

Equitable Life 2003 Annual General Meeting

Important Note: These are the scripts of the presentations made by the Chairman, Chief Executive, Chairman of the remuneration Committee and Chairman of the working group Equitable Life's 241st Annual General Meeting held at the Wembley Conference Centre on Wednesday 28 May 2002. Please note that these are not transcripts of their speeches, and as such should not be read as a precise, word-for-word record.

Vanni Treves, Chairman

Ladies and Gentlemen, it is now 11 o'clock. Welcome to the 241st Annual General Meeting of The Equitable Life Assurance Society. I am Vanni Treves, your Chairman. My fellow directors are all here and join me in welcoming you.

Thank you for coming and I hope that you did not have difficulties getting here. I am sorry that this venue is not more centrally located and is probably less convenient for many. There are very few venues that can accommodate our needs (in previous years we have had more than 1,000 members attending the AGM) and they tend to be booked up very quickly and be expensive. [Ironically, this year we have, it seems, a reduced number with us.] We will try to find a more suitable venue for next year.

In addition to your right to vote, today is an opportunity to hear more about the Society from your Chief Executive, Charles Thomson, and me. Also, Sir Philip Otton, Chairman of the Remuneration Committee, will be making some remarks, and Michael Pickard, who chaired the working group reviewing the Memorandum and Articles of Association, will also be speaking.

We want to do justice to the many questions that have been raised, and to give as many members as possible the opportunity to express their views and raise issues. However, at previous AGMs, because the question and answer session has been so long, a significant number of members have complained that they have had to leave before having the opportunity to vote. To overcome this, I suggest that we should have say 1½ hours for questions, before moving on to the formal business of the meeting, including the voting. That will then conclude the AGM. However, for those who wish to stay, there will be an opportunity later for further questions to be put to the board. As regards the voting, we shall need to hold a poll on the election of directors, which will require a break of approximately 40 minutes between closing the AGM and resuming with the further question and answer session. In that time, you will have the opportunity to vote on the poll and, I hope, get a cup of coffee. I hope that you will agree that this is a sensible way forward.

May I first introduce the Directors.

From left as you look at us, you see:

David Adams, formerly Chief Executive of the Chartered Institute of Public Finance and Accountancy, of the Railway Pensions Trustee Company and the London Borough of Harrow.

And next to David is Ron Bullen who until his appointment to the board in May last year was Chairman of the largest of the policyholder groups, the Equitable Policy Holders Action Group. Prior to this he was a chartered Engineer in the Manufacturing industry.

Beside him is Michael Pickard who is the former Chairman, Chief Executive and Appointed Actuary of Royal London, a Mutual Insurance Society. Michael led the Memorandum and Articles Review.

Then we have Sir Philip Otton who is a former Lord Justice of Appeal. He is a Deputy Chairman of the Society and Chairman both of our Legal Audit and Remuneration committees.

Then Charles Thomson who is Chief Executive of the Society and was formerly Deputy Chief Executive of Scottish Widows Group.

Nigel Brinn is the Finance and Investment Director and joined the board in February 2003. Before joining us, Nigel was Managing Director of Homeowners Friendly Society.

Next we have Peter Smith the former UK senior partner of PricewaterhouseCoopers, now Chairman of RAC plc and a director of Rothschilds and Safeway. He is one of our two Deputy Chairmen and Chairman of our Audit Committee.

Then Jean Wood, formerly Chief Executive of Irish Life in Ireland and the UK, and a Director of Chelsea Building Society.

Then we have Andrew Threadgold, former Managing Director of AMP Asset Management. Andrew chairs the Society's Investment committee.

Last but by no means least, we have Fred Shedden who for thirty years practised as a commercial lawyer, was senior partner of a major Scottish law firm, and served on the board of Standard Life for seven years. He joined the board in May last year.

I would now like to run through the agenda for today's meeting.

