The Equitable Life Assurance Society
Statutory Accounts
1994

The Equitable Life Assurance Society

Founded 1762

Directors' Report for 1994

Principal activities
The Equitable Life Assurance Society is the ultimate holding company of the Equitable Group of companies. The principal activities of the Group during 1994 were the transaction of life assurance, annuity and pension 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 Equitable Life Assurance Society
Earned premiums, net of reinsurance, were £2,052.0m compared with £2,100.8m in 1993. Expenses before deferral of acquisition expenses amounted to £113.0m *(1993 - £121.0m).*

The amount of the technical provisions comprising long-term business provision, net of reinsurance, and technical provisions for linked liabilities, increased to £12,371.3m from £11,443.1m. The market value of the assets supporting the technical provisions was £13,545.0m *(1993 - £13,407.0m).*

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 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 1993.

The Equitable 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
Total sales of units of the trusts managed by Equitable Unit Trust Managers Limited, including those bought by the Society to back unit-linked policies, amounted to £213.6m *(1993 - £172.4m)* during the year and the value of funds under management at the end of the year was £1,112.0m *(1993 - £1,018.8m).*

Valuation and bonus declaration
In accordance with the Society's Articles and Insurance Company legislation, the Society's Actuary carried out a valuation of the assets and liabilities of the Society as at 31 December 1994. In the light of the results of that valuation, the Directors decided to allocate declared bonuses with a value of £349.6m *(1993 - £317.5m)* from the surplus revealed by the valuation.

Over recent 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 a year ago were already consistent with current interest rates. On this occasion, therefore, the Directors considered it appropriate to maintain declared bonus rates at the same levels as those declared a year ago. For example, the rate of declared bonus for personal pension plans for 1994 was £4% *(1993 - £4%)* which, with the rate of roll-up already guaranteed by the policy, gave an overall allocation of benefits in guaranteed form of just over 7½%.

The total return allocated to this type of policy was 10% which was the rate which had applied for determining actual pay-outs during the course of 1994. The amount in excess of 7½% was in the form of final bonus which is a non-guaranteed addition and may be varied at any time before the policy benefits become contractually payable. Bonuses for other classes of policy were set on bases consistent with these rates of return.

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

Details of the rates for major classes are given in one of the Society's booklets, 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 3, except that Mr E B O Sherlock, Professor Sir Roland Smith and Sir Christopher Wates were Directors until their retirement on 18 May 1994, and Miss J A Page and Mr D W Wilson were appointed Directors on 1 April 1994. Mr J F Taylor was appointed a Director on 1 January 1995.

The three Directors retiring at the Annual General Meeting in accordance with Regulation 34 of the Articles of Association are Mr T G Abell, Mr Peter Martin and Mr A G Tritton. Mr Martin and Mr Tritton offer themselves for re-election but Mr Abell does not seek re-election.

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

Corporate governance

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

Brief details of the Directors appear on page 3 of the Annual Report and Financial Highlights 1994, together with details of the Board committees upon which they serve.

A statement by the Directors of their responsibilities in respect of the Accounts is set out on page 6.

Internal control
The Board is ultimately responsible for establishing and monitoring the effectiveness of the system of internal control used in the Society and the Group, the objectives of which are to provide reasonable assurance of:

- effective and efficient business operations;
- the safeguarding of assets against unauthorised use or disposition;
- transactions being executed only in accordance with management authority;
- the maintenance of proper records and the reliability of financial information used within the business or for publication; and
- 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.

Going concern
The Directors consider that the Society has adequate resources to continue in business for the foreseeable future and that, for this reason, they should continue to adopt the going concern basis in preparing the Accounts.

Staff
In relation to the employment of disabled persons the Society's policy in 1994 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 1994 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, a quarterly newsletter to the staff 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 six 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. A Profit-Related Pay Scheme, approved by the Inland Revenue, is 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.

Directors' and Officers' liability insurance
Such insurance has been effected.

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

JR Sclater.

President
22 March 1995

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 confirm that the accounts comply with the above requirements.

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

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

We have audited the accounts on pages 7 to 23, which have been prepared on the basis of the accounting policies set out on pages 7 and 8.

Respective responsibilities of Directors and Auditors

As described above, 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 at 31 December 1994 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
22 March 1995

Accounting policies

Basis of presentation and restatement of prior year amounts

The accounts are prepared on the basis of the accounting policies set out below.

The Group accounts of The Equitable Life Assurance Society (the Society) comprise the accounts of the Society and all of its subsidiary undertakings.

The accounts have been prepared in accordance with sections 255 and 255A of, and Schedule 9A to, the Companies Act 1985. Following the implementation of the European Union Council Directive on the Annual Accounts and Consolidated Accounts of Insurance Undertakings into U.K. law, a new Schedule 9A has been substituted in the Act by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. These accounts have been drawn up in accordance with the new Schedule 9A. Amounts relating to prior years have been restated accordingly.

