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THE EQUITABLE LIFE ASSURANCE SOCIETY
Founded 1762

1886

ANNUAL REPORT AND ACCOUNTS

1 9 8 6

Notice is hereby given that the 225th Annual General Meeting of The Equitable Life Assurance Society will be held at the registered office of the Society, 4 Coleman Street, in the City of London, on Wednesday, 20 May 1987 at 10.00 am, 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 1986, together with the report of the Auditors thereon
- 2 To elect Directors in place of those retiring
- 3 To reappoint the Auditors

By order of the Board

E B O Sherlock
General Manager and Actuary

1 April 1987

Only members are entitled to attend the meeting. Members may vote only in accordance with the Society's Articles of Association.

37038



THE EQUITABLE LIFE ASSURANCE SOCIETY

Founded 1762

Board of Directors

President
Professor Roland Smith

Vice Presidents
A G Tritton
T G Abell

WTJ Griffin
Peter Martin
R H Ranson
J R Sclater
E B O Sherlock
C S Wates

General Management

General Manager
E B O Sherlock

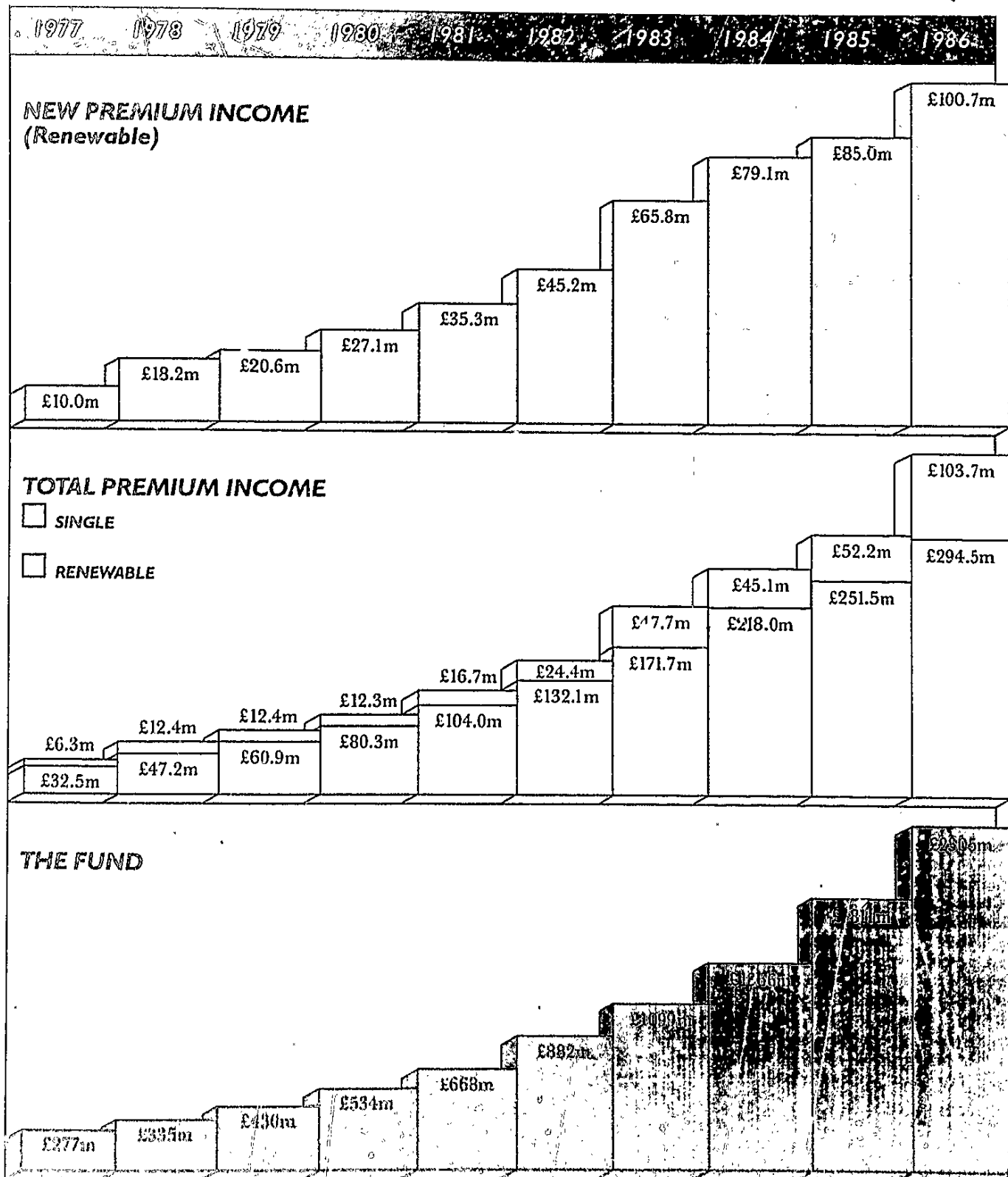
Assistant General Managers
R Q Bowley
S M Kinnis
A Nash
R H Ranson
D G Thomas



Highlights of the year

1 9 8 6	
MARKET VALUE OF INVESTED ASSETS	£2,840,053,527
INCREASE IN FUNDS	£494,485,754
PAYMENTS UNDER POLICIES	£160,613,581
TOTAL PREMIUM INCOME	£398,190,217
POLICYHOLDERS NEW TO THE SOCIETY	22,470
NEW PREMIUM INCOME	£204,378,673

Growth over ten years



President's Statement

In his last statement as our President, David Murison claimed no credit for the startling growth of the Society during his twenty-eight years on the Board. That comment was too modest. His close interest in all aspects of the Society, combined with his wisdom and experience, ensured that he was a powerful influence behind the Society's significant and economical growth over that period. To cap his Presidency, new records were set yet again in 1986 and plans were laid for future growth, not least by the acquisition of a site adjoining our existing offices in Aylesbury. Present and future members of the Society have good reason to be grateful for his service and foresight.

In my first statement as President, I feel I should report the outcome of a review of our current and future activities by the Board and senior management, a review which started during my predecessor's Presidency. The Society had previously indicated its intention to increase its involvement in the unit trust and unit-linked business by its launch of new trusts in December 1984. This plan was carried further with the successful launch of an International Growth Trust in June 1986. A further development was the launch of a Personal Equity Plan in January of this year. The review, carried out with the assistance of consultants, included consideration of a wide range of possibilities for extending the services available to our clients. It was concluded that, while we should continue to concentrate primarily on those areas where our reputation and success lie, a number of other areas may present opportunities in the future and should be kept regularly under review.

