

Equitable Life 2002 Annual General Meeting

Important Note: These are the scripts of the presentations made by the Chairman, Chief Executive and Chief Finance and Investment Officer at Equitable Life's 240th Annual General Meeting held at the Queen Elizabeth II Conference Centre on Monday 27 May 2002. Please note that these are not transcripts of their speeches, and as such should not be read as a precise, word-for-word record.

Vanni Treves Chairman

I would like to take a retrospective look at the Society's achievements in 2001.

In a speech in 1992 Her Majesty Queen Elizabeth II described the year as her "annus horribilis". I know how she feels. Following the closure of the Society to new business at the end of 2000 there is no doubt that 2001 was the most turbulent in the long history of the Society.

The last time we met in this way, at the 2001 AGM, we faced massive uncertainty over the future of our Society. Your newly elected Board, none of whom had worked together previously and had not been involved in any way with the decisions that had created such difficulties, met for the first time on 25 April 2001.

Key events of 2001

We then faced three main areas of concern: Firstly we had to rectify the fundamental instability in the with-profits fund caused by the uncapped GAR liability through adoption of a compromise scheme acceptable to both GAR and non-GAR policyholders alike.

The compromise scheme achieved

Your help in finalising the compromise agreement was invaluable.

The final scheme was presented to policyholders on 6 December and the voting concluded at the class meetings held on 11 January this year. As you know the compromise was overwhelmingly endorsed with majorities ranging from 97-99%. It was subsequently ratified by the High Court and lodged at Companies House on 8 February, well before the 1 March deadline set by the Halifax agreement, so releasing the £250 million.

This was a major piece of good news, the first we had for some time.

Financial issues

While removing the fundamental legal uncertainties faced by the Society, your Board also had to grapple with our second major task, the underlying financial problems principally created by the very substantial decline in the stock market. The FTSE 100 index fell by 1000 points during 2001 from a start of 6,200 to 5,200 at the end of the year, with of course a very significant dip after the desperate events of September 11th.

Our financial reviews showed an underlying gap between ever-escalating policy values being paid out at maturity and the falling value of the underlying assets of the fund.

This was a particularly grave position given the flexibility contained in many contracts which meant that a large number of members could opt to take their benefits and so remove a disproportionate share of the fund to the detriment of other continuing members.

This was clearly an intolerable situation and one that had to be speedily corrected. That is why we took the drastic and painful action of last July. As a large policyholder myself I too felt the pain. We fully appreciate that this was deeply distressing to members and had there been any other course of action then we would of course have taken it. However had we shirked from our duty then we would have rendered a great disservice to everyone in this room and hundreds of thousands of our fellow members.

Regrettably also this action had to occur without warning to avoid giving an unfair advantage to any member. Consequently there was no opportunity to change our computer systems or prepare the customer service staff. Your Board knows very well that resultant strain on the Customer Service team was enormous, as was the frustration of members attempting to get information or valuations.

I have apologised publicly before and I do so again now, for the unacceptable decline in customer service performance levels. Despite additional resources and enormous effort, it has taken many months to convert systems and restore a degree of efficiency, but we are now finally returning to a more normal level of customer service.

Legal action

Our third task was to carefully examine what action could and should be taken against those parties involved in the problems facing our Society. As you may have heard our investigation undertaken by the lawyers Herbert Smith has resulted in the start of legal proceedings against 15 former Directors of Equitable Life and our former auditors Ernst and Young. The decision over whether or not any action can be taken against the regulators will largely depend on the results of the independent investigation being undertaken by Lord Penrose.

Members will certainly understand that, given the complexity of the issues, it will be some time before we see any tangible results from either the legal proceedings or the Penrose Inquiry.

These three tasks, coupled with the significant challenge of ensuring the day-to-day running of the Society, through the new arrangements with the Halifax, dominated the work of your society in 2001.

This has been a ghastly year but thanks to the good sense of members and an enormous amount of high quality, hard work we are in a far more stable state than we were a year ago. I sincerely want to thank those who have contributed to this significant achievement.

I will now hand you over to your Chief Executive Charles Thomson who would like to look in more detail at the future of the Society.

Charles Thomson - Chief Executive

Thank you Chairman.

As has just been pointed out by the Chairman, 2001 was indeed a ghastly year for the Society and policyholders.

We had quite a number of challenges yet we did achieve our primary objectives. Achievements do not happen without people.

I would like to put on record very special thanks to a large number of people, too numerous to mention here, who put in a huge amount of effort and hard work to secure a more stable future for Equitable Life. Those that operate as a team do the best work and we had an excellent team on the job.