The accounts are prepared in accordance with applicable accounting standards. The true and fair override provisions of the Companies Act 1985 have been invoked, see Note 8(a) Investments – land and buildings.

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 in annuity form, 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 annuities 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 accrued interest included in purchases and sales.

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 carrying 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.

Deferral of acquisition expenses

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 are 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. The rate of amortisation of this asset is consistent with a prudent assessment of the expected pattern of receipt of those future loadings over the period the relevant contracts are expected to remain in force.

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

For conventional level annual premium contracts 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, again no deferral of acquisition expenses.

The University Life Assurance Society ceased writing private new business in 1976. The deferred acquisition costs in the Group accounts relate solely to The Equitable Life Assurance Society.

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.

Accounting policies continued

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.

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	2½years (previously 2 years)
–plant, fixtures and fittings	5 to 10 years
–computer equipment	5 years

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.

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.

Bonuses

The bonuses charged to the Profit and Loss Account for a given year are the value of the new reversionary bonuses declared in respect of that year calculated by reference to the policies in force at the end of that year.

Leases

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

Long-term business provision

The long-term business provisions for the Society and the University Life Assurance Society are determined by the respective Appointed Actuary of each society following, in each case, his annual investigation of the long-term business. For each society, the long-term business provision is calculated using the gross premium method of valuing the liabilities.

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 the University Life Assurance Society 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.

Segmental reporting

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

Profit and Loss Accounts

For the year ended 31 December 1994

Technical Account – Long-term Business	NOTES	GROUP 1994 £m	GROUP *1993* *£m*	SOCIETY 1994 £m	SOCIETY *1993* *£m*
Earned premiums, net of reinsurance					
Gross premiums written	1(a)	2,053.8	*2,230.8*	2,053.5	*2,102.3*
Outward reinsurance premiums		(1.5)	*(1.5)*	(1.5)	*(1.5)*
		2,052.3	*2,229.3*	2,052.0	*2,100.8*
Investment income	2	858.0	*933.5*	852.9	*974.8*
Unrealised gains on investments		–	*1,958.9*	–	*1,882.6*
Other technical income		4.0	*6.0*	–	–
		2914.3	***5,127.7***	**2,904.9**	***4,958.2***
Claims incurred, net of reinsurance					
Claims paid – gross amount		1,152.5	*1,291.9*	1,116.6	*1,128.8*
Reinsurers' share		(2.4)	*(0.4)*	(2.4)	*(0.4)*
		1,150.1	*1,291.5*	1,114.2	*1,128.4*
Changes in other technical provisions, net of reinsurance					
Long-term business provision – gross amount		476.7	*2,211.9*	478.2	*2,280.6*
Reinsurers' share		(1.5)	*(0.8)*	(1.5)	*(0.8)*
		475.2	*2,211.1*	476.7	*2,279.8*
Other technical provisions					
Technical provisions for linked liabilities		65.6	*421.1*	101.9	*291.5*
		540.8	*2,632.2*	578.6	*2,571.3*
Bonuses		349.6	*321.2*	349.6	*317.5*
Net operating expenses	3	102.9	*102.1*	97.8	*97.9*
Commission		nil	*nil*	nil	*nil*
Investment expenses and charges	2(b)	6.9	*7.1*	6.1	*6.3*
Unrealised losses on investments		1,550.7	–	1,537.1	–
Taxation	7(a)	14.9	*22.4*	11.7	*19.5*
Transfers (from)/to the fund for future appropriations		(801.6)	*751.2*	(790.2)	*817.3*
		1,223.4	*1,204.0*	1,212.1	*1,258.5*
		2,914.3	***5,127.7***	**2,904.9**	***4,958.2***
Balance on the Technical Account		–	–	–	–

All recognised gains and losses are dealt with in the Profit and Loss Accounts.

Balance Sheets

As at 31 December 1994

Assets	NOTES	GROUP 1994	GROUP *1993*	SOCIETY 1994	SOCIETY *1993*
		£m	***£m***	**£m**	***£m***
Investments					
Land and buildings	8(a)	1,043.3	*894.1*	1,014.1	*858.7*
Investments in Group companies	8(b)			56.4	*59.3*
Other financial investments	8(c)	11,122.0	*11,294.0*	11,041.3	*11,194.6*
		12,165.3	*12,188.1*	12,111.8	*12,112.6*
Assets held to cover linked liabilities		1,177.9	*1,130.2*	1,084.3	*1,000.2*
Debtors	9				
Debtors arising out of direct insurance operations		20.4	*26.4*	20.4	*26.2*
Other debtors		131.6	*34.9*	129.0	*45.1*
		152.0	*61.3*	149.4	*71.3*
Other assets					
Tangible assets	10	24.8	*24.6*	24.5	*24.3*
Cash at bank and in hand		2.8	*6.6*	–	–
		27.6	*31.2*	24.5	*24.3*
Prepayments and accrued income					
Accrued interest and rent		94.1	*82.2*	94.1	*80.9*
Deferred acquisition costs	4	219.1	*215.2*	219.1	*215.2*
Other prepayments and accrued income		80.8	*73.3*	79.3	*73.3*
		394.0	*370.7*	392.5	*369.4*
		13,916.8	***13,781.5***	**13,762.5**	***13,577.8***

