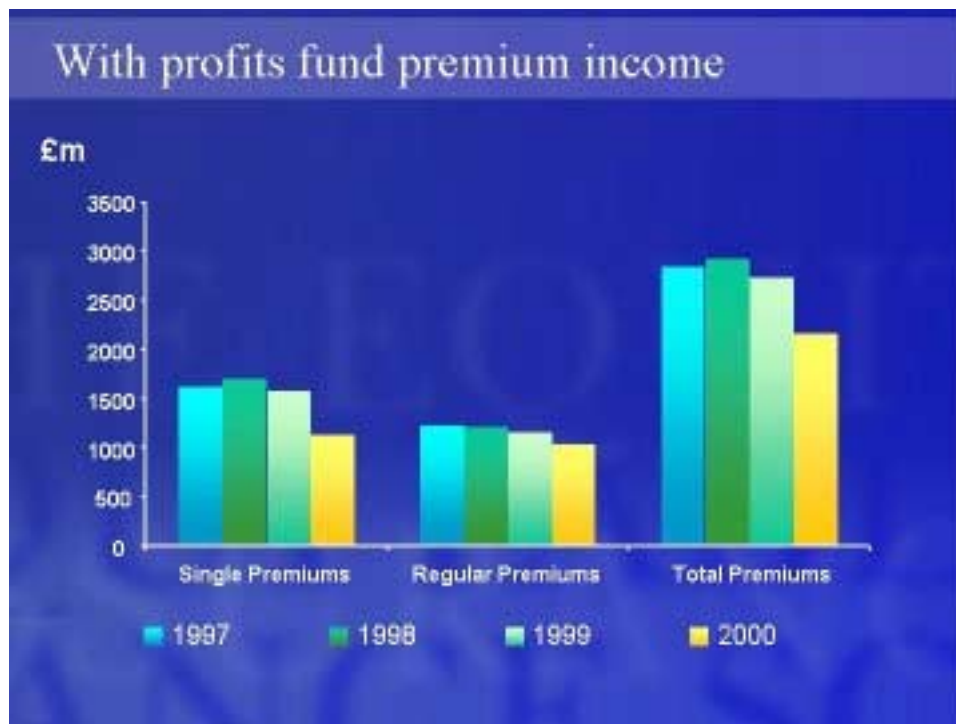


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AGM 2001

The Speakers' notes appear in this box.

Charles Thomson
Chief Executive



- House of Lords decision and closure to new business affected premium income in 2000.
- But not to an enormous extent.
- Uncertainties meant premium income dropped 50% in first months of 2001

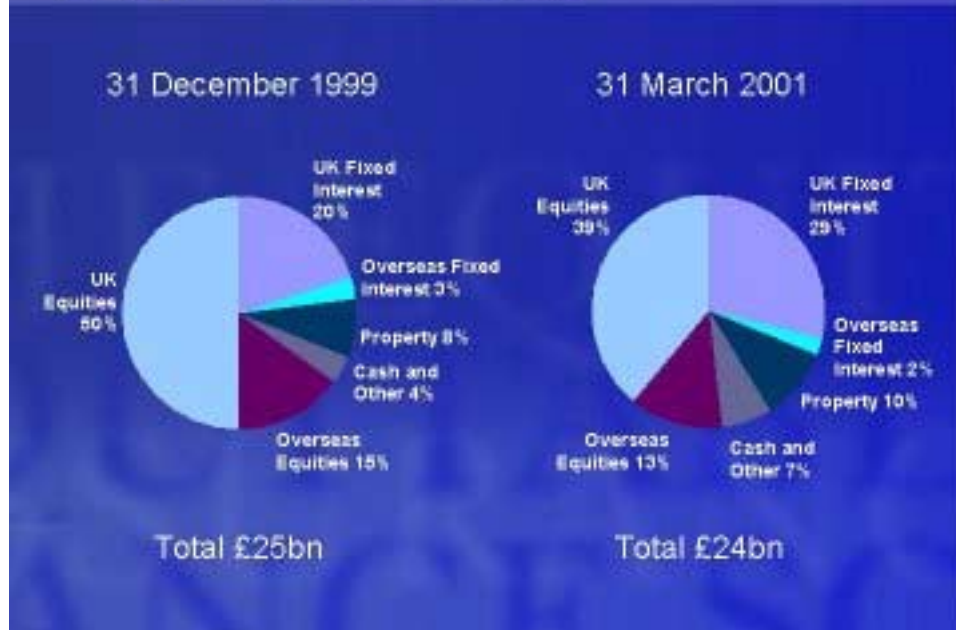


- Maturities and surrenders represent cashflows out of the Society.
- There was some increase in outflows in 2000.
- Maturities and surrenders are up, resulting in a net outflow so far in 2001

