Annual General Meeting – Question and Answer Session

Over a hundred questions were registered at the Annual General Meeting held on 27 May 2002. While it is not possible or, in the case of questions relating to individual policies, appropriate to answer every point raised, we have prepared a summary of answers to the main areas of concern raised by members (including answers to questions which, in the limited time available, could not be addressed at the meeting itself).

INDEX:

A) Annuities

Non-profit annuities have fixed contractual payments including fixed increases, where appropriate. The Society continues to make all contractual payments as they fall due and reserves have been set up for these guaranteed payments.

With-profits annuities are made up of a guaranteed element and a bonus element. Depending on the bonuses assumed at the outset and those achieved, the pension may increase or reduce. However, the pension will not fall below the guaranteed element.

The Board's actions in aligning policy values to affordable levels and in managing the level of the financial adjustment on surrenders and maturities have been designed to protect those policyholders who remain with the Society, including with-profits annuitants.

B) Solvency

The Society is solvent and also meets the stringent requirements of the Financial Services Authority, the insurance industry's regulator. The Board intends to take all necessary actions to maintain solvency.

The Society has reassured unit-linked and term assurance contracts with the Halifax group.

In a legal sense the Society has a single fund only. However, because the liabilities of the non-profit business can be closely matched with the assets to which they relate, the Society can largely manage the with profits fund as if it was separate. However, formal reports, such as the Report and Accounts, will reflect the single fund.

C) GIR/non-GIR

GIRs exist on the majority by value of with-profits policies. However GIRs are much less difficult to manage than GARs. This can be achieved with careful management of fixed interest assets. Although GIRs were fully described in the Compromise Scheme documents it was not appropriate to seek to compromise them in the Scheme proposals which related to the GAR issue, especially given the tight timetable and the added complexity.

D) The Report and Accounts

The Report is largely driven by the requirements of the Companies Act. We will continue to strive to communicate as clearly as possible.

Members should not be concerned about the reduction in the size of the with-profits fund. The purpose of the business is to pay benefits under policies. When benefits are paid the fund reduces and so do the Society's liabilities. The Board sets the bonus rates and the financial adjustments so that the net effect of paying benefits under policies does not adversely affect the interests of remaining policyholders.

The large figure under reinsurance in the Balance Sheet refers to the reassurance contracts with Halifax in respect of unit-linked and non-profit business.

E) Remuneration

For the year 2001-2002 Chairman Vanni Treves received a discretionary fee of £225,000 and Chief Executive Charles Thomson was awarded a bonus of £247,500, in each case 90% of the maximum available sum.

The decision to award these bonuses was reached by the remuneration committee, chaired by Sir Philip Otton, and unanimously endorsed by the Society's Board. The Board agreed that the payments were appropriate, fair, justly deserved and certainly not over generous. Members can be assured, that benchmarked against others in the sector, the Society is not overpaying.

The Chairman's annual fee for the year 2002-2003 will be £125,000. There will be no changes to the Chief Executive's contract with the Society.

Non-executive Directors were awarded an additional discretionary fee of £15,000 in addition to their fee of £10,000. The annual fee for non-executive Directors is to be raised to a flat rate of £25,000.

F) Halifax Agreement – administration and investment management

The expiry of a service agreement at the end of 2002 refers to support services provided through the Society's former branch network. The majority of administration and customer service will continue to be provided by the Halifax group.

The investment management continues to be provided by the Halifax group. The main influence on absolute performance of the fund in 2001 was market movement. The loss could have been greater had we not reduced equity holdings during the year. We believe that the performance of the fund in relation to others in the industry is good.

G) Investment

The net loss from investments in 2001 was £1.2 billion. This was made up of unrealised losses of £5.5 billion offset by realised gains of £3.1 billion and investment income of £1.2 billion.

The return on investment in 2002 to 30 April is a net gain of £208 million.