Liabilities

	NOTES	GROUP 1994 £m	GROUP *1993* *£m*	SOCIETY 1994 £m	SOCIETY *1993* *£m*
Fund for future appropriations	11	1,189.0	*1,990.6*	1,173.7	*1,963.9*
Technical provisions	12				
Long-term business provision – gross amount		11,328.5	*10,502.2*	11,294.4	*10,466.6*
Less: reinsurance amount		(5.8)	*(4.3)*	(5.8)	*(4.3)*
		11,322.7	*10,497.9*	11,288.6	*10,462.3*
Technical provisions for linked liabilities	12	1,176.3	*1,110.7*	1,082.7	*980.8*
Provisions for other risks and charges	7(b)	5.7	*7.2*	4.8	*8.2*
Creditors	14				
Creditors arising out of direct insurance operations		20.6	*26.5*	20.1	*26.0*
Other creditors including taxation and social security		175.5	*120.9*	165.6	*108.9*
		196.1	*147.4*	185.7	*134.9*
Accruals and deferred income		27.0	*27.7*	27.0	*27.7*
		13,916.8	***13,781.5***	**13,762.5**	***13,577.8***

J R Sclater
President

A G Tritton
Vice-President

R H Ranson
Managing Director and Actuary

22 March 1995

Notes on the Accounts

1. Earned premiums

(a) Analyses of gross premiums written are as follows:	GROUP 1994	GROUP *1993*	SOCIETY 1994	SOCIETY *1993*
	£m	*£m*	£m	*£m*
Individual premiums	1,601.5	*1,655.1*	1,601.2	*1,654.8*
Premiums under group contracts	452.3	*575.7*	452.3	*447.5*
Total	2,053.8	*2,230.8*	2,053.5	*2,102.3*
Regular premiums	1,018.6	*1,015.2*	1,018.3	*1,014.9*
Single premiums	1,035.2	*1,215.6*	1,035.2	*1,087.4*
Total	2,053.8	*2,230.8*	2,053.5	*2,102.3*
Premiums from non-profit contracts	269.3	*382.8*	269.2	*382.6*
Premiums from with-profit contracts	1,565.2	*1,551.1*	1,565.0	*1,551.0*
Premiums from linked contracts	219.3	*296.9*	219.3	*168.7*
Total	2,053.8	*2,230.8*	2,053.5	*2,102.3*
Premiums from life business	220.8	*212.5*	220.6	*212.3*
Premiums from annuity business	50.8	*58.0*	50.8	*58.0*
Premiums from pension business	1,782.2	*1,960.3*	1,782.1	*1,832.0*
Total	2,053.8	*2,230.8*	2,053.5	*2,102.3*

Earned premiums relate to continuing operations.

(b) New business	GROUP 1994	GROUP *1993*	SOCIETY 1994	SOCIETY *1993*
	£m	*£m*	£m	*£m*
Individual premiums	1,227.3	*1,292.6*	1,227.3	*1,292.6*
Premiums under group contracts	116.4	*246.0*	116.4	*117.8*
Total	1,343.7	*1,538.6*	1,343.7	*1,410.4*
Regular premiums	308.5	*323.0*	308.5	*323.0*
Single premiums	1,035.2	*1,215.6*	1,035.2	*1,087.4*
Total	1,343.7	*1,538.6*	1,343.7	*1,410.4*
Premiums from non-profit contracts	225.8	*337.4*	225.8	*337.4*
Premiums from with-profit contracts	968.0	*950.6*	968.0	*950.6*
Premiums from linked contracts	149.9	*250.6*	149.9	*122.4*
Total	1,343.7	*1,538.6*	1,343.7	*1,410.4*
Premiums from life business	170.0	*165.0*	170.0	*165.0*
Premiums from annuity business	33.0	*37.5*	33.0	*37.5*
Premiums from pension business	1,140.7	*1,336.1*	1,140.7	*1,207.9*
Total	1,343.7	*1,538.6*	1,343.7	*1,410.4*

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.
- 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

(a) Investment income comprises :	GROUP 1994	GROUP *1993*	SOCIETY 1994	SOCIETY *1993*
	£m	*£m*	£m	*£m*
Group companies			7.8	*23.1*
Other investments				
– land and buildings	72.7	*67.8*	72.7	*67.3*
– other investments – listed	640.9	*545.2*	632.0	*535.5*
– other	22.1	*43.1*	21.7	*42.5*
	735.7	*656.1*	726.4	*645.3*
Gains on realisation of investments	122.3	*277.4*	118.7	*306.4*
Total	858.0	*933.5*	852.9	*974.8*

(b) Investment expenses and charges comprise:	GROUP 1994	GROUP *1993*	SOCIETY 1994	SOCIETY *1993*
	£m	*£m*	£m	*£m*
Investment management expenses including interest	6.9	*7.1*	6.1	*6.3*

Interest of £1m *(1993 £0.8m)* on bank loans is included in investment expenses and charges.