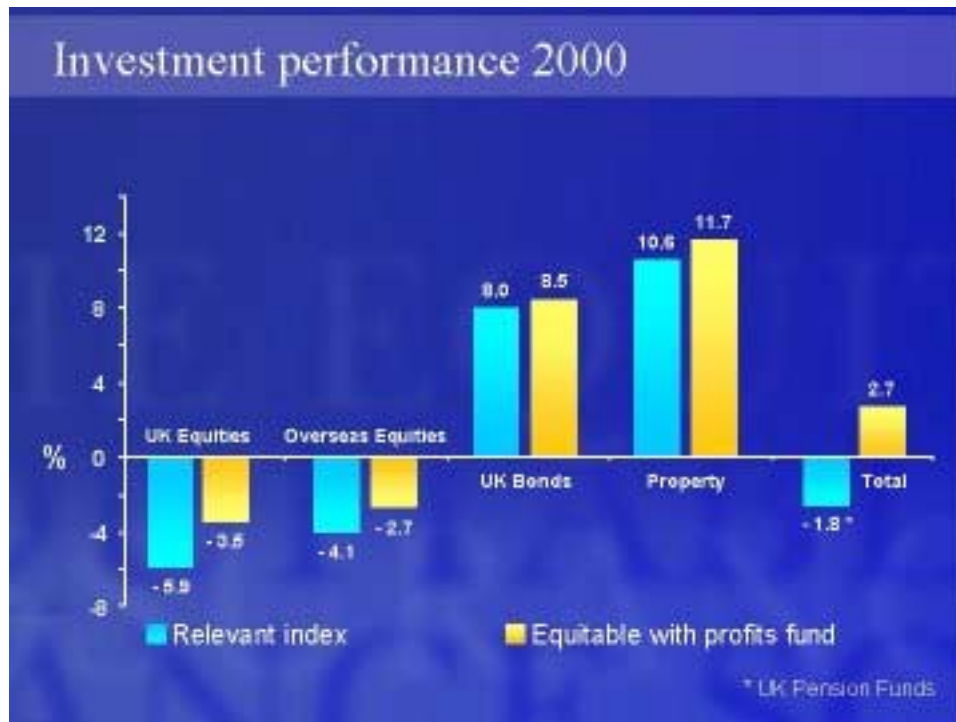


- Following the closure to new business, it was necessary to change the investment stance of fund quite significantly.
- We increased the proportion of the fund in fixed interest investments such as bonds and gilts.
- Correspondingly reduced the amount in equities.
- December 2000 through end March 2001, the fund invested over £1.5bn in fixed income and raised £2.5bn from the sale of equities.

With profits fund asset mix

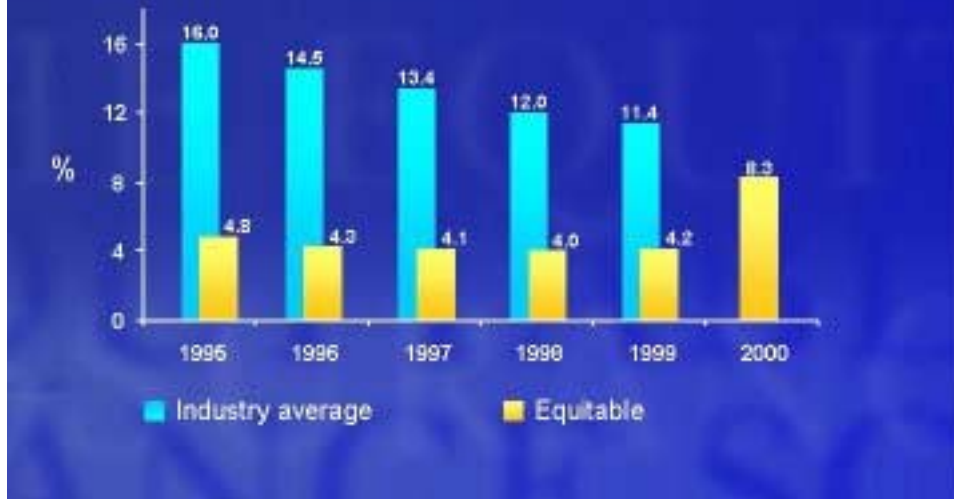


- By 31 March 2001 the UK and Overseas equities element had been reduced to just over 50%.
- Cash had nearly doubled.
- Fixed interest investments (UK and Overseas) are now over 30%.