The Society continues to invest heavily in fixed interest and cash. In due course we hope to increase the equity content as the fund strengthens. The possibility of offering options to allow long-term investors to choose a higher equity content is under consideration.

H) Policy Values at surrender

At the moment one financial adjustment applies to all policy surrenders. The only exception is surrender from some group pension schemes where a higher financial adjustment may apply.

We are investigating how to make the adjustment fairer, for example by varying it depending on when a policy was taken out.

I) Legal Activity against former Directors, advisers and regulators

On the basis of the legal advice we have received we believe it is entirely appropriate to pursue former directors and auditors. We would not have undertaken this action if we did not believe it to be cost effective and in policyholders' interests.

The Board believes that the legal basis of any claim by former directors for clawing back money from policyholders is misconceived.

If the Board is successful in obtaining some compensation the Board will disclose the total costs. Any net benefit will be added to the with-profits fund at the time.

An important element of the claim against former directors is that they failed to take legal advice when they ought to have done so. Therefore at this stage no action is to be taken against the Society's former legal advisers. Any action against the regulator awaits the outcome of the independent inquiry being conducted by Lord Penrose.

We believe Lord Penrose is very conscious of the need to report promptly and we have recently corresponded with him on this matter. However, we have provided an enormous amount of material to him and his team, which they will need to assimilate together with material they have received from others.

The terms of reference for the Penrose Inquiry are available on www.Equitablelife-inquiry.org

J) Auditors

PwC were appointed as auditors at last year's AGM on 23 May 2001 (and re-appointed at the AGM on 27 May 2002).

Peter Smith, Vice Chairman of the Society, is a former senior partner of PwC. He retired from PwC on 31 December 2000. He is Chairman of the Audit Committee.

All members of the Audit Committee are independent of PwC.

The level of fees paid to the auditors PwC for non-audit work was clearly exceptional. This reflected the exceptional circumstances of the Society last year including the development of the Compromise Scheme.

K) Constitution

The Board has established a sub committee to review the Articles of the Society. The Board will consider carefully the findings of the sub committee and the views of members. It will then put appropriate changes to an EGM. The convenient and cost-effective time to hold an EGM is at the next AGM. However, the Board will consider whether the proposals represent a pressing need, which would justify the cost and inconvenience to policyholders of holding an earlier meeting.

L) "Unitisation" or sale of the with-profits fund

The conversion of the fund to unit-linked is not a practical proposition. A source of funds would be needed to buy out the interests of with-profits policyholders. Individual policyholders who wish to transfer to unit-linked can already do so, subject to the normal financial adjustment to protect the interests of remaining policyholders.

The attempt to sell the with-profits fund in 2000 failed to produce a single credible bid. Any potential purchaser would now need to consider the existence of the agreement with the Halifax group. The Board, therefore, plans to restore the Society to health as an independent fund.

M) Reviews

The Rectification Scheme and review of Managed Pensions (income draw-down) contracts are progressing and a significant number of cases have now been reviewed (10,000). It is not necessary for members to lodge individual claims. The Society will contact all those covered by these reviews, but the work will continue for a considerable time (certainly into 2003).

N) Customer Service standards

Customer services were under great pressure in 2001 and some service levels were clearly very poor in spite of the hard work and commitment of very many staff. There have been significant improvements in most areas, but there have also been some temporary setbacks such as calculation delays caused by the 15 April bonus changes.

Continuous improvement is planned and measurable improvements will be reported next year.

O) Business Objectives

The Compromise Scheme has removed the fundamental uncertainties in the business and the bonus changes have re-established financial balance between policy values and asset values. Our objectives going forward are:

1. To continue to increase stability and strengthen the fund
2. To use any improvements in strength to reduce investment constraints and, if and when appropriate, to increase equity holdings.
3. To continue to restore high quality customer service
4. To reduce expenses and aim to restore the low expense business model
5. To resolve the outstanding claims against the fund.