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Website: www.equitable.co.uk

Our ref: malt/wp

Dear Policyholder

Transfer of non-profit pension annuity business to Canada Life

I am pleased to let you know that Equitable Life has agreed to transfer most of its non-profit pension annuities to Canada Life. This is good news for holders of with-profits policies such as yourself because the transfer will remove a significant risk to the business.

Reason for the transfer

As you are probably aware, people's life expectancy has been increasing rapidly and as a result the cost of paying annuities has been increasing. Where those people have Equitable Life pensions the cost of paying those pensions is greater than expected and that cost falls on the with-profits fund.

The Society uses the most up to date sources to try and stay ahead and ensure it has set aside enough money to allow for people living longer, but there can be no certainty.

Because of the Society's recent history, the size of the annuity business as a proportion of the whole business is relatively large so the potential impact of changes in people living longer could be significant. The transfer will pass approximately £4.6 billion of annuity liabilities to Canada Life together with the associated assets. The amount of this transfer, together with all related costs, does not reduce Equitable Life's available capital resources or its excess realistic assets as reported as at 31 December 2005.

The transfer of non-profit annuity business to reduce the exposure to risk in a closed fund is a reasonably common practice. There have been several similar transfers recently by other insurance companies.

Terms of the transfer

We have been able to obtain attractive terms for the transfer because a number of companies have bid for the business. Naturally, we chose the best terms offered for the benefit of the Society and its policyholders as a whole.

In order to ensure that the interests of all policyholders are fully protected, the transfer will need the agreement of the High Court. The Court will receive a report from an Independent Expert and the Financial Services Authority (which has a statutory responsibility to safeguard policyholders' interests) will approve the form of the report. This can be a lengthy process and, as a result, we do not expect to apply to the Court until

later this year or in 2007. The transfer will take place after the Court approval has been granted. In the meantime, we have arranged to get some of the benefits of the transfer immediately by entering into a reinsurance arrangement with Canada Life. Under the reinsurance arrangement, we continue to pay the non-profit annuities to policyholders and we recover the amounts we have paid from Canada Life.

Other potential deals

In the course of our strategic review, we are also exploring options relating to our with-profits policies which could improve the longer term prospects for with-profits policyholders. Essentially, these could involve the sale or transfer of some or all of the business. In considering such approaches, our challenge is 'Can this approach deliver improved benefits to our policyholders?' It is by no means certain that such discussions will lead to a positive answer to this fundamental question and it may well take some time. However, if we can find an option giving improved benefits we will present it to policyholders. It is, of course, with-profits policyholders who would ultimately decide whether to accept such a strategic change as the assets involved relate to with-profits policies.

Your Board will continue to do everything it possibly can to improve the stability and the security of your Society and the prospects for policyholders.

Yours sincerely

Charles Thomson
Chief Executive

Encl: Press release

If you have any questions on the content of this letter please call our special helpline on 0845 1202 512 (+44 1296 386242 if you are calling from overseas).