As you can see I will start by giving an overview of 2002, another year of many challenges for the Society and the industry as a whole. Charles Thomson will then take us through key events of the year and a review of the Society's financial position. Sir Philip Otton will then comment briefly on the remuneration report contained in the Report and Accounts, and Michael Pickard will make a few remarks about the proposed changes to the Society's Articles.

I will then open up the floor for a question and answer session.

With regard to the question and answer session, you will have been invited via announcements this morning to register questions at the question registration desks and those who have, will have been asked to take a seat at one of the question points A or B. Members who wish to ask a question, and have not yet registered it, may do so now at the desk here in the auditorium.

These arrangements are in place to make the whole process run as efficiently as possible.

I would ask for questions that are on issues of real significance to all members in relation to the conduct of the Society's business in 2002. Please ask your questions in as brief a manner as possible.

I do understand that there may well be members who have questions that relate to their own circumstances and we do have experts on hand who can help you in this case. You will find them at the member information desk in the refreshment area. There you can ask questions about your individual policies.

After the question and answer session, and following the practice adopted last year, I have invited any of the candidates who are standing for election today, and who wish to, to make a brief statement to the meeting, limited to three minutes, on their candidacy. Of those candidates, two (Rodney Allen and Nigel Brinn) have said they would like to take advantage of this offer and I will be calling them in due course. Nigel is, of course new to the board and

to most members. The others (Sir Philip Otton, Charles Thomson and Andrew Threadgold) have not refused the offer out of arrogance or disdain. They are known to you as existing directors, having served you for the past two years. They have given up the time that would have been taken by them speaking, so that we might have more time for questions and answers.

After the question and answer session, and the candidates who want to speak, we will vote on resolutions to adopt the Report and Accounts, reappoint the auditors, approve the remuneration report, elect directors and adopt new articles of association.

I expect the meeting to end be at around 1.45, although we can go on longer if that is your wish.

VANNI TREVES, CHAIRMAN AND DIRECTOR

ADDRESS TO ANNUAL MEETING.

Ladies and Gentlemen,

Last year I stood before you at our Annual Meeting and reflected on 2001 as Equitable Life's "annus horribilis."

Undoubtedly 2001 was the most turbulent in the long history of the Society. But there can also be no doubt that 2002 was the annus horribilis of the life and pensions sector in this country.

These have been exceptionally difficult and demanding times for all involved in the provision of long-term savings with the worst stock market conditions in a generation and the inevitable consequences for bonus rates.

In the next few minutes I, and then the Chief Executive, would like to:

- update you on or progress against our strategic objectives
- provide an overview to the progress we have made in the face of an exceptionally poor economic climate, and;
- look ahead to our business priorities in the coming year

2002 was another year of tremendous challenge for the Society.

Yet, given that we started the year facing great uncertainty over the Society's future we have, I believe, made significant strides forward.

The Compromise Scheme, completed in February, resolved the Society's most fundamental problem. As a result a further £250m from HBOS was credited to the balance sheet.

Following on from that successful Compromise Scheme, (which for me at least, seems an eternity ago) your Board has continued to grapple with many complex and demanding issues.

Last year, we outlined to you of our strategic objectives, namely to;

- stabilise the with-profits fund;
- ensure we meet the guarantees provided to policyholders by pursuing an appropriate investment strategy;
- reduce expenses and restore an efficient business model and;

- resolve outstanding claims and litigation against the fund

I would like to touch on the first two points of fund stability and investment strategy. In a moment, Charles Thomson will provide an update on the financial situation and operations.

2002 saw periods of extreme volatility in world stock markets creating significant instability throughout the year. The year started with a FTSE of 5217 and reached a low point of 3671 in September and finished the year at 3940 a 24% reduction over the year. As I have stated already, all with-profits providers have been hit particularly hard as many of its assets are held in equities.

We started the year with an investment policy that was to have a balanced portfolio with a substantial proportion of the Society's with-profits assets in listed equities - in the expectation that they would outperform fixed-income securities over the longer term.

