

## Annual General Meeting presentation scripts

11 May 2009

Important note: These are the presentations made by the Chairman and Chief Executive at Equitable Life's Annual General Meeting, held at the Holiday Inn - Regent's Park, London on Monday 11 May 2009. Please note that these are not transcripts of their speeches and as such should not be read as a precise, word-for-word record.

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**Vanni Treves, Chairman**

**Address to Annual General Meeting 2009**

Good morning ladies and gentlemen.

During last year we decided that the longer term future strategy for the Society is to remain independent and pay policy benefits as they fall due - that is known as 'run-off'.

We also finally had the Parliamentary Ombudsman's long awaited report into regulatory maladministration and earlier this year we had the Government's profoundly unsatisfactory response to it.

All this was against a background of worsening global economic crisis and, inevitably, some pressure on the Society's financial position.

We are pleased to report today on the important plans that we have put in place to secure the best possible future for Equitable Life policyholders.

But before we look to the future, let me hand over to your Chief Executive, Charles Thomson who will review the past year in more detail.

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**Charles Thomson, Chief Executive**

Thank you Chairman.

2008 was an important year for resolving the future path of the Society.

We explored the opportunities for transferring the Society to a third party and ultimately decided that no such proposal was likely to offer improved prospects for policyholders.

The Parliamentary Ombudsman's report was published in the summer and the Chairman will say more about our activities in that respect.

The global economic crisis which came to the fore in 2007 deepened in 2008. As I shall explain, your Society has weathered the storm, but it is not immune from its impact.

Most importantly, having effectively ruled out a transfer to a third party, we have now started to put in place the key elements of a successful run-off strategy.

Let us start with the investment performance.

Since the middle of 2007, investment property values have halved.

To a lesser extent equity markets have also crashed - the FTSE-100 has reduced by a third over 2008.

You will probably be aware that the Society has a relatively low exposure to properties and equities compared to some other with-profits funds. However, with such heavy losses, even a modest exposure has an effect.

The Society primarily invests in fixed-income investments - both Government and corporate bonds. Interest rates fell during 2008 and this normally means that the value of fixed-income bonds increases. Falling interest rates also increase the value

of our 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 is that market fears about default and liquidity of corporate bonds have dramatically reduced their prices. This has increased the difference between the interest rates provided by corporate bonds compared to rates available from comparable Government bonds. As you will see this feature, sometimes called an increase in 'credit spreads', has had a significant effect on the Society's effective investment return.

The straightforward gross return on the with-profits fund has been 0.1% during 2008. Other well known with-profits funds have done much worse than that: investment returns in 2008 of -10% to -20% are not unusual.

If we adjust for the rise in the value of the liabilities the effective gross return was -6.1%. That is an indication of the particular impact of corporate bonds: the interest rate fall has increased the value of liabilities, but market fears with regard to corporate bonds have kept their prices down.

It is worth noting that although the corporate bond prices appear to reflect market concerns about default and liquidity, so far, there has been no material increase in the actual level of defaults on investment grade bonds like the ones we hold. Further, the Society intends to hold these corporate bonds to maturity. Consequently, unless there is a material increase in actual defaults, the ultimate performance of the bonds will not be affected. So, while it is prudent to use market

prices to manage the short term position, there are good reasons to be hopeful that the (unrealised) losses reflected in the accounts - and further losses in the early part of 2009 - will reverse.

Finally, allowing for the costs of administration and guarantees, the effective net return on the with-profits fund in 2008 was -7.7%.

Turning now to the Society's financial position we are pleased to report that in spite of the challenging economic climate, a sound financial position has been maintained.

At the end of 2008, excess realistic assets - our key measure of solvency - stood at £414m representing 7.0% of the with-profits fund.

The work we have done over the past seven years has allowed the Society to weather the storm.

In such a difficult economic climate there can be no absolute assurance, but the matching of investment income with future policy payments gives us confidence that we can deal with the effects of the current recession.