(c) Investment activity account	GROUP 1994	GROUP *1993*	SOCIETY 1994	SOCIETY *1993*
	£m	*£m*	£m	*£m*
Investment income	735.7	*656.1*	734.2	*668.4*
Realised investment gains	122.3	*277.4*	118.7	*306.4*
Movement in unrealised investment (losses) and gains	(1,550.7)	*1,958.9*	(1,537.1)	*1,882.6*
	(692.7)	*2,892.4*	(684.2)	*2,857.4*
Investment management expenses including interest	(6.9)	*(7.1)*	(6.1)	*(6.3)*
Investment return for the year	(699.6)	*2,885.3*	(690.3)	*2,851.1*

3. Net operating expenses

Net operating expenses comprise:	GROUP 1994	GROUP *1993*	SOCIETY 1994	SOCIETY *1993*
	£m	*£m*	£m	*£m*
Acquisition costs	78.7	*77.1*	78.7	*77.1*
Change in deferred acquisition costs	(3.9)	(10.9)	(3.9)	*(10.9)*
Administrative expenses	28.1	*35.9*	23.0	*31.7*
Total	102.9	*102.1*	97.8	*97.9*

Notes on the Accounts continued

4. Deferred acquisition expenses

GROUP AND SOCIETY

		1993 Deferred £m	*1993 Charge £m*
Deferred expenses at 1 January 1993		*204.3*	
Acquisition expenses incurred in the year	*77.1*		
Dealt with in the technical provisions	*(28.7)*		*28.7*
	48.4		
Apportionment for the year		*43.5*	*4.9*
Amortisation of prior year acquisition expenses		*(32.6)*	*32.6*
Deferred expenses at 31 December 1993		*215.2*	
Acquisition expenses charged for 1993			*66.2*

		1994 Deferred £m	1994 Charge £m
Deferred expenses at 1 January 1994		215.2	
Acquisition expenses incurred in the year	78.7		
Dealt with in the technical provisions	(34.3)		34.3
	44.4		
Apportionment for the year		40.0	4.4
Amortisation of prior year acquisition expenses		(36.1)	36.1
Deferred expenses at 31 December 1994		219.1	
Acquisition expenses charged for 1994			74.8

5. Expenses before deferral of acquisition expenses

(a) Expenses before deferral and expense ratio	GROUP 1994	GROUP *1993*	SOCIETY 1994	SOCIETY *1993*
	£m	*£m*	£m	*£m*
Net operating expenses as reported in the Profit and Loss Account	102.9	*102.1*	97.8	*97.9*
Acquisition expenses deferred in the year	40.0	*43.5*	40.0	*43.5*
Amortisation of prior year acquisition expenses	(36.1)	*(32.6)*	(36.1)	*(32.6)*
	106.8	*113.0*	101.7	*108.8*
Claims handling expenses	6.2	*6.7*	6.2	*6.7*
Investment management expenses including interest	6.9	*7.1*	6.1	*6.3*
Interest on bank loans	(1.0)	*(0.8)*	(1.0)	*(0.8)*
	5.9	*6.3*	5.1	*5.5*
Expenses before deferral	118.9	*126.0*	113.0	*121.0*
Earned premiums	2,053.8	*2,230.8*	2,053.5	*2,102.3*
Expense ratio (expenses before deferral as a percentage of earned premiums)	5.8%	*5.6%*	5.5%	*5.8%*

(b) Expenses include:	GROUP 1994	GROUP *1993*	SOCIETY 1994	SOCIETY *1993*
	£000	*£000*	£000	*£000*
Auditors' remuneration (including VAT):				
audit services	240.0	*221.0*	173.0	*154.0*
non-audit services	38.0	*22.0*	38.0	*22.0*
Depreciation of tangible fixed assets	8,828.0	*11,517.9*	8,731.0	*11,278.5*
Operating lease rentals – land and buildings	6,318.5	*6,135.6*	6,318.5	*6,135.6*