Of course, the Society was not immune from the steep falls in share prices in the first half of last year. The continuing slide meant that the percentage of the Society's assets that could be held in listed equities, without endangering solvency, became extremely small.

The bulk of equity sales we initiated were carried out at FTSE levels above 4,800.

Ladies and gentlemen, in making this vitally important decision, your Board recognised it was, indeed, a huge decision. It was quite simply a bet the bank – or in our case – a bet the mutual decision of gigantic importance.

But please be in no doubt. Had we not taken action to reduce the effects of the significant market turbulence, the effects could have been much worse for the business. The outlook for policyholders would have been unthinkable grim. If we had not moved out of the equities when we did, I can tell members that we would now be bust and in the hands of administrators.

Instead, the Society's limited exposure to the equity market in 2002 meant that the with-profits fund produced a return of 4.8% during the year before allowing for provisions, expenses and improved longevity.

Compared to other with-profits offices this is an excellent outcome.

Due to the decline in equity values, together with the need for increased provisions, we had to take the very painful, but necessary, decisions to reduce policy values in April and again in July.

Given the turbulent equity markets, many other life and pensions offices have made similar or higher adjustments.

We must continue to set policy maturity values in order to pay out a fair share of the assets and set surrender values at fair values that reflect the need to protect continuing policyholders in the fund.

Members must be in no doubt - the continued maintenance of solvency- the ability to pay its guaranteed obligations to continuing policyholders – together with treating different groups of policyholders fairly, have been, and continue to be, the fundamental goals of your Board.

Last April, we informed policyholders that no interim bonus would be announced for 2002. We said then that we would wait until the fund's performance became clearer.

After considering the current solvency position and the financial outlook, your Board is cautiously optimistic about the Society's prospects and the improved stability of its financial affairs.

Taking account of this position, in March we announced that from: 1 April 2003 and until further notice, interim bonus will commence at the overall rate of 3.5% (2.75% for life plans). This applies to both GIR and Non-GIR policies.

For 2002 there is no guaranteed bonus except for these policies containing the 3.5% GIR.

I would now like to turn to talk briefly about the Lord Penrose Inquiry and the litigation against Ernst & Young and the former Directors.

First Penrose.

We continue to co-operate fully with the Penrose Inquiry team and we keenly await, like you, his report as it may disclose information that supports the Society in taking action.

We are aware that many policyholders feel very strongly that we should take action against the regulatory authorities. If Lord Penrose were to be critical of the Government agency, your Board would, of course, consider with its legal advisers whether it is able to taken any action.

As matters stand the legal advice your Board has received is that we do not have a case against the Government. We must wait for the Penrose Report to see if we do have a case. We believe that we will probably have to jump very high hurdles in order to be successful, if at all.

For now, however, it is appropriate to await Lord Penrose's report and hold our fire. Of course we will provide members with a thorough update as soon as practicable.

The legal actions against the former Directors and Ernst & Young continue to gather pace.

Naturally we were very surprised and also very disappointed with the judgment by the Judge to disallow our original claim. Although he allowed part of our claim to proceed, at a reduced, yet still significant amount of up to £500m, last week in the Court of Appeal, we appealed the Judge's original decision.

Based on the advice the Board has received from Counsel we are confident, that we have a valid and strong claim. The Appeal Court judgment is due in July.

I do want to say a word about the costs of these legal actions as I know the amounts involved are significant.

These actions are very complex and, naturally, expensive.

But the legal advice we have received and the current assessment of the chances of success justify the costs that have been, and continue to be, incurred.

In summary, ladies and gentlemen, although the going is still tough, it has been a year of progress, where the Society has been substantially stabilised and we have made progress against an appalling macro economic climate.

There remains, however, much to do.

I believe that our progress in 2002 shows that Equitable Life is now out of intensive care. Although clearly responding to treatment we are still a little way off declaring a clean bill of health.