Finally, let us see the impact on policies, through the bonus changes.

The financial climate has been volatile to say the least and your Board has been very vigilant in doing whatever is necessary to protect the long term future of the Society.

It is important to realise that, while a degree of smoothing can be achieved, ultimately the benefits paid under with-profits policies must reflect the returns achieved on the underlying investments.

As the downturn developed in 2008, interim bonus was increasing policy values whilst overall asset values reduced. Consequently, the Board first reduced and then removed interim bonus during the year.

As we have seen from the investment performance, the effective net return for 2008 was -7.7%. At the end of 2008, policy values were reduced by 3% which still represented greater value than the investments delivered. Essentially, that is the main reason why the excess realistic assets have fallen - we have supported policy values a little above the level implied by the effective net return on the fund.

Difficult financial conditions have continued into 2009 and policy values were reduced by a further 2% at the beginning of March.

There is no interim bonus currently being added to policies and I am sure you will appreciate that your board will continue to keep the developing financial position under very close scrutiny.

The other very important development last year on which I want to report is the sale process.

You will recall that having stabilised the Society and dealt with the major problems of the past, we transferred most of our fixed pensions to Canada Life and all the with-profits annuities to Prudential. These steps brought the Society to the point where there were no special barriers to a potential sale. Such a sale could have transferred all the remaining policies to a third party.

During last year we sent out a detailed description of the business - our data book - to interested parties and asked them to make proposals. The test was for a third party to be able to do better for policyholders than we could do ourselves. Although various proposals were received, none would have been likely to provide better prospects for policyholders than running the business off ourselves - known as 'run-off'.

The developing economic crisis also made it unlikely that any better proposals would be forthcoming.

Consequently, the Board decided in November to put the sale process on 'hold' and to focus on delivering the best possible run-off strategy.

Before I hand back to our Chairman, you may have read that I am leaving the Society later this year.

I came to the Society in 2001 hoping to make a difference. At that time the Society was financially unstable and unsound - teetering at the edge of insolvency. From the outside, I thought a short, intense period of transition would be needed to restore the

Society to some sort of stability - probably over a couple of years - but, in the event, the stock market collapse from 2000 to 2003 and numerous problems from the past made the task of restoration much harder and longer than anyone anticipated.

However, as I have described, the Society is now in a good position with a clear strategy for the future and policy to deliver it. My job, therefore, will soon be done and that is the right time for me to hand over to a successor and move on.

While it has taken much longer than I expected and the challenges have been greater and more complex, they have also been immensely satisfying. It has been a privilege to serve as your Chief Executive for the last 8 years. I thank the Chairman and the rest of the Board for both their challenge and their support over the years. I am pleased that the Society is in a much better place than when I took up my role and I am sorry that the journey to it caused a great deal of concern and hardship to some policyholders. The hard decisions we had to make were not taken lightly and I think history has shown those decisions were necessary and right.

Now, I will hand you back to our Chairman, Vanni Treves, who will give you some more details about future developments.

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**Vanni Treves, Chairman**

Thank you.

In 2001, Charles and I and our immensely resilient and dedicated colleagues on the Board started together what I might call the 'project to save Equitable Life'. He has made an enormous contribution to the Society in the last 8 years. On behalf of the Board I would like to express our thanks for the resourcefulness, commitment and innovation he has brought to bear on the many intractable problems we have faced. As he has mentioned, the challenges Equitable Life has provided were much greater and more protracted than any of us imagined, but he has seen the Society through to the relative calm of where we are today. He has indeed 'made a difference'.

Charles has reported on last year and I want to tell you about the future for your Society.

But first I want to update you on the Parliamentary Ombudsman and the fight for Government compensation.

As you know, we 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 spent four years investigating and we supported her in every way we could, with tens of thousands of documents and many meetings with her team.

