £000
J R Sclater	56	11	1.9	6.4
A G Tritton	65	20	0.5	4.4
R H Ranson CBE	66	43	11.6	143.3
R Q Bowley	57	35	8.5	78.8
S M Kinnis	59	31	7.5	74.9
A Nash	48	25	4.6	50.0
D G Thomas	52	31	6.7	74.9

Notes

1. The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 1996.
2. The Normal Retirement Age for the purposes of the scheme for J R Sclater, A G Tritton and R H Ranson 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 1996 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.

b. sufficient information to allow an independent actuary to make a reasonable assessment of the year's increase in the transfer value. (As follows.)

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.

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

We have audited the accounts on pages 9 to 30, which have been prepared on the basis of the accounting policies set out on pages 12 to 14.

Respective responsibilities of Directors and Auditors

As described on page 4, 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 1996 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
Chartered Accountants
Registered Auditor

London
26 March 1997

Profit and Loss Accounts

For the year ended 31 December 1996

Technical Account – Long-term Business

		GROUP		SOCIETY	
		1996	1995	1996	1995
	NOTES	£m	£m	£m	£m
Earned premiums, net of reinsurance					
Gross premiums written	1	**2,872.9**	2,385.5	**2,832.4**	2,363.8
Outward reinsurance premiums		**(6.4)**	(4.2)	**(2.1)**	(2.0)
		2866.5	2,381.3	**2,830.3**	2,361.8
Investment income	2	**1,432.5**	1,150.8	**1,394.6**	1,131.7
Unrealised gains on investments		**371.1**	1,139.7	**374.1**	1,131.9
Other technical income	3	**14.0**	14.9	**7.2**	6.3
		4,684.1	4,686.7	**4,606.2**	4,631.7
Claims incurred, net of reinsurance					
Claims paid – gross amount	4	**1,851.6**	1,489.6	**1,742.2**	1,433.6
Reinsurers' share		**(2.1)**	(0.7)	**(1.4)**	(0.3)
		1,849.5	1,488.9	**1,740.8**	1,433.3
Changes in other technical provisions, net of reinsurance					
Value of benefits excluding new declared bonus		**1,898.4**	1,862.8	**1,872.3**	1,851.4
New declared bonus		**506.5**	417.4	**503.6**	417.4
Long-term business provision – gross amount		**2,404.9**	2,280.2	**2,375.9**	2,268.8
Reinsurers' share		**1.4**	(3.4)	**2.0**	0.1
		2,406.3	2,276.8	**2,377.9**	2,268.9
Other technical provisions					
Technical provisions for linked liabilities		**217.9**	246.8	**294.3**	263.6
		2,624.2	2,523.6	**2,672.2**	2,532.5
Net operating expenses	5	**119.8**	107.7	**104.2**	98.4
Commission	9	**3.9**	2.9	**nil**	nil
Investment expenses and charges	2b	**11.5**	10.1	**10.7**	9.5
Taxation	10a	**50.5**	32.5	**46.2**	28.0
Minority interests		**(2.5)**	0.8		
Transfers to the fund for future appropriations	15	**27.2**	520.2	**32.1**	530.0
		210.4	674.2	**193.2**	665.9
		4,684.1	4,686.7	**4,606.2**	4,631.7
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 1996

Assets

	NOTES	GROUP 1996 £m	GROUP 1995 £m	SOCIETY 1996 £m	SOCIETY 1995 £m
Investments					
Land and buildings	11a	**1,107.3**	1,051.3	**1,078.9**	1,016.6
Investments in group undertakings	11b			**90.8**	112.7
Investments in participating interests	11b	**62.1**	36.3	**62.1**	36.3
Other financial investments	11c	**16,028.2**	13,710.5	**15,796.1**	13,468.4
		17,197.6	14,798.1	**17,027.9**	14,634.0
Assets held to cover linked liabilities	12	**1,909.5**	1,689.1	**1,903.3**	1,606.6
Reinsurers' share of technical provisions					
Long-term business provision		**11.8**	13.1	**3.7**	5.7
Debtors	13				
Debtors arising out of direct insurance operations		**37.6**	36.3	**28.8**	28.8
Debtors arising out of reinsurance operations		**0.3**	0.2	**–**	–
Other debtors		**20.4**	63.6	**32.5**	73.1
		58.3	100.1	**61.3**	101.9
Other assets					
Tangible assets	14	**21.9**	24.9	**21.7**	24.6
Cash at bank and in hand		**20.6**	12.5	**5.6**	–
		42.5	37.4	**27.3**	24.6
Prepayments and accrued income					
Accrued interest and rent		**144.3**	110.0	**142.4**	107.4
Deferred acquisition costs	6	**259.4**	252.0	**231.4**	224.8
Other prepayments and accrued income		**49.7**	68.1	**49.0**	67.6
		453.4	430.1	**422.8**	399.8
		19,673.1	17,067.9	**19,446.3**	16,772.6

Balance Sheets

continued

Liabilities

		GROUP		SOCIETY	
		1996	1995	1996	1995
	NOTES	£m	£m	£m	£m
Minority interests		**28.6**	42.7		
Fund for future appropriations	15	**1,717.5**	1,698.1	**1,733.0**	1,705.2
Technical provisions	16				
Long-term business provision – gross amount		**15,873.6**	13,475.6	**15,680.0**	13,311.0
Technical provisions for linked liabilities	16	**1,901.8**	1684.2	**1,895.8**	1,601.8
Provisions for other risks and charges	17	**5.6**	6.9	**4.5**	5.5
Creditors					
Creditors arising out of direct insurance operations		**22.0**	25.1	**18.7**	23.1
Creditors arising out of reinsurance operations		**0.3**	0.5	**0.3**	0.3
Debenture loans	18a	**34.4**	41.4	**34.4**	41.4
Other creditors including taxation and social security	18b	**57.2**	62.8	**47.9**	53.9
		113.9	129.8	**101.3**	118.7
Accruals and deferred income		**32.1**	30.6	**31.7**	30.4
		19,673.1	17,067.9	**19,446.3**	16,772.6

J R Sclater
President

A G Tritton
Vice-President

R H Ranson
Managing Director and Actuary

26 March 1997

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. The true and fair override provisions of the Companies Act have been invoked, see note 11.a. Non-linked investments – Land and buildings.

The Insurance Companies (Accounts and Statements) Regulations 1996 require that business written with benefits linked to an index, previously stated as non-linked business, be reported as linked business. In order to ensure consistency of treatment between these accounts and the annual returns to the Department of Trade and Industry, index-linked business has been reclassified as linked business and comparative figures for technical provisions, assets, liabilities, premiums and claims have been restated to reflect this change.

Minor changes to the disclosures in the Notes on the Accounts have been made following The Companies Act 1985 (Miscellaneous Accounting Amendments) Regulations 1996. Comparative figures for numbers of employees and significant investment holdings (Notes 8.a. and 19.b. respectively) have been changed accordingly.

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

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. Movements in unrealised gains and losses on investments arising in the year are shown in the Profit and Loss Account.

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.

Accounting policies

continued

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.

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.
- Other investments are stated at Directors' valuation having prudent regard to the likely realisable value.

Accounting policies

continued

Fixed assets and depreciation

Expenditure on motor vehicles, fixtures, fittings, computer equipment and other equipment is capitalised and depreciated by equal annual instalments 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.

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 shareholders.

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	
	1996	1995	1996	1995
	£m	£m	£m	£m
a. Analyses of gross premiums written are as follows:				
Individual premiums	2,323.0	1,912.4	2,290.9	1,895.1
Premiums under group contracts	549.9	473.1	541.5	468.7
	2,872.9	2,385.5	2,832.4	2,363.8
Regular premiums	1,282.7	1,096.0	1,242.2	1,074.3
Single premiums	1,590.2	1,289.5	1,590.2	1,289.5
	2,872.9	2,385.5	2,832.4	2,363.8
Premiums from non-profit contracts	210.0	221.5	170.2	200.1
Premiums from with-profits contracts	2,393.5	1,928.4	2,393.2	1,928.3
Premiums from linked contracts	269.4	235.6	269.0	235.4
	2,872.9	2,385.5	2,832.4	2,363.8
Premiums from life business	347.0	225.6	336.8	220.0
Premiums from annuity business	71.8	71.0	71.8	71.0
Premiums from pension business	2,426.9	2,074.2	2,423.3	2,072.5
Premiums from permanent health business	27.2	14.7	0.5	0.3
	2,872.9	2,385.5	2,832.4	2,363.8
Premiums from U.K. business	2,759.7	2,306.1	2,719.2	2,284.4
Premiums from overseas business	113.2	79.4	113.2	79.4
	2872.9	2,385.5	2832.4	2,363.8
b. New business				
Individual premiums	1,844.9	1,487.3	1,838.6	1,485.5
Premiums under group contracts	168.1	130.8	166.5	130.4
	2,013.0	1,618.1	2,005.1	1,615.9
Regular premiums	422.8	328.6	414.9	326.4
Single premiums	1,590.2	1,289.5	1,590.2	1,289.5
	2,013.0	1,618.1	2,005.1	1,615.9
Premiums from non-profit contracts	105.4	163.8	97.7	161.7
Premiums from with-profits contracts	1,706.3	1,306.8	1,706.3	1,306.8
Premiums from linked contracts	201.3	147.5	201.1	147.4
	2,013.0	1,618.1	2,005.1	1,615.9
Premiums from life business	275.6	162.9	272.9	162.4
Premiums from annuity business	53.6	53.2	53.6	53.2
Premiums from pension business	1,680.0	1,400.8	1,678.5	1,400.0
Premiums from permanent health business	3.8	1.2	0.1	0.3
	2,013.0	1,618.1	2,005.1	1,615.9
Premiums from U.K. business	1,907.3	1,544.9	1,899.4	1,542.7
Premiums from overseas business	105.7	73.2	105.7	73.2
	2,013.0	1,618.1	2,005.1	1,615.9