Yet since the 2002 Accounts were signed at the end of March, I am very pleased to inform you that there continue to be no new, material issues to report.

There are a number of difficult issues that still need to be resolved but, I am cautiously optimistic about the Society's outlook.

Finally, I would like to look out towards the future and assure you that your Board aims to gradually remove the substantial uncertainties that continue to overhang the Society. Step by step we are resolving our main issues and improving the financial condition and stability of the Society.

I would like to reiterate our promise to policyholders that we will continue to do our utmost to ensure that policyholders can sleep easily again. We would like to thank you all for your support over this last and once again difficult year. However, we have worked hard to remove some of the uncertainties and we are optimistic for the year ahead.

Thank you for listening. I would now like to hand over to your Chief Executive, Charles Thomson.

CHARLES THOMSON, CHIEF EXECUTIVE'S ADDRESS

Good morning everyone. Thank you for being with us today.

The Chairman has already remarked on the myriad of complex issues the Society had to deal with in 2002. We have no shortage of complex issues left in 2003 but last year was a year of considerable progress:

A year of progress

A positive return on the with-profits fund helped by the flight from stocks and shares to fixed interest securities;

The Society's surplus (as measured by the Fund for Future Appropriation) increased by £174 million to £556 million;

We continue to meet regulatory and statutory solvency requirements despite many wrong forecasts from the "doom and gloom merchants" with their own agendas that cause only distress to policyholders;

Maturity and surrender values have been maintained since last July with no further reductions in contrast to the actions of others in the industry;

An interim bonus has been declared from April;

It has been a difficult and demanding year for the Society, for its policyholders - and for all of our staff too.

The actions taken over the last year have helped to stabilise the Society. The risks of falling asset values have been dramatically reduced. We still have substantial uncertainty about the level of provisions for the various reviews, but we now have a much clearer focus on our remaining challenges.

I would like to spend the next few minutes talking you through the main operating and financial features of last year and then giving you an overview of the main challenges facing your Society in the next 12 months.

Outstanding claims

In particular, I would like to update you on:

- Outstanding claims against the fund;
- Maturities and surrenders;
- Provisions;
- Expenses

And finally,

- Customer service.

GAR Rectification

Starting with Gar Rectification.

At the time of the publication of the Interim Report last November, we announced that that we were carrying out a review of the overall administration of the scheme. It became increasingly obvious that the original proposals, launched by the Society's previous Board, to compensate holders of GAR policies who retired before the House of Lords' ruling in 2000, needed to be changed.

This review has revealed that the original scheme is very complex, time consuming to administer and, of particular importance, may not be fair to continuing members.

As a result, we have decided to withdraw the current scheme. We are assessing alternative approaches that will speed up and resolve the long-standing need to provide appropriate, fair compensation for eligible policyholders in a sensible timescale. We will send details to those affected as soon as the proposals for the revised scheme are completed. This will be within the next several months.

I am aware that progress has been painfully slow and I am extremely sorry for this. I recognise that there is a responsibility to meet the expectations of genuine claimants, but we also have a duty to all continuing policyholders in the fund. They are the paymasters who meet the cost of the claims and should not be asked to pay more than is fair in all the circumstances. It is this tension, and the legal consequences of it, that has made progress so slow.

Resolving the tension needs pragmatism, and is one of my major priorities in the coming months. We have, and will continue to, put the necessary people in place to launch an alternative scheme as quickly as possible.

Non GAR leavers

Turning now to the issue of former Non Gar policyholders.

Complaints relating to the GAR issue were resolved for existing policyholders through the Compromise Scheme. For the 70,000 former policyholders who had left the Society before the Scheme was adopted in February last year, the issue remains unresolved. As members will know, this was clearly disclosed in the documents sent to all policyholders at the time of the Compromise Scheme.

We did consider using a second Compromise Scheme as a way of dealing with former policyholders' complaints. However, after a thorough investigation, we did not believe it was the fairest way of resolving the outstanding problem, particularly for continuing members who must fund any payments.