6. Directors and employees

(a) Staff costs comprise:	GROUP AND SOCIETY 1994	1993
	£m	*£m*
Salaries and wages	62.0	*62.5*
Social security costs	6.1	*5.4*
Other pension costs	7.6	*7.8*
Total	75.7	*75.7*
The average number of employees of the Group and the Society during the year was as follows:	1994	*1993*
Administration	1,099	*1,281*
Marketing	960	*982*
Investment	60	*58*
Total	2,119	*2,321*

(b) Emoluments of Directors	1994	*1993*
The total emoluments of the Directors comprise:	£	*£*
Fees of non-executive Directors	165,075	*158,172*
Remuneration of executive Directors		
Basic remuneration	673,898	*579,811*
Performance-related remuneration	216,362	*129,260*
Pension contributions	95,615	*84,756*
	1,150,950	*951,999*

		1994	*1993*
Emoluments, excluding pension contributions, of the:		£	*£*
President	Professor Sir Roland Smith – retired May 1994	12,500	*30,117*
	John R Sclater – appointed May 1994	19,717	–
Highest paid Director		237,975	*194,321*

Number of Directors with emoluments in the bands specified

	1994	*1993*		1994	*1993*
£5001–£10,000	2	*1*	£145,001–£150,000	1	–
£10,001–£15,000	3	*3*	£150,001–£155,000	–	*1*
£15,001–£20,000	1	*1*	£155,001–£160,000	1	*1*
£20,001–£25,000	1	*3*	£170,001–£175,000	1	–
£25,001–£30,000	3	–	£175,001–£180,000	1	–
£30,001–£35,000	–	*1*	£190,001–£195,000	–	*1*
£65,001–£70,000	–	*1*	£235,001–£240,000	1	–
£135,001–£140,000	–	*1*			

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 year. Management fees received by the Society for services provided to subsidiary companies 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 Scheme for non-field staff including executive Directors.

The pension contributions are in respect of the Society's non-contributory defined benefits scheme. The Directors covered by this scheme include all those who are executives as well as certain of the non-executive Directors who are consequently in receipt of lower fees.

As a mutual company the Society has no employee share scheme in force.

Notes on the Accounts continued

6. Directors and employees (continued)

(c) Pension arrangements

The Society operates a non-contributory defined benefits pension scheme which all employees normally become eligible to join upon becoming permanent members of staff. Certain Directors are also members – see note 6(b). The scheme is fully insured with the Society itself under a with-profits policy. The Actuary of the Society 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 1992 and key assumptions used were as follows:

Salary increases	8% per annum
Investment return	9% per annum
Rate of increase in prices	5% per annum
Rate of increase to current and future pensions in payment	5% per annum
Rate of increase in upper and lower earnings limits	7% per annum

On this basis the value of the with-profits policy of £65.9m represented 105% of the liabilities determined. The Actuary is of the opinion that the pension cost included within management expenses of £7.6m *(1993 £7.8m)*, which was the amount contributed during the year, is consistent with the cost of providing the promised pension benefits in accordance with Statement of Standard Accounting Practice 24.

7. Taxation

(a) Charge for taxation

Provisions for taxation on the income and profits for the year have been made on bases and at rates appropriate to the business of the Group and the Society as follows:

	GROUP		SOCIETY	
	1994	*1993*	1994	*1993*
	£m	*£m*	£m	*£m*
U.K. corporation tax	8.4	*13.7*	7.2	*9.3*
Double taxation relief	(0.5)	*(0.3)*	(0.5)	*(0.3)*
	7.9	*13.4*	6.7	*9.0*
Irrecoverable tax credits	5.6	*3.6*	5.5	*3.7*
Overseas taxation	4.2	*3.0*	4.2	*2.9*
Deferred taxation	(1.5)	*2.3*	(3.4)	*3.9*
	16.2	*22.3*	13.0	*19.5*
Adjustments in respect of previous years	(1.3)	*0.1*	(1.3)	*–*
Total	14.9	*22.4*	11.7	*19.5*

(b) Deferred taxation

The potential liability for deferred taxation comprises:	GROUP		SOCIETY	
	1994	*1993*	1994	*1993*
Provided in the accounts:	£m	*£m*	£m	*£m*
Accelerated capital allowances	1.7	*0.9*	1.7	*0.9*
Short-term timing differences	1.2	*–*	1.0	*1.8*
Unrealised appreciation in investments	2.8	*6.3*	2.1	*5.5*
	5.7	*7.2*	4.8	*8.2*
Not provided in the accounts:				
Unrealised appreciation in investments	21.9	*42.0*	21.9	*42.0*
Accelerated capital allowances	1.2	*0.9*	1.2	*0.9*
	23.1	*42.9*	23.1	*42.9*

