At the Annual General Meeting of

THE EQUITABLE LIFE ASSURANCE SOCIETY

held on Monday, 11 May 2009 at 11.00 a.m.

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The following persons were present:

Vanni Treves	(Chairman)	(in the Chair)
Peter Smith	(Deputy Chairman)	
David Adams		
Tim Bateman		
Ian Brimecome		
Ian Reynolds		
Fred Shedden		
Charles Thomson		
Andrew Threadgold		
Jean Wood		

There were 92 members entitled to vote present in person and 8 proxies (who were not in their own right members entitled to vote) who had been appointed by members to vote on their behalf at the meeting.

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The Chairman, Vanni Treves, opened the meeting and welcomed those attending. He explained the proposed format and timetable for the meeting and suggested that the aim should be to allow an hour for questions before moving on to the formal business of the meeting, including the voting.

The Chief Executive, Charles Thomson, provided a report on the Society's activities during 2008. He remarked that 2008 had been an important year for resolving the future path of the Society. During the year:

- the opportunities for transferring the Society to a third party had been explored and it had been decided that no such proposal was likely to offer improved prospects for policyholders;
- the Parliamentary Ombudsman's report had been published in the Summer and the Chairman would be saying more about the Society's activities in that respect;
- the global economic crisis which had come to the fore in 2007 had deepened in 2008; and
- most importantly, having effectively ruled out a transfer to a third party, the Society had now started to put in place the key elements of a successful run-off strategy.

The Chief Executive then commented on the Society's investment performance. He remarked that since the middle of 2007, investment property values had halved. To a lesser extent equity markets had also crashed, with the FTSE-100 index having reduced by a third over 2008. He added that the Society had a relatively low exposure to properties and equities compared with some other with-profits funds. However, with such heavy losses, even a modest exposure had an effect. He remarked that the Society primarily invested in fixed-income investments - both Government and corporate bonds. Interest rates had fallen during 2008. This would normally mean that the value of fixed-income bonds would increase. Falling interest rates also increased the value of the Society's liabilities and these effects – an increase in bond values and an increase in liabilities - should offset each other. However, an important feature of the current economic crisis was that market fears about default and liquidity of corporate bonds had dramatically reduced their prices. This had increased the difference between the interest rates provided by corporate bonds compared with rates available from comparable Government Bonds. This feature, sometimes called an increase in 'credit spreads', had had a significant effect on the Society's effective investment return.

The Chief Executive reported that the gross return on the with-profits fund had been 0.1% during 2008, which compared very favourably with many other well known with-profits funds. Adjusting for the rise in the value of the liabilities, the effective gross return was -6.1%. He added that this was an indication of the particular impact of corporate bonds, with the interest rate fall having increased the value of liabilities, but market fears with regard to corporate bonds having kept their prices down. The Chief Executive remarked that although the corporate bond prices appeared to reflect market concerns about default and liquidity, so far there had been no material increase in the actual level of defaults on investment grade bonds such as those held by the Society. Further, the Society intended to hold these corporate bonds to maturity. Consequently, unless there was a material increase in actual defaults, the ultimate performance of the Bonds would not be affected and there were good reasons to be hopeful that the unrealised losses reflected in the accounts, and further losses in the early part of 2009, would reverse. The Chief Executive reported that, after allowing for the costs of administration and guarantees, the effective net return on the with-profits fund in 2008 had been -7.7%.

Regarding the Society's financial position, the Chief Executive reported that, in spite of the challenging economic climate, a sound financial position had been maintained. At the end of 2008, excess realistic assets – the Society's key measure of solvency – had stood at £414m, representing 7.0% of the with-profits fund. He added that in such a difficult economic climate there could be no absolute assurance, but the matching of investment income with future policy payments gave the Board confidence that the Society could deal with the effects of the current recession.

The Chief Executive then commented on the impact on policies, through the bonus changes. He remarked that the Board had been very vigilant in the light of the volatile financial climate in taking action to protect the long-term future of the Society. While a degree of smoothing could be achieved, ultimately the benefits paid under with-profits policies must reflect the returns achieved on the underlying investments. Consequently, the Board first reduced and then removed interim bonus during the year. At the end of 2008, policy values had been reduced by 3% which still represented greater value than the investments had delivered. Difficult financial conditions had continued into 2009 and policy values had been reduced by a further 2% at the beginning of March. No interim bonus was currently being added to policies and the Board would continue to keep the developing financial position under very close scrutiny.