Instead, in March of this year we announced that we plan to implement a case-by-case assessment of Non-GAR complaints. In the next few days, we will be writing to many former policyholders with details of the review. This review and our redress formula has been discussed and agreed with the FSA. I expect it to be largely completed by late summer resolving another of the main obstacles to stability.

In our Accounts we have made a provision of around £70 million, which is adequate and affordable to deal with any such claims. I am not aware of a need for any new call on the Society's reserves.

I would now like to say a few words about the decision of the Financial Ombudsman's Service, announced last Friday, which many of you will have heard about from the resultant media coverage over the weekend.

The Ombudsman had been investigating five "test cases" from former policyholders, each of whom had complained that Equitable failed to disclose properly the exposure of the Society to the costs of GAR policies.

In all five cases, an adjudicator has said the Society was liable and should compensate the customers.

The decision was not a surprise to the Society - indeed we had been expecting it following our discussions and representations with the Ombudsman's service.

We must now review the adjudication and decide whether we will appeal against this decision, as we have the right to do.

Members should be aware too that the Ombudsman has yet to make any ruling on the level of redress. Last weekend, you may have noticed speculation from a former policyholders' action group leader in the Press that the compensation figure would be £400 million. Such figures are, quite frankly, way off the mark. Any such approach can and would be challenged in law and will not be entertained by the Board.

Our legal advice, endorsed by the FSA's own legal opinion, is that our own compensation proposal to deal with claims is fair and adequate.

My responsibility in this, and several other areas, is to settle all genuine claims fairly, but also to make sure we fully represent the interests of continuing members who have to fund any payments.

With-profits annuitants

Many of you will be keenly aware that we took a very difficult, but unavoidable, decision last November to make reductions in with-profits annuity payments. Those reductions are being phased in over a two-year period from policy anniversaries after 1 February 2003.

The Board is very sorry that these reductions are necessary but, as we set out in our letter, the rest of the policyholders had suffered dramatic cuts over several years while with-profits annuitants had been protected. Because with-profits annuitants cannot leave the Society, we could fairly protect them in this way while there was a good chance that the cost of doing so could be recouped from future growth.

However, following the very significant drop in investment values and the Society's withdrawal from equities, the prospect of future growth has become too remote and annuitants must be brought into line with other policyholders.

Although the headline change was a 20% reduction, there were two other changes set out in our letter informing annuitants of the changes in incomes:

- The rate of interim bonus was set to zero;
- There was an increase in the adjustment in respect of the House of Lords' decision on GARs (to speed up the recovery of this cost).

Each with-profits annuity also has its own anticipated bonus level. Generally these were chosen to be at high rates and, now that bonuses are likely to be low or zero, there will be reductions in the level of payments each year.

Because of the interaction of these complex factors, it was not possible to give annuitants individual figures about how the reductions would affect each annuity in advance.

That is why, in our letter last November, we provided a leaflet, approved by the Plain English Campaign, which gave examples to show the reductions, up to 29%, that could apply depending on individual circumstances.

We ask annuitants to re-read that leaflet which will also be resent with your Annuity Statement.

Financial management

Rate of claims

In 2002, as in 2001, there was a significant outflow of funds due to maturities and surrenders.

In 2002, surrenders were £3,800 million.

Maturities and other claims totalled £3,052 million.

Naturally, surrenders tended to increase following unfounded media speculation, in periods of turbulence in the stock markets and after corporate announcements. With substantial levels of maturities and surrenders, it is vital that we keep the payments under review so that we pay full value to those maturing, fair value to those surrendering and ensure that the fund is left no weaker for those remaining. That is what we are doing.

Provisions

There is still substantial uncertainty about the level of provisions, for example, in relation to the reviews I referred to a few moments ago.

I am pleased to report to you that solid headway has been made to reduce some of this uncertainty in 2002 and more recently.

We believe that the funds we have set aside are appropriate and sufficient to deal with the various claims against the Society.

