

High Court Sanctions Compromise Scheme

8 February 2002

Dear Policyholder,

You may have read of the High Court's approval of our enormously important compromise scheme following overwhelming support from your fellow policyholders. The High Court refused permission to appeal, although it is possible that permission to appeal may be sought in the Court of Appeal. As the scheme has been registered at Companies House before the 1 March 2002 deadline, unless objectors make a successful appeal, the £250 million Halifax money can be applied to your policy value uplifts as outlined in the scheme documents. We expect these uplifts to be applied in March.

Now we can all look forward to a more stable Society. The effect of the scheme is to make us £1 billion stronger and to end the major uncertainties around the GAR-related claims that have created so much anxiety and instability. This is very good news.

In recent days we have read speculation that some Independent Financial Advisers (IFAs) will tell policyholders to 'take their uplifts, surrender and run' to another provider. While such action often generates commission income for IFAs, policyholders should seriously question its wisdom. Those leaving the fund early pay the financial adjuster (set at 10% at the time of writing). Another provider may charge them an entry fee, which could be as high as 5%, and higher on-going charges. These costs could knock a substantial hole in savings and require a significantly stronger investment performance from the new fund for many years simply to put policies back to where they would have been with Equitable Life.

Nor, as we have seen, is any insurer immune from the investment climate. Many life companies are announcing significant bonus reductions and are issuing warnings on their future outlook as stock market uncertainties continue. Policyholders would be wise to reflect carefully and, if appropriate, get expert advice before taking any action. Meanwhile policyholders should not be concerned by lurid headlines on our fund's future. We will continue to protect policyholders' interests by ensuring that those who choose to leave early do so without damaging the fund.

Under our agreement with Halifax, investment strategy is set by Equitable while the fund is managed by Clerical Medical, one of the UK's most successful fund managers. Over the last year this arrangement has worked well in difficult market conditions and relative to others, we believe our with-profits fund has been one of the top performers.

Equitable Life had an enviable reputation for low costs. As a closed fund we will not face the substantial marketing and sales costs incurred by other insurers as they compete for new business. Inevitably there have been substantial one-off costs in the last two years. We can now put those behind us and through our service agreements with the HBOS group restore our highly efficient operation to the benefit of policyholders.

With the compromise in place we can turn our full attention to how best to meet policyholders' aspirations. Some have already retired and are drawing an annuity, some welcome our cautious investment policy and others may wish to see higher stock market investment. Certainly all policyholders benefit from the scheme giving greater stability and investment freedom. In the coming months we will make proposals to meet these differing aspirations in the stronger and more stable Equitable Life. We will be writing to you again soon on our final bonus policy and other matters, and in April we will publish our Accounts for 2001 on a post-compromise basis.

Your Board took office less than a year ago facing many daunting threats and challenges. We do not pretend to have dealt with them all. We may face litigation from former members that will be strongly defended in policyholders' interests. The investigation we commissioned by Herbert Smith continues vigorously. The investment climate remains unpredictable. However the compromise represents great progress and thanks to the overwhelming support of policyholders we can now move forward to a more encouraging future.

Yours sincerely,

Vanni Treves
Chairman

Charles Thomson
Chief Executive