The Chief Executive commented on another very important development in 2008 - the sale process. Having stabilised the Society and having dealt with the major problems of the past, the Society had transferred most of its fixed pensions to Canada Life and all its with-profits annuities to Prudential. These steps had brought the Society to the point where there were no special barriers to a potential sale. During 2008, the Society had sent out a detailed description of the business to interested parties and had asked them to make proposals. The test was for a third party to be able to do better for policyholders than the Society could do itself. Although various proposals had been received, none would have been likely to provide better prospects for policyholders than the Society running the business off itself. He added that the developing economic crisis had also made it unlikely that any better proposals would be forthcoming. Consequently, the Board had decided in November to put the sale process on 'hold' and to focus on delivering the best possible run-off strategy.

Charles Thomson referred to the announcement in March 2009 that he would be leaving the Society later in the year. He remarked that when he had come to the Society in 2001 it had been financially unstable and unsound. From the outside, he had thought that a short, intense period of transition would be needed to restore the Society to some sort of stability. In the event, the stock market collapse from 2000 to 2003 and numerous problems from the past had made the task of restoration much harder and longer than anyone had anticipated. He added that the Society was now in a good position with a clear strategy for the future and a policy to deliver it. His job, therefore, would soon be done and it was the right time for him to hand over to a successor. Charles Thomson added that it had been a privilege to serve as the Society's Chief Executive for the last eight years. He thanked the Chairman and the rest of the Board for both their challenge and their support over the years.

The Chairman then addressed the meeting. He commented that, in 2001, Charles Thomson and he and their colleagues on the Board had started what might be called the 'project to save Equitable Life'. He added that Charles Thomson had made an enormous contribution to the Society in the past eight years. On behalf of the Board and the Society, the Chairman expressed thanks to Charles Thomson for the resourcefulness, commitment and innovation he had brought to bear on the many problems the Society had faced and for bringing it through to the relative calm of where it now was.

The Chairman then provided an update on the Parliamentary Ombudsman and the fight for Government compensation. He commented that the Society had lobbied for the Parliamentary Ombudsman to look into the actions of the regulators in 2004 after Lord Penrose's report had raised significant questions in this area. The Ombudsman had spent four years investigating and the Society had supported her in every way it could. The Ombudsman had finally published her report – titled 'a decade of regulatory failure' - in July 2008 setting out her findings that for a decade the regulators of the Society had performed inadequately. In January 2009, the Government had published its response, in which it rejected some of the Ombudsman's findings and proposed an alternative scheme which might make some payments to some policyholders. The Chairman remarked that the Society regarded the Government's response as wholly inadequate and had told the Public Administration Select Committee this when giving evidence. The Select Committee had laid its own report before Parliament in March 2009 and had described the Government's actions as 'shabby, constitutionally dubious and procedurally improper'. It had also described the Government's proposed scheme as ‘inadequate as a remedy for injustice’. The Parliamentary Ombudsman had very recently also issued a further report – titled ‘Injustice unremedied” - to both Houses of Parliament which left no doubt that the Government’s response would leave the injustice she had found caused by regulatory maladministration without an adequate remedy. In it she had pointed out that whether the Government’s response ‘constitutes an inappropriate attempt to act as judge and jury in its own cause is now a matter for Parliament to consider and debate.’

The Chairman reported that the Society was dealing with the issue of Government compensation on two fronts. First, it was important to realise that Parliament had decided to give regulators immunity from prosecution for negligence. In spite of the Parliamentary Ombudsman’s findings, it was not possible to pursue a case for compensation through the Courts. However, Parliament had provided an Ombudsman so that justice could be provided in respect of public bodies without recourse to the Courts. The Chairman added that this was why this was a political issue, not a legal one. Both before and after the publication of the Parliamentary Ombudsman’s report, the Society had been working with politicians to encourage their support for the Ombudsman’s recommendations and this lobbying effort was continuing. The Parliamentary Ombudsman reported to Parliament, not to the Government, and the Society believed that, if the Government’s response could be influenced, it would be Parliament that did so.

