Equitable Life

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Dear Policyholder

The Litigation against Ernst & Young
We are writing to let you know that we have reached an agreement on the Society's legal claims against Ernst & Young, the Society's former auditors, on the basis that the Society discontinues its claims and each side pays its own costs. The claims against 15 of the Society's former directors continue.

Ernst & Young (E&Y) stated that the accounts, for the years up to 31 December 2000, represented a true and fair view of the Society's financial condition. The new Board took office in early 2001. With the overwhelming support of policyholders and action groups, the new Board decided to investigate what caused Equitable's near collapse and, in particular, whether it would be possible (and cost effective) to seek redress for policyholders through the Courts.

Following a thorough investigation and with guidance from accounting and actuarial experts, we took advice from the leading law firm of Herbert Smith and from Counsel, led by Iain Milligan QC. The legal advice we received was clear. In the light of that advice we considered that the Society had credible and cost effective claims against E&Y and that the Board had a duty – we repeat, a duty - to pursue litigation in order to seek redress for policyholders. Having carefully considered the legal advice, we decided to launch the litigation against the former auditors. At the core of the claim against E&Y was negligence in their audit work.

The trial started on 11 April 2005 and evidence has been heard from the former directors.

The claim against E&Y depended in large part on the evidence of the former directors as to what they *would* have done (note: not what they *should* have done) had the auditors required an extra provision of up to £1.5 billion in the Society's accounts for 1997, 1998 and 1999 because of the guaranteed annuity rate (GAR) issue.

In this regard, Christopher Headdon, the Society Appointed Actuary for much of the relevant period, gave evidence that he would have regarded the additional GAR provision as being simply a presentational problem and as having no material impact on his understanding of the financial position of the Society. He said an additional provision of £1.5 billion would have made no difference to the recommendations he in fact made to the former board as to the financial management of the Society. Mr Headdon went so far as to say that if, in response to the extra provisioning, the Board had sought to award bonuses at the lower end of the range he otherwise regarded as acceptable, he would have sought to persuade them not to.

For security and training purposes, telephone calls may be recorded. Authorised and regulated by the Financial Services Authority. The Equitable Life Assurance Society is a mutual Society registered in England No. 37038. Registered Office: 20-22 Bedford Row, London WC1R 4JS, United Kingdom.
The Equitable group comprises: The Equitable Life Assurance Society, University Life Assurance Society.

Subsequently and significantly, former directors gave evidence in court broadly to the effect that they would have followed Mr Headdon's advice. Some of the former directors did accept in principle that they would have considered taking mitigating action in response to a significantly increased GAR provision, but stated that they would have preferred to have made changes in the Society's investment mix or a change in reversionary bonuses, which were not actions for which the Society could claim losses from E&Y. Broadly, however, most of the directors then also gave evidence in support of E&Y that they would not in fact have done anything in response.

The Board has now received clear legal advice. On the basis of that advice, we believe that there is too high a risk that the Judge would conclude, contrary to what our expert witnesses say the old Board should have done, that they would in fact have taken no action, or would have taken action in relation to which the Society cannot claim losses from E&Y.

In short, the evidence given by the former directors in court (which, frankly, took us aback) has undermined our case against E&Y. After considering the advice we have received following the evidence, we have concluded that, however much we may regret it, settling our claim against E&Y now is the right decision on behalf of policyholders.

Summary

Your Board launched the claims based on careful consideration of detailed legal, accounting, and actuarial advice. In the light of that advice, the Board considered that it would have been a dereliction of its duties and its responsibilities on your behalf not to pursue the claims against E&Y on your behalf.

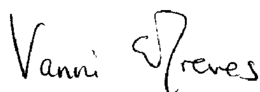
Following the evidence of the former directors, and having heard the firm advice of our legal team, it was our conclusion that we must end the E&Y litigation on this basis without exposing the continuing policyholders to the risk of paying some or all of E&Y's costs – some £30 million – as well as our own ongoing, significant litigation costs.

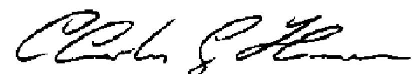
Taken together with the claim against the former directors, we have spent approximately £30 million – about £50 a head for everyone with an interest in the with-profits fund – and these costs have already been set aside in the Society's accounts. We are deeply frustrated and saddened that the claim against E&Y – hugely complex and technical as it was – has been unable to recover money for continuing policyholders. We can assure you it was not for the want of trying. However, in the meantime, the Society's overall financial health has improved by substantially larger amounts than these legal costs as demonstrated by us having free capital of £547m (to pay future bonuses) as at the end of 2004. We will report further progress when the Society publishes its half year results (for the period to 30 June 2005) on 29 September 2005.

We are deeply disappointed that we have been unable, through the Courts, to secure redress from E&Y for our policyholders. At all times, however, we believe we have acted in the best interests of our continuing policyholders.

Both E&Y and some of the former Executive Directors, including Mr Headdon, are facing professional disciplinary proceedings and we hope that more of the reasons that lie behind what went wrong at the Society in the late 1990s will become apparent by that route. However, those disciplinary hearings would not affect any legal liability for breach of duty owed to the Society. As we have said, the claims against the former directors continue.

Yours sincerely,





Vanni Treves
Chairman

Charles Thomson
Chief Executive