I should also like to say a grateful thanks to you, our members, for your support and also, from many of you, your kind words of encouragement. I can tell you they were very valuable support in difficult times and much appreciated by my colleagues and me.

We have made very significant progress in the last 12 months:

- Policyholders have overwhelmingly endorsed the vitally important compromise scheme. That means that the fundamental uncertainties surrounding GARs have been removed and the financial position of the fund and our society has been improved as a result.
- The Society has a new executive and Board of Directors committed to acting in the best interests of continuing policyholders.

These are significant and real improvements compared to the perilous position last year before the pre-compromise scheme.

Future of the Society

I would now like to share with you our strategic objectives for taking the Society forward.

Resolving claims from former non-GAR policyholders

We will seek to resolve valid claims that were not covered by the compromise scheme, in a cost-efficient and fair way.

In the recent letter Vanni and I sent to you, we informed you that following discussions with our regulator the FSA we had taken the first steps towards establishing the validity of such claims by commissioning an independent review to be conducted by B&W Deloitte. For any compensation to be paid it is necessary for former policyholders to show both that they have suffered loss as a direct result of the GAR issue and to be able to demonstrate that their policy was mis-sold to them.

We are waiting for the report from B&W Deloitte. On completion of our discussions with the FSA we will, in due course, inform you of the reports findings and any next steps.

Restoring customer service

The unprecedented interest in Equitable Life during 2001 has inevitably resulted in an equally large demand being placed upon our customer service teams. As the Chairman has said, service levels fell to an unacceptably low level last year.

We unfortunately saw large backlogs of requests for maturity, transfer and surrender values as well as many individual requests for information from policyholders.

This was not acceptable.

Whilst things have improved substantially in recent months, there is more to do to restore customer service levels to the high standards Equitable Life was known for. Continuous improvement is the name of the game here and it is my intention to be able to report to you measurable advances this time next year.

Removing anomalies

There are still a number of anomalies that need to be addressed:

We have inherited a unique and unsatisfactory surrender value methodology. Currently the 'financial adjustment' applied to individual policies surrendered before maturity is not as refined as we would like. In addition, the system for group rather than individual policies gave apparently anomalous results. In the case of group schemes the recording systems set up previously by Equitable Life were more flexible than those applied to individual policies. This reflected the smaller number of group schemes which by their nature were likely to see significantly higher levels of contractual and non-contractual transactions.

Again we have taken the essential first steps to eliminate these problems.

Revising the Society's Articles of Association

The Board has initiated a review of the Society's Articles of Association to bring them up to date. A working group has been established to carry out the review and are seeking the views of policyholders. We hope to be in a position to put forward any amendments to you when we meet at the 2003 Annual General Meeting.

Investment performance

Of course, there are significant factors that impact on the fund, which fall outside of our control. The investment climate, and particularly the decline in the UK stock market, did impact the Society as it did our competitors who have also had to reduce their final and annual bonus rates.

For our part we will follow a low risk investment strategy so ensuring that we meet the guarantees provided to policyholders. We will also do our best to maximise returns for those policyholders who are looking to the longer term. This will continue to be a key priority of the Board.

In summary can I thank you for your continued support in what has been a very trying and worrying time for you. I wish to assure you of the very best efforts of the executive and directors to move Equitable Life to firmer ground.

We made a huge step towards that with members' endorsement of the compromise scheme. But we have much more to do. And our primary focus will be to always act in the long term interests of the Society's continuing policyholders.

Thank you.

I would now like to hand you over to our Chief Finance and Investment Officer, Charles Bellringer.

Charles Bellringer - Chief Finance and Investment Officer

Thank you Charles. I would like to start by saying a few words about one of the great threats to society, solvency abuse. by IFA's and the press As we all know this can be a life threatening addiction and one that our friends in the IFA community and some parts of the press should stop.

Sadly some newspapers seem to sell on disasters and gloom. You never see the headline "no news at Equitable!" Even deceased financial stories get dragged back to life. As for IFAs, it is fair to say their interests do not necessarily coincide with the well being of your Society.

This speculation has caused considerable concern to us and I have no doubt great anxiety to you.

Financial management

Your Society is solvent

Let us have no ambiguity about this, your Society has always been solvent, is solvent today and we fully intend to keep it that way.

To that end we have worked hard during the last year to develop sophisticated tools to look at the financial risks we face and to ensure we take the appropriate action to avoid solvency problems.

