



THE EQUITABLE LIFE ASSURANCE SOCIETY
FOUNDED 1762

Private and Confidential

Dr M Nassim
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10 Chapel Lane
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23 November 2007

Our ref : CREC/0019/ACHECG

Dear Dr Nassim

PROPOSED TRANSFER OF WITH-PROFITS ANNUITY POLICIES TO PRUDENTIAL

I refer to your letter of 25 October 2007 in relation to the proposed transfer of Equitable Life's ("Equitable") with-profits annuity policies to Prudential. I apologise for the delay in responding to your letter.

At the outset, I should explain that the purpose of the court hearing on 28 November 2007 is to consider whether or not the proposed transfer should proceed. The court will be considering the likely effects of the proposed transfer upon policyholders as compared with their position if the transfer does not proceed. Much of the content of your letter appears to be focussed not upon the transfer, but upon your view of the previous conduct of Equitable and its regulation. In this letter I will respond to the issues you have raised with regard to the transfer.

The FSA

Although I note your allegations regarding the regulators of Equitable, it is not for the Society to comment upon those allegations. As you know, the Parliamentary Ombudsman is currently investigating the regulation of Equitable (not Equitable itself).

Part III 3(b) of the Policyholder Circular which was sent to you describes the effect of the transfer on "Transferring Policies". In particular, it explains the Parliamentary Ombudsman's inquiry is independent of the Government and can recommend to Parliament that the Government pays compensation to policyholders. If the Parliamentary Ombudsman recommends that the Government should pay compensation, and the Government agrees to do so, the Society would support the fair distribution of compensation among its policyholders and former policyholders, including with-profits annuitants whose policies had transferred to the Prudential.

The Society has no reason to expect the transfer to affect a transferring policyholder's entitlement to any compensation. However, if the Parliamentary Ombudsman recommends Government compensation, it will be for the Government to decide whether it will pay and, if so, to whom.

I should note that, contrary to the suggestion in your letter, the FSA will advise the court prior to the hearing on 28 November 2007 whether or not they object to the transfer.

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The Independent Expert

The Independent Expert's duties are to the court, not to Equitable or Prudential, and this ensures his impartiality. In particular, it is his function to provide an independent analysis of the likely effects of the transfer on the policyholders of Equitable and Prudential to assist the court in considering whether to sanction the transfer. The Independent Expert has conducted a thorough investigation of the transfer and produced a detailed report, the form of which has been approved by the FSA.

The EGM

The rules for voting which Equitable must use for its EGMs are set out in its Memorandum and Articles of Association, and have been used for voting at the Society's Annual General Meetings for many years. As you know, the Society is the trustee of the FSAVC Scheme and consequently, it is the grantee of policies effected under that scheme. Given the benefits of the transfer to policyholders, the Society cast the FSAVC scheme's 10 votes in favour of the resolution. The resolution was passed with the overwhelming support of voting members: the vote on a show of hands was consistent with the proxy vote received of which 99% were in favour of the transfer (410,450 votes in all).

Asset share

The Scheme provides for the calculation of aggregate amounts for all policies being transferred. It does not provide for the calculation of the individual asset shares attributable to each of the approximately 62,000 policies being transferred. In view of the above, a specific asset value in respect of your particular policy is not available.

With reference to your comment about the 0.5% pa reduction until 2010 in respect of the cost of guaranteed annuity rates, the withholding of 7 months' bonus in the year 2000 was not applied to with-profits annuitants. Effectively, the 0.5% pa reductions are intended to bring relevant with-profits annuitants into line with non-annuitants.

Deductions

I note what you say regarding the deductions to policies. I would, however, like to reassure you that the transfer will not affect the terms of your policy as to the level of charges permitted (or in any other way, save insofar as is necessary to substitute Prudential for Equitable). The transfer does not, contrary to your suggestion, introduce any new charges. In fact, Prudential has committed not to increase the level of deductions charged to cover expenses and the cost of guarantees under policies above those currently charged by Equitable. If the transfer does not proceed, Equitable could increase those charges in future if necessary.

GIR Policyholders

With regard to your reference to the position of policies with GIR, it should be remembered that policies with GIR had considerably higher initial pensions than policies with a similar ABR, but without the GIR.

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Under the arrangements with Prudential it is possible that an annuity with GIR of 3.5% pa and an ABR of 6.5% pa could increase if Prudential's investment return is high enough. The potential for Prudential to earn better returns than Equitable Life can is the main reason why the Board recommended the proposal to members. However, even if a with-profits annuitant's pension reduces with Prudential, if it turns out to be higher than Equitable Life would have achieved, then that is still a benefit to the annuitant.

I trust this answers your queries, but should you like any further information, please let us know.

Yours sincerely



Lyn Birks
Customer Relations & Experience Advisor