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	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
a. Investment income comprises:				
Group companies			**4.2**	4.0
Other investments				
land and buildings	**77.9**	74.6	**77.5**	74.4
other investments – listed	**881.3**	733.9	**865.2**	721.9
– other	**44.1**	35.7	**43.2**	35.1
	1,003.3	844.2	**985.9**	831.4
Gains on realisation of investments	**429.2**	306.6	**404.5**	296.3
	1,432.5	1,150.8	**1,394.6**	1,131.7
b. Investment expenses and charges comprise:				
Investment management expenses	**7.0**	6.0	**6.2**	5.4
Interest charges				
payable on bank loans and overdrafts	**0.2**	0.7	**0.2**	0.7
payable on all other loans	**4.3**	3.4	**4.3**	3.4
	11.5	10.1	**10.7**	9.5
c. Investment activity account				
Investment income	**1,003.3**	844.2	**990.1**	835.4
Realised investment gains	**429.2**	306.6	**404.5**	296.3
Movement in unrealised investment gains	**371.1**	1,139.7	**374.1**	1,131.9
	1,803.6	2,290.5	**1,768.7**	2,263.6
Investment management expenses including interest	**(11.5)**	(10.1)	**(10.7)**	(9.5)
Investment return for the year	**1,792.1**	2,280.4	**1,758.0**	2,254.1

Notes on the Accounts

continued

3. Other technical income

	GROUP		SOCIETY	
	1996	1995	1996	1995
	£m	£m	£m	£m
Other technical income comprises:				
Profits of Group companies	10.9	12.6		
Other Group income			4.1	4.0
Stock lending and underwriting commission	3.1	2.3	3.1	2.3
	14.0	14.9	7.2	6.3

4. Claims paid

	GROUP		SOCIETY	
	1996	1995	1996	1995
	£m	£m	£m	£m
Gross claims paid comprise:				
On death	65.9	59.5	62.9	55.0
On maturity and surrender	1,352.4	1,074.0	1,262.1	1,032.0
By way of periodic payments	426.8	350.9	411.3	341.7
Claims handling expenses	6.5	5.2	5.9	4.9
	1,851.6	1,489.6	1,742.2	1,433.6
Life and annuity business	218.3	175.9	210.8	169.3
Pension business	1,611.7	1,299.9	1,525.4	1,259.3
Permanent health business	15.1	8.6	0.1	0.1
Claims handling expenses	6.5	5.2	5.9	4.9
	1,851.6	1,489.6	1,742.2	1,433.6
Linked business	165.5	128.2	80.9	91.2
Non-linked business	1,679.6	1,356.2	1,655.4	1,337.5
Claims handling expenses	6.5	5.2	5.9	4.9
	1,851.6	1,489.6	1,742.2	1,433.6
U.K. business	1,822.6	1,472.3	1,713.8	1,416.6
Overseas business	22.5	12.1	22.5	12.1
Claims handling expenses	6.5	5.2	5.9	4.9
	1,851.6	1,489.6	1,742.2	1,433.6

Included within claims paid are interim, terminal and final bonuses for the Group of £302.2m (*1995 £248.0m*) and for the Society of £298.9m (*1995 £245.5m*).

5. Net operating expenses

	GROUP		SOCIETY	
	1996	1995	1996	1995
	£m	£m	£m	£m
Net operating expenses comprise:				
Acquisition costs	94.9	87.9	89.5	82.9
Change in deferred acquisition costs	(7.4)	(5.9)	(6.6)	(5.7)
Administrative expenses	32.3	25.7	21.3	21.2
	119.8	107.7	104.2	98.4

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 1995		219.1			219.1	
Arising from company acquired in year		27.0				
Acquisition costs incurred in the year	87.9			82.9		
Dealt with in the technical provisions	(32.6)		32.6	(32.6)		32.6
	55.3			50.3		
Apportionment for the year		49.0	6.3		44.6	5.7
Amortisation of prior year acquisition costs		(43.1)	43.1		(38.9)	38.9
Deferred costs at 31 December 1995		252.0			224.8	
Acquisition costs incurred in the year	**94.9**			**89.5**		
Dealt with in the technical provisions	**(33.3)**		**33.3**	**(33.3)**		**33.3**
	61.6			**56.2**		
Apportionment for the year		**54.6**	**7.0**		**49.5**	**6.7**
Amortisation of prior year acquisition costs		**(47.2)**	**47.2**		**(42.9)**	**42.9**
Deferred costs at 31 December 1996		**259.4**			**231.4**	
Acquisition costs charged for 1996			**87.5**			**82.9**
Acquisition costs charged for 1995			82.0			77.2

7. Expenses before deferral of acquisition costs

	GROUP		SOCIETY	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
a. Expenses before deferral and expense ratio				
Net operating expenses as reported in the Profit and Loss Account	**119.8**	107.7	**104.2**	98.4
Commission	**3.9**	2.9		
Acquisition costs deferred in the year	**54.6**	49.0	**49.5**	44.6
Amortisation of prior year acquisition costs	**(47.2)**	(43.1)	**(42.9)**	(38.9)
	131.1	116.5	**110.8**	104.1
Claims handling expenses	**6.5**	5.2	**5.9**	4.9
Investment expenses and charges	**11.5**	10.1	**10.7**	9.5
Interest charge	**(4.5)**	(4.1)	**(4.5)**	(4.1)
Expenses before deferral	**144.6**	127.7	**122.9**	114.4
Earned premiums	**2,872.9**	2,385.5	**2,832.4**	2,363.8
Expense ratio (expenses before deferral as a % of earned premiums)	**5.0%**	5.4%	**4.3%**	4.8%

Notes on the Accounts

continued

7. Expenses before deferral of acquisition costs continued

	GROUP		SOCIETY	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
b. Expenses include:				
Depreciation of tangible fixed assets	**8.9**	9.4	**8.8**	9.3
Operating lease rentals – land and buildings	**7.4**	7.2	**7.4**	7.2

Auditors' remuneration for the Group was £308,621 (*1995 £316,372*) for audit services and £68,556 (*1995 £85,791*) for non-audit services. Auditors' remuneration for the Society amounted to £219,020 (*1995 £200,197*) for audit services and £33,785 (*1995 £78,359*) for non-audit services.

8. Directors and employees

	GROUP		SOCIETY	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
a. Staff costs comprise:				
Administration				
Salary	**22.3**	21.7	**22.3**	21.7
Bonus	**4.2**	2.6	**4.2**	2.6
Marketing				
Field staff remuneration	**28.8**	26.1	**27.8**	25.0
Non-field staff salary	**6.7**	6.8	**6.7**	6.8
Non-field staff bonus	**1.3**	0.8	**1.3**	0.8
Investments				
Salary	**2.4**	2.2	**2.4**	2.2
Bonus	**0.5**	0.3	**0.5**	0.3
	66.2	60.5	**65.2**	59.4
Social security costs	**6.0**	5.4	**5.8**	5.3
Other pension costs	**7.8**	7.9	**7.8**	7.8
	80.0	73.8	**78.8**	72.5

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

Administration	**1,006**	1,009	**1,006**	1,009
Marketing	**874**	892	**845**	863
Investment	**60**	59	**60**	59
	1,940	1,960	**1,911**	1,931

Notes on the Accounts

continued

8. Directors and employees continued

	1996 £	1995 £
b. Emoluments of Directors		
The total emoluments of the Directors comprise:		
Fees of non-executive Directors	**239,870**	207,869
Remuneration of executive Directors		
Basic remuneration	**764,470**	715,927
Performance-related remuneration	**398,529**	222,420
Pension contributions	**107,456**	102,041

Pension contributions

The pension contributions are in respect of the Society's non-contributory defined benefits scheme and are based on the rate of contribution made under that scheme. The Directors covered by this scheme include all those who are executives as well as two of the non-executive Directors, J R Sclater and A G Tritton, who are consequently in receipt of lower fees.

President and Highest paid Director

	1996 £	1995 £
Emoluments, excluding pension contributions, of the:		
President	40,225	38,411
Highest paid Director	**314,131**	256,551

Number of Directors with emoluments excluding pension contributions in the bands specified

	1996	1995		1996	1995		1996	1995
£5,001 – £10,000	–	1	£35,001 – £40,000	–	1	£180,001 – £185,000	–	2
£10,001 – £15,000	1	1	£40,001 – £45,000	1	–	£185,001 – £190,000	1	–
£15,001 – £20,000	3	3	£45,001 – £50,000	–	1	£205,001 – £210,000	1	–
£20,001 – £25,000	1	1	£50,001 – £55,000	1	–	£225,001 – £230,000	2	–
£25,001 – £30,000	1	1	£150,001 – £155,000	–	1	£255,001 – £260,000	–	1
£30,001 – £35,000	1	–	£165,001 – £170,000	–	1	£310,001 – £315,000	1	–

Further details of Directors' emoluments are given in the Report of the Remuneration Committee on pages 6 and 7.

Notes on the Accounts

continued

8. Directors and employees continued

c. Pension arrangements

The Society operates two non-contributory pension schemes. 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 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 1995 and the key assumptions used were as follows:

Salary increases	8% per annum
Investment return	9% per annum
Rate of increase to current and future pensions in payment	5% per annum

On this basis the value of the with-profits policy of £102.1m represented 112% of the liabilities determined.

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 scheme actuary is of the opinion that the pension cost included within management expenses of £7.7m (*1995 £7.9m*), 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	
	1996	*1995*	**1996**	*1995*
	£m	*£m*	**£m**	*£m*
a. Taxation charged to the Technical Account				
U.K. corporation tax	**27.9**	*16.3*	**26.4**	*14.7*
Double taxation relief	**(0.5)**	*(0.6)*	**(0.5)**	*(0.5)*
	27.4	*15.7*	**25.9**	*14.2*
Irrecoverable tax credits	**15.6**	*8.1*	**15.2**	*7.7*
Overseas taxation	**10.2**	*7.6*	**7.2**	*5.5*
Deferred taxation	**(2.2)**	*0.2*	**(1.9)**	*0.4*
	51.0	*31.6*	**46.4**	*27.8*
Adjustments in respect of previous years	**(0.5)**	*0.9*	**(0.2)**	*0.2*
	50.5	*32.5*	**46.2**	*28.0*

Notes on the Accounts

continued

10. Taxation continued

	GROUP		SOCIETY	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
b. Deferred taxation				
Provided in the accounts:				
Accelerated capital allowances	**0.1**	1.4	**0.1**	1.4
Short-term timing differences	**0.4**	1.2	**-**	0.5
Unrealised appreciation in investments	**3.9**	4.0	**3.2**	3.3
	4.4	6.6	**3.3**	5.2
Not provided in the accounts:				
Accelerated capital allowances	**1.4**	1.2	**1.4**	1.1
Short-term timing differences	**(0.4)**	-	**-**	-
Unrealised appreciation in investments	**48.0**	37.8	**47.7**	37.4
	49.0	39.0	**49.1**	38.5

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 1996	118.7	932.6	1,051.3	118.7	897.9	1,016.6
Additions	17.3	56.3	73.6	17.3	56.3	73.6
Disposals	(2.5)	(35.3)	(37.8)	(2.5)	(35.3)	(37.8)
(Deficit)/Surplus on revaluation	(0.7)	20.9	20.2	(0.7)	27.2	26.5
At 31 December 1996	**132.8**	**974.5**	**1,107.3**	**132.8**	**946.1**	**1,078.9**
Land and buildings at cost						
At 31 December 1996	**126.7**	**863.8**	**990.5**	**126.7**	**834.9**	**961.6**
At 31 December 1995	112.4	828.6	941.0	112.4	791.1	903.5

Included in the figures shown for current value is £22.7m (*1995 £20.9m*) in respect of buildings which are owned and occupied by the Society. Notional rent of £1.8m (*1995 £1.8m*), based on market rentals, is charged to expenses and is included in investment income.