8. Investments

(a) Land and buildings

GROUP	Long leasehold £m	Freehold £m	Total £m
Land and buildings at current value			
At 1 January 1994	137.9	756.2	894.1
Additions	7.2	99.2	106.4
Disposals	(0.5)	(9.2)	(9.7)
Surplus on revaluation	3.2	49.3	52.5
At 31 December 1994	147.8	895.5	1,043.3
Land and buildings at cost			
At 31 December 1994	141.3	752.5	893.8
At 31 December 1993	*136.8*	*652.3*	*789.1*

SOCIETY	Long leasehold £m	Freehold £m	Total £m
Land and buildings at current value			
At 1 January 1994	137.5	721.2	858.7
Additions	7.7	105.5	113.2
Disposals	(0.5)	(9.2)	(9.7)
Surplus on revaluation	3.1	48.8	51.9
At 31 December 1994	147.8	866.3	1,014.1
Land and buildings at cost			
At 31 December 1994	141.3	719.2	860.5
At 31 December 1993	*136.3*	*612.8*	*749.1*

Included in the figures shown for current value is £24.6m *(1993 £22.3m)* in respect of buildings which are owned and occupied by the Society. Notional rent of £1.9m *(1993 £2.7m)*, based on market rentals, is charged to expenses and is included in investment income.

97% of the Group's (99% of the Society's) properties were valued individually as at 31 December 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.

(b) Investments in Group companies

SOCIETY	Shares at market value		Loans at market value		Total at market value	
	1994	*1993*	1994	*1993*	1994	*1993*
	£m	*£m*	£m	*£m*	£m	*£m*
At 1 January	35.1	*26.6*	24.2	*26.1*	59.3	*52.7*
Additions	3.8	*9.1*	0.3	*0.4*	4.1	*9.5*
Disposals	–	–	(2.5)	*(2.1)*	(2.5)	*(2.1)*
Exchange adjustments	(0.8)	*0.1*	(0.6)	*0.2*	(1.4)	*0.3*
Surplus/(deficiency) on revaluation	1.3	*(0.7)*	(4.4)	*(0.4)*	(3.1)	*(1.1)*
At 31 December	39.4	*35.1*	17.0	*24.2*	56.4	*59.3*

	Shares at cost		Loans at cost		Total at cost	
	1994	*1993*	1994	*1993*	1994	*1993*
	£m	*£m*	£m	*£m*	£m	*£m*
At 31 December	42.5	*38.7*	17.0	*18.9*	59.5	*57.6*

The valuations above have been made by the Directors, based on each company's net asset values at 31 December 1994 or balance sheet date in the calendar year 1994.

Notes on the Accounts continued

8. Investments (continued)

(c) Other financial investments

GROUP	CURRENT VALUE		COST	
	1994	*1993*	1994	*1993*
	£m	*£m*	£m	*£m*
Shares and other variable yield securities	5,885.9	*5,414.2*	4,571.2	*3,527.5*
Debt and other fixed-income securities	4,990.0	*5,361.4*	4,977.0	*4,479.2*
Loans secured by mortgages	16.6	*19.2*	16.6	*19.2*
Loans secured by policies	11.6	*12.3*	11.6	*12.3*
Other loans	0.2	–	0.2	–
Deposits with credit institutions	201.7	*431.8*	201.6	*430.6*
Other investments	16.0	*55.1*	33.3	*34.0*
	11,122.0	*11,294.0*	9,811.5	*8,502.8*

SOCIETY	CURRENT VALUE		COST	
	1994	*1993*	1994	*1993*
	£m	*£m*	£m	*£m*
Shares and other variable yield securities	5,851.1	*5,374.1*	4,544.3	*3,497.8*
Debt and other fixed-income securities	4,957.6	*5,315.6*	4,947.2	*4,439.5*
Loans secured by mortgages	15.9	*18.1*	15.9	*18.1*
Loans secured by policies	11.3	*12.3*	11.3	*12.3*
Other loans	0.2	–	0.2	–
Deposits with credit institutions	189.2	*419.4*	189.1	*418.3*
Other investments	16.0	*55.1*	33.3	*34.0*
	11,041.3	*11,194.6*	9,741.3	*8,420.0*

Investments of £74m *(1993 £130m)*, which have been lent in the normal course of business to authorised money brokers on a secured basis, are included in other financial investments.