Priorities for improvement

Expenses

Due to the specific issues we have been, and continue to face, expense levels are exceptionally high and need to be reduced to a sustainable level.

Under the leadership of Nigel Brinn, our new Finance Director, a key priority is to reduce costs and revert to an efficient operating model as quickly as practicably possible.

Customer service

I have said before, service to policyholders has not been consistently at the standards I would wish. I am sorry for that. This business has had to deal with unique and exceptional circumstances in the past two years and when we have had to deal with peaks of activity, standards have slipped.

However, huge efforts have been made to improve matters, and in recent months, when there have been periods of normality, service standards have generally been good.

I would like to pay tribute and record very special thanks to the many people who have put in a huge amount of effort and hard work to help stabilise the Society and secure its future. Members can be assured we have a committed team serving your interests.

Looking to the future

In summary, Ladies and Gentlemen, I believe we have done much to stabilise the fund and we are on track to remove the fundamental uncertainties in the with-profits fund.

The society still requires careful financial management and prudent stewardship.

Over the coming months, we aim gradually to:

- Meet our obligations to policyholders;
- Reduce costs and;
- Resolve outstanding claims and litigation against the fund.
- Remove the uncertainties that continue to overhang your Society;

I am confident we are on track to meet those objectives.

You have my commitment that I will continue to do all that I can to make sure we continue to deliver and that I will serve members' and policyholders' best interests.

Before I hand you back to the Chairman, thank you for listening and for your continued support.

VANNI TREVES

Thank you Charles. Philip Otton, the Chairman of our Remuneration Committee, will now make a few remarks about the remuneration report contained in the Report and Accounts.

SIR PHILIP OTTON, CHAIRMAN, REMUNERATION COMMITTEE

Good morning,

The role of the Remuneration Committee is to assess the performance of the Chairman and senior executives and to ensure that they are appropriately remunerated against their performance.

Recommendations are made to the Board on the basis of the scope of the individual's responsibilities and performance. Where possible, the Committee seeks to meet the standards set out in the combined code applicable to listed companies.

In order to retain good quality, highly motivated staff, proper regard is paid to the remuneration being paid by other companies in the sector.

The Committee takes advice from a leading independent firm of remuneration consultants and also receives benchmark data, where appropriate.

In the case of the executive directors, we then set exacting and strict performance criteria that have to be achieved in order to trigger any bonus, in whole or in part.

Last year, I reported to members of the additional discretionary payments in relation to Vanni Treves, to Charles Thomson and the other non-executive directors.

I informed members that, in the case of the Chairman, a payment of £225,000, was awarded. Mr Thomson received a base salary of £275,000 and a discretionary bonus of £247,500, representing 90 per cent of his salary. This made a total for 2001/02 of £522,500.

These payments related to their tremendous efforts in their first year of office beginning in 2001. They must be recorded in the 2002 Accounts as the payments were only made last June. For the year 2002 - that is starting on the 1st June - the Chairman's remuneration was set at a single fee of £125,000, which is now paid directly to Mr Treves.

Moving now to the Chief Executive's remuneration.

Last year, the Remuneration Committee decided to review the structure of the Chief Executive's total salary and bonus potential. We felt, as did others, that the emphasis on performance was too great and that it was desirable to reduce this element as to enhance his salary.

We took advice from our independent remuneration consultants and considered the necessary benchmark data.

Based on their views and the analysis available to us, the Committee recommended to the Board -and they agreed - that the Chief Executive's base salary and discretionary bonus potential should be reconfigured.

With effect from 1st April 2002, Mr Thomson's annual rate of salary was increased from £275,000 to £371,250. But, in contrast, the maximum potential annual discretionary bonus Mr Thomson may receive for 2002/03 was reduced from £275,000 to £110,000.