97% of the Group's and of the Society's properties were valued individually as at 31 December 1996 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 Hillier Parker 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.

Notes on the Accounts

continued

11. Non-linked investments continued

	Shares at market value		Loans at market value		Total at market value	
	1996	1995	**1996**	1995	**1996**	1995
	£m	£m	**£m**	£m	**£m**	£m
b. Investments in Group undertakings and participating interests						
i. Group undertakings						
At 1 January	101.4	39.4	11.3	17.0	112.7	56.4
Additions	-	66.1	-	-	-	66.1
Disposals	(6.7)	-	(0.2)	(2.0)	(6.9)	(2.0)
Transfer to participating interests	(9.6)	-	-	-	(9.6)	-
Exchange adjustments	(1.9)	0.2	(0.9)	0.1	(2.8)	0.3
Deficit on revaluation	(2.6)	(4.3)	-	(3.8)	(2.6)	(8.1)
At 31 December	80.6	101.4	10.2	11.3	90.8	112.7

	Shares at cost		Loans at cost		Total at cost	
	1996	1995	**1996**	1995	**1996**	1995
	£m	£m	**£m**	£m	**£m**	£m
At 31 December	82.7	98.6	10.4	14.3	93.1	112.9

	GROUP & SOCIETY Shares at market value	
	1996	1995
	£m	£m
ii. Participating interests		
At 1 January	36.3	-
Additions	10.3	35.3
Transfer from group undertakings	9.6	-
Transfer to equity investments	(2.1)	-
Surplus on revaluation	8.0	1.0
At 31 December	62.1	36.3

	Shares at cost	
	1996	1995
	£m	£m
At 31 December	51.8	35.3

Participating interests comprise investments in four associated undertakings.

	Current value		Cost	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
c. Other financial investments				
Group				
Shares and other variable yield securities and units in unit trusts	9,009.2	7,592.5	6,627.5	5,575.8
Debt and other fixed-income securities	6,569.9	5,817.2	6,257.3	5,452.5
Loans secured by mortgages	12.8	14.2	12.8	14.2
Loans secured by policies	9.1	10.7	9.1	10.7
Other loans	0.2	0.2	0.2	0.2
Deposits with credit institutions	425.9	273.4	427.2	273.6
Other investments	1.1	2.3	0.6	0.4
	16,028.2	13,710.5	13,334.7	11,327.4

Notes on the Accounts

continued

11. Non-linked investments continued

	Current value		Cost	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
c. Other financial investments				
Society				
Shares and other variable yield securities and units in unit trusts	**8,962.4**	7,529.1	**6,602.0**	5,533.6
Debt and other fixed-income securities	**6,409.9**	5,669.3	**6,106.6**	5,316.6
Loans secured by mortgages	**12.3**	13.7	**12.3**	13.7
Loans secured by policies	**8.9**	10.4	**8.9**	10.4
Other loans	**0.1**	0.1	**0.1**	0.1
Deposits with credit institutions	**402.2**	243.9	**403.5**	244.0
Other investments	**0.3**	1.9	**-**	0.3
	15,796.1	13,468.4	**13,133.4**	11,118.7

Investments of £178.7m (*1995 £159.0m*), 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 £8,921.8m (*1995 £7,434.8m*) for the Group and £8,875.7m (*1995 £7,371.5m*) for the Society.

The value of listed investments included above at current value under debt and other fixed-income securities is £6,482.2m (*1995 £5,788.3m*) for the Group and £6,323.3m (*1995 £5,640.5m*) for the Society.

12. Linked investments

	Current value		Cost	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Group				
Invested assets	**1,895.8**	1,671.8	**1,570.9**	1,379.0
Net current assets	**13.7**	17.3	**13.7**	17.3
	1,909.5	1,689.1	**1,584.6**	1,396.3
Society				
Invested assets	**1,889.6**	1,590.2	**1,570.0**	1,316.4
Net current assets	**13.7**	16.4	**13.7**	16.4
	1,903.3	1,606.6	**1,583.7**	1,332.8

Notes on the Accounts

continued

13. Debtors

	GROUP		SOCIETY	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Debtors arising out of direct insurance operations				
Annuities due in early January, paid in December	**17.2**	18.7	**17.2**	18.7
Tax relief due on premiums	**8.4**	4.7	**8.4**	4.7
Other	**3.3**	5.6	**3.2**	5.4
Amounts owed by policyholders	**28.9**	29.0	**28.8**	28.8
Amounts owed by intermediaries	**8.7**	7.3		
	37.6	36.3	**28.8**	28.8
Debtors arising out of reinsurance operations	**0.3**	0.2	**-**	-
Other debtors				
Debtors other than Group and related companies	**17.3**	50.1	**10.6**	39.5
Outstanding sales of investments	**3.1**	13.5	**2.4**	13.5
Group companies			**19.5**	20.1
	20.4	63.6	**32.5**	73.1
	58.3	100.1	**61.3**	101.9

14. Tangible assets

	GROUP				SOCIETY			
	Motor vehicles	Plant fixtures & fittings	Computer equipment	Total	Motor vehicles	Plant fixtures & fittings	Computer equipment	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Cost								
At 1 January 1996	8.2	23.5	38.0	69.7	8.1	23.1	38.0	69.2
Additions	2.7	1.6	2.4	6.7	2.6	1.6	2.4	6.6
Disposals	(2.3)	-	-	(2.3)	(2.2)	-	-	(2.2)
At 31 December 1996	**8.6**	**25.1**	**40.4**	**74.1**	**8.5**	**24.7**	**40.4**	**73.6**
Depreciation								
At 1 January 1996	2.9	14.6	27.3	44.8	2.9	14.4	27.3	44.6
Provided in year	1.9	2.9	4.1	8.9	1.9	2.8	4.1	8.8
Disposals	(1.5)	-	-	(1.5)	(1.5)	-	-	(1.5)
At 31 December 1996	**3.3**	**17.5**	**31.4**	52.2	**3.3**	17.2	**31.4**	**51.9**
Net book value at 31 December 1996	**5.3**	**7.6**	**9.0**	**21.9**	**5.2**	**7.5**	**9.0**	**21.7**
Net book value at 31 December 1995	5.3	8.9	10.7	24.9	5.2	8.7	10.7	24.6

Notes on the Accounts

continued

15. 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	
	1996	1995	1996	1995
	£m	£m	£m	£m
Movement in the year				
Balance at 1 January	**1,698.1**	1,189.0	**1,705.2**	1,173.7
Transfer from the Profit and Loss Account	**27.2**	520.2	**32.1**	530.0
Goodwill on acquisition of control of Permanent	-	(12.6)		
Exchange (loss)/gain on retranslation of overseas operations	**(7.8)**	1.5	**(4.3)**	1.5
Balance at 31 December	**1,717.5**	1,698.1	**1,733.0**	1,705.2

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

16. 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 each office were as follows:

The Equitable Life Assurance Society

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	4.50	3.00%	2.50	1.50
Pension business	AM80	6.00	4.00%	3.00	3.00
Non-profit temporary assurances					
Basic Life and General Annuity business	TM80 Adj	4.50	3.00%	–	–
Pension business	TM80 Adj	6.00	4.00%	–	–
Recurrent single premium (with profits)					
Life business	–	0.00	0.5% p.a.	i.	i.
Pension annuity in payment	PMA80-1 (C=2010)	4.25	£40 p.a.	i.	i.
Pension business	–	4.25	0.5% p.a.	i.	i.
Non-profit annuity in payment					
Basic Life and General Annuity business	IM80 (C=2010)	7.25	£40 p.a.	–	–
Pension business	PMA80-1 (C=2010)	7.75	£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 0.0009 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. For annuities in payment on female lives, the equivalent standard female lives mortality tables to those shown above are used.

iv. The basis for calculating the provision at 31 December 1995 used interest rates of 8.00% p.a. for non-profit annuities in payment and 4.50% p.a. for recurrent single premium contracts. Mortality assumptions have been generally revised at 31 December 1996 so as to make use of the '80' Series standard tables. Otherwise the same assumptions were used at 31 December 1995.

Notes on the Accounts

continued

16.a. The long-term business provision continued

University Life Assurance Society

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	A67/70	4.50	6.75	2.75	1.25
Pension business	A67/70	6.00	9.00	1.75	1.75
Whole-life assurances	A67/70	4.50	6.75	3.25	1.25
Deferred annuities					
Basic Life and General Annuity business	A67/70	5.25	9.00	1.50	1.50
Pension business	A67/70	6.00	9.00	1.75	1.75
Recurrent single premium pension	–	3.75	v.	v.	v.
Annuity in payment	a(90)	8.00	1.00	–	–

v. 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.

vi. The expense allowances shown are a percentage of future premiums, except for annuities in payment where they are a percentage of the provision.

vii. The interest rates and future bonus rates for with-profits classes are each lower than the corresponding assumptions used at 31 December 1995. Otherwise, the assumptions are unchanged from those used at 31 December 1995.

Permanent Insurance Company Limited

Class of business	Mortality	Interest rate %	Future expense allowance
With-profits assurances	A67/70	3.50	Office less net premiums
Non-profit temporary assurances	TM80	4.50	Office less net premiums
Other assurances	A67/70	4.50	Office less net premiums
Permanent health insurance			
active lives	A67/70	6.25	Office less net premiums
claims reserves	CMIR12	7.50	

viii. The valuation of permanent health insurance contracts uses assumptions regarding future morbidity experience which are percentages of a standard Manchester Unity type table for the first two years of sickness. For longer term incapacity the morbidity assumptions take into account the probabilities of claims entering the third year of incapacity and of claims terminating through death or recovery in each year thereafter. A separate provision is held for claims where incapacity has lasted for more than two years. Group permanent health insurance contracts are valued using an active lives provision of one-half of the premiums in force plus a provision on claimants which allows for A67/70 mortality, 7.50% p.a. interest and appropriate recovery assumptions.

ix. The method of determining the morbidity assumptions differs from that adopted in 1995 when the provision was based entirely on a standard Manchester Unity type table.

