

## Annual General Meeting presentation scripts 19 May 2008

Important note: These are the presentations made by the Chairman and Chief Executive at Equitable Life's Annual General Meeting, held at the Church House Conference Centre, London on Monday 19 May 2008. 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 2008**

Good morning ladies and gentlemen.

In the last year the Society has passed some very important milestones. We transferred most of our non-profit pensions to Canada Life, we transferred our with-profits annuities to Prudential, we transferred our subsidiary, University Life, to Reliance Mutual and we redeemed our Subordinated Bonds.

This year is likely to prove even more important for Equitable Life - this year we expect to determine the form of the Society's long term future one way or the other.

Thanks to the sound financial position we have achieved, we are confident that we can run your existing policies to maturity. However, we may be able to transfer them to one or more third parties that could offer better prospects to you, our policyholders.

However, one step at a time. Before I talk more about the future, let me hand you over to our Chief Executive, Charles Thomson, to take you through a detailed review of last year.

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### Charles Thomson, Chief Executive

Thank you Chairman.

2007 was indeed a year of very significant progress for Equitable Life on a number of fronts. It was a year during which we have effectively created the platform from which to take the key decisions about the Society's future that now lie ahead of us.

Early in 2007, we completed the transfer of most of our non-profit pensions to Canada Life. You may recall that this significantly reduced the risk to policyholders that the cost of paying non-profit pensions to annuitants could rise as those annuitants continue to live longer and longer.

In May, we transferred our small subsidiary life office, University Life Assurance Society, to Reliance Mutual. University Life was a very small business within the context of Equitable Life. However, this represented another step in our strategy of simplifying the Society in order to make strategic proposals easier for third parties to make and easier for us to assess.

Then in August 2007, we redeemed the Subordinated Bonds. Another simplification made possible by the financial strength that Equitable Life has now achieved.

Finally, right at the end of the year we transferred the with-profits annuities to Prudential in a ground breaking deal - the first time Part VII legislation has been used to transfer part of a with-profits fund. The transfer helped those annuitants to a strong office with better bonus prospects. For the 80% of with-profits policyholders who remain, it removed an unusual product from the Society's business making the whole of what remains significantly more attractive to third parties.

Each of these transactions has been complex and time consuming. A major transfer needs 12 to 18 months intensive work from us and our advisors.

Taken together this has been a year of key strategic milestones, vital for us to be in the best possible shape for the next stage.

Turning now to Equitable Life's financial performance over the last year.

The Society has continued to maintain its sound financial position.

Following the transfer of with-profits annuities to Prudential our key measure of solvency, our Excess Realistic Assets, stood at £621 million at the end of December 2007. That represents 9.2% of the with-profits fund - almost unchanged from last year.

We are comfortable that our key measure of solvency, Excess Realistic Assets, is fully strong enough for a closed fund that is in run-off. We have maintained that level (as a proportion of the with-profits fund) during the year.

Turning now to the Society's investment performance.

During the year, the so called 'credit crunch' led to financial markets re-evaluating the risk associated with corporate bonds. This and falls in property values in the latter part of 2007 reduced the returns on the Society's investments. The Society achieved a gross return for the year on the with-profits fund of 4%.

On the other side of the balance sheet, reductions in gilt rates over the year increased the value of our liabilities. After adjusting for the rise in the value of liabilities corresponding to the fall in gilt interest rates the effective gross return was 3.3%.

Finally, allowing for the costs of administration and guarantees, the effective net return on the with-profits fund in 2007 was 1.9%.

It is worth mentioning at this point that investment in equities and property requires more regulatory capital and this limits our exposure to such investments. However, during the year, we effectively increased our equity exposure by purchasing a small amount of short-term derivative contracts whose value moves in line with changes in the FTSE 100 index. This allows us to have a little more exposure to equity performance than we otherwise could at times when the investment committee think that it would be beneficial to do so.

Let's look now at the Bonus Declaration.

As I just mentioned, the effective net return on the with-profits fund was 1.9%.

During 2007 we have removed some risks in the business and reduced others. This and the new strength of the fund has allowed the Board to increase returns for policyholders above the effective net return arising from investment performance alone.

Policy values were increased for UK with-profits pensions policies at a non-guaranteed accrual rate of 5% for the whole of 2007.

We have also agreed that an interim bonus of 5% per annum will continue to be added to policy values in 2008 for UK with-profits pensions policies. Market returns so far this year are poor so this level of interim bonus continues to require the sort of support I have just mentioned in respect of 2007.

As usual, rates for other types of contract are calculated on a consistent basis (for example, allowing for the different tax position in the case of life policies).

The financial adjustment applied to the early surrender of with-profits policies was reduced from 8% to 5% in April 2007.

We will continue to review the interim rate and the financial adjustment regularly.

Since the last general meeting the transfer of the with-profits annuities has been completed.

Following your overwhelming support at the Extraordinary General Meeting last October, in November we asked the High Court to approve the transfer of with-profits annuities to the Prudential. The High Court sanctioned the transfer and the transaction was completed at the end of last year.

As mentioned at the start, this was the final step in our strategic preparation for the future.

I will now hand back to your Chairman, Vanni Treves, who will explain what that future holds for the Society.

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**Vanni Treves, Chairman**

Thank you.

Charles has taken you through the year and described the stable platform from which we can approach the future.

