

An open letter to Equitable Life policyholders from:

[Photo]

Vanni Treves
Chairman

21st April 2001

Dear Policyholder

[Photo]

Charles Thomson
Chief Executive

Since we took up our posts on March 1, there have been several important developments:

- Six excellent new non-executive directors have been appointed to the board. We now have an entirely new board. The new board – the six non-executives as well as the two of us – will stand for re-election by policyholders at the Annual General Meeting on May 23. More details will be included in the Report and Accounts which will be sent to members at the end of April.
- We have appointed the leading solicitors Herbert Smith to investigate whether there are any grounds for making claims against former directors, advisers or others who were involved with events which led to the closure of the Society to new business, and, if so, whether there is any realistic prospect of redress. Herbert Smith will have free access to the records of the Society. We will publish their conclusions.
- We are making progress with the detail of a compromise scheme. This is likely to offer some form of immediate fund value uplift to policyholders with Guaranteed Annuity Rate policies in exchange for the waiving of these guarantees. If agreed, this will stabilise the Society, produce an additional payment from Halifax of up to £500 million and allow investment freedom to be restored, leading to the prospect of stronger investment returns in the future. The outline of the scheme should be with policyholders by the summer, with voting by policyholders on the final scheme later in the year.
- We expect to receive soon a report from Nicholas Warren QC, an independent legal expert, who we asked to investigate whether the House of Lords judgement last year can be revised in some way. His conclusions will be published.
- The vast majority of the Society's staff transferred to the Halifax Group on March 1 as part of a deal which brought an immediate payment of £500 million to the with-profits fund. Equitable client service and policy administration are handled on a contract basis by the same people as previously, who are now Halifax employees. Halifax are also recruiting and training more staff to cope with the large number of policy queries we continue to receive.
- PricewaterhouseCoopers will be proposed as the Society's new auditors at the AGM on May 23, replacing Ernst & Young, the current auditors.

- We have appointed Peter Nowell of Deloitte's Insurance practice as Appointed Actuary. Mr Nowell was previously Group Chief Actuary and Appointed Actuary of Prudential and he is an acknowledged leader in his field.

In recent months, we have held six policyholder meetings attended by about 1,800 in total. We realise that this is a small fraction of the whole membership and we are sorry that some of you who would have liked to come to the meetings were unable to do so. We will hold more such meetings for members in the future. The questions asked covered a wide range of subjects. Here are some of the most frequently asked questions, with the answers:

- **Is the Equitable solvent?**

In both technical and real solvency terms, yes. We have sufficient funds to meet our obligations. No money has gone missing from the fund.

- **The Financial Adjustment - why was it imposed, then raised?**

The purpose of the Financial Adjustment is often misunderstood – it is applied to protect the interests of policyholders who are not choosing to surrender early while still providing those who are surrendering policies with a fair and reasonable value. With-profits policies allow the "smoothing" of investment returns and sharing of other risks. For example, the smoothed policy value for contractual claims may be greater than the value of assets underlying the policy and so a Financial Adjustment is more likely when stock markets are low as they have been recently. The Financial Adjustment was increased to 15% on 16 March 2001 following further Stock Market falls since 8 December. While maturing policyholders are entitled to the smoothed value and the Financial Adjustment does not apply to them, for surrendering policies the adjustment will be set so that they receive a fair and reasonable value reflecting all the circumstances at that time.

- **Can I transfer my drawdown policy now?**

Yes, following the change in the Inland Revenue rules Drawdown policies can now be transferred. If you use your Drawdown fund to buy an annuity as allowed for in the policy, no Financial Adjustment applies. But if you are transferring the fund to another company, this is an early surrender and the Financial Adjustment does apply.

- **Have with-profits annuities been cut by 5%?**

Some members think that their with-profits annuities will reduce by 5% because of the seven months growth reallocated from last year. In fact, for with-profits annuities the impact is spread so that each year for 5 years the bonus allocation will be 1% less than it would otherwise have been. For many clients that means that their annuity will still increase but by a lesser amount than would have been the case.

- **What can you tell me about the Rectification Scheme for those who took benefits before the House of Lords decision?**

This scheme involves about 60,000 people, who may be due about £200m in extra benefits as a result of their GARs. Each policy must be considered individually with separate calculations made for each one. It is very important to get the details right, and to develop a robust system which can be rolled out quickly. A pilot exercise is in progress and should complete in the next few weeks. We will then set up our computer systems and we hope to have dealt with the majority of those covered before the end of the year.

- **How much have I lost out on guaranteed annual bonuses?**

The Equitable did not allocate any investment growth to bonuses which increase guarantees in 2000 because to do so would have further constrained our investment freedom. Instead, after allowing for any guaranteed growth under the policy terms, all bonuses were allocated in the form of non-guaranteed final bonus. This does not alter the total benefits being paid under policies currently, only the balance of the guaranteed and non-guaranteed elements.

- **What is your position on mis-selling?**

If mis-selling has occurred then it must be dealt with. In particular, there have been questions asked about the period after the Court of Appeal judgment and after the House of Lords ruling. The FSA is already conducting a review of the Society's selling practices during those periods and we are co-operating fully with that review.

A fuller set of questions and answers from the policyholder meetings is available on our website at www.equitable.co.uk or by post from Vanni Treves at the Society. The website also contains a wide range of other information relevant to the future developments of the Society.

I hope this open letter goes some way to alleviating the concerns you may have. We will continue our commitment to communicate openly with policyholders in this way, as well as by personal letters and meetings where appropriate.

Yours sincerely

Vanni Treves
Chairman

Charles Thomson
Chief Executive