Our Annual Report and Accounts have been independently audited by PricewaterhouseCoopers and you members have all received your copies. We have taken steps to make the information easier to digest. Compared to the position your Society found itself before the compromise agreement, Equitable Life is in a greatly improved position. Yes, the Society still needs careful financial management and your Board is restoring the fund back to health.

We are committed to doing all we can to ensure that happens. I hope this clarifies this matter that has caused such uncertainty in recent days.

We understand that the financial returns to the FSA are now finally available from Companies House and therefore the report is a publicly available document. As such - and as promised - we will have made the now take steps to make the document available to you on the Society's website as well as on CD Rom should you desire a copy.

The Chairman and Chief Executive have, in the last few minutes, as always been very clear with you as ever about the state of the Society's affairs in recent times.

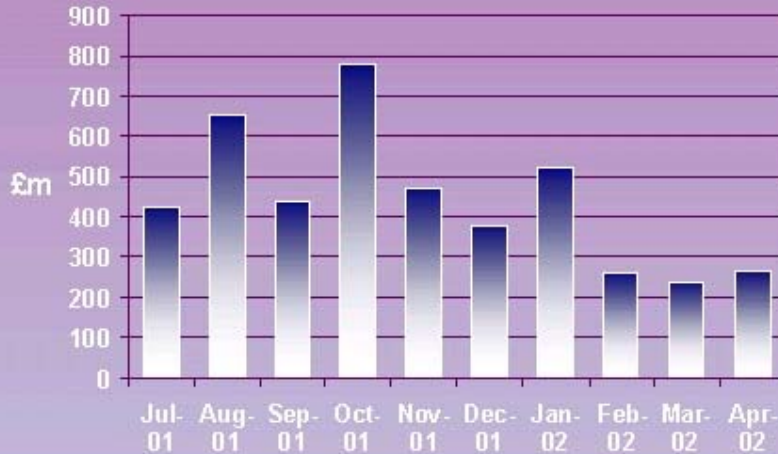
Rate of claims has declined

There was a significant outflow of funds during 2001.

Financial management

Equitable Life

UK with-profits fund claims notified



However, I am pleased to report to members that levels of claims have reduced significantly following the adoption of the compromise and have continued to be at a level below £300 million in February, March and April 2002, when they fell to their lowest level for over a year.

We wrote to you on the 15 April. In that letter we examined the clarity of the term 'policy value' as we thought that it created an erroneous impression amongst policyholders. I would just like to reiterate the contents of that letter.

Clarifying 'indicative policy values'

Policy value is not an absolute statement of a policy's worth in the same way that you might receive from a bank or building society. Rather it is a broad, indicative statement of that policy's worth. It is subject to adjustment on a policy's early surrender or on maturity according to fund performance, just as it is with many other with-profits funds.

As you will see from this year's annual policy statements, due to be sent out in the next couple of weeks, we have clarified the term by showing guaranteed and indicative policy values where appropriate.

Fairness on financial adjustments

Now any policyholder wishing to surrender their policies early, as well as those proposing to take benefits on maturity, will be quoted a surrender value or maturity value respectively. This will not be the same as the indicative value shown on the annual statement. These surrender and maturity values will be set according to the fundamental principle that the value reflects the need to protect the asset share of continuing policyholders.

As with all with-profits funds, it is essential that policyholders leaving the Society on a non-contractual basis leave fair shares for continuing policyholders. This ensures the protection of those policyholders remaining with the Society. This principle also defines the levels of financial adjustment applied to early surrenders.

Bonus and investment policy

We must adopt a cautious bonus and investment policy. Equitable policies have unique flexibility as to how and when policyholders can take benefits, and the majority by value include a guaranteed minimum level of growth on their guaranteed value.

These factors mean that as we stated in the compromise scheme we shall have a lower proportion of funds invested in shares compared to other with-profits providers, at least in the near future.

Given the events of the last year or so it's all too easy to feel continually pessimistic about your Society's future. But when you look at what has been achieved in the last year and what is being worked on now a different story emerges:

- Policyholders overwhelmingly backed the compromise scheme;
- We have developed more sophisticated systems for financial management and monitoring activities and risk;
- We are well advanced to restore service levels and the cost base to normal levels;
- And I repeat, for the avoidance of doubt, your Society has always been, and is, solvent!

We have made important progress towards securing a brighter future for the with-profits fund and managing it in a more typical way but there is clearly much still to be done. Not all the challenges have been resolved yet but the Society is more stable than at any point in 2001 and is certainly more so than when we met last year.

Finally, just in case you missed it earlier, and with apologies to the press, your Society IS solvent!