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 Equitable Life Assurance Society non-profit annuities in payment and using an interest rate of 3.25% p.a.

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.

Notes on the Accounts

continued

16. Technical provisions continued

	GROUP		SOCIETY	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
c. Gross technical provisions movements and restatement of opening balances				
Balance at 1 January as previously reported				
Long-term business provision	**13,731.0**	11,328.5	**13,566.4**	11,294.4
Provisions for linked liabilities	**1,428.8**	1,176.3	**1,346.4**	1,082.7
	15,159.8	12,504.8	**14,912.8**	12,377.1
Balance at 1 January as restated				
Long-term business provision	**13,475.6**	11,113.7	**13,311.0**	11,079.6
Provisions for linked liabilities	**1,684.2**	1,391.1	**1,601.8**	1,297.5
	15,159.8	12,504.8	**14,912.8**	12,377.1
Retranslation of opening foreign branch technical provisions	**(7.2)**	3.3	**(7.2)**	3.3
Acquisition	**–**	124.7		
Changes in long-term business provision – gross amount	**2,404.9**	2,280.2	**2,375.9**	2,268.8
Change in technical provisions for linked liabilities	**217.9**	246.8	**294.3**	263.6
Balance at 31 December	**17,775.4**	15,159.8	**17,575.8**	14,912.8
Balance at 31 December				
Long-term business provision	**15,873.6**	13,475.6	**15,680.0**	13,311.0
Provisions for linked liabilities	**1,901.8**	1,684.2	**1,895.8**	1,601.8
	17,775.4	15,159.8	**17,575.8**	14,912.8

Provisions for index-linked business, previously included in the long-term business provision, are now included in the technical provisions for linked liabilities.

17. Provisions for other risks and charges

	GROUP		SOCIETY	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Provisions for deferred taxation	**4.4**	6.6	**3.3**	5.2
Other provisions	**1.2**	0.3	**1.2**	0.3
	5.6	6.9	**4.5**	5.5

Notes on the Accounts

continued

18. Creditors

a. Debenture loans

Debenture loans, all of which were repayable more than five years from the Balance Sheet date, were issued in connection with the financing of 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	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
b. Other creditors including taxation and social security				
Bank loans and overdrafts	**11.9**	4.8	**11.9**	4.8
Outstanding purchases of investments	**11.8**	34.4	**11.5**	34.4
Group companies			**12.0**	10.6
Other creditors	**33.5**	23.6	**12.5**	4.1
	57.2	62.8	**47.9**	53.9

19. Subsidiary and associated undertakings

a. Subsidiary undertakings

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

	Nature of business
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 (50.01%)	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 1996 the Group and Society held more than 20% of the nominal value of a class of equity shares in 19 companies, of which four companies have been accounted for as associated undertakings, as disclosed in Note 11.b.ii. The remainder are not regarded by the Directors as associated undertakings and do not materially affect the result or assets of the Group or of the Society. These investments are included in the Balance Sheet at market value.

Full information on subsidiary and associated 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.

Notes on the Accounts
continued

20. 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 1996 by Directors was £464,308.

The aggregate payments under policies with the Society in 1996 to Directors was £97,570.

All transactions were effected on the Society's normal terms.

21. Commitments

Property investment commitments not provided for in the accounts amounted to £51.6m (*1995 £37.0m*) for the Group and the Society.

Commitments in respect of uncalled capital on certain investments amounted to £239.9m (*1995 £108.0m*) for the Group and for the Society.

The Society has a commitment for uncalled capital on investments in a subsidiary undertaking amounting to £0.6m (*1995 £0.6m*).

The Society has purchase order commitments of £0.5m (*1995 £1.0m*).

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

	GROUP		SOCIETY	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Between one and five years	**0.1**	0.1	**0.1**	0.1
After five years	**7.1**	6.9	**6.9**	6.9
	7.2	7.0	**7.0**	7.0

Registered in London No. 37038
Registered Office: City Place House,
55 Basinghall Street, London EC2V 5DR
Regulated by the Personal Investment Authority
A member of the Association of British Insurers

The Equitable group comprises:
The Equitable Life Assurance Society,
Equitable Unit Trust Managers Ltd,
University Life Assurance Society

THE EQUITABLE LIFE ASSURANCE SOCIETY
FOUNDED 1762

Board of Directors

President
J R Sclater

Vice-Presidents
A G Tritton
I P Sedgwick

R Q Bowley
P A Davis
S M Kinnis
Peter Martin
A Nash
Miss J A Page CBE
D W J Price
R H Ranson CBE
J F Taylor
D G Thomas
D W Wilson

General Management

Managing Director and Actuary
R H Ranson CBE

General Managers
R Q Bowley
S M Kinnis
A Nash
D G Thomas

Notice of Annual General Meeting

Notice is hereby given
that the 235th Annual General Meeting of The Equitable Life Assurance Society will be held at Ironmongers' Hall, Barbican, London, on Friday 23 May 1997 at 11a.m., when the business of the meeting will be as follows:

1. To receive and consider the report of the Directors and the statement of accounts for the year ended 31 December 1996, together with the report of the Auditors thereon.

2. To elect Directors in place of those retiring.

3. To reappoint the Auditors.

4. To consider and if thought fit to pass the following Resolution which will be proposed as an Ordinary Resolution:

'That with effect from and including 1 June 1997 the maximum sum, which (in accordance with paragraph (1) of Regulation 61 of the Society's Articles of Association) the Directors' fees payable in respect of any period of twelve months ending on a 31 May are not to exceed in aggregate, shall be, and such maximum sum is hereby prescribed as, £375,000.'

By Order of the Board
R Q Bowley
Secretary
16 April 1997

Only members are entitled to attend the meeting. Members may vote only in accordance with the Society's Articles of Association. Ironmongers' Hall is located in Shaftesbury Place, off Aldersgate Street, near to the Museum of London. Barbican and St Paul's are the nearest Underground stations.

Comment on the Ordinary Resolution

The Ordinary Resolution shown under item 4 of the Notice of Annual General Meeting would, if passed, increase the maximum limit on the aggregate amount of the Directors' fees payable in any twelve month period. The Directors, within the limit set, have power to decide the actual level of fees in any such period – both in total and for individual Directors – having regard particularly to the various duties of the individual Directors and to the general level of fees appropriate from time to time. Executive Directors do not receive fees.

The current maximum limit is £250,000. This was set by way of Ordinary Resolution at the Annual General Meeting in May 1995.

Since the maximum limit was last set, the Society has acquired Permanent Insurance Company Limited as a subsidiary and certain of the Society's Directors, both executive and non-executive, have joined the Board of that company. Directors' fees are payable by Permanent reflecting the responsibilities and activities of the Directors. Under the Society's Articles, a Director of the Society must account to the Society for any fees received or receivable by him as a Director of a subsidiary of the Society (other than University Life Assurance Society). In consequence, the fees receivable in connection with directorships of Permanent by the Society's non-executive Directors must be included in the fees to which the maximum limit referred to above applies. (The Society's executive Directors do not receive any fees personally in connection with directorships of subsidiary companies.)

Because of the inclusion of fees in respect of Permanent Insurance Company Limited as explained above, the current maximum limit is likely not to be adequate and the Society is being asked to increase that limit.

In proposing a new maximum limit of £375,000, the Directors are asking the Society to set a limit which can remain in force for a number of years and which is able to accommodate the possibility of other companies becoming subsidiaries of the Society in the future.

The Society's Directors

John Sclater, President
Age 56 *(i, n, r)*
Appointed a director in 1985 and President in May 1994. Chairman of Foreign & Colonial Investment Trust plc, Foreign & Colonial Enterprise Trust plc and Berisford plc, and a director of a number of other companies.

Alan Tritton, Vice-President
Age 65 *(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, and a consultant to Barclays Bank plc, having retired as a main Board director of Barclays Bank plc.

Peter Sedgwick, Vice-President
Age 61 *(n,r)*
Appointed a director in 1991 and a Vice-President in 1995. Vice-Chairman of Schroders plc, as well as being a director of a number of investment trusts.

Roy Ranson CBE, Managing Director and Actuary
Age 67 *(i,n)*
Appointed an executive director in 1985. Joined the Society in 1953. Was appointed Deputy Actuary in 1972 then Joint Actuary in 1982, since when he has been the Appointed Actuary (for statutory supervision purposes). Became Managing Director and Actuary in 1991. A director of Marks & Spencer Life Assurance Limited and Permanent Insurance Company Limited.

Roger Bowley
Age 57
Appointed an executive director in 1989. Joined the Society in 1961 and has held various senior management roles. Appointed Company Secretary in 1985. Currently holds the position of General Manager – Central Services and Secretary. A director of Permanent Insurance Company Limited.

Peter Davis
Age 55 *(a)*
Appointed a director in 1995. Director General of the National Lottery. A director of Provident Financial plc.

Shaun Kinnis
Age 59
Appointed an executive director in 1989. Joined the Society in 1968 and has held a number of senior management positions in the marketing organisation. Currently holds the position of General Manager – Sales and Marketing. A director of Permanent Insurance Company Limited.

Peter Martin
Age 62 *(a)*
Appointed a director in 1984. Solicitor. A director of Finsbury Underwriting Investment Trust plc, Hucklecote Manufacturing Limited, Permanent Insurance Company Limited and Sterling Underwriting Agencies Limited.

Alan Nash
Age 48
Appointed an executive director in 1993. Joined the Society in 1971 and has held various senior management roles. Currently holds the position of General Manager – Finance.

Jennifer Page CBE
Age 52
Appointed a director in 1994. Chief Executive of Millennium Central, the operating company for the Greenwich Millennium Exhibition. A director of Railtrack Group PLC.

David Price
Age 49 *(i)*
Appointed a director on 1 July 1996. Deputy Chairman of Mercury Asset Management Group plc.

Jonathan Taylor
Age 61
Appointed a director in 1995. Chairman of Booker plc and Ellis & Everard plc, and a director of MEPC plc and Tate & Lyle plc.

David Thomas
Age 52 *(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
Age 55
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)

President's statement to members

Dear Member

Continued success – a mutual benefit

Although our Report and Accounts are formally intended for the Society's members we send them to all policyholders, whether or not they have with-profits policies, as the content will be of interest to everyone to whom we are providing a service.