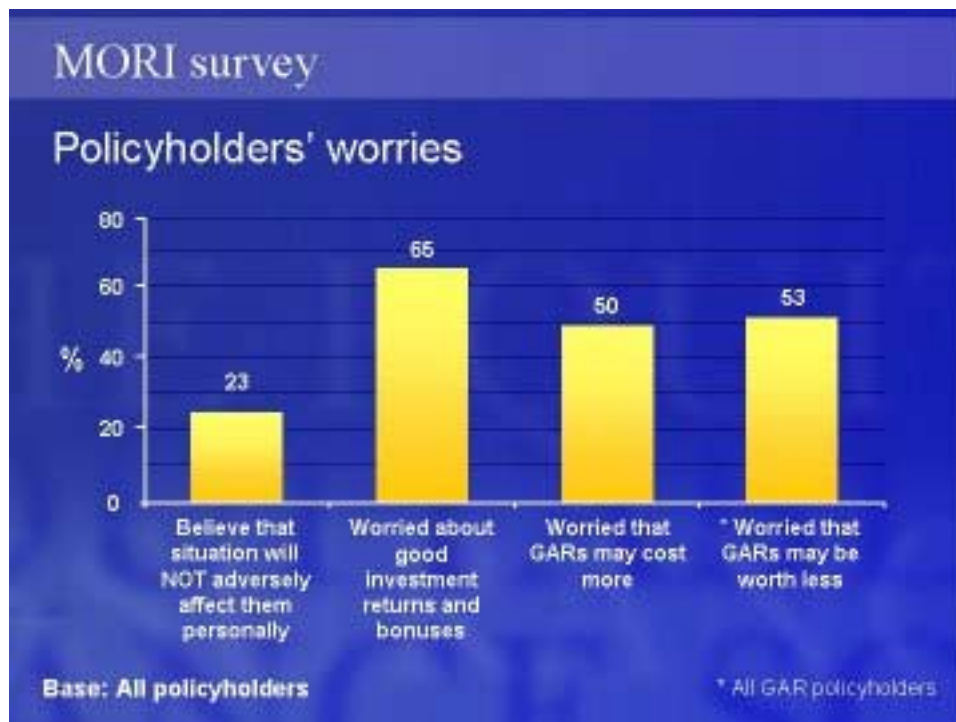


- Normally equities outperform bonds.
- But since Equitable reduced investment in equities and increased investment in fixed interest, equities market has dropped and fixed interest market has improved.
- The Society's investment performance has been good.
- In all the main asset classes, the Society has outperformed its relevant comparator index.
- In 2000, the fund achieved a positive return of 2.7% against the average of UK pension funds which suffered a 1.8% reduction in value.

Expense ratio



- The costs were exceptional last year - House of Lords case, closure to new business, sale of the Society's operating assets.
- They are likely to remain so in 2001 - compromise scheme , legal audit, work of Nicholas Warren QC.
- Hope to confine these exceptional costs to 2000 and 2001.
- Society has always had much lower costs than others in the industry - still the case but less so.
- Determined that costs return to somewhere around historic levels.
- Remember, we have an agreement with Halifax for them to provide administration services at cost



- Only 23% of all policyholders do NOT believe the current situation will adversely affect them personally.
- Two thirds of all policyholders say they are worried about good investment returns and therefore bonuses in the future.
- Half of all policyholders are worried that GARs may cost more than currently expected.
- And over half of GAR policyholders are worried that GAR policies may be worth less than expected.

MORI survey

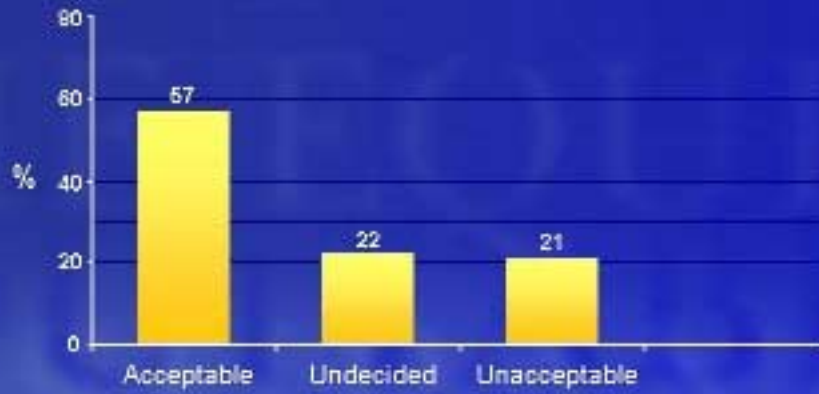
When a compromise was suggested:

9 out of 10 policyholders felt
some form of compromise
was important

- Most common unprompted suggestion was that a solution should be found that suits GARs and non-GARs.
- When subject of compromise was mentioned, 9 out of 10 of all policyholders felt some form of compromise was important.

