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Dear Member

The litigation against former directors

We are writing to let you know that we have ended the Society's legal claims against all 15 of the Society's former directors. This brings to an end all the legal claims the Society was pursuing against third parties.

In his report into the near collapse of Equitable Life, Lord Penrose said that the Society was the 'author of its own misfortune'. His Lordship concluded that decisions were made by the previous Board which resulted in dire financial consequences for policyholders and the Society as a whole; decisions that nearly put your society out of business. One such decision was the introduction in 1993 of the differential bonus policy, which was determined to be illegal by the House of Lords in 2000.

With the overwhelming support of policyholders and action groups, the new Board decided to investigate what caused this near collapse and, in particular, whether it would be possible (and economically viable) to recover some of the losses suffered by policyholders through the Courts. We had a duty to seek redress on behalf of policyholders if it was cost effective to do so.

We undertook a thorough investigation, including evidence supplied by policyholders. We took advice from the leading law firm of Herbert Smith (a choice agreed with the action groups) and from Counsel, led by Iain Milligan QC. The legal advice we received was clear; and having already commenced legal action against the former auditors Ernst & Young, we decided to commence proceedings against 15 of the former directors. On the basis of that advice, the Board considered that the Society had sustainable and cost effective claims against the former directors and that your Board had a duty to pursue them in order to maximise the assets of the Society. We could not throw away potentially valuable claims without good reason. We were well aware that litigation would be expensive (and the outcome, as is the case with any legal action, uncertain), but based on the legal advice, we believed that the claims were potentially too valuable to ignore.

The trial started on 11 April 2005. As we explained in our letter of September 2005, we concluded during the summer that the claim against the former auditors Ernst & Young was undermined by the evidence of the former directors. Having settled our claim against Ernst & Young, we carried out a review of the claims against the former directors.

Following consideration of the latest legal advice, the Board concluded that we should end the litigation against the former directors (and with as little additional cost as possible). That is what we have now done. We are deeply disappointed that a better outcome could not be achieved.

We reached a settlement with a number of former directors on the basis that each side met its own costs. The remainder were unable or unwilling to agree to those terms and we, therefore, agreed to make a contribution to their costs.

Although some of the former directors are facing professional disciplinary action, such action would not affect the outcome of the trial.

Summary

Your Board launched the claims based on careful consideration of detailed legal advice. In the light of that advice, the Board considered that it would have been a dereliction of our duties as directors and our responsibilities to policyholders not to pursue the claims on your behalf, while it remained cost effective to do so.

We have continued to review the claims with the legal team throughout, in order to ensure that we kept up to date with developments in the strength and cost effectiveness of the claims.

Based on the firm advice of our legal team, we concluded that we must settle the litigation against the former directors with as little additional cost as possible.


The action we have taken to bring the litigation to an end will bring the total costs of pursuing the claims against both Ernst & Young, the former auditors, and 15 former directors to approximately £45 million over four years. Although this is a very large sum of money, we had already set aside £35 million in respect of our own costs in the Society's accounts, and the balance - essentially our contribution to the costs of some of the former directors - will have no material impact on policyholders' benefits. Indeed, as we showed in the interim accounts in September, the Society's financial position continues to improve: our free capital increased by £166 million to £713 million over the first half of 2005 and interim bonus rates increased appreciably as well.

Clearly, this is not the outcome for which we have worked so hard over the last four years and we are extremely sorry that we have been unable, through the Courts, to secure redress for policyholders.

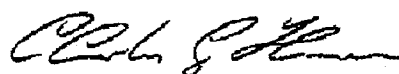
Lord Penrose reached clear and forceful conclusions as to the downfall of the Society. However, we must accept that it is a different matter to satisfy a Court that the role of the former directors constitutes a responsibility that leads in law to culpability and redress.

The Board continues to evaluate future strategic options for the Society. Through the actions of this Board, the financial position of the Society is substantially stronger and managing the run-off of the existing policies is now very much a viable strategy. The increased capital available means that the Board is also now able actively to consider a variety of other options, which will be pursued only if they provide a clear benefit to policyholders.

Yours sincerely



Vanni Treves
Chairman



Charles Thomson
Chief Executive