I want to describe the approach your Board will be taking this year to the crucial question: “What is the right future for the Society?” But first let me update you on an important external event which we expect to happen this year.

Since we met last year, the European Parliament adopted the report of its special Committee into implementation of European Directives in relation to Equitable Life. The report, which was published before last year’s AGM, recommended that the government should pay compensation to

policyholders. However, before you get too excited, I should warn you that the Committee itself recognised that its recommendations have no force in respect of the UK government. Predictably, the government's response has been that it will not comment until it has the report of the Parliamentary Ombudsman.

As you know, we called for the Parliamentary Ombudsman to re-investigate the regulation of Equitable Life four years ago, precisely because she DOES have the power to recommend government compensation to Parliament.

We have provided all possible assistance to the Parliamentary Ombudsman's team throughout her long enquiry. We have provided mountains of information to her and we have had numerous confidential meetings with her team.

At the end of April she confirmed to MPs that she would write by the end of May to provide the publication date for her long-awaited report. It has been a very long road, but it does appear that the end is at last coming into sight.

As you would expect, if the Parliamentary Ombudsman should recommend government compensation, we will be in the vanguard of those, who will be a great many in number, calling for the government to do the right thing by policyholders.

I can also assure you that we are already working with politicians across the party spectrum to gather their support to encourage the government to implement any recommendations as quickly and effectively as possible.

While we can and do support the Parliamentary Ombudsman and we hope she will recommend government compensation, our main focus is on what is within our control - what we can do for policyholders.

Charles went through some of the important steps we have been through to get here, so, where do we stand today?

The Society remains a very large business; the with-profits fund is around £6.8bn. There are something like 400,000 people with an interest in the with-profits fund (including members of group pensions schemes who are not, themselves, individual policyholders). We are far more stable and secure than we have been for many years. The business risks are now in line with those of other closed funds.

This means that one clear option is to run the business ourselves for the foreseeable future. The business would gradually reduce as policies mature. This is known as 'run-off'.

So, let us just look at what 'run-off' would mean.

As the business is sound, policyholders would get at least their minimum guaranteed benefits as their policies came to mature.

Non-guaranteed benefits cannot, of course, be guaranteed, but it is reasonable to expect them to continue to reflect our cautious, fixed-income investment strategy. That is, in reasonable economic conditions one might expect the current non-guaranteed bonus additions of 5% per annum for UK pensions to continue.

As a mutual with no access to external capital, we have to hold back assets to cover the risks of the fund - a little better for those who stay longer a little less for those who leave sooner. As the fund runs down those extra assets can be released if they are not needed for the risks. This allows a gradual release of assets over the longer term as we did last year and are doing this year.

Members continue to be exposed to the profits and losses of the business - so policy values could be adversely affected for example, by particularly poor investment performance caused by market conditions.

Similarly, as policies mature and the business reduces, it is normal to expect administration costs to rise in relative terms. We have allowed for that effect in our accounting and in our bonus decisions, but future policy values can be affected if the actual development of expenses is different from what is implied by the models we use.

I would summarise our situation as “Sound, but, inevitably, not without risk; some growth potential but limited prospects.” This is why we, your Board, want to look at wider alternatives.

So, let me describe how we are going about looking for a better future.

Firstly, we have removed potential barriers. This is what the Canada Life transfer and the Prudential transfer were about - removing disproportionate risks and specialised contracts which could have made it difficult to attract third parties. That is why Charles described these transfers as key milestones.

Then we need to produce a detailed description of the business - which we call the data book. This allows third parties to do a proper assessment of what they can offer. That has also been completed.

Then we ask third parties to make proposals - and we make it clear that they have to do better than we could do ourselves. This is the stage we are at - we have sent out the data book to interested parties over the last few weeks.

At the same time that third parties are developing their proposals we are also clarifying the run-off option.

We will then be in a good position to compare third party proposals with what we can achieve ourselves. Just as we did with the Prudential proposal for with-profits annuitants, our consideration will look at potential outcomes and also at safeguards and protections for policyholders.

If we think a third party can, for example, use economies of scale to generate better results for policyholders, we will select the best option and recommend it to you.

I can assure you that no change will be made without the approval of members. And I can also assure you that we will not ask for your approval unless this Board - having listened to all the expert advice it needs - is convinced that it is in policyholders' interests.

This is a very important position to have reached and our priority is getting it right, rather than fixing an arbitrary timetable. However, I can tell you that by the end of this year we expect to have decided whether a third party has a proposal that is better than run-off. We will, of course, write to you as soon as we have some concrete news, but it is right to point out that any transaction, which by its nature will be enormously complex, will take many many months to develop.

So, after a very long road from the brink of insolvency, we have secured the Society, removed the risks and simplified the business. We can now run a sound business, but if someone can use their scale of business to do it more efficiently we will find them for you.

To summarize: I think it is worthwhile reflecting on what the Society has achieved in the past year.

The transfer of non-profit annuities to Canada Life, the transfer of with-profits annuities to Prudential, the transfer of University Life to Reliance Mutual and the redemption of the Subordinated Bonds has really transformed Equitable Life's prospects by simplifying the structure of the business.

At the same time, we have maintained our position of financial strength and stability that is critical for the future. As a result of what was accomplished in 2007, Equitable Life can work through this coming year of decision with confidence.

Ladies and gentlemen, thank you.