The Chairman remarked that, secondly, as part of its proposal, the Government had asked for advice from Sir John Chadwick, a retired Lord Justice of the Court of Appeal. The Society recognised that if the Government refused to listen to the Ombudsman, to the Select Committee and to Parliament itself, its proposal might be the only option for Government compensation. For that reason the Society had met with Sir John and would do what it could to expedite his work, so that any payments could be made as soon as possible.

The Chairman explained that the Society had looked carefully at the possibility of taking the Government to a judicial review over its inadequate response to the Ombudsman. However, even if successful, a judicial review would only require the Government to be clearer about its reasons for rejecting the Ombudsman’s conclusions and could not require the Government to pay any more compensation to policyholders. Indeed, as the Select Committee had warned in its report, even a successful judicial review could produce a worse outcome for policyholders. As explained earlier, the Society believed that only Parliament was in a position to influence the Government. The Chairman added that the Society was aware that others had initiated a judicial review. He wished them well and remarked that the Society shared their frustration with the Government’s response to the Ombudsman’s report. The Board had thought very long and hard about this approach, but did not believe that a judicial review would be a cost-effective use of policyholders’ funds; the Courts simply did not have the power to change the Government’s decision.

The Chairman then reported on plans for the Society’s future. He remarked that, having established that third parties were not likely to do better than run-off, the Board’s task was now to implement the best possible run-off strategy. The Society remained one of the largest mutual life offices and, although closed to new business, could continue for many years running the business for the benefit of existing policyholders. The Chairman remarked that, in a closed fund, the focus tended to be on reducing risk, reducing costs and providing effective and efficient customer service - paying policy benefits as they fell due. He added that the Society’s investment strategy was already risk averse, predominantly in fixed-income investments. The major ‘actuarial’ risk associated with annuitants living longer than expected had been addressed by transferring most annuitants to other companies. However, a significant remaining risk was that of administration costs. As companies reduced in size there was a tendency for administration costs to increase in relative importance and also for those costs to be more difficult to control. For this reason a key part of the Society's run-off strategy was to arrange a long-term administration agreement.

The Chairman remarked that the Society was currently working in detail with a number of potential third-party administrators to help them to produce the best offers that they could for providing the Society's administration. During 2009 the Society expected to be able to secure a new agreement which would provide both a reduction in costs in the short term and greater certainty of future costs for a significant period into the future.

The Chairman reported that, with a more settled future in prospect, the Society had closed its London offices earlier in the year and had relocated its operations to cheaper premises in Aylesbury. A more settled organisation would also require a smaller Board of Directors and Fred Shedden and Andrew Threadgold were retiring from the Board at the current meeting. On behalf of the Board and the Society, the Chairman thanked Fred Shedden and Andrew Threadgold for their outstanding contributions to the Society over the past eight years. The Chairman added that they would not be replaced, although the Board intended to recruit two further non-executive directors to allow for the retirement of other of the longer serving directors in due course.

The Chairman remarked that, in a similar vein, the challenges of the role of Chief Executive would reduce in run-off and, as had already been announced, Charles Thomson had decided to leave later in the year. The Society had therefore started a recruitment process for a new Chief Executive role and a further announcement would be made once an appointment had been made.

Vanni Treves added that the transition of the Society into a stable run-off strategy was also an opportunity for the Chairman to change and he would be leaving later in the year. He remarked that when the new Chief Executive took up office it would be the right moment to hand over to a new Chairman. He reported that the Board had decided that Ian Brimecome should be appointed as the new Chairman and added that he heartily endorsed that choice.

The Chairman summarised his comments as:

- the Society had determined the right approach for the future - that approach was run-off because no-one else was likely to do better for the Society's policyholders;
- the Board was now focused on implementing the best possible run-off strategy - as well as reducing the size of the Board, the Society was looking to agree a long-term administration agreement to address the risk from future expenses;
- in spite of the current recession, the Board was confident of the Society's position and future;
- the Society would continue to support the case for Government compensation put to Parliament by the Parliamentary Ombudsman. As realists, the Board would also support the development of the Government's alternative proposal, so that if that was all that could be obtained it would be delivered as quickly as possible.