As a guiding statement of intent, the Board agreed that it should be our aim: 'to achieve controlled growth in the Society's business, being the provision of life assurance, retirement benefits and complementary investment facilities, by offering, without payment of commission, an appropriate range of products and services of consistently good quality'.

For the immediate future, as in the past, much emphasis will continue to be in the pensions field. We are currently developing a managed fund facility primarily for smaller companies and plans for offering personal pensions in 1988 are developing as regulations under the Social Security Act 1986 are published. We will maintain a comprehensive range of long-term savings and protection policies and of unit trust products and will continue to develop our financial planning organisation which has been outstandingly successful in meeting the complex needs of sophisticated clients. A particularly well received scheme has been the plan designed to

help spread and finance the cost of school fees. Finally we have reviewed the facilities we offer to existing and potential clients overseas and have concluded that we should aim to offer facilities more specifically directed to their circumstances and needs.



PROFESSOR ROLAND SMITH, PRESIDENT

We believe that the growth achieved in the past will ensure that the Society is a significant force in the investment world and we plan to continue to grow at a pace which we feel is demanding but can be achieved economically. During 1986 the Board agreed an objective of achieving new premium income of £300m in the year 1991 compared with £137m in 1985, the year from which the plan was developed. In approving this plan, the Board is conscious that the Financial Services Act 1986 may well have a material effect on the life assurance market as a whole. Examination to date indicates that it will have no significant effect on the Society, although there will be many consequences of detail. The reason for this favourable position is not hard to find: to quote the words of Professor Gower, whose report led to the legislation, it is intended 'to prevent people being made fools of'. The Society is opposed to any practice which

could be described in these terms and when a mistake is made – whether in selling practice or administration as inevitably happens from time to time – aims to put things right quickly. Given our reputation in the industry for particularly high standards, it is not surprising that the Society's General Manager was elected Chairman of LAUTRO, an embryo self-regulating organisation which, if formally recognised under the terms of the Act, will be responsible for the supervision of the marketing activities of life assurance companies, friendly societies and unit trusts.

I should draw your attention to the fact that some of the information previously given in the President's statement has been transferred to the Directors' report, but I should add comment on some matters. For the first time since 1982, new business was transacted in 1986 without some major taxation influence, rumoured or real. Comparisons with recent years are, therefore, of questionable significance but two features are important. Firstly, without the distraction of outside influences our branches were able to transact high volumes of business steadily throughout the year enabling us to provide better service than in years when there have been frantic peaks of activity. That service was further enhanced by the completion of a major project to provide a sophisticated computer system at each of our branches. Secondly, we have increased very considerably the amount of single premium business transacted. Such business may well be volatile, but the Society's involvement in the past was too low and I fully expect

higher levels to be maintained from now onwards. To give just one example, we tripled the amount of business following a revision of our Transfer Plan available to those leaving a pension scheme.

It is particularly pleasing that our new business results should have been so good in the last year with the Society of Mr Ken Wills, who retired at the end of 1986. His devotion to its ideals combined with capacity for hard work, his experience combined with ability to identify what would work well for the Society and, above all, his very high standards, have their recognition in the reputation the Society holds in the insurance marketing world. Two other senior managers retired in 1986; Mr Myles MacCormack, who worked closely with Mr Wills, and Mr Alan Smith, the Society's Accountant for no less than 25 years. They too gave sterling service and we wish them all well in retirement.

The first annual declaration of bonus took place as at 31 December 1986. Members entitled to participate in the declaration should have received notices and explanatory information in February. The Directors' report contains a summary of the formal valuation results and actual bonus rates are shown on pages 16 and 17. The change to annual declarations gave rise to a need for certain amendments to the procedures relating to bonuses and the opportunity has been taken to improve and simplify their application to the pensions business which now forms such a large part of our activity. It is hoped to complete the changes by the end of 1987.

It cannot be stressed too often that members participate in a fund of investments being managed on their behalf and that this fund provides the capital base for running the business. The members are the proprietors, and their interest is expressed in the form of bonus additions. Those added in declared form, now annually, become fixed liabilities which must be paid when the policy is due for payment whatever the levels of financial markets at the time – and that is the essential feature of with-profits business. The final bonus added when the claim is paid ensures that the member gets a fair return overall covering the period of membership of the fund but, of course, the member has uncertainty about the amount which will be paid until the last moment. Two things are required in the implementation of a bonus strategy. Firstly, as much as is prudent should take the form of periodically declared – and therefore guaranteed – bonuses. This requires that the holdings of assets which are guaranteed, such as Government Stocks, bear a proper relationship to the value of the guaranteed liabilities to be met in the future. Secondly, we continue to learn from the early history of the Society when members felt that reserves were being built beyond what was needed and would benefit newcomers who had neither contributed to them nor taken the 'proprietors' risk. Members have a right to expect prudent management, but not if the creation of 'strength' means tucking away reserves for no identifiable purpose. I can assure you that the Board, advised by the Joint Actuary, will

continue to ensure that bonuses allocated from time to time are fair, remembering that the fundamental principle of with-profits business is the pooling of risks of all types including to some degree the ups and downs of stock markets.

These ups and downs were well illustrated by the volatility in the investment scene in 1986 – in currencies, oil prices, interest rates and equity markets – brought about largely by the increasing internationalisation of markets, with tremendous financial imbalances between different economies in the world and a large volume of money seeking a home, often of a short-term nature. Again, while inflation was low compared with earlier years, real interest rates were historically high. In addition to taking account of these features, our investment team had to form its own views about the potential rates of return from different investments and have regard to the nature and structure of the Society's liabilities. The Directors' report gives more detailed information about the outcome of these careful deliberations.

The past year was notable in the City of London not only for Big Bang, but also for the number and size of takeover bids, both attempted and completed. When considering a bid where the Society holds shares in one or more of the companies involved, we take seriously our responsibilities as a shareholder; in particular we recognise that those responsibilities are seldom discharged wisely by ignoring the interests of customers and staff of the companies concerned. Amongst the many factors which have to be taken into account in reaching a decision, some of which may be in conflict with others, are the record of the defending company's management and its stated intentions for the future. Consideration has to be given, in the context of the particular business environment, to the advantages, if any, of becoming part of a larger group with the same or different management. While it is in nobody's long-term interest to perpetuate poor corporate performance, we are by no means convinced that every merger or acquisition will prove to be successful; indeed history shows both successes and failures.