Amongst our many important achievements in 1996, I would like particularly to mention three:

Our new U.K. annual premium income, at over £400m, broke all previous records for the industry.

Our total new premium income exceeded £2 billion for the first time, and included our highest ever single premiums at £1.59bn.

Our expense ratio fell, for the eighth consecutive year, to the remarkably low level of 4.3%. We confidently expect this figure yet again to be the lowest in the industry.

These achievements, together with many others over the years, show that a well run mutual organisation can consistently produce outstanding performance.

There has recently been much debate about the merits of mutuality and I would like again to put on record your Board's continued strong commitment to maintaining The Equitable as a mutual society. We are convinced that our mutual status will bring unique benefits provided we continue to operate with great efficiency and we always remember that we are in business solely to serve our policyholders.

Many mutuals are changing their status and new ones are unlikely to be created. We believe that our continuing existence and success as a mutual will increasingly be a valuable competitive weapon.

As a mutual we can provide benefits and services to our policyholders at cost. This must be an advantage so long as we keep our costs low. Our ability to do so depends on a number of factors including tight management control, effective systems and the economies of scale. On all these counts we are strong and we are therefore exceptionally well placed to benefit from the probability that future governments, whatever their colour, will encourage or impose greater private, rather than state, provision. The Equitable will be well placed, whichever party wins the forthcoming General Election, as we provide a wide range of flexible products which give good value and which are ideally suited to private provision – whether it be for pensions in retirement, life assurance cover or long-term care.

Another important aspect of our mutuality is our approach to bonus distributions. Throughout our history we have tried to ensure that each generation of with-profits policyholders has received the returns it has deserved on its investments with the Society. Our distributions have been full and fair - i.e. 'equitable'. We have not built up surplus assets in order to boost our 'free assets'. Our 'free asset ratio' is therefore inevitably, and rightly, lower than those of some of our competitors, but this is a reflection of our full distribution policy and not an indication of financial weakness. As has been reported previously, the international rating agency Standard and Poor's awarded the Society an AA (Excellent) rating in 1993. This rating has been confirmed by Standard and Poor's in each subsequent year.

John Sclater – President

Regulation

We are encouraged by and support the initiatives of the Securities and Investments Board (SIB) and the Personal Investment Authority (PIA) in seeking ways in which regulation can become less prescriptive without sacrificing effective investor protection.

It is essential that there should be clear and full description of the features of the investments being offered, and this is a principle we have long followed. We have again taken the lead in disclosure of charges, this time for unit trust investments, by implementing the new requirements in December 1996 well before the deadline set by the regulators.

An aspect of regulation that causes us concern, and which we regard as inequitable, is the matter of regulators' fees. Our great success in attracting new business has caused our fees to the PIA to be far greater than those of almost all other organisations regulated by the PIA. For example, in each of 1995 and 1996, we paid almost £1.3m in fees to the PIA and we feel that such sums are well out of line with the cost to the PIA of regulating our relatively small field force. We are strongly of the opinion that regulators should apply fee bases which reflect the efforts required by them to regulate their various members, and that the fees should recognise a company's good practice. Virtue should be rewarded, not punished. We hope that our policyholders will support this stance.

I have referred in previous statements to the review of past sales of pension transfers and opt-outs on which the industry has been engaged since 1995. We have made good progress with the review and will shortly have completed all the priority cases (the only ones for which deadlines have been set by the regulators) provided pension schemes continue to cooperate with the provision of information where this is needed. We expect to have completed the review of most other cases by the end of 1997, subject again to the timely provision of information where needed. Compensation payable by the Society to date is relatively modest and we remain of the view that there will be no material impact on policyholders' benefits.

Corporate governance

Recent years have seen much discussion of corporate governance, and the reports of the Cadbury and Greenbury Committees have generally been well accepted and adopted by industry. We follow in all material respects the recommendations of these committees. The Hampel Committee is now reviewing the impact and implementation of the Cadbury recommendations.

We strongly support good corporate governance but we hope the focus will be on transparency and sound principles rather than upon an excess of prescriptive rules. As Justice Brandeis said 'Sunlight is the best disinfectant'. We also hope that unitary boards will be maintained in this country and that no pressures will be put to set non-executive directors aside from their executive colleagues.

Development of the Society

There have been many developments in recent years of which the Society can be proud and which will put us in a position to continue our growth and success.

An important new development has been the introduction of 'Equitable Direct', a telephone service through which clients can obtain advice and buy our products. In our case, and here we are different from many of our competitors, Equitable Direct is not a separate sales channel operating in competition with our established field force but a complementary service for those of our clients who find the telephone more convenient.

Our overseas operations – our International Branch based in Guernsey and our branches in Germany and the Republic of Ireland – are continuing to grow, and further initiatives will be made where the conditions are right. I would stress that all these developments are subject to close scrutiny and tight control, including in respect of costs.

Our very advanced systems, developed largely 'in house', are a major asset. These systems are designed to support all aspects of our business and give us a distinct competitive edge in terms of both the quality and cost of our products. In addition, through our wholly-owned subsidiary, Equitable Services & Consultancy Limited (ESC), we are now providing consultancy services and making our systems and administrative resources available to carefully selected third parties.

A major contract was signed in 1995 with Marks & Spencer Life Assurance and in 1996 Mercury Asset Management entered into an agreement for ESC to provide systems and administration services for Mercury's group pension operations. Our profits from these activities are of direct benefit to our policyholders.

President's statement to members

The Society purchased a controlling interest in the Permanent Insurance Company (PIC) in 1995 and our field force began the sale of permanent health contracts offered by that company. Sales of these contracts are progressing well and will enable us further to develop this type of business. We are currently negotiating the purchase of the remaining shares in PIC from the other shareholder, Medical Sickness Annuity and Life Assurance Society Limited.

It is possible that we will from time to time make other acquisitions to enable us to complement the products and services we offer, but our future growth will be principally organic. We will focus primarily on our core business in the U.K. but we will also pursue steady, controlled development in selected overseas markets.

Our objective now is to maintain our pre-eminent position in our industry. Competition will intensify but we have a strong franchise in a growth sector of the economy. We also have an outstanding management and staff, to whom I give warm thanks on behalf of the Board and the policyholders. With all these benefits I am confident that we will continue to be successful and that our mutuality will be of real advantage to us all.

John Sclater

John Sclater
26 March 1997

Management Report

This management report comprises:

An appraisal of the Society today

Features of 1996

An appraisal of the Society today

We included in the Report & Accounts 1995, an appraisal of the Society, setting out its principles of operation and how these are applied for the benefit of members and policyholders generally.

We are repeating the appraisal, with updated information, to show the Society's continued success in applying these principles.

The important conclusion must be that mutuality, as The Equitable defines it, works.

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.

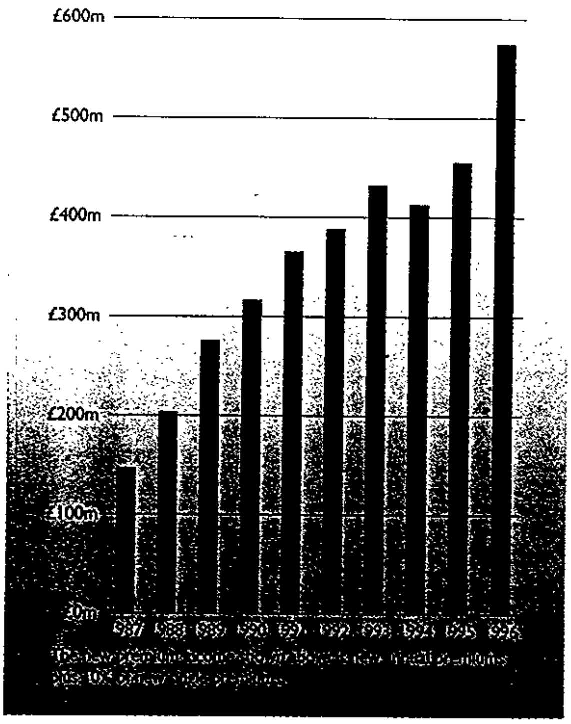
Because the Society is self-financing, that is it has no shareholder capital, it still essentially looks to its members for development capital and still expects to repay individual members. Today that is managed through the bonus policy.

An appraisal of the Society today

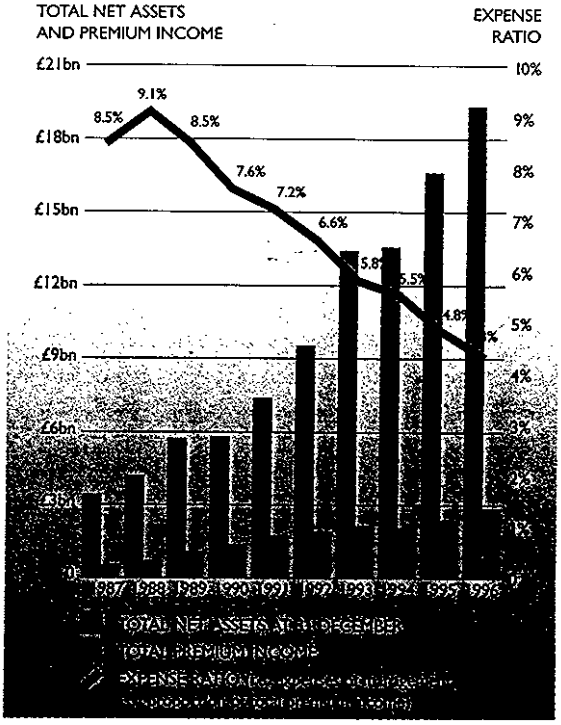
Does the concept work?

These tables show how the Society has grown over the past 10 years and has steadily driven down costs of operation. In other words, there are more policyholders benefiting from the existence of the Society today with lower operating costs than in previous years.

New premium income growth



Business growth and expense control



The factors contributing to the cost-effective internally financed growth

Low operating costs

The clear evidence collected from the Department of Trade and Industry returns by independent commentators of the Society's relatively low operating costs is a powerful influence.

The tables below show acquisition and renewal expense ratios as published in *Planned Savings.*

Acquisition expense ratio 1995

Lowest – The Equitable Life	16.85%
Nearest competitor	24.72%
Average	111.14%

Renewal expense ratio 1995

Lowest – The Equitable Life	2.72%
Nearest competitor	6.55%
Average	16.66%

Source: *Planned Savings*, October 1996

Policy performance

The evidence of consistently good performance, in tables of relative performance across the industry created by independent commentators, encourages existing policyholders to remain and place further business with the Society and also attracts new policyholders.