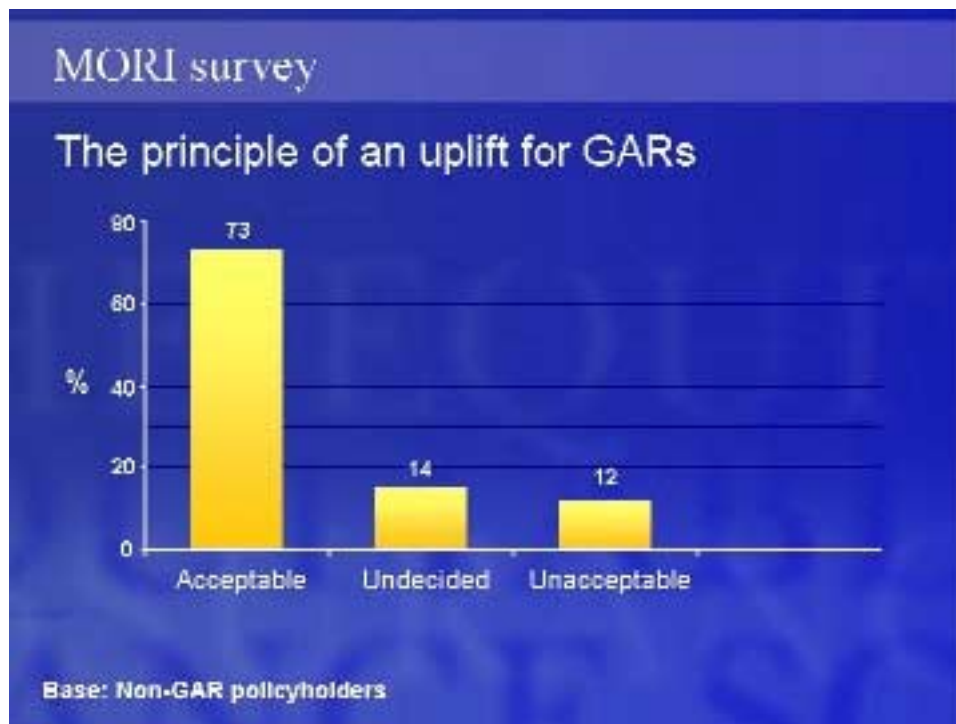
MORI survey

The principle of an uplift for GARs



Base: GAR policyholders

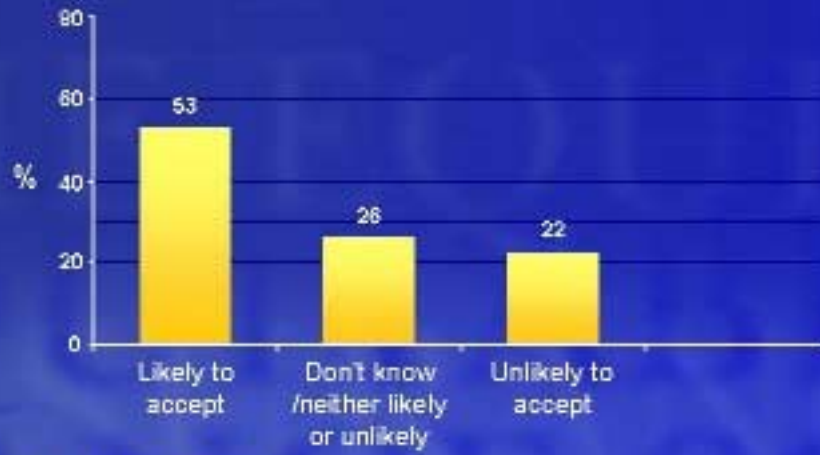
- MORI explored views of compromise structure that gave an uplift on GAR policies in exchange for GARs waiving their guarantees.
 - At this point no figure for an uplift was given.
- Of all GAR policyholders, 57% thought this approach was acceptable.



- MORI explored views of compromise structure that gave an uplift on GAR policies in exchange for GARs waiving their guarantees.
- At this point no figure for an uplift was given.
- Of the non-GAR policyholders, the figure in favour was 73%.
- The response from GARs and non-GARs indicates clear support in principle for a compromise by means of an uplift for GARs.

