Equitable Life

Transfer of with-profits annuities to Prudential: Key features

Practical arrangements for with-profits annuitants

The transfer will not affect the terms of your with-profits annuity policy, other than as necessary to replace 'Equitable Life' with 'Prudential'. For example, the minimum benefit levels guaranteed under the policy (including any declared bonus) will be maintained as will your anticipated bonus rate. If your policy provides benefits for a spouse they will also be transferred. If your policy provides for the annuity to be paid for a minimum period of time, it will continue to do so. (Any benefits under with-profits annuity policies which are not with-profits annuities will not be included in the transfer – those benefits will remain with Equitable Life.)

Equitable Life will continue to be responsible for making your annuity payments up to the date of the transfer (expected to be 31 December 2007). After the transfer, the responsibility for making your annuity payments will transfer from Equitable Life to Prudential and Prudential will pay your annuity from that point. However, Equitable Life will pay some instalments of annuity due around the transfer date a little earlier than usual to ensure that payments are not disrupted during the transfer to Prudential. **No action is required on your part when Prudential take over the payments** (for example, you do NOT need to inform your bank)**.**

Following the transfer, the administration of your policy will be handled by Prudential and you should contact them if, for example, you change your bank account or your address. Prudential will supply their telephone helpline details and customer services address to you when the transfer takes place.

After the transfer, bonuses on your with-profits annuity policy will be determined by Prudential based on the performance of the with-profits fund under their management (though clearly the return allocated in respect of 2007 will reflect the performance of Equitable Life during that period). Prudential will introduce bonus rates for the transferred annuities in the same form as Equitable Life's.

Key benefits of the proposal for with-profits annuitants

The main benefit for with-profits annuitants is that they will join Prudential which is one of the largest and strongest insurers in the UK. With-profits annuitants should be aware, however, that, like any other company, Prudential's financial strength might change in the future.

Most of Equitable Life's with-profits annuities now reduce each year because the bonuses allocated in recent years have fallen short of the anticipated bonus rates set in the policies. This is partly because Equitable Life has to keep most of its assets in fixed-income investments. Fixed-income investments give the fund security and stability, but they limit the potential for earning bonuses.

Prudential will put the with-profits annuities into an actively managed fund. By being able to hold a greater proportion of its assets in equities (company shares) and property Prudential's with-profits fund has greater bonus earning potential than the current Equitable Life fund. However, because of the riskier nature of assets such as equities, it is possible that investment returns, and therefore bonuses, could be lower than if your annuity had remained with Equitable Life (indeed in some circumstances non-guaranteed bonuses might not be paid).

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Prudential has committed to maintain expense charges for with-profits annuities in future at the level currently levied by Equitable Life. In contrast, we cannot guarantee to maintain charges at their current level for the future.

With-profits annuitants may receive a small special bonus addition to their policies if the transfer proceeds. This is because their share of Equitable Life's Excess Realistic Assets (the difference between the value of the liabilities of Equitable Life's including final bonus and the total value of the assets) will no longer be required to support their part of Equitable Life's business. Part of the with-profits annuitants' share of the Excess Realistic Assets will be used to cover costs arising from the transfer (including Prudential's 'up front' charges to cover the costs of guarantees) and any balance will be available to with-profits annuitants in the form of a special bonus. The special bonus, if any, is not expected to be significant and it will only be determined around the middle of 2008 (based on the financial position at the transfer date). We strongly believe that the transfer would be right for with-profits annuitants even if there is nothing available as a special bonus.

There are a number of costs and adjustments to the transferring policyholders' share of Equitable Life's Excess Realistic Assets. Full details of these costs and adjustments can be found in the Policyholder Circular - sections 5 and 7 part V.

The remaining policyholders' share of Equitable Life's Excess Realistic Assets will continue to support the Equitable Life's remaining business.

Key benefits of the proposal for other with-profits policyholders

The strategic opportunities for Equitable Life as a whole are limited by the presence of the with-profits annuity business. This is because the structure of Equitable Life's with-profits annuities is relatively unusual and unattractive to most third party insurers.

The potential cost of with-profits annuitants living longer than expected (longevity risk) will move to Prudential (just as the similar potential cost of non-profit annuitants living longer moved to Canada Life when that business was transferred).

Once the with-profits annuitants have transferred to Prudential, the Board will be able to focus all of its attention on the 80% of policyholders who will remain. We are confident that our ability to find an attractive strategy for the benefit of the remaining policyholders (including group pension schemes) will be improved.

Other features

The proposal has been reviewed by an Independent Expert, S J Sarjant FIA, a consulting actuary with Watson Wyatt Limited. His appointment was approved by the Financial Services Authority. He has written a report considering the impact of the proposed transfer on with-profits annuitants, the remaining Equitable Life policyholders and Prudential's policyholders. His report is summarised in the Policyholder Circular (see 'further information' below). With respect to Equitable Life's with-profits policies he concludes that, in his view:

- For Transferring Policies, the Scheme will give rise to benefit expectations which are different to those applying in Equitable currently. This is primarily a reflection of the significantly greater exposure to equity-type investments following implementation of the Scheme compared to the position currently. This greater level of exposure is similar to that which the holders of Transferring Policies may have expected when effecting their policies.