Top ten appearances for Personal Pension Plans 1974-1996

The Equitable Life	43
Nearest competitor	30

Source: *Planned Savings* surveys of regular contribution with-profits personal pension plans published 1974 to 1996

Top three appearances for 10 year with-profits endowments 1974-1996

The Equitable Life	14
Nearest competitor	8

Source: *Money Management* surveys of with-profits endowments published 1974 to 1996

Money Management Personal Pensions Survey

Five Star 'Best Buy' for monthly premiums (75% of The Equitable Life's 5 and 10 year results were above average)

Source: *Money Management*, March 1997

Planned Savings Free-Standing AVC Survey of Past Performance

The Equitable Life with-profits fund

3 years 1st out of 22 funds surveyed
5 years 3rd out of 23 funds surveyed

The Equitable Life unit-linked managed fund

3 years 2nd out of 32 funds surveyed
5 years 2nd out of 35 funds surveyed

Source: *Planned Savings*, November 1996

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

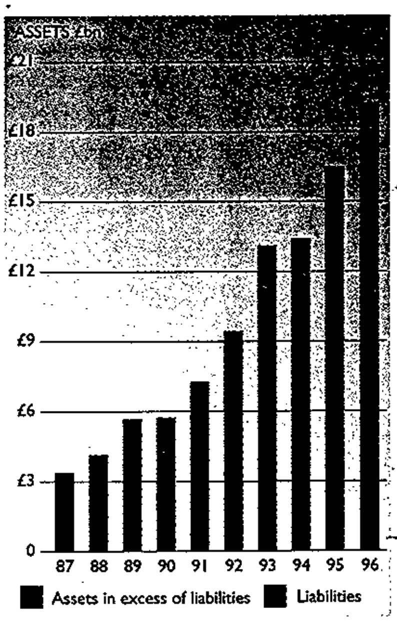
The value of the units can fall as well as rise.

Fair profits distribution

The public demonstration of deliberately avoiding the building up of excessive 'free assets' illustrates the Society's 'fair' policy on profits distribution in action.

That a full profits distribution policy does not lead to restriction on growth of business or delivery of benefits to policyholders, is demonstrated in this Report and is a reflection of the overall management strategy of the Society.

Liabilities and free assets

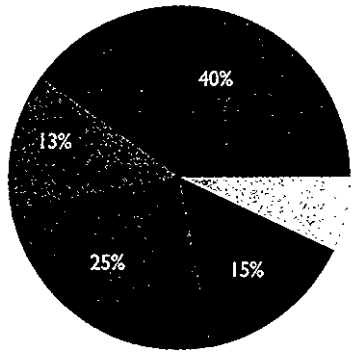


Investment performance

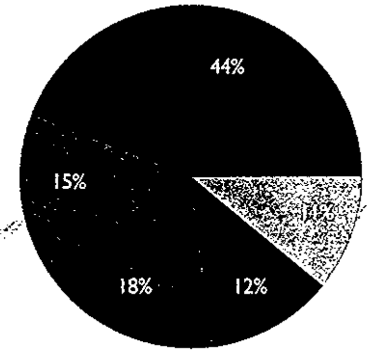
A full distribution policy does not lead to investment considerations different from those applying to life assurance companies generally. The asset mix from time to time reflects relative price movements and preferences on investment grounds over the years rather than blind adherence to any particular 'culture'. Over many years there have not been any particular technical restrictions placed on the investment team.

Investment mix of with-profits assets

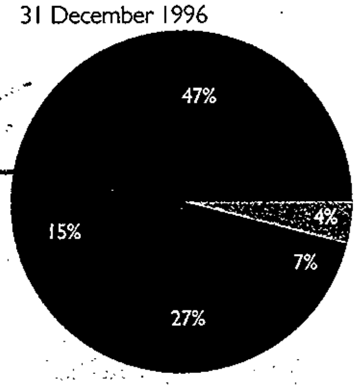
31 December 1986



31 December 1991



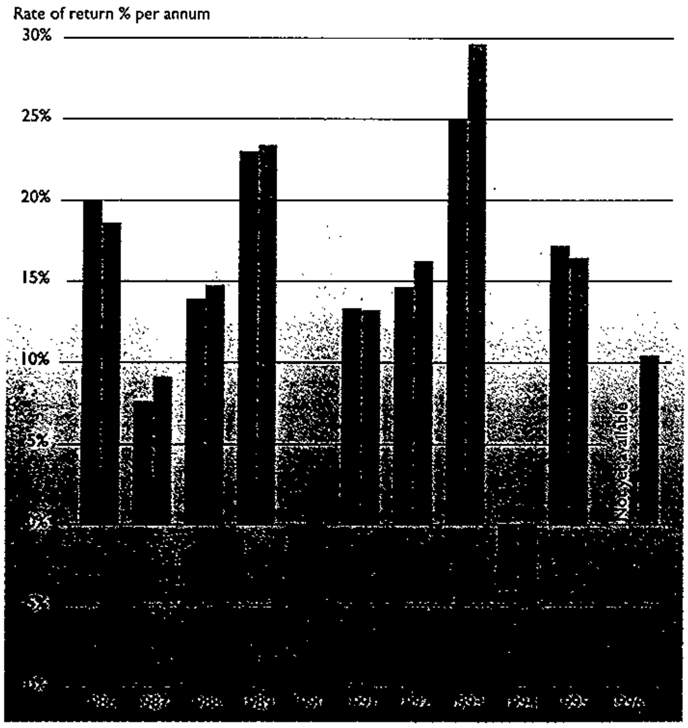
31 December 1996



U.K. EQUITIES
OVERSEAS EQUITIES
FIXED INTEREST
PROPERTY
OTHER

An appraisal of the Society today

Rates of return on total policyholders' funds



■ Average rate of return of 15 major with-profits life offices ■ Rate of return achieved by The Equitable Life

Rates of return are calculated from data in 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 1995

	5 years	10 years
The Equitable Life Assurance Society	88.6%	217.2%
Average of 15 major with-profits life offices	82.4%	203.4%

The 15 major with-profits life offices used in the comparison

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

Financial year end 31 December (except Standard Life 15 November)

Capital and expenses management

The useful discipline of needing to raise development capital internally is a powerful incentive towards 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 generally 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 following table shows the additional loan required in 1996 to finance new business.

Investments in U.K. New Business

New U.K. annual premium business in 1996	£401.1m
New business loan Outstanding amount invested in acquiring new U.K. annual premium business to end 1995	£365.7m
Additional net loan to finance 1996 new U.K. annual premium business	£40.1m
Total	£405.8m

The outstanding loan is 'rolled up' with an allowance for interest. The total U.K. with-profits reserves as at 31 December 1996 were £13,528m. The outstanding loan, which is effectively an investment in the business on behalf of the with-profits policyholders, thus represents only 3.0% of those reserves. The repayment of these loans to outgoing with-profits policyholders is reflected in the final bonuses.

Development of systems

Over recent years, the Society has 'invested' some £50m 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.

Improved productivity

The Society operates 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 the larger pension cases) and whose outgoings are the actual cost 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 four 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 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. Since 1994 a rebate of charges has been 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.

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.

In 1995 the fund charge on the internal linked funds was reduced to ½% (from ¾%p.a. for pension funds and ¹¹⁄₁₆%p.a. for life funds).

The table below summarises these benefits and compares them to the total operating costs of the Society.

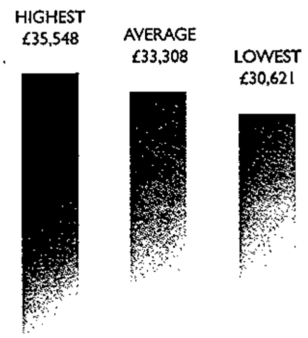
Low policy charges

The Society is living within the publicly disclosed standard charges in the premium rates, making profits on them and passing these back to the policyholder. Despite this, the Society's standard charges, before the rebates to policyholders, are themselves very competitive.

Good evidence of this is found in projections in financial journals based on standard assumptions on future investment performance but also based on the companies' own charges. In many cases the Society's charges are the lowest available, and our products are well placed in these surveys.

For example, in the October 1996 *Money Management* survey of 10 year with-profits regular premium personal pension plans The Equitable had the lowest charges, and hence the highest projected fund.

Projected funds



Source: *Money Management* survey of 10 year with-profits regular premium personal pension plans, October 1996 (based on premiums of £200 per month)

Summary

The statistics in this Report indicate the benefits which the Society is bringing to policyholders of operating on a basis where it is only their interests which are relevant. 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 effects of the self discipline imposed by the need to raise capital internally are amply demonstrated.

Clearly mutuality, as The Equitable defines it, works.

Improved productivity – the benefits to policyholders

	Profits on renewal charges	Rebates to larger individual pension plans	Rebates to larger group pension schemes	Benefit from reduction in fund charge	Total operating costs
1992	£1.55m	–	–	–	£124.3m
1993	£1.63m	–	–	–	£121.0m
1994	£2.49m	£10.9m	–	–	£113.0m
1995	£2.43m	£12.4m	£4.5m	£2.8m	£114.4m
1996	£3.68m	£15.9m	£4.9m	£3.6m	£122.9m

Features of 1996

There were a number of outstanding achievements for the Society in 1996.

Amongst these were:

New business at record levels, including the Society's new U.K. regular premiums setting a record for the U.K. life assurance and pensions industry as a whole.

A further reduction in the expense ratio to 4.3% for 1996 from the already low figure of 4.8% for 1995 – which in itself was the lowest in the industry and less than half the industry average. This was the eighth consecutive year that the Society's expense ratio had fallen.

Total premium income for 1996 amounted to £2.8 billion, almost 20% up on 1995.

Market value of the Society's assets increased to £19.3 billion at 31 December 1996.

The international rating agency, Standard and Poor's, confirmed again the AA (Excellent) rating which they first awarded us in 1993.

The remainder of this section gives more detail of these and other aspects on which we normally report to policyholders. Some of the financial highlights for 1996 are set out on page 19, together with details of how they compare with previous years.

Each section is prefaced by a short statement of what we are aiming to achieve for our policyholders.

New Business and Sales

Aim: to meet the needs of an increasing number of clients, with the Society's flexible and good value contracts.

A large degree of confidence returned to the market in 1996 with most economic indicators showing positive gains. As a result, the Society's new business was extremely buoyant throughout the year.