In due course, the committee, having considered Mr Thomson's performance, recommended to the Board that Charles receive £82,500 as a discretionary bonus for the year 2002/03, which is 75% of his maximum potential of £110,000. However, Mr Thomson made it clear to us that he had decided to waive half of any bonus award that he may otherwise be awarded. The Board accepted his personal waiver. Therefore, he will receive a bonus of £41,250 to be paid in June of this year.

In addition, as is common in other major businesses, the Chief Executive also participates in an annual retention bonus scheme.

Under this scheme, a retention of £68,750 vests on 31st March in each year from 2003 to 2005.

However, this money is only payable in full at 1st April 2005, provided that continuous service has been maintained to that date. If Mr Thomson's employment ends before 1st April 2005, he will receive a payment of between 25% and 100% of the vested amount at that date, subject to satisfying certain conditions.

The Chief Executive's total pay and bonus for 2001/02 and 2002/03 has the same value of £522,500. Indeed, for the year just ended, the payment he will receive is less than in 2001/02 because of the reduction in bonus, due to the waiver, and the retention element, which is not payable until 2005.

Members can be assured that, benchmarked against others in the sector, we are not overpaying.

It is the unequivocal and unanimous view of the Remuneration Committee and the Board as a whole that Charles Thomson serves your Society with the utmost dedication and skill. He has worked tirelessly to steer the Society through very difficult times and he continues to do so.

We are fortunate to have him on board and it is important he is motivated and adequately compensated, in line with the norms of comparable industry positions, in order to deal with the many complex issues that remain.

Mr Chairman, if you will allow me, I would like to mention one further matter and that is in relation to Charles Bellringer who was Chief Finance and Investment Officer for 18 months, six as a Director. He played a key role in the Society's successful compromise scheme and in dealing with a number of complex issues within his area of responsibility.

Last November Mr Bellringer resigned. Recognising the senior position Mr Bellringer occupied in the Society, your Board unanimously felt that a "clean break" rather than a drawn out departure of an Executive Director, who was leaving the business, was the best way forward for your Society.

We decided to pay him six months salary and benefits by reference to his contract of employment. This amounted to £195,000. Quite simply, if he had stayed and worked his notice, or he left without doing so, there is little financial difference - the money would still be paid.

Finally, ladies and gentlemen, you will have seen from the 2002 Annual Report that, for the first time, you are being asked to approve the Director's Remuneration Report by way of an advisory vote. As a mutual, we are not obliged to adopt this practice. However, your Board considers it is now best practice to enable members to express a view on this matter.

I do hope I've made my report to you as clear as possible.

Thank you for listening.

VANNI TREVES

Thank you Philip. As you are aware one of the items of business today is to consider proposed changes to the Society's Articles. Michael Pickard, as I've said, chaired the working group that advised the board on the proposals and he will now say a few words.

MICHAEL PICKARD, Director

MEMORANDUM AND ARTICLES REVIEW

Thank you, Chairman. Good morning ladies and gentlemen.

What I am going to do over the next few minutes, is firstly, to remind members why the board has undertaken this review, then to describe the process we went through, then highlight the most significant changes proposed, and finally, make a very brief concluding comment.

Why the review was undertaken

There were two main drivers for the review. Firstly, the board itself was very mindful that there had been changes in general corporate governance standards in recent years. So with there having been no major review for many years, we wanted to be sure that the Memorandum and Articles reflected up to date requirements.

At the same time, there were strongly held views, amongst a small but articulate minority of members, that the current Articles do not permit, proper democratic governance, of a mutual life and pensions company. The board shared their view, that it was important to re-visit the Articles with this in mind.

There were also less important reasons that cried out for change. For example, references to old fashioned titles, such as 'President'; the need to recognise the modern practicalities in organising an AGM; references to special board meetings; and a number of others.

The Process

Now to the process.

As foreshadowed in the 2001 Annual Report, a board Working Group was set up a year ago. I was asked to chair the working group. Although not a lawyer, I had previously been involved in the interpretation, and occasional review, of a Mutual life office's Memorandum and Articles, over a period of many years.