MORI survey

The 20% illustrative uplift: views of GARs

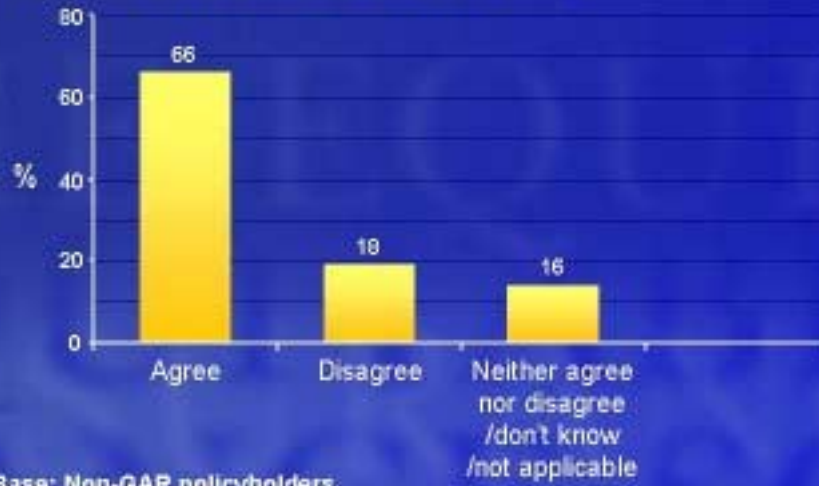


Base: GAR policyholders

- MORI then asked for views of a compromise that gave an illustrative uplift of 20% on GAR policies.
- This time 53% of GAR policyholders were in favour.

MORI survey

Non-GARs: "Not prepared to allow GARs to get more at a cost to non-GAR policies"



- About two thirds of non-GAR policyholders indicated they were not prepared for any uplift in GAR policies to have more of an impact on non-GAR policies than has already happened.

Conclusions

- Policyholders want the situation resolved
- Wide support for a compromise
- 20% is not wildly out
- Restricting investment freedom is a major issue for most policyholders

What we conclude from the MORI results are set out on the slide

Why a compromise scheme?

Situation now

- GARs cost more than the Society had planned for
- 2000 bonus already affected
- More investment in cash/bonds, less in shares
- Fund likely to grow more slowly

- Current situation - it has been necessary to
 - reduce bonuses last year by seven twelfths
 - increase the proportion of with-profits fund invested in safer - but potentially slower growth - gilts, bonds and cash.
- Fund is likely to grow more slowly in the future reducing future bonuses.
- Past experience suggests the fund would grow between $\frac{1}{2}\%$ and 1% slower than would otherwise be the case.

Situation now (cont)

- Ultimate cost of GARs unknown
- Bonus policy has to reflect that
- These factors affect both GARs and non-GARs

- We cannot be sure what GARs will actually cost over the years ahead.
- The bonus policy will have to be more cautious - guaranteeing less of the bonuses that are declared and paying a higher proportion as final bonus.
- This will affect all policyholders in the with-profits fund.

Principles of compromise

Fair

Legal

Mutual

Understandable

- The principles of any proposed scheme:
 - It must be fair and seen to be fair
 - It must be legal - so that it actually works.
 - We are a mutual - a true compromise means sharing the pain
 - All policyholders should be able to clearly understand what they are voting for.

Structure of scheme

- Uplift on GAR fund values
- Voting by classes
- 75% in favour by value and 50% in favour by number

- The structure of the scheme is still being designed but is likely to involve:
 - An uplift on GAR fund values in exchange for GAR policyholders waiving their guarantees.
 - Policyholders voting by classes so that there is effective representation of policyholders with different interests. (There are over a hundred different GAR and non-GAR policy types due to small differences in policy wording - we hope to condense these to two classes to reduce complexity.)
 - In each class, policyholders will need to vote 75% in favour by value and 50% in favour by number - of those voting

Process

- Draft scheme
- Consultation on draft
- Finalise scheme: Court guidance
- Voting
- Final High Court approval

- There is a lot of work involved but we recognise the importance of getting a compromise proposal to policyholders as soon as possible.
- As well as the enormous benefit of removing the uncertainty which has troubled so many members for so long, it is also necessary to implement the compromise by 1 March 2002 to trigger the additional payment from the Halifax of at least £250m.

Questions still to be answered

- Level and method of uplift
- The cut-off date for new contributions to GAR policies
- Structuring scheme to have lowest number of classes
- Checking data

- There are still questions to be answered on the design of the scheme - building the legal and actuarial models is well advanced but not complete.
- Once a design is ready, we will send it to policyholders to comment upon and will meet policyholders around the country to hear their views. Nothing will be set in stone until everyone has a chance to comment.

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