She finally published her report in July 2008 and, for those without the inclination to read all 2,800 pages, the title 'a decade of regulatory failure' encapsulates her

findings. For a decade the regulators of Equitable Life performed inadequately. In an incredibly detailed and pains-taking report, it is made very clear that these were not minor faults or omissions. As she has said in evidence to the Select Committee, she set the bar very high. Her report is a remarkable achievement full of detail, reasoning and evidence.

In January 2009, the Government published its response. It has been very disappointing. The Government response has rejected some of the Ombudsman's findings and has proposed an alternative scheme which may make some payments to some policyholders.

We regard the Government's response as wholly inadequate and told the Public Administration Select Committee as much when we gave evidence.

That Select Committee laid its own report before Parliament in March and described the Government's actions as 'shabby, constitutionally dubious and procedurally improper'. It also described the Government's proposed scheme as 'inadequate as a remedy for injustice'.

Last week, the Parliamentary Ombudsman also issued a further report to both Houses of Parliament under section 10(3) of the act which establishes her role. This latest report leaves all MPs in no doubt that the Government's response will leave the injustice which was caused by the regulatory maladministration she found without an adequate remedy. The report is called 'Injustice unremedied' and it notes that

whether the Government's response is an 'attempt to act as judge and jury in its own cause is now a matter for Parliament to consider and debate.'

The Society is dealing with the issue of Government compensation on two fronts.

First, it is important to realise that Parliament decided to give regulators immunity from prosecution for negligence. In spite of the Parliamentary Ombudsman's findings of maladministration it is not possible to pursue a case for compensation through the Courts. However, Parliament also provided an Ombudsman so that justice could be provided in respect of public bodies without recourse to the Courts. That is why this is a political issue, not a legal one.

Both before and after the publication of the Parliamentary Ombudsman's report we have been working with politicians to encourage their support for her recommendations. We have had meetings with dozens of Parliamentarians and written to many more. In the face of the Government's response this lobbying effort is continuing. The Parliamentary Ombudsman reports to Parliament (not to the Government) and we believe that, if the Government's response can be influenced, it will be Parliament that does so.

Secondly, as part of the Government's proposal, it has asked for advice from Sir John Chadwick, a retired Lord Justice of the Court of Appeal. Although, as I have said we believe the Government's proposal is inadequate, we also recognise that if the Government refuses to listen to the Ombudsman, to the Select Committee and to Parliament itself, its proposal may be the only option for Government compensation.

For that reason we have met with Sir John and we will do what we can to expedite his work, so that any payments can be made as soon as possible.

I have explained what we are doing, but let me also explain what we are not doing.

We looked carefully at the possibility of taking the Government to a judicial review over their wholly inadequate response to the Ombudsman.

Unfortunately the fact is that, even if successful, a judicial review would only require the Government to be clearer about its reasons for rejecting the Ombudsman's conclusions. It is important to recognise that a judicial review cannot require the Government to pay any more compensation to policyholders. Indeed, as the Select Committee warned in its report, even a successful judicial review could produce a worse outcome for policyholders.

A judicial review would take a year, it would cost a fortune and it would not make the Government improve their proposed scheme. As I have explained, we believe that only Parliament is in a position to influence the Government and Parliament already knows that the Government's response is inadequate - both its Select Committee and its Ombudsman have told it so.

We are aware that others have initiated a judicial review. We wish them well and we share their frustration with the Government's lamentable response to the Ombudsman's report. We have thought very long and hard about this approach, but we do not believe that a judicial review would be a cost effective use of

policyholders' funds. The Courts simply do not have the power to change the Government's decision.

Although we are continuing to lobby MPs, what happens regarding the Parliamentary Ombudsman's report and Government compensation is essentially a matter for Parliament. Let me now turn to what is happening within your Society.

As Charles mentioned earlier, having established that third parties were not likely to do better than run-off our task is now to implement the best possible run-off strategy.

Equitable Life remains one of the largest mutual life offices and although we are closed to new business, the Society can continue for many years running the business for the benefit of existing policyholders.