Following the presentations, the Chairman indicated that the meeting would move on to the formal business. He asked that the Notice of the meeting and the Auditors' Report be taken as read and this was agreed. He then proposed that the meeting receive and adopt the Report and Accounts but, before the resolution was put to the meeting, members' questions would be taken.

Before taking questions, the Chairman remarked that at the previous year's Annual General Meeting he had been asked about gender and diversity balance at senior levels of the Society and he had agreed to report back at this year's meeting. He commented that unfortunately, in a stabilising and closed business, the Society had very few opportunities to address recruitment, but that he could report that the issues of gender and diversity had been raised with the advisers involved in the non-executive director and Chief Executive recruitment processes he had mentioned earlier. He added that the Board would, of course, seek to appoint the people it considered would do the best job for the Society's policyholders, but that the point was well made and was one the Board would continue to bear in mind.

Questions were asked and comments made by 10 members or their proxies; responses were provided by the Chairman, the Chief Executive, the Chairman of the Remuneration Committee (Jean Wood) and the Chairman of the Investment Committee (Ian Brimecome). Among topics raised were:

- the remuneration of the Executive Directors;
- the Society's strategic options – including the sums expended in investigating and pursuing these and the cost savings that could be expected from a new third-party administration agreement;
- the Parliamentary Ombudsman's report – including the possibility of the Society contributing to the Equitable Members Action Group's costs of applying for judicial review of the Government's response, further action the Society might take in connection with the Government's response and the work being undertaken by Sir John Chadwick;
- the effect of the interest rates guaranteed in many of the Society's policies;
- the future rates of investment return the Society might expect to earn;
- the terms that had applied on transfers from the Society.

All pre-registered questions together with those raised from the floor having been dealt with, the question and answer session closed after approximately 1hour and 20 minutes.

The Chairman then moved to voting on the resolutions to be put to the meeting which were as set out on the poll card which members eligible to vote or their proxies had been given on entering the meeting. The Chairman proposed that all the resolutions should be dealt with on a show of hands.

The Chairman moved that the report of the Directors and the statement of accounts for the year ended 31 December 2008 together with the report of the auditors thereon be received and adopted. This resolution was passed overwhelmingly on a show of hands. The proxy votes received were displayed and the Chairman noted that the result of the show of hands was consistent with the proxy votes received.

The Chairman proposed that PricewaterhouseCoopers LLP be reappointed as auditors of the Society until the conclusion of the next General Meeting at which accounts are laid before the Society at a remuneration to be determined by the Board. This resolution was passed overwhelmingly on a show of hands. The proxy votes received were displayed and the Chairman noted that the result of the show of hands was consistent with the proxy votes received.

The Chairman proposed that the Directors' remuneration report be approved. This resolution was passed on a show of hands. The proxy votes received were displayed and the Chairman noted that the result of the show of hands was consistent with the proxy votes received.

Resolutions relating to the election of directors in place of those retiring at the meeting were then put to the meeting. The meeting voted on a resolution in respect of each of the two directors retiring and seeking re-election at the meeting, i.e. David Adams and Charles Thomson. In each case the result of the show of hands was overwhelmingly in favour of the re-election of the director in question. After each show of hands, the proxy votes received were displayed and it was noted that the result of the show of hands was consistent with the proxy votes received. The Chairman noted that each of David Adams and Charles Thomson had been re-elected as a director of the Society.

Vanni Treves remarked that as this was his ninth and last Annual General Meeting with the Society he wished to end by saying that it had been a great privilege to serve as the Society's Chairman. He added that he had been a policyholder with the Society for almost twenty years before he had joined the Board and had been as shocked as other policyholders when the problems had come to light. He remarked that he had done his best for policyholders with the benefit of tremendous and unwavering support from the Society's capable and talented Board. He added that, while there had been frustrations and disappointments for policyholders - and for directors too - he thanked policyholders for the support they had shown throughout. He wished the Society's policyholders all the best – security and stability and good health - for the future.

The Chairman declared the AGM closed at 1 p.m.