(d) Listed investments

Included in current value above:	GROUP		SOCIETY	
	1994	*1993*	1994	*1993*
	£m	*£m*	£m	*£m*
Listed in the U.K.	8,914.0	*9,135.2*	8,864.4	*9,073.9*
Listed on overseas stock exchanges	1,811.6	*1,468.8*	1,810.5	*1,467.5*

(e) Linked investments

	GROUP		SOCIETY	
	1994	*1993*	1994	*1993*
	£m	*£m*	£m	*£m*
Assets at cost	1,015.0	*852.8*	929.3	*743.5*

9. Debtors

	GROUP 1994	GROUP *1993*	SOCIETY 1994	SOCIETY *1993*
Debtors arising out of direct insurance operations	£m	*£m*	£m	*£m*
Amounts owed by policyholders	20.4	*26.4*	20.4	*26.2*
Other debtors				
Debtors other than Group and related companies	39.6	*18.7*	34.3	*17.5*
Outstanding sales of investments	92.0	*16.2*	92.0	*14.3*
Group companies			2.7	*13.3*
Total	131.6	*34.9*	129.0	*45.1*

10. Tangible assets

GROUP	Motor vehicles £m	Plant, fixtures & fittings £m	Computer equipment £m	Total £m
Cost				
At 1 January 1994	6.9	18.8	29.2	54.9
Additions	2.1	2.6	4.4	9.1
Disposals	(1.9)	–	–	(1.9)
At 31 December 1994	7.1	21.4	33.6	62.1
Depreciation				
At 1 January 1994	4.6	8.0	17.7	30.3
Provided in year	0.3	3.2	5.3	8.8
Disposals	(1.8)	–	–	(1.8)
At 31 December 1994	3.1	11.2	23.0	37.3
Net book value				
At 31 December 1994	4.0	10.2	10.6	24.8
At 31 December 1993	*2.3*	*10.8*	*11.5*	*24.6*

SOCIETY	Motor vehicles £m	Plant, fixtures & fittings £m	Computer equipment £m	Total £m
Cost				
At 1 January 1994	6.9	18.5	29.2	54.6
Additions	2.1	2.5	4.4	9.0
Disposals	(1.9)	–	–	(1.9)
At 31 December 1994	7.1	21.0	33.6	61.7
Depreciation				
At 1 January 1994	4.6	8.0	17.7	30.3
Provided in year	0.3	3.1	5.3	8.7
Disposals	(1.8)	–	–	(1.8)
At 31 December 1994	3.1	11.1	23.0	37.2
Net book value				
At 31 December 1994	4.0	9.9	10.6	24.5
At 31 December 1993	*2.3*	*10.5*	*11.5*	*24.3*

Notes on the Accounts continued

11. 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.

Movement in the year	GROUP 1994	GROUP *1993*	SOCIETY 1994	SOCIETY *1993*
	£m	*£m*	£m	*£m*
Balance at 1 January	1,990.6	*1,239.4*	1,963.9	*1,146.6*
Transfer (to)/from the Profit and Loss Account	(801.6)	*751.2*	(790.2)	*817.3*
Balance at 31 December	1,189.0	*1,990.6*	1,173.7	*1,963.9*

12. Technical provisions

(a) Long-term business provision

The long-term business provisions were calculated using the gross premium method of valuing the Society's and the University Life Assurance Society's long-term non-linked liabilities. The principal assumptions used in valuing the main classes of business were as follows:

The Equitable Life Assurance Society

Class of business	Mortality	Interest rate	Future expense allowance
		%	%
Endowment assurances			
Basic Life and General Annuity business	A67/70 – 1	4.5	3.0
Pension business	A67/70 – 1	6.0	4.0
Non-profit temporary assurance			
Basic Life and General Annuity business	A67/70 – 3	4.5	3.0
Pension business	A67/70 – 3	6.0	4.0
Recurrent single premium (with profits)			
Life business	–	0.0	0.5% per annum
Pension annuity in payment	PA(90) – 4	5.0	£1 per payment
Pension business	–	5.0	0.5% per annum.
Non-profit annuity in payment			
Basic Life and General Annuity business	a(90)– 1	8.5	£1 per payment
Pension business	PA(90) – 4	8.5	£1 per payment

University Life Assurance Society

Class of business	Mortality	Interest rate	Future expense allowance
		%	%
Endowment assurances			
Basic Life and General Annuity business	A67/70	5.25	6.75
Pension business	A67/70	7.0	9.0
Deferred annuities			
Basic Life and General Annuity business	A67/70	6.0	9.0
Pension business	A67/70	7.0	9.0
Recurrent single premium (with profits)			
Pension business	–	4.0	–

12. Technical provisions (continued)

The Equitable Life Assurance Society and University Life Assurance Society

(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. For conventional level annual premium business explicit future bonus rates were assumed at the following rates.

Class of business	The Equitable Life		University Life	
	On sum assured	On existing bonus additions	On sum assured	On existing bonus additions
	%	%	%	%
Endowment assurances				
Basic Life and General Annuity business	2.5	1.5	3.25	2.0
Pension business	3.0	3.0	2.75	2.75
Deferred annuities				
Basic Life and General Annuity business	–	–	2.25	2.25
Pension business	–	–	2.75	2.75

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

(b) Technical provisions for linked liabilities

The technical provision in respect of linked business is equal to the value of the assets to which the contracts are linked. An additional provision in respect of future expenses and mortality risks on linked business is included in the long-term business provision.