Sales of new annual premium plans increased markedly from £326m in 1995 to £415m in 1996. So far as we are aware, no other life company in the U.K. had annual premium sales in excess of £300m, let alone £400m. Single premium business improved compared with the previous year with sales of £1,590m, representing a 23% increase.

Personal pensions contributed greatly to the overall success of 1996 with increases of 25% for annual premiums and 30% for single premiums. Such gains were as much due to existing clients deciding to invest more, as to new clients coming to the Society.

Spurring greater investment has been the increased price transparency introduced under the Personal Investment Authority's disclosure regime. Value for money is one of the Society's key strengths and can now be more readily recognised by clients.

Price competitiveness is, however, not the only factor to influence buyers. Service, equally, is a high priority particularly among corporate clients who require us to deal efficiently with large workforces on their behalf. In that context, it is pleasing to report that more than 200 new Additional Voluntary Contribution Schemes started in 1996, together with many Grouped Personal Pension and Group Money Purchase arrangements.

A firm stock market and stable inflation helped stimulate investment sales during the year. The Maximum Investment Plan, for example, has proved popular with many clients who have been attracted by the tax-efficiency it offers higher rate taxpayers.

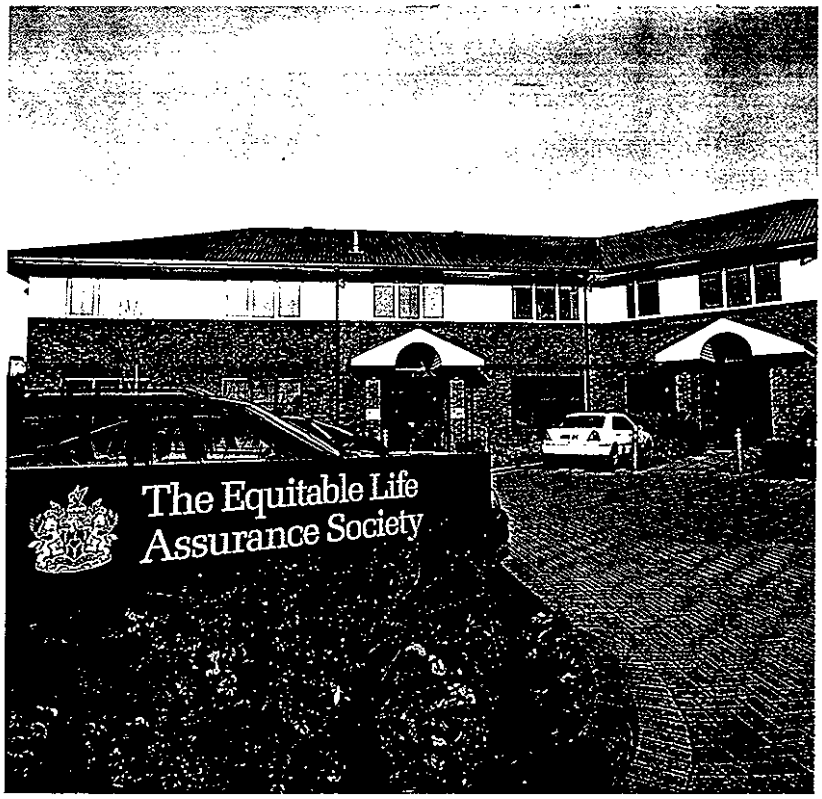
For those retiring, an environment of low interest rates can be a mixed blessing. Although prices are maintained, annuity rates can be low thereby affecting income. The Society's range of annuities and retirement income plans has provided the ability for clients to overcome some of these problems. Sales in this area were excellent, with the Managed Pension alone bringing in more than £400m.

Permanent health insurance sales made steady progress, in the Society's first full year of sales since its acquisition of a controlling interest in Permanent Insurance Company. Legislation changes during 1996, allowing most claims to be tax free, helped stimulate the market.

The diversity of all these products reflects the character of the Society's chosen market; a market which ranges from those starting careers to those running successful companies. Their individual needs can be complicated but the provision of simple and efficient solutions has become The Equitable's hallmark.

Although a number of factors have led to the Society's ability to deal with this situation more effectively than its competitors, two stand out. The first is the creation of a product range which, better than most, matches the needs of that market. The second is the development of a salesforce of unparalleled quality. Through careful recruitment and rigorous training, the Society's representatives are equipped with the skills and products which make a significant market impact.

Evidence of that impact is manifested in the £5m of new premium income generated, on average, by each representative. What is more, the Society's specialists within the salesforce who deal with the more complicated cases were involved in approximately 25% of new business production.



Our Birmingham offices – part of the Society's extensive branch network.

Internationally, the Society continues to make good progress. Our International Branch based in Guernsey, which deals mainly with U.K. expatriates, has seen new business rise substantially and is beginning to gain experience in the Middle East.

In the Republic of Ireland, new annual premium income increased by 20% and new single premiums by approximately 6%. Although price transparency is not mandatory in the Republic, the Society was successful in bringing this issue and its competitiveness to that market's attention during the latter part of 1996.

Since the adoption of the Third Life Directive, U.K.-style plans have proved popular in Germany and sales during 1996 confirmed this view.

Features of 1996

Investment

Aim: to provide good returns for our policyholders by prudent investment of their funds.

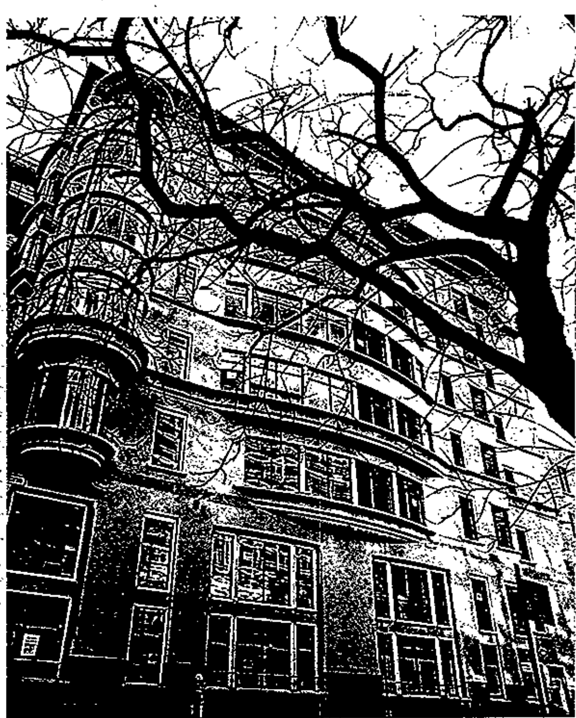
By implication, with-profits policyholders have indicated a desire for some guarantees and for some protection to their policy values from the short-term volatility of investment markets. The investment risk is controlled by holding a range of assets in several different categories and the guarantees are provided with the help of a suitable proportion being held in U.K. government securities. The assessment of future risk is, however, difficult and it is not possible to define precisely in advance what level of overall risk is implied by a particular investment strategy. Nor can risk be considered solely in absolute terms, since we are in competition with other providers and the 'success' of the Society's investment returns will be largely measured by the results delivered to policyholders compared with those provided by our competitors. Nevertheless, techniques are available which enable a reasonable assessment to be made both of absolute and relative risk, and these are utilised in the management of the Society's portfolio in pursuit of its investment objectives.

These objectives relate to a number of elements which are seen as essential in meeting the principal aim indicated above, and include reference to risk-free rates of return and avoiding excessive volatility, as well as being competitive and meeting regulatory requirements.

In absolute terms, returns in a number of asset categories over 1996 were once again somewhat better than had been anticipated at the start of the year, though it must also be noted that some (such as from Japanese equities) were rather worse. Inflationary pressures have continued to be conspicuously absent in the world's major economies and growth is, for the most part, restrained. There were, however, increasing signs in the U.K. of an acceleration in the economic growth rate as the year progressed, with a pick-up in the housing market and in retail sales. Nevertheless, only a small upward adjustment in interest rates had been made by the year end after the occasional reductions of the first few months.

Against this background, government bond yields in the U.S. and Europe rose modestly in the Spring but then fell back to (or below) earlier levels. Despite the U.K.'s different economic circumstances, the gilt market's performance was broadly similar and some new money was invested by the Society in this area when yields were at the upper end of the range. A much larger proportion of new money, however, was committed to U.K. equities, many of which continued to trade at reasonable valuations at various times of the year. The FTSE Actuaries All-Share Index rose by 11.7% over 1996 as a whole which, with dividend income, implied a total return (on a gross basis) of around 16.7%. The return from the property sector was again quite low, though some rental growth was evident in certain parts of the market towards the year end, which might presage a better experience in 1997.

The net result arising from the overall mix of assets and the investment activity during the year was a return of 10.7% for the with-



The site of the Society's former head office at 4 Coleman Street in the City of London has been redeveloped. The new building has been fully let and forms part of our property portfolio.

profits fund, which compares with 16.6% for 1995, -4.2% for 1994 and 28.8% for 1993. Thus, the average annual return over the past four years has been 13%, around 1% p.a. higher than would have been obtained on 15-year gilts (a proxy for risk-free, longer-term investments), whilst inflation has been much lower over the period, averaging 2.6% p.a.

There is also considerable interest at present in another aspect of the investment scene, namely Corporate Governance. It is therefore worth stating that the Society takes seriously its responsibilities as a shareholder, both in exercising its voting rights and in its dialogue with directors and/or executives of companies in which it invests. As shareholders (typically of the long-term variety) we are obviously keen to see growth in the value of a company's equity (including dividends). Any significant diminution in underlying value over time is a cause for concern, which can be addressed either by encouraging the relevant board to take appropriate action or by selling the shares. The latter is not always practicable or desirable, in which case the challenge is to determine a suitable way forward which does not, in the course of implementation, further erode the value of the company. The Society is also prepared to make public its stance on general issues of principle which relate to transfers of value from the body of existing shareholders to third parties and which have not been put to shareholders for approval.

Bonus Declaration

Aim: to provide to each generation of policyholders full and fair returns on their investments with the Society.

In setting declared bonus rates, the Society has, for many years, followed the trend in redemption yields on gilt-edged securities. The trend in interest rates since the mid-1980s has been generally downwards and the Society, in common with other offices, has reduced its declared rates to bring them into line with current conditions.