I feel honoured to have been elected President of the Society, the oldest mutual life assurance company in the world, and am conscious of my responsibilities. Your Board is well balanced and attentive to the needs of the Society as a whole, individual policyholders and the staff who serve them. We, as a Board, are conscious of the devotion and hard work of the management and staff and on your behalf I would like to express our thanks to them.

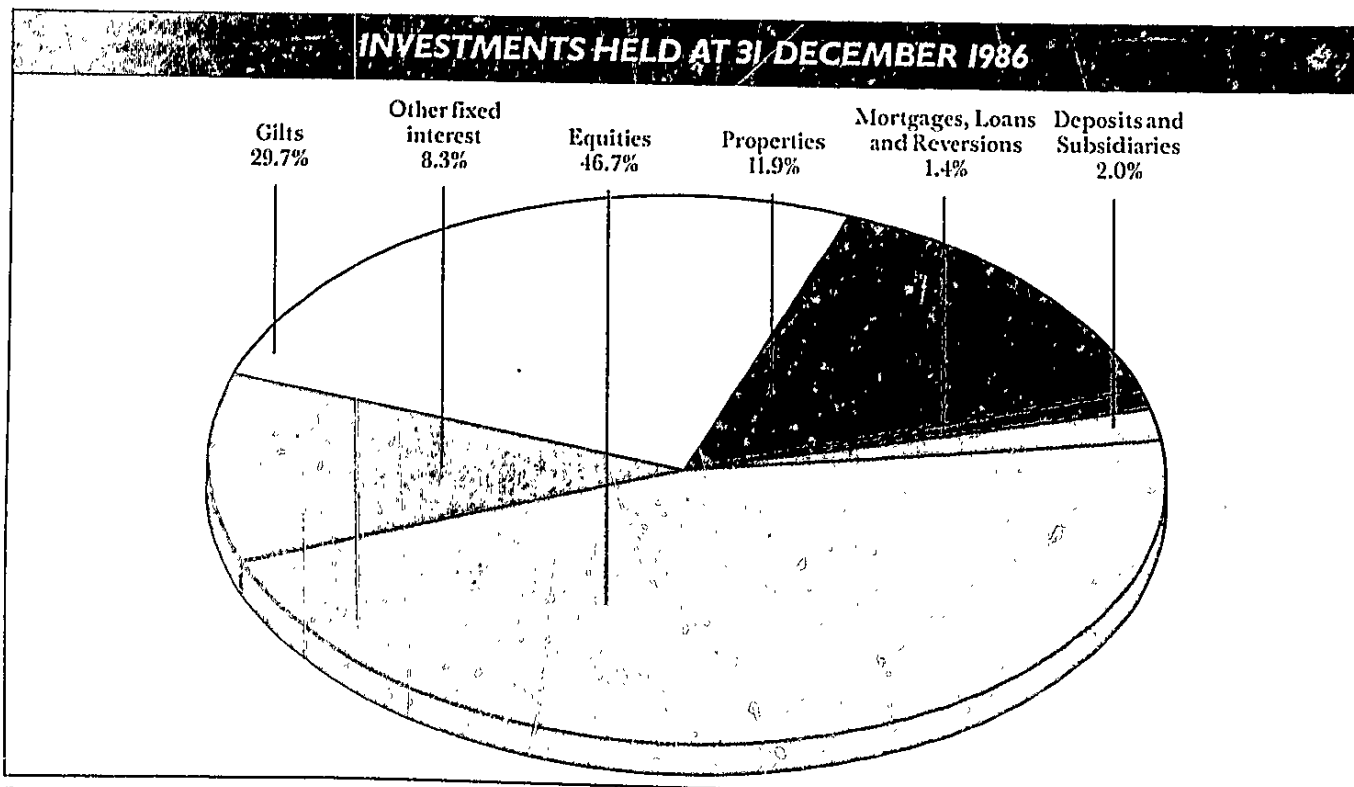
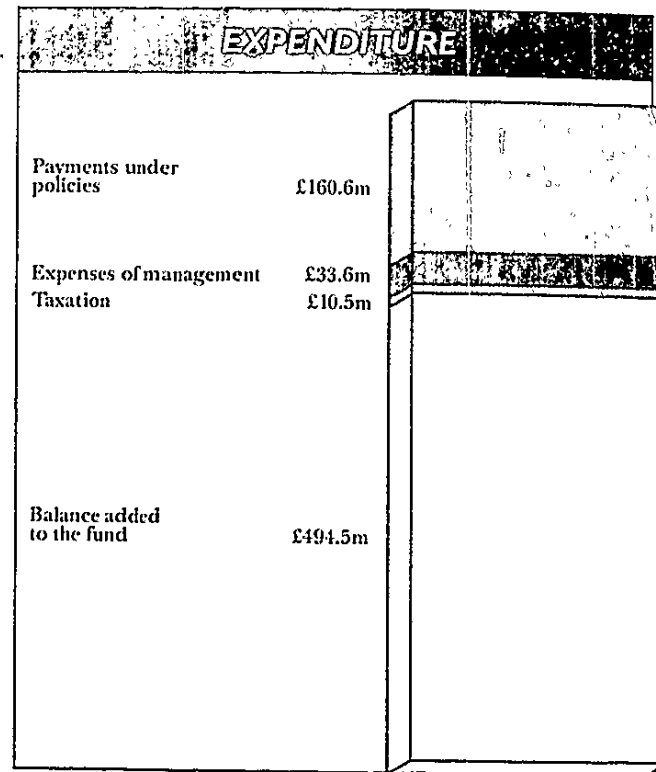
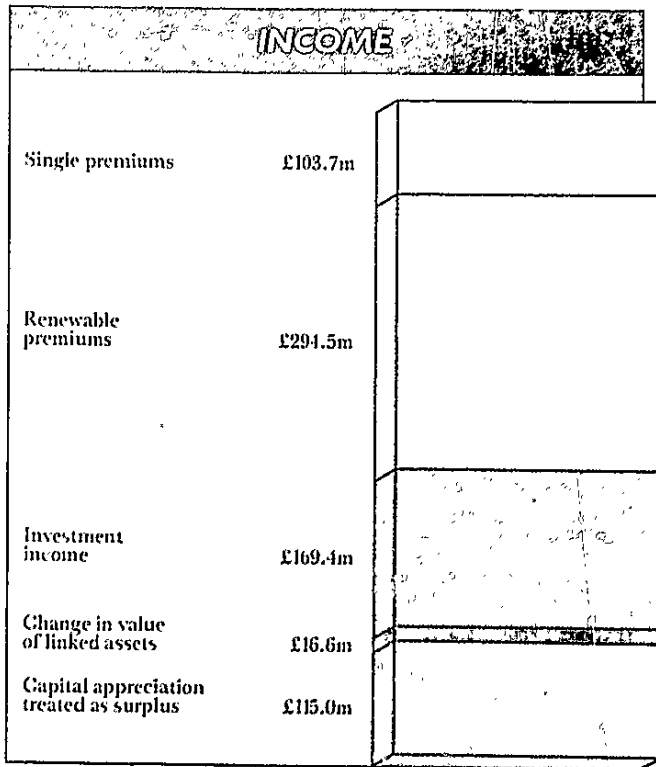


2 April 1987



Aspects of the Accounts

The charts on this page show some of the important aspects contained in the Accounts.





