

Annual General Meeting - question and answer session

At the AGM on 24 May 2007, questions were asked by 22 members or their proxies. A summary of the themes covered is set out below:

1. Transfer of with-profits annuities to Prudential
2. Outlook for Equitable Life
3. Parliamentary Ombudsman's report
4. Corporate governance
5. Accounts queries
6. Miscellaneous

Transfer of with-profits annuities to Prudential

Only around 20% of the current with-profits fund relates to with-profits annuities. The remaining 80% of the fund is mostly made up of pension policies where retirement has not yet occurred. There are also small numbers of endowment policies, with-profits bonds and income drawdown policies.

We believe that the proposed transfer is of real benefit to the 80% non-annuitants because, without the presence of the with-profits annuity policies, the Society's business will be more attractive to a wider range of third parties. This has the potential to unlock opportunities which are not currently available. Of course, whether or not a further sale will be agreed will depend on whether such a proposal would be in policyholders' interests at the time, but it is attractive to have all options available.

The vote on the proposed transfer will take place at an Extraordinary General Meeting, probably in September or October. The voting will be governed by the Society's Articles of Association (just as at the AGM) and, as an ordinary resolution, a simple majority of those voting in person or by proxy will be required.

No regulatory agreement is required until later in the process, though we are, of course, keeping the regulator fully informed.

Under the transfer agreement, the terms of the transferring annuities will not change. Guaranteed benefits (including attaching declared reversionary bonuses) will, in future, be honoured by Prudential.

Because the transfer of with-profits annuities is a special bulk transfer (the transfers are not a matter of individual choice by with-profits annuitants), the normal financial adjustment of 5% will not apply.

It is unrealistic to guarantee that no individual administrative errors will ever be made by Prudential in its future management of the with-profits annuities. However, a great deal of planning and effort is being made to ensure that the records transferred are of a very high quality and that the transfer process will be robust and secure.

Subject to certain conditions, the agreement we have with Prudential is binding, provided policyholders approve it. The agreement is with Prudential UK and the with-profits annuities would share in Prudential's with-profits fund's investment returns. For these reasons, we do not foresee any problems with the completion or benefits of the transfer in spite of recent press speculation about the future of Prudential group as a whole.

Comparisons of bonus rates between Prudential and Equitable Life can often be confusing. Some of Prudential's bonuses are declared reversionary bonuses (guaranteed) whereas Equitable Life has not added such bonuses since 2000. Also, bonus rates in part depend on the underlying policy terms which will differ between Prudential and Equitable Life. As an example of the impact of broader investment strategy, it was noted that Prudential's fund earned an investment return of 12.4% in 2006, whereas Equitable Life's return was 2.6%.

Much more detailed information will be provided to all members with the voting pack for the EGM later in the year.

Outlook for Equitable Life

In recent years many Equitable Life policies have had policy values which were below the minimum values guaranteed in the terms. Equitable Life paid out the higher guaranteed values on contractual terminations. Over time, that position is being reversed and if we maintain current bonuses for another year or two, the majority of policies will have returned to a position where their policy values exceed the guaranteed values (the difference being made up of final bonus).

Although the Society has stabilised and we have achieved an appropriate level of Excess Realistic Assets for a closed fund in 'run off', we do not anticipate adding guaranteed bonus to policies for the foreseeable future. However, we are paying final bonus on many contractual terminations.

The improvement in the Excess Realistic Assets position does not remove the need for a financial adjustment (currently 5%) on early surrenders. The aim of the financial adjustment is to ensure that those leaving the fund early do not prejudice the position of those who remain. For example, it allows for future charges that will be lost from policies which terminate early and for the possibility that assets will need to be sold. These effects are not unusual in the industry, though the terms of Equitable Life's policies make the adjustment particularly visible.

Equitable Life held about 12% of the with-profits fund in property related investments and 4% in equities (mostly private equity funds and some investment trusts) as at 31 December 2006. Although we have achieved stability and a satisfactory level of Excess Realistic Assets, we do not expect to be able to support a proportion of equity investment comparable to Prudential's with-profits fund in the foreseeable future.

Parliamentary Ombudsman's report

We are unable to influence the timing of the publication of the Parliamentary Ombudsman's report and we share policyholders' frustration at the further delay and continuing uncertainty.

If the Parliamentary Ombudsman recommends Government compensation we will do all we can to put pressure on the Government to do the right thing for policyholders. In those circumstances, we will take advice on the particular circumstances and listen to members. We have an open mind and nothing is ruled out.

If the Society receives any compensation as a result of the Parliamentary Ombudsman's report we will do all we can to deal with it fairly.

Corporate governance

Although the Society is reducing in size it remains a large and complex organisation facing significant strategic issues. For this reason it has continued to require the support of the broad skills and experience represented on the Board of Directors. The size of the Board is kept under continuous review.

In response to a question various Directors indicated their personal interest in Equitable Life policies including pension savings, AVCs, other investments and a with-profits annuity.

The Chief Executive has been responsible for restoring stability and enabling the Society to consider future strategic opportunities. His remuneration should reward his performance in line with his peer group. The Remuneration Committee of the Board considers a range of information including independent advice from specialists. The Remuneration Committee aims to reward the Chief Executive around the middle of the range in order to balance his interests against those of policyholders. However, we expect and receive higher performance than that.

Accounts queries

The reduction in the with-profits fund from £10,185m to £9,453m (31 December 2005 to 31 December 2006) represents normal reductions of a closed fund in 'run off' - it does not indicate a loss. On the contrary, the Excess Realistic Assets increased over the period.

University Life was administered by Equitable Life under the terms of an agreement made in 1919. In recent years the cost of administration has been greater than the charges Equitable Life is able to make under the agreement and provision has been made in the accounts for this. Under the sale, the expense obligation is transferred to Reliance Mutual who will take on the commitments under the terms of the 1919 agreement. The financial impact on the Society is not material. The benefit of the sale to Equitable Life is in the simplification of our business.

The change in group undertakings disclosed in the accounts partly reflects the re-allocation of the provision for University Life (mentioned above) from technical provisions to the value in group undertakings (that is, a presentational change only) and partly unrealised losses on some investments affected by the fall in value of the US Dollar.

Although we have no overdraft arrangement with our banks, there are some timing differences in the Society's cash book which accounting rules require us to report as 'overdrafts' in the accounts.

Miscellaneous

Bonuses under life and pensions policies may differ because the structure of the underlying products is different and also because the rates reflect the different tax positions of the life and pensions business.

We have always been prepared to settle claims against the Society where we felt that those claims were valid. However, on behalf of the other policyholders we continue to defend claims which we feel to be exaggerated or unfair. We make appropriate provisions in the accounts for all claims we think may have merit.

Although the Society has not declared reversionary bonuses since 2000, earlier declared reversionary bonuses are part of a policy's guaranteed benefits and these will continue to be honoured by the Society.

The guaranteed investment return of 3.5% pa applies to most pension policies affected before 1 July 1996.