Unlike many other offices, however, the Society took steps to reduce declared rates at a relatively early stage. Since 1993 fixed-interest rates have remained broadly at the same level and the Society has been able to hold declared rates at the level established for 1993. That has been the case again for 1996 so declared bonus rates have now remained unchanged for four successive years.

Turning to total returns, the 1990s have so far been a period of unusually volatile investment conditions. Beneath that volatility there appears to be a growing acceptance that the U.K. is experiencing, and will continue to experience, a sustained period of inflation at a much lower level than was normal in the two preceding decades. As that acceptance develops, expectations will adjust to the new low inflation environment.

A general trend towards lower average returns, affecting all types of savings, can now be seen, although overlaid with the effects of short-term changes in investor sentiment, particularly in the case of equity investments. That trend has led to a general reduction in the level of pay-outs under life office contracts of various types in recent years, except for the longest policy durations.

During 1996 much publicity was given to stock markets attaining 'all time highs',with the implication of exceptional investment returns. Such publicity ignores the fact that, if returns are positive, markets will, on average, rise and new 'highs' will be regularly achieved. In fact, investment returns in 1996, although very satisfactory in the context of inflation at around 3% p.a., were by no means exceptional. The Society earned 10.7% on its with-profits assets at market value in 1996. That was close to the rate of return of 10% p.a. applied to with-profits recurrent single premium pension contracts leaving the fund during the year and that rate has been confirmed as the allocated rate for 1996.

Looking ahead and bearing in mind the trends described above, the Directors considered it appropriate to set the future rate of return to apply to claims in 1997 at 9% p.a. for recurrent single premium pension contracts, with corresponding rates for other classes.

Features of 1996

	The Equitable Life	Building Society	Effective rate of RPI
	% p.a.	% p.a.	% p.a.
5 year bond	7.8	4.3	2.6
10 year endowment assurance	9.6	5.4	3.6

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	Building Society	Effective rate of RPI
	% p.a.	% p.a.	% p.a.
5 years	8.5	4.8	2.5
10 years	10.6	7.3	3.6
15 years	13.9	8.7	4.1
20 years	15.3	9.6	5.1

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.

Source of Building Society and RPI figures: *Hindsight*

As noted above, the trends in investment conditions which have led to reductions in pay-outs in recent years have affected other forms of savings as well as the contracts offered by life offices. It is important not to lose sight of the fact that the better life office with-profits contracts continue to provide very attractive returns relative to other forms of savings and to retail price inflation.

The table above shows the yield achieved under the Society's 5 year with-profits bond and 10 year endowment assurance policy maturing in 1997 compared to the same investment in a building society account and the Retail Prices Index (RPI).

Recently, holders of with-profits policies will have received bonus notices and statements, together with an explanation of the Society's approach to the bonuses for 1996.

Customer Service

Aim: to provide a speedy, efficient, convenient and courteous service to our clients.

Policies for individuals

The Society provides after sales service to clients across the entire range of U.K. business for individuals, direct from the Client Servicing Centre in Aylesbury.

Client Servicing Centre staff are equipped with advanced systems which enable them rapidly to respond to enquiries and to accept instructions in respect of the nearly one million policies now in force. Through the systems, staff have immediate access to information about the Society's clients and their policies, as well as current and previous correspondence.

Making enquiries and servicing requests by telephone is increasingly becoming the preferred route for many of the Society's individual clients. A dedicated Telephone Desk (01296 385588) normally operates to provide this service between 8.30a.m. and 6.30p.m. Monday to Friday. At other times staff may be available to deal with enquiries or a facility is always available for leaving messages. Staff are able to provide immediate responses to enquiries and to take most types of policy instruction.

Written communications are scanned on to the computer on arrival and their images are directed to multi-skilled servicing teams which use the system to control and support the delivery of customer service. The aim is to deal with most routine enquiries and transactions within three working days.

A programme of continuous improvement is in operation which seeks to improve the quality of service and to achieve further reductions in operating costs while handling increasing volumes of business.

Policies for group pension clients

During 1996 the levels of service provided to the Society's group pension clients improved further over the levels provided in previous years. Over 80% of all enquiries were dealt with fully and accurately on the day of receipt. Such service is appreciated by our clients as was demonstrated in the 1996 survey of providers of Additional Voluntary Contribution facilities carried out by the respected firm of actuarial consultants and advisers Watson

Wyatt. Watson Wyatt commented on the results of an administration service survey they had conducted: 'The level of customer satisfaction among the schemes using Equitable Life is truly impressive – 92% say the quality of service they receive is "very good" or "excellent" '. The Society led the results of this survey by a considerable margin.

At the start of 1996 we reorganised the way in which we provide local support to our group pension clients. A new department was formed with staff throughout the U.K. who are responsible for maintaining contact with all our group clients. Part of the function of this department is to make presentations to groups of potential new members to the pension schemes we administer. During 1996 over 20,000 individuals attended such presentations throughout the country.

Systems and Consultancy

Aim: to provide advanced systems which support our business and which give the Society competitive advantage, both in standards of service and cost-effectiveness. In addition, to produce additional earnings by providing systems and consultancy to other organisations.

Our advanced computer systems, developed by our own staff, continue to evolve and to support all of the Society's day-to-day operations. The high level of skills of our staff, supported by the power and flexibility of these systems, offers continuous improvement in productivity and operational effectiveness.

Standard and Poor's 1996 appraisal of the Society identified our 'world class systems' as a major strength. Others in the industry acknowledge this and a number of companies from around the world have sought assistance from our wholly-owned subsidiary, Equitable Services and Consultancy Limited (ESC). ESC makes available the Society's expertise in client and policy administration and in life office and computing consultancy, together with the sale or hire of our computer systems. That is done on a commercial basis and subject always to protecting the Society's competitive edge. The profits from these arrangements are used to benefit the Society's customers through new initiatives such as the new computer support for Equitable Direct, enabling, at a client's discretion, any or all aspects of the pre-sales process from literature enquiry and policy illustration to starting a new policy, to be completed over the telephone by discussion with our fully qualified staff. Consultancy and computer services continue for ESC's first major client, Marks & Spencer Life Assurance Limited, and during 1996 the second major client, Mercury Asset Management, reached an agreement with ESC for provision of administration services supported by the use of our computer systems.

Staff

Aim: to have well-trained, professional and adaptable staff who can meet the evolving needs of our clients and our business.

The Society's productivity levels, in the light of a 25% increase in new business, are impressive. Although new computer systems played their part, the high levels of productivity attained are also indicative of a well motivated and committed workforce. Productivity gains fully merited a business performance bonus, for the non-field staff, of 17.8313%, the highest level of bonus achieved since the introduction of the bonus scheme in 1987. (The field staff are not in the bonus scheme and are rewarded directly for individual productivity.)

Equitable Direct – a telephone service through which our clients can obtain advice and buy our products.

Features of 1996

The number of U.K. permanent staff fell for the fifth consecutive year. At the end of 1996 there were 1,853 permanent staff, a reduction of 20 during the course of the year. While the number of non-field staff remained more or less constant in 1996, the number of field staff reduced slightly.

A standard salary increase of 4% was awarded on 1 January 1996; there had been no increase previously for 18 months. It was decided not to increase pay on 1 January 1997 as generally salary levels were found to match the market and, given that, variable pay is the method of remuneration preferred by the Society's management.

The remarkable success of the Society can be achieved only with a workforce which shares a clear vision of the business and works determinedly towards it, which continually performs to high standards, which works cooperatively and creatively and which is willing to undertake radical change in a pro-active way but without putting the essential qualities of the Society at risk. It is important that having identified those skills, we seek them in our new recruits, develop them in our existing staff and retain the capabilities which have been built up. Although in previous years, as a result of the introduction of new systems, we have shed staff, the Society currently possesses a highly capable and effective workforce – a very valuable asset. As well as the capacity of our administration systems to process higher volumes of business, a major factor in the Society's success is the development of the skills base of our staff and the prevention of its erosion, for example by staff turnover. 90% of the Society's head office administrative staff now have five or more years of service and the average length of service is eight years. 75% of those staff are aged 40 or under. Nevertheless, there continues to be a flow of new talent into the Society with 30 graduates and 31 school and college leavers having been recruited in the last five years. The underlying annual staff turnover (excluding maternity leavers, most of whom return) is 4%. Voluntary turnover at middle and senior management levels is close to zero. The sales force staff turnover is also very low compared to the industry at around 10%.

The Society takes great care in selecting existing staff for new jobs and recruiting new staff from outside. We try to ensure, by identifying the skills and abilities required and by employing appropriate selection tools, that staff have the ability or potential to meet the high standards we seek and that, with training, they can achieve close alignment with the Society's aims and values.

Looking ahead

At a time of great change in the financial services industry, the Society's inherent strengths enable it to continue to thrive.

The Society's commitment to mutuality – and its insistence that mutuality should work, and be seen to work, for the benefit of its customers – is as strong as ever.

Our competitive advantages – including low costs, good policy returns, efficient and convenient systems and a highly effective staff – are becoming yet more widely recognised.

The Society's exceptional growth and success are set to continue, bringing benefits to existing and future customers.

Managing Director and Actuary
26 March 1997

Financial Highlights

10 year trends

	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m	1989 £m	1988 £m	1987 £m
New business										
New annual premiums	414.9	326.4	308.5	323.0	294.2	281.2	258.2	234.0	[illegible]	[illegible]
Single premiums	1,590.2	1,289.5	1,035.2	1,087.4	931.7	834.7	577.6	408.0	131.0	[illegible]
Income										
Premium income	2,830.3	2,361.8	2,052.0	2,100.8	1,876.6	1,715.4	1,345.4	1,040.2	678.1	[illegible]
Investment income (excluding realised gains)	997.3	841.7	740.7	668.4	571.6	459.0	376.1	298.4	237.2	[illegible]
Expenditure										
Payments under policies	1,734.9	1,428.4	1,108.0	1,121.7	946.3	838.7	659.2	471.8	[illegible]	[illegible]
Expenses of management	122.9	114.4	113.0	121.0	124.3	124.3	101.6	[illegible]	61.6	[illegible]
Commission	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil
Taxation	46.2	28.0	11.7	19.5	6.9	1.2	[illegible]	[illegible]	5.4	7.6
Expense ratio	4.3%	4.8%	5.5%	5.8%	6.6%	7.2%	7.6%	8.5%	[illegible]	8.5%
Assets										
Value of total net assets	19,305	16,612	13,545	13,407	9,497	7,368	5,786	5,705	[illegible]	[illegible]

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Photography by Stephen Markeson FRPS

Printed by The Cavendish Press
Leicester, England