THE EQUITABLE LIFE ASSURANCE SOCIETY
Founded 1762

DIRECTORS' REPORT
AND
FINANCIAL ACCOUNTS
1 9 8 6

Directors' Report for 1986

PRINCIPAL ACTIVITY

The Society's principal activity is the transaction of life assurance, annuity and pension business in the form of guaranteed, participating and unit-linked contracts.

NEW BUSINESS

Total new premium income was £204m (1985-£137m). Single premium income tends to fluctuate from year to year, but the increase to nearly £104m (1985-£52m) reflects the greater emphasis applied to this type of business during the year.

The following table which has been extracted from the new business records gives an analysis of new renewable premium income for the past two years, showing that steady progress was made in each of the principal classes of business.

Class of business	New renewable premium income		
	1986 £m	1985 £m	Change in 1986 %
Ordinary life and endowment policies	5.9	4.3	+37
Retirement annuities (self-employed)	49.4	44.7	+11
Individual pensions (directors and executives)	23.5	18.6	+26
Group pensions	16.7	14.7	+14
Miscellaneous	5.2	2.7	+93
Total	100.7	85.0	+18

FINANCIAL RESULTS

Income—The growth in premium income reflects partly the sharp increase in single premium and partly the steady and persistent growth in renewable premium income. The increase in investment income is distorted by an accounting change which was recorded in the Report and Accounts for 1985 and which affected ordinary share income recorded for that year. Without this accounting change, the figure for ordinary share income for 1985 would have been £33.7m.

Expenditure—The large increase in payments under policies is due partly to the increasing numbers of policies becoming due for payment as a result of business growth in the past, partly to a change agreed with the Trustees of the Universities Superannuation Scheme for the payment of benefits to that Scheme and partly to the increases in terminal bonus which came into force at the beginning of 1986. Annuity payments also increased sharply as more pensions became payable.

The ratio of expenses of management to total premium income declined from 9.1% to 8.4% primarily because of the increase in single premiums. The underlying trend of expenses remains satisfactory.

Fund—The surplus of income over expenditure represents the new money available for investment. The following table shows how it was allocated amongst the main types of assets:

Type of asset	%
Index linked gilts	10
Conventional gilts	31
Other fixed interest	11
U.K. Ordinary shares	25
Overseas shares	12
Property	9
Cash	2

The distribution of the total assets held at the end of the year is shown in chart form on page 6.

Transfer of the amount shown in the Revenue Account under the heading 'Appreciation in value of investments treated as surplus' was made from the capital appreciation in the value of the assets. The corresponding figure for 1985 represented the corresponding transfer for the previous three years. The balance of the capital appreciation is represented by the Investment Reserve which was slightly higher as a proportion of the fund than a year earlier.

BONUS DECLARATION

In accordance with the Society's Articles and Insurance Company Legislation, the Society's Joint Actuary (who is also the Society's Appointed Actuary) carried out a valuation of the assets and liabilities of the Society as at 31 December 1986. In the light of his report the Directors decided that after transferring the amount of £32m of capital appreciation from reserves to cover the amount of terminal bonus paid during 1986, a further £83m of capital appreciation should be transferred from reserves and added to the surplus revealed by the valuation, giving a total surplus of £121m. Of that sum, £117m was distributed to policies as declared bonuses. Following on the announcement of a year ago, this was the first annual declaration of bonus.

Notices of bonus additions have been sent to individual holders of policies entitled to participate in the bonus distribution. The Directors also decided on a number of changes to the Society's bonus system. A letter explaining the changes was issued to policyholders with the bonus notices. A summary of the changes and details of the bonus rates declared are given in the Statement of Bonuses contained within this Report and Accounts.

REPORT ON PRINCIPAL SUBSIDIARIES

University Life Assurance Society: The Equitable owns all the shares of this company, which ceased transacting new business some years ago. The Equitable is entitled to 10% of the surplus distributed; the next valuation for the purpose of establishing the amount of distributable surplus is due at the end of 1987. In addition, a fee is paid to The Equitable for the services provided by it to University Life Assurance Society which has no staff of its own.

Equitable Units Administration Limited: In the eighteen years since its original trust (then called Pelican) was formed, administrative services have been supplied by specialists, most recently by Manchester Unit Trust Administration, for whose assistance the Society has been most grateful. Following the introduction of new trusts at the end of 1984, it was felt to be desirable and economic for the company to take direct responsibility for administration and the transfer to the Society's offices in Aylesbury was completed shortly after the end of 1986.

The launch of the International Growth Trust in June 1986 attracted sales of £10.3m in the initial offer period. Total sales of units of Equitable Units Administration's eight trusts, including those bought by the Society to back unit-linked policies, amounted to £36.1m during the year and the value of funds under management at the end of the year was £125.9m.

Equitable Investment Managers Limited: This company was formed during 1986 to manage Personal Equity Plans. The first such plan was introduced on 2 January 1987 and information was sent to all policyholders of the Society. A total (allowing for annualisation of monthly payments) of £1.5m was subscribed in the period up to 31 January 1987.

DIRECTORS

The Directors of the Society throughout the year were as recorded on page 1 except that Mr D L Murison and Sir Ashley Ponsonby were Directors until their retirement at the Annual General Meeting on 21 May 1986 and Mr K B Wills was a Director until his retirement on 31 December 1986.

The three Directors retiring at the Annual General Meeting in accordance with Regulation 34 of the Articles of Association are Mr Peter Martin, Professor Roland Smith and Mr A G Tritton who all being eligible offer themselves for re-election.

Mr Martin, a solicitor and partner with Frere Cholmeley, was appointed a Director of the Society in 1984.

Professor Smith was appointed a Director in 1976, became a Vice President in 1985 and President in 1986. He is Chairman of Hepworth Ceramic Holdings plc and a Director of British Aerospace plc.