While the current economic turmoil shows that nothing is ever certain, one would normally expect the future for a closed life fund to be a relatively quiet one. The focus tends to be on reducing risk, reducing costs and providing effective and efficient customer service - paying policy benefits as they fall due.

Our investment strategy is already risk averse, predominantly in fixed-income investments. The major 'actuarial' risk associated with annuitants living longer than expected has been addressed by transferring most annuitants to other companies. A significant remaining risk is that of administration costs.

As companies reduce in size there is 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 our run-off strategy is to arrange a long term administration agreement.

There are a number of companies - known as third party administrators or TPAs - which provide this sort of service. Those TPAs are also in competition with HBOS which currently provides these services for Equitable Life. We are currently working in detail with a number of TPAs to help them to produce the best offers that they can for providing our administration. During 2009 we expect to be able to secure a new agreement which will provide both a reduction in costs in the short term and greater certainty of future costs for a significant period into the future. We will make further announcements when we have something material to report.

During the turbulence of the Society's recent history - both addressing structural issues like the original guaranteed annuity rates and closing the major commercial deals with Prudential and Canada Life - it was efficient for the Society to retain a presence in London. That is because important third parties and advisers are based there. With a more settled future in prospect, the Society closed its London offices earlier this year and relocated its operations to cheaper premises in Aylesbury.

A more settled organisation will also require a smaller Board of Directors and Fred Shedden and Andrew Threadgold are retiring from the Board today. On behalf of the Board I thank Fred and Andrew for their outstanding contributions to the Society over the last eight years. They have been exemplary non-executive Directors: wise,

committed, tolerant and strong friends, especially in adversity. The Society could not have hoped for more from them, and I count myself lucky to have been their colleague.

Fred and Andrew will not be replaced, although we will recruit two further non-Executive Directors to allow for the retirement of our other longer serving Directors in due course.

In a similar vein, the challenges of the role of Chief Executive will reduce in run-off and, as we have already announced, Charles has decided to leave later in the year when the bulk of the work in developing the new administration arrangement has been completed.

We have therefore started a recruitment process for a new Chief Executive role. The process is proceeding steadily and we will make a further announcement as soon as we have made an appointment.

The transition of the Society into a stable run-off strategy is also an opportunity for your Chairman to change and I will be handing on the baton later this year. The job I came to do is essentially almost done and when the new Chief Executive takes up his office it will be the right moment to hand over to a new Chairman. What is now the 'old team' of Charles and me will hand over to the new team for the next phase of the Society's future.

Your Board has decided that the excellent and experienced Ian Brimecome will be your new Chairman and I heartily endorse that choice. Ian has been a Director at Equitable Life for over two years, chairing the Investment Committee for most of that time and the Board is well aware of his many talents. He has a wealth of experience with over 35 years in the financial services sector, many as a senior advisor to Insurance companies. He is a Director of AXA UK plc and Chairman of their subsidiary, Bluefin Group. He is also Chairman of AXA's With-profits Committee - which monitors their business with the interests of with-profits policyholders in mind. Ian is also Chairman of Fox-Pitt Kelton Ltd's Advisory Board. My departure will be easier knowing that I am leaving the Society in such safe and capable hands.

In summary:

The Society has determined the right approach for the future. That approach is run-off because no-one else is likely to do better for our policyholders.

We are now focused on implementing the best possible run-off strategy. As well as reducing the size of the Board, we are most significantly looking to agree a long term administration agreement to address the risk from future expenses - a key concern for a closed fund in run-off.

In spite of the current recession, we are confident of the Society's position and future.

We will also continue to support the case for Government compensation so comprehensively and compellingly put to Parliament by the Parliamentary Ombudsman. As realists, we will also support the development of the Government's alternative proposal, so that if that is all that can be obtained, it will be delivered as quickly as possible.

Ladies and Gentlemen, thank you.