13. Reconciliation of opening balances – prior year adjustment

	GROUP		SOCIETY	
	1994	*1993*	1994	*1993*
	£m	*£m*	£m	*£m*
Opening balances as previously reported:				
Long-term business funds	11,616.3	*8,663.0*	11,450.9	*8,562.1*
Reserve	1,767.7	*1,027.3*	1,740.9	*934.5*
	13,384.0	*9,690.3*	13,191.8	*9,496.6*
Opening balances restated:				
Deferred acquisition costs	(215.2)	*(204.3)*	(215.2)	*(204.3)*
Long-term business provision	10,497.9	*7,965.6*	10,462.3	*7,865.0*
Technical provisions for linked liabilities	1,110.7	*689.6*	980.8	*689.3*
Fund for future appropriations	1,990.6	*1,239.4*	1,963.9	*1,146.6*
	13,384.0	*9,690.3*	13,191.8	*9,496.6*

Notes on the Accounts continued

14. Creditors

	GROUP		SOCIETY	
	1994	*1993*	1994	*1993*
	£m	*£m*	£m	*£m*
Creditors arising out of direct insurance operations				
Creditors other than Group and related companies	20.6	*26.5*	20.1	*26.0*
Other creditors including taxation and social security				
Bank loans and overdrafts	19.1	*2.0*	19.1	*2.0*
Foreign currency loans	12.8	*20.1*	12.8	*20.1*
Outstanding purchases of investments	115.2	*73.2*	115.2	*73.1*
Group companies			11.7	*10.7*
Other creditors	28.4	*25.6*	6.8	*3.0*
Total	175.5	*120.9*	165.6	*108.9*

Bank loans and overdrafts, and foreign currency loans are repayable within 1 year of the Balance Sheet date.

15. Subsidiary undertakings

(a) The principal subsidiary undertakings, wholly owned unless otherwise indicated , are as follows:

	Country of registration or incorporation	Year end	Nature of business
Equitable International Fund Managers Limited	Guernsey	31 December	Fund management
Equitable International Fund Limited	Guernsey	31 October	Open-ended investment company
Equitable Investment Managers Limited	England	31 December	Management of Personal Equity Plans
Equitable Life – Finanzberatung und Versicherungsvermittlung GmbH	Germany	31 December	Sales and marketing of life assurance and pensions
Equitable Services and Consultancy Limited	England	31 December	Consultancy and sale/hire of computer systems
Equitable Unit Trust Managers Limited	England	31 December	Unit trust management
The Reversionary Interest Society Limited	England	31 December	Purchase of reversions and life interests. Closed to new business
S K One Limited (68.97% owned)	England	31 December	Investment holding company
S K Two Limited (81.15% owned)	England	31 December	Investment holding company
S K Three Limited	England	31 December	Investment holding company
TCW Financial Limited (73.17% owned)	Jersey	31 December	Investment holding company
University Life Assurance Society	England	31 December	Life assurance and annuity business. Closed to new business
Walton Street Real Estate Inc.	U.S.A.	31 December	Real estate investment

All holdings are of ordinary or like shares. Equitable International Fund Limited has a 31 October year end for operational reasons.

(b) At 31 December 1994 the Group and the Society held more than 10% of the nominal value of a class of equity shares in 50 companies, in 10 of which the Group and the Society held more than 20%. None of these companies is regarded by the Directors as an associated undertaking and none of the holdings materially affects the result or assets of the Group or the Society. These investments are included in the Balance Sheets at market value. Full information on these companies will be annexed to the Society's next annual return.

16. Disclosure of transactions involving Directors as required by the Companies Act 1985

Each executive Director 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 main residence	Liability Outstanding at 31 December 1994	*1993*	Maximum 1994	Average Interest 1994
	£	*£*	£	%
R. Q. Bowley	nil	*32,250*	32,250	5.4
A. Nash	nil	*67,000*	67,000	6.6
R. H. Ranson	nil	*27,650*	27,650	4.9
D. G. Thomas	nil	*40,260*	40,260	6.3

There was no outstanding interest with regard to any of these loans at the end of the year and there were no other transactions in which any Director had a material interest.

17. Commitments

(a) Property investment commitments not provided for in the accounts amounted to £10.9m *(1993 £9.1m)* for the Group and £10.5m *(1993 £5.9m)* for the Society.

(b) Commitments in respect of uncalled capital on certain investments amounted to £46.3m *(1993 £42.4m)* for the Group and £46.3m *(1993 £42.3m)* for the Society.

(c) The Society has a commitment for uncalled capital on investments in a subsidiary undertaking amounting to £0.6m *(1993 £0.6m)*.

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

	GROUP AND SOCIETY 1994	*1993*
	£m	*£m*
Between one and five years	0.1	*0.1*
After five years	5.8	*5.6*
	5.9	*5.7*

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