Mr Tritton, a Vice President since 1983, having been appointed a Director in 1976, is a Director of Barclays Bank plc.

STAFF

The average number of persons employed by the Society and its subsidiaries within the United Kingdom in each week of 1986 was 1136 (1985-1041) including 40 (1985-43) household staff, mainly part-time, at the Society's investment properties. The aggregate remuneration paid or payable during the year was £16,131,251 (1985-£13,602,672).

In relation to the employment of disabled persons the Society's policy in 1986 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 1986 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, a Staff Handbook, an annual report to the staff and training courses. Consultation with staff on matters affecting the interests of staff and the general efficiency of the Society took place in various ways; one of these was through the elected staff representatives on a staff consultative committee which met on three occasions in the year. As a mutual company the Society has no employees' share scheme in force.

AUDITORS

The Auditors, Ernst & Whinney, have signified their willingness to accept reappointment to office.



President
25 March 1987

Long Term Revenue Account

INCORPORATING THE INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1986

		1986		1985
	£m	£m	£m	£m
INCOME				
Premiums (net of refunds and reinsurance ceded)		398.2		303.7
INVESTMENT INCOME				
Government, public and local authorities	79.8		69.4	
Other fixed interest	23.1		20.1	
Ordinary shares	42.3		38.7	
Properties	16.3		14.2	
Mortgages, loans and reversions	3.2		3.2	
Short-term deposits	3.7		3.2	
Subsidiary companies	1.0	169.4	0.7	149.5
		567.6		453.2
EXPENDITURE				
Payments under policies	160.6		111.7	
Commission	Nil		Nil	
Expenses of management	33.6		29.2	
Taxation	10.5	204.7	4.3	145.2
SURPLUS OF INCOME OVER EXPENDITURE		362.9		308.0
Change in value of linked assets		16.6		11.1
Appreciation in value of investments treated as surplus		115.0		125.0
NET ADDITION TO THE FUND		494.5		444.1
FUND AT THE BEGINNING OF THE YEAR		1810.6		1366.5
FUND AT THE END OF THE YEAR		2305.1		1810.6

Balance Sheet

AS AT 31 DECEMBER 1986

	£m	1986 £m	£m	1985 £m
LONG TERM BUSINESS FUND		2305.1		1810.6
<i>Represented by:</i>				
INVESTED ASSETS AT MARKET VALUE				
Government, public and local authorities		844.0		696.8
Other fixed interest		235.9		198.3
Ordinary shares		1325.8		938.6
Properties		337.2		292.0
Mortgages, loans and reversions		39.3		36.4
Short-term deposits		55.0		48.1
Subsidiary companies		2.9		2.9
		2840.1		2213.1
<i>Less: Reser</i>		580.2		435.8
		2259.9		1777.3
CURRENT ASSETS				
Sundry debtors	9.0		7.9	
Outstanding sales of investments	7.4		6.0	
Accrued income, less taxation	33.0		30.3	
Tax recoverable	30.1		29.6	
Balance at bankers and cash	1.0		2.8	
Due from subsidiary companies	0.2		-	
	80.7		76.6	
<i>Less:</i>				
CURRENT LIABILITIES				
Sundry creditors and provisions	15.4		15.1	
Outstanding purchases of investments	18.5		26.6	
Due to subsidiary companies	1.6		1.6	
	35.5		43.3	
		45.2		33.3
		2305.1		1810.6

Professor Roland Smith
President

A G Tritton
Vice President

E B O Sherlock
General Manager and Actuary

25 March 1987

Notes on the Accounts

1 BASES OF ACCOUNTING

(a) The Society, which is a mutual life assurance company carrying on ordinary long-term insurance business, avails itself of the exemptions from the disclosure requirements applicable to insurance companies under section 258 Companies Act 1985.

(b) The Department of Trade and Industry has:

(i) directed that the provisions of Paragraph 19(4) of the ninth Schedule of the Companies Act 1985, which relate to information required to be given where group accounts are not submitted, shall not apply.

(ii) agreed that a composite Revenue Account and Income and Expenditure Account may be prepared instead of separate accounts on the grounds that these accounts would, in effect, be identical.

(c) The attributable profits and reserves of associated companies are only included in the Society's accounts to the extent of dividends receivable since, in the opinion of the Directors, to do otherwise would be inconsistent with the foregoing and also have no significant consequence.

2 ACCOUNTING POLICIES

(a) Premium income is accounted for in the year to which it relates on a cash basis in respect of recurrent single premium pension business and on an accruals basis in respect of all other business.

(b) Investment income is included on an accruals basis; dividends on ordinary shares being calculated by reference to ex dividend dates; income on fixed interest investments is adjusted for accrued interest included in purchases and sales.

(c) Claims notified in any year are included in the accounts whether or not they have been paid.

(d) Expenses of management including expenditure on office equipment, fixtures and fittings are written off as incurred. Expenditure on motor cars and on an owned computer installation is deferred and amortised over two and five years respectively and included in sundry debtors in the balance sheet.

(e) Invested assets are stated at market values. Listed securities are based on middle market prices, adjusted for accrued income together with the value of outstanding calls; properties are valued annually by qualified surveyors, some of whom are Executives of the Society, except those linked to personal pension internal funds which, along with the remaining investments are valued at 'Director's valuation'.

(f) Changes in the market value of linked assets are reflected in the Fund annually.

(g) The assets and liabilities of the Long-Term Business Fund are valued annually by the Society's Appointed Actuary to determine any surplus arising. When any appreciation in value of investments is treated as surplus, it is included as an addition to the Fund in the Revenue Account.

(h) Realised and unrealised profits and losses on invested assets and transfers to and from the Revenue Account, including changes in the value of linked assets, are dealt with through the Investment Reserve.

3 PAYMENTS UNDER POLICIES

Because of Inland Revenue restrictions, benefits on policies under the Universities Superannuation Scheme could be paid out only on the death of the scheme member prior to retirement or at his retirement from the scheme or from subsequent service with another employer. That restriction has now been lifted and during 1986 the Trustees entered into an arrangement with the Society that in future payment of benefits would be made under the normal terms of the policies. A sum of £5.7m was paid to the Trustees in respect of policies held on behalf of scheme members who had previously left service and it was also agreed that the value of policies accumulated beyond their contractual vesting dates under the previous arrangement should be paid out in approximately equal tranches between 1987 and 1991 inclusive. The reserve held within the value of the Fund as at 31 December 1986 in respect of these contracts was £43m.