The other board members of the Group, were Ron Bullen and Fred Shedden. We had invaluable assistance from our lawyers, and company secretary Peter Wilmot and his team. Peter has been part of the Equitable's secretariat for many years, so he has a unique experience.

From the outset we agreed on certain principles.

Firstly, that whilst we would look very carefully at every single word, it would not be appropriate to undertake a root and branch 'plain english' review, such as that completed a year or so ago by Standard Life.

The cost of this in our circumstances would have been prohibitive. Already this exercise has incurred legal costs of around £80,000. But we did look very carefully, at everything Standard Life had done.

Secondly, it was fundamental that we would consider very carefully, any representations made by the membership at large. As you are aware, we undertook a consultation process last autumn, the results of which were very helpful.

We are grateful to those members who responded to the consultation.

Another important principle, was that the changes should be 'all or nothing'. It would have been wholly impractical to have a separate vote on each and every change, as there are a lot of detailed ones, as well as matters of principle. In addition, there are quite a lot of cross-references.

The changes

I now turn to the changes proposed.

Some of the suggested changes to the Articles are relatively minor, for example bringing the terminology up-to-date, whereas others are more significant. The amendments were described, in the Explanatory Memorandum that was sent to members, with the notice of this meeting.

I do not intend to describe all of the proposed changes now – they are far too numerous, and they are all covered in the Explanatory Memorandum.

However, there are four particular changes that are worthy of mention.

Firstly, we are proposing that it will no longer be a requirement for a Director to be a member of the Society. With the closure to new business, the present requirement could become increasingly restrictive, in ensuring that members have the most appropriate people on the board.

Also we are proposing that the maximum number of directors should be reduced to 12, from the present limit of 15, and that the minimum should be six, whereas currently it is eight.

The other two significant changes I want to mention, did not appear in the original consultative paper.

The first is, that 1,000 members should be able to call an Extraordinary General Meeting, or propose a resolution to an AGM. However, the Board was concerned that the Society should not be put in a position, where a relatively small group of members might requisition EGMs for inappropriate purposes, at frequent intervals, and at enormous cost to the Society.

Therefore, as explained in the Explanatory Memorandum, these particular changes incorporate safeguards, in the interests of the general body of policyholders.

These new provisions about calling an EGM or proposing an AGM resolution are in addition to, not instead of, the provisions of the Companies Act.

The Act allows members representing 10% of the voting rights to call an EGM, or representing 5% of the voting rights to propose a resolution to an AGM, without the additional provisos applying.

The other significant new change I would like to highlight relates to proposed removal of the current restriction in relation to borrowing powers. The current Article 55, places a restriction on the borrowing powers exercisable by the directors, without the prior approval of a General Meeting, expressed as one-fiftieth of the total funds.

As the Society's funds reduce, and with the existing subordinated loan, this limit becomes more restrictive if it is interpreted as one-fiftieth 'at any time', not just when the loan was granted.

There has been some publicity recently about the proposed removal of Regulation 55, and also comment has been made querying why the removal did not feature in our consultative paper.

The correct interpretation of the current Regulation 55 has not been tested in the Courts, so we cannot say for certain whether the limit is 'at any time' or at the time of borrowing. However, our final legal review resulted in a Counsel's opinion that made us conclude that, to avoid risking a possible breach in the future, the Regulation should be altered or removed.

As companies generally, do not have a clause of this nature- they rely on the general law relating to borrowings- it was decided that the most appropriate course, was to remove it altogether.

I would add, on behalf of the board, that the provisions of the existing Regulation 55 have hitherto always been fully satisfied. And that we have no current intention of seeking new borrowings.

Concluding Comment

To summarise, the Board firmly believes, that the proposals put before you today, are an appropriate revision of the Society's Articles, to meet the Society's current and anticipated medium-term future needs.

And, that they will align the Society's constitution with good, modern, corporate governance.

We commend them to you.

VANNI TREVES

Thank you Michael.