- While the Scheme may result in future benefits payable on Transferring Policies which are similar to those which would have applied in the absence of the Scheme, it may also result in future benefits which are either materially greater than or materially less than those which would have applied in the absence of the Scheme. Whereas the potential upside is unlimited, the downside is limited by the guarantees under the policies, which will be unaltered by the Scheme. Considering the portfolio of Transferring Policies as a whole, the reasonable benefit expectations of the holders of Transferring Policies in aggregate will not be adversely affected by the Scheme.
- The security of the Transferring Policies' guaranteed benefits will be enhanced by the Scheme.
- There will be no material adverse impact of the Scheme on the reasonable benefit expectations of the holders of policies remaining in Equitable Life and the security of the guaranteed benefits under these policies will remain at an acceptable level following implementation of the Scheme.

The proposal is also being scrutinised by the Financial Services Authority.

The costs of the transfer will be met from Equitable Life's Excess Realistic Assets (shared fairly between the transferring and remaining policyholders).

The with-profits annuity policies will join the Defined Charge Participating Sub-Fund (DCPSF) which is a sub-fund within Prudential's long term insurance fund. The DCPSF is used by Prudential for business which has a fixed level of charges and no exposure to the actual expenses of administering the business; Prudential's shareholders make a profit if the charges are greater than the costs and a loss otherwise. The profits in the DCPSF arising from investment performance after the fixed charge are entirely attributable to DCPSF policyholders - Prudential's shareholders do not share in the investment return of this fund as they do in Prudential's main with-profits fund. The gross investment return (before tax and charges) allocated to the DCPSF is the same as that allocated to Prudential's main with-profits fund (but, whereas in Prudential's main with-profits fund, policies benefit from 90% of profits arising from the investment return and other sources, in the DCPSF policies benefit from 100% of the investment return).

Equitable Life and Prudential (and other life companies) make assumptions about future improvements in life expectancy in managing annuity business. Prudential will manage the transferred annuities based on their forecasts of life expectancy for the transferring policyholders. Should actual experience in any particular year differ from what is expected then any financial impact will be met from Prudential's main with-profits fund (not the DCPSF).

In the future Prudential, like other life companies, may decide that its life expectancy forecasts need to be updated in the light of experience and revised mortality expectations. If this happens, then the with-profits annuitants will be protected in two ways. Firstly, Prudential's With-profits Committee (the independent committee responsible for overseeing fair treatment of Prudential's with-profits policyholders) will need to approve the change as being fair to with-profits annuitants. Secondly, if the Committee decides the change is fair, the financial impact will be restricted so that it does not affect annuity income by more than 0.5% pa (compound) compared with using Prudential's current forecasts – any greater impact will be covered by Prudential's main with-profits fund. This protection has been secured by an 'up front' charge as mentioned above under 'key benefits of the proposal for with-profits annuitants'.

How the transfer happens

The transfer will be implemented under a legal process known as a 'Part VII' transfer. The process is set out in Part VII of the Financial Services and Markets Act 2000. For the transfer to take place it needs to be approved by the High Court in London and a hearing at the Court will take place on 28 November 2007. The transfer is also subject to the approval of Equitable Life's members which will be sought at an Extraordinary General Meeting.

As part of the transfer, Equitable Life will transfer to Prudential approximately 62,000 with-profits annuity policies together with their share of Equitable Life's assets (about 20% of the with-profits fund).

Any liabilities and complaints arising from acts or omissions of Equitable Life before the transfer in respect of the with-profits annuity policies will remain the responsibility of Equitable Life.

Further information

This document gives information at a high level. Further detailed information is included in the booklet 'Policyholder Circular' which also sets out what other documentation relating to the transfer is available and how it may be obtained. The 'Policyholder Circular' has been mailed to policyholders and is also available on Equitable Life's website. The terms of the agreement have been studied by Equitable Life's Actuarial Function Holder and With-profits Actuary and, separately, by an Independent Expert. The booklet includes a summary of their reports and you can also read the full reports free of charge on Equitable Life's website www.equitable.co.uk or by contacting us on the helpline number given below.

Any person who believes that he or she would be adversely affected by the transfer is entitled to be heard (in person or by legal representative) at the Court hearing. The Court hearing will take place on 28 November 2007 at the Royal Courts of Justice, Strand, London WC2A 2LL. If you intend to appear in Court, or if you disagree with the transfer but do not intend to appear in Court, you are requested to give not less than two clear days' prior notice of your intention or disagreement with your reasons to the solicitors acting for Equitable Life – Lovells, Atlantic House, Holborn Viaduct, London EC1A 2FG, please quote reference D5CRH. If the Court gives its approval at the hearing, there will be no further opportunity for you to raise objections to the transfer.

The Financial Services Authority also has the right to address the Court.

Other people or businesses may have an interest in your Equitable Life policies (for example, joint holders, assignees, co-trustees, and trustees in sequestration and bankruptcy and beneficiaries of group schemes). If you think someone has such an interest, please draw this enclosure and the other enclosed documentation to their attention. We have written direct to all with-profits annuitants for whom we have a current address.

If you require advice on the transfer, it is recommended that you seek independent advice (at your own expense).

Helpline

If you have any questions about the proposed transfer of with-profits annuity policies to Prudential, please call us on 0800 408 0097 (or 00 800 1020 1040 if calling from overseas). If you have a normal service enquiry, please use our normal customer service number.

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