4 EMOLUMENTS OF DIRECTORS

	1986	1985
	£	£
Fees	61,871	61,017
Other emoluments, including pension contributions of £55,526 (1985 - £49,420)	252,309	233,676
Emoluments, excluding pension contributions, of the	314,180	294,693
President		
Highest paid Director	11,092	12,438
Number of other Directors with emoluments in the bands specified	77,372	72,427
Up to £5,000		
£5,001 - £10,000	3	2
£10,001 - £15,000	5	6
£15,001 - £20,000	-	1
£20,001 - £25,000	1	-
£25,001 - £30,000	-	1
£30,001 - £35,000	1	-

Notes on the Accounts

5 EMOLUMENTS OF STAFF (in excess of £30,000)

Number of employees with emoluments (including performance-related bonuses) in the bands specified

	1986	1985		1986	1985
£30,001 – £35,000	47	24	£60,001 – £65,000	3	2
£35,001 – £40,000	25	17	£65,001 – £70,000	2	1
£40,001 – £45,000	12	6	£70,001 – £75,000	1	–
£45,001 – £50,000	2	8	£75,001 – £80,000	1	1
£50,001 – £55,000	5	2	£80,001 – £85,000	1	–
£55,001 – £60,000	3	1	£85,001 – £90,000	1	–
			£90,001 – £95,000	1	–
			£95,001 – £100,000	1	–

6 DISCLOSURE OF TRANSACTIONS INVOLVING DIRECTORS AND OTHER OFFICERS DURING THE YEAR AS REQUIRED BY THE COMPANIES ACT 1985

(a) Directors – Each Director who is also an Executive has been allowed to have loans, either secured on that Director's main residence or secured on policies with the Society, on the same terms and conditions as those available to the Society's employees.

Loans secured on the main residence

	Liability			
	Outstanding at 31 December		Maximum	Average interest
	1986 £	1985 £	1986 £	1985 %
R H Ranson	31,600	31,600	31,600	4.9
F B O Sherlock	9,675	9,675	9,675	3.5
K B Wills (retired 31 December 1986)	20,000	20,000	20,000	3.5

There was no outstanding interest nor were any reserves made with regard to any of these loans at the end of the year and there are no other transactions in which any Director has a material interest.

(b) Officers – At 31 December 1986 there were loans outstanding to 33 officers secured on a main residence or on a policy with the Society amounting in aggregate to £1.2m together with individual loans under the staff season ticket scheme totalling £1,887.

7 AUDITORS' REMUNERATION

The remuneration of the Auditors was £53,740 (1985 – £42,150).

8 TAXATION

The charge for taxation in the Revenue Account represents:

(a) Corporation tax due on unfranked investment income (including accrued interest) and gains less expenses, but excluding that part of the income and gains applicable to pension business.

(b) Corporation tax due on estimated annuity profits.

(c) Irrecoverable tax credits on franked invested income.

	1986 £m	1985 £m
Corporation tax	3.6	1.2
less double taxation relief	0.6	0.5
	3.0	0.7
Tax credits irrecoverable	4.5	2.4
Foreign tax	0.6	0.5
	8.1	3.6
Adjustments in respect of earlier years	2.4	0.7
	10.5	4.3

The taxation recoverable included in current assets is the excess of tax suffered at source on income over corporation tax, based on the accounts for the years 1985 and 1986. No provision has been made for the contingent liability to corporation tax on chargeable gains in respect of unrealised appreciation of investments which is estimated not to exceed £20m (1985 – £11m).

Notes on the Accounts

9 INVESTMENTS

(a) Subsidiary companies

The Society owns the whole of the issued share capital of its subsidiaries, which are all registered in England.

	Equity at book value	Current a/c and loans	Equity at book value	Current a/c and loans
	1986	1986	1985	1985
	£m	£m	£m	£m
Equitable Investment Managers Limited	—	—	—	—
Equitable Units Administration Limited	0.1	—	0.1	—
Percy Street Investments Limited	0.2	(0.7)	0.2	(0.7)
The Equitable Reversionary Interest Society Limited	0.2	(0.5)	0.2	(0.5)
The Reversionary Interest Society Limited	0.4	(0.4)	0.4	(0.4)
University Life Assurance Society	1.0	0.2	1.0	—
	1.9	(1.4)	1.9	(1.6)

(b) Investment in other companies

The Society, together with a subsidiary company, held at 31 December 1986 more than one-tenth in nominal value of a class of equity shares in the following companies together with indebtedness as shown:

	Class of shares	Proportion held	Proportion of total equity	Debentures
English and International Trust plc	Ordinary	23.4%	23.4%	£0.4m
Mortimer Technology Limited	Ordinary	22.5%	22.5%	—
London & Strathclyde Trust plc	Ordinary	20.6%	20.6%	—
Edinburgh Financial Trust plc	Ordinary	20.2%	20.2%	£0.5m
Fleming Enterprise Investment Trust plc	Ordinary	16.9%	16.9%	£0.5m
Murray Ventures plc	Ordinary	15.3%	15.3%	£0.2m
C.M.D. Property Group Limited	Ordinary	15.0%	15.0%	£0.8m
The Bankers Investment Trust plc	Ordinary	11.2%	11.2%	£0.4m
Jos Holdings plc	Ordinary	11.0%	11.0%	—
A. Cohen & Co. plc	'A' Ordinary	10.7%	5.5%	—
The Brunner Investment Trust plc	Ordinary	10.4%	10.4%	—

(c) Investments of £29m, which have been lent to money brokers on a secured basis, are included in invested assets.

10 CAPITAL EXPENDITURE

The Society has commitments for capital expenditure on property estimated at £6.7m (1985 - £7.7m).

11 CONTINGENT LIABILITIES

At the year end there were contingent liabilities for uncalled capital on investments in a subsidiary and another company amounting to £0.6m (1985 - £0.6m).

REPORT OF THE AUDITORS TO THE MEMBERS

We have examined the accounts of The Equitable Life Assurance Society set out on pages 10 to 14 in accordance with approved auditing standards.

In our opinion the accounts comply with the provisions of the Companies Act 1985 applicable to insurance companies.

Ernst & Whinney, Chartered Accountants
London
25 March 1987

Ernst & Whinney

Executive Responsibilities

General Manager & Actuary		E B O Sherlock MA FIA
Accounting, Office Services and Pension & Policy Administration		
Assistant General Manager & Secretary		R Q Bowley MA FIA
Senior Executives		I B Lloyd <i>Personal Policy Administration Manager</i> F R Loft FAFM <i>Facilities Manager</i> R J Malpass <i>Group Pensions Administration Manager</i> A C Probert FCA <i>Chief Accountant</i>
Executives		P N Avery BSc <i>Individual Pensions Administration Manager</i> P G H du Boulay <i>Office Services Manager</i> A Elton MIPM FAFM <i>Premises Manager</i> J H Gill ACIS <i>Assistant Accountant</i> V C Otter MSc FIA <i>Personal Policy Services Manager</i> R J D Peacock BSc FIA <i>Group Pensions Services Manager</i> P W Wilmot BSc FCII <i>Assistant Secretary</i>
Actuarial & Technical Services		
Assistant General Manager & Joint Actuary		R H Ranson MA FIA FPMI
Senior Executive		D B Sammons FIA <i>Deputy Actuary</i>
Executives		M C Daniel <i>Technical Manager</i> D C Driscoll BA <i>Valuation Manager</i> A B Dunbar MA FIA <i>Assistant Actuary</i> C P Headdon MA FIA <i>Assistant Actuary</i> G Mitchell BSc <i>Actuarial Control Manager</i> M C Richmond BA FIA <i>Pensions Technical Manager</i> N W Whittome LLB FCII <i>Barrister Legal Services Manager</i>
Investment		
Assistant General Manager		D G Thomas BSc FIA
Senior Executive		C L Winter FRICS <i>Chief Surveyor</i>
Executives		P R Bates BSc ARICS <i>Property Management Surveyor</i> C E Duddridge ASIA ASCA <i>Investment Manager</i> J M G Hamilton-Sharp ASIA <i>Investment Manager</i> G R Lauder FRICS <i>Deputy Chief Surveyor</i> E A Maddock BSc FIA ASIA <i>Investment Manager</i> P D Shore <i>Investment Manager</i>
Staff and Management Services		
Assistant General Manager		A Nash MSc FIA
Senior Executives		R V Farmer BA FIPM MITD <i>Staff Manager</i> B G Guest MBCS <i>Management Services Manager</i>
Executives		R A Christopher <i>Management Development Manager</i> T D Glover MSc MIPM <i>Personnel Services Manager</i> H N Large <i>Systems Manager</i> S W Lockyer BSc MBCS <i>Systems and Programming Manager</i>
The Marketing Organisation		
Assistant General Manager		S M Kinnis
Senior Executives		W R Kidd <i>Regional Manager</i> D A MacKechie <i>Regional Manager</i>
Executives		J N Lusher <i>Marketing Projects Manager</i> S A Noden <i>Specialist Services Support Manager</i> M J Watts BED <i>Marketing Training Manager</i>

Statement of Bonuses

INTRODUCTION

As described in the Directors' report for 1986, £117m of the surplus of £121m disclosed by the valuation of the Society's assets and liabilities as at 31 December 1986 was distributed to policies as declared bonus. Reference is also made to a number of changes to the Society's bonus systems which have been decided. This statement gives more detail on the specific rates of bonus for the major classes of business and on the changes.

DECLARED BONUS RATES

The rates of declared bonus allotted were at the same level as the interim bonus rates which had applied during 1986.

For example, for with-profits pensions contracts of the 'recurrent single premium' type (which includes retirement annuities for the self-employed and those not in pensionable employment, and individual and group pension arrangements including additional voluntary contribution plans) the bonus allotted was £8.50 for each £100 of guaranteed benefit ranking for bonus from a date in 1985 or earlier together with £8.50 for each £100 of existing declared bonus additions.

Similarly, for private with-profits endowment assurance policies effected prior to 1 January 1986, the bonus allotted was £5.25 for each £100 of sum assured eligible for bonus together with £3.50 for each £100 of existing declared bonus additions.

CHANGES TO BONUS RULES

Two changes in the operation of the Society's bonus systems were announced. The intention to effect a further change with regard to the method of adding bonus to pensions and school fee contracts of the recurrent single premium type from the declaration as at 31 December 1987 was also announced. The aim of all the changes is to simplify the operation of the Society's contracts and to improve the service to policyholders.

The first change that was announced was that the new declared bonus allotted at a declaration would not vest in contracts until the 1 April following the declaration. This is to avoid having to pay the proceeds of policies leaving the fund in the early part of the calendar year in two parts, which had been the Society's practice and which an increasing number of policyholders were finding inconvenient.

The second change was that, with effect from 1 April 1987, the various adjustments (including interim and terminal bonuses) made to the guaranteed policy benefits at the time of benefits becoming payable will be amalgamated into one item known as 'final bonus'. That means that policy proceeds will consist of three elements only – the basic benefits, declared bonus additions and final bonus – which represents a considerable simplification of previous arrangements.

It was also announced that at future declarations the Directors intend to change the method of adding bonus to pensions and school fee policies of the recurrent single premium type, so that the benefits secured by each premium will receive bonus from the date of payment. At declarations, bonus will also be allotted for the whole period up to the 31 December in question. Various transitional measures are needed before the new arrangements will be fully effective, but when complete, the new system will greatly simplify the operation of a large proportion of the Society's contracts.

FINAL BONUS

As described above, a new system of final bonuses is effective from 1 April 1987 and, at the declaration, the Directors announced the rates of final bonus which are to apply until further notice.

Final bonus rates vary by type of contract and the particular circumstances of the individual contract in question. For regular premium policies such as with-profits endowment assurances, the final bonus rate depends upon duration in force and ranges up to 75% of the sum assured and attaching declared bonuses. Examples of final bonus rates for regular premium contracts are as follows:

Number of years of entitlement	Final bonus rate as a percentage of sum assured and declared bonuses %
5	30
10	62½
15	67½
20	71¼
25	75

For recurrent single premium pensions contracts (which include retirement annuities and individual and group pensions contracts) and school fee policies the final bonus rates depend upon an average duration allowing for the size and incidence of the premiums paid and the period elapsed since the policy anniversary in 1986.

Over the years the Society has sold a variety of recurrent single premium contracts on various terms and the amount of final bonus may differ slightly between similar contracts of different types. The specimen rates given below should therefore be regarded as illustrative of the general level of final bonus rather than as directly applicable to specific contracts. The rates shown below relate to a contract where the benefits are payable on the 1987 policy anniversary and under which a level annual premium has been paid for the number of years shown. The last such premium is assumed to have been paid on the policy anniversary in 1986.

Number of years in force (equals number of premiums paid)	Amount of final bonus as a percentage of the guaranteed benefits and declared bonus additions otherwise payable %
5	46.6
10	80.2
15	85.0
20	93.5
25	99.1

Because of the change of system it is not possible to give comparable rates which applied in 1986. The best guide to the implications of the declaration and the final bonus rates is the effect on policy benefits. Apart from some short-term results, the proceeds of a policy maturing after 1 April 1987 will be higher than those for a comparable contract maturing in 1986.

Pensions

Introduction

The Equitable Life is an acknowledged leader in the field of personal pension plans for both the self-employed and executives and directors. This enviable position has been achieved through a combination of flexible policy conditions and excellent investment performance leading to high rankings in surveys of benefits paid conducted by authoritative financial journals.

Range of investment options

By offering one of the broadest range of investment options available for personal pensions the Society is able to suggest the most appropriate route or combination of routes for its clients.

What is more, the flexibility of such a balanced range of investments means changing economic and personal circumstances are more readily coped with.

WITH PROFITS	Investment where the returns are smoothed out over a number of years
UNIT-LINKED	Investment where the returns are based direct on the funds chosen
SELF-DIRECTED	Investments nominated by the policyholder (only available to companies and partnerships)

Track record

For the past 10 years *Planned Savings* magazine has surveyed the benefits for 10 and 20 year regular premium with-profits policies for the self-employed – The Equitable has gained more first places in these surveys than all its competitors put together.

Out of 20 tables for such policies The Equitable has topped 11 and been second in 4 more.

Likewise in *Planned Savings*' surveys of pensions for executives and directors the Society leads the field. Out of 12 tables covering 5 and 10 year regular premium with-profits policies since 1981, The Equitable has been top 6 times and second 3 times more.

This consistency of excellent performance year after year sets The Equitable apart from its rivals.

The Equitable Life

1st	1st	1st	1st	1st	1st	1st	1st	1st	1st	1st	1st
2nd	2nd	2nd	2nd								

Our nearest rival

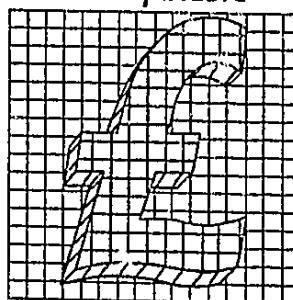
1st	1st	1st	
2nd	2nd	2nd	2nd

Number of 1st and 2nd places in surveys of 10 and 20 years with-profits policies for the self-employed as published by *Planned Savings* magazine 1977-1986 inclusive.

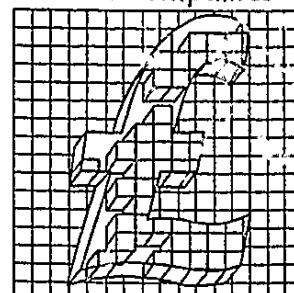
Charges

In 1986 a range of new unit-linked pension policies was introduced – with one outstanding feature – the absence of initial or capital units. Units which most companies use to extract heavy charges to pay for such expenses as commission.

The Equitable



Most Companies



Savings & Investments

Introduction

Different financial goals require different routes to achieve them. In order to meet that need the Society offers a comprehensive range of saving and investment opportunities.

Endowments

If you need to amass a capital sum at some specific time in the future and prefer a route which is less prone to the ups

and downs associated, say, with equities, then our with-profits endowment policies provide an excellent answer.

Unit-linked plans

Those who wish to link their savings direct to stock market investments, for example, either in the U.K. or overseas, can do so through our range of 11 unit-linked investment funds.

Lump sums may be invested via a bond and there is a regular saving scheme for monthly contributions.

RANGE OF FUNDS

Managed Fund	North American Fund
Property Fund	Far Eastern Fund
Money Fund	International Growth Fund
Special Situations Fund	Gilt & Fixed Interest Fund
High Income Fund	Fund of Investment Trusts
Equitable Pelican Fund	

School fees & saving for children

The Equitable's School Fee Trust Plan offered through The Equitable Charitable Trust is outstandingly flexible allowing you to choose between three different methods of saving. It is possible to vary the amounts saved and the intervals between them.

Our Child's Option Policy is designed for you to save on behalf of a child for any purpose so that the proceeds can be taken between their 18th and 25th birthdays. Alternatively, the child can continue the policy in his or her own right.

Unit trusts

There are now eight trusts offered through our wholly-owned subsidiary Equitable Units Administration Limited, in which investments may be made.

Those eight trusts offer investors, including those with relatively modest amounts of money, the chance to participate in the performance of stock markets worldwide. Furthermore, unit trusts have the particular advantage of allowing you to spread your investment and the consequent risk.

RANGE OF UNIT TRUSTS

Equitable Pelican Trust	Trust of Investment Trusts
North American Trust	High Income Trust
Far Eastern Trust	Gilt & Fixed Interest Trust
International Growth Trust	Special Situations Trusts

For those who wish to make large purchases there are discounts available and for regular savers there are bonus units in the fourth and subsequent years.

Personal Equity Plans

The Chancellor's 1986 Budget gave the go-ahead for tax-free investment through Personal Equity Plans. To enable people to take advantage of that opportunity the Society created a subsidiary company, Equitable Investment Managers Limited.

The Equitable Personal Equity Plan allows investment via:

A lump sum

OR

Regular saving into an equity fund

OR

Regular saving into a unit trust

The plan was officially launched on 2 January 1987.

Special Services

Financial planning

Complex cases which require specialist attention are dealt with through our Financial Planning Service. The service is available to both private individuals and corporate bodies and gives advice on a variety of topics including inheritance tax liability, countering the adverse effects of the death or retirement of business colleagues and tax efficient investment.

A special video, 'Business Planning in the Private Company', which deals with the financial problems of private companies, is available and may be borrowed on request.

Transfer Plans

Increasing numbers of job leavers are now realising they do not have to let their pension benefits languish with their previous employers. In many cases they can take out an Equitable Transfer Plan which could be the means of significantly increasing retirement benefits.

Additional Voluntary Contributions

If you do not spend all your working life with the same employer then you are very unlikely to receive the maximum pension benefits allowed by the Inland Revenue. So by topping up your company pension scheme with Additional Voluntary Contributions retirement benefits will be increased.

The Equitable is the U.K.'s largest provider of Additional Voluntary Contributions schemes, with more than 1,000 clients; many are household names and of international repute.

House purchase

Home ownership is a prime objective nowadays and the Society is able to arrange mortgages from well-known institutions at competitive rates of interest. Furthermore our top performing endowment schemes provide an excellent way of repaying the loan as well as saving for the future.

Key Man insurance

The death of a key employee can set a business back years and give rivals a toe hold they might otherwise not have had. The Equitable offers Key Man insurance to cover just such devastating eventualities.

The Society's Offices

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