

24 March 2014

Dear Policyholder

**With-profits policies - improvements to your benefits**

We are making two very important improvements to your with-profits policy with effect from 1 April 2014. First, we are increasing the capital distribution under your policy to 25%. Second, we are removing the 5% exit charge when policies are cashed in early.

Getting capital back into the hands of with-profits policyholders, as fairly and as soon as possible, remains at the heart of our strategy. We have plans which will, if successfully implemented, support further increases in capital distribution subject to, for example, the state of financial markets and the Society's future capital needs.

The questions and answers overleaf provide more details about how the capital distribution works. We hope you find these helpful.

We will be issuing your Annual Statement towards the end of April, where you will be able to clearly see the impact of the improvements on your policy benefits.

Yours sincerely



C M Wiscarson  
Chief Executive

Helpful questions and answers overleaf

## CAPITAL DISTRIBUTION: YOUR QUESTIONS ANSWERED

<b>How does the capital distribution work?</b>	For each with-profits policy, we look at its value as at 31 December 2013 and, for every £1000, we allocate an extra capital distribution of £250 to that value. At the point a policyholder leaves the Society, we take the policy value plus the capital distribution, compare it with the policy's guaranteed value and pay out the larger amount.
<b>What do you mean by the policy's "guaranteed value"?</b>	Most policies have a guaranteed value and this is clearly shown on your Annual Statement.
<b>Why is the capital distribution only being paid to policyholders when they leave?</b>	Because that's when we know for sure that the Society no longer needs to hold capital for that particular policyholder.
<b>What is capital?</b>	It's the money a company needs to hold to protect itself against things going badly wrong that would otherwise lead to insolvency.
<b>How do you calculate the amount of capital the Society needs?</b>	We take the value of all the assets we hold and then deduct a conservative estimate of what we are contractually required to pay out to policyholders in the future. Our regulators specify a certain minimum excess. Anything in addition to that is known as surplus capital. That is what we are determined to return to with-profits policyholders as fairly and as soon as possible.
<b>How can you afford to pay capital out?</b>	Over the last few years, the Society has been successful in reducing the risks it faces. As risks are reduced, this frees up capital which can be returned to policyholders.
<b>Is the 25% capital distribution guaranteed?</b>	No. It can go up or down in the future depending on, among other things, regulatory requirements and the Society's capital needs from time to time. We intend to continue to reduce the Society's risks and, if these plans are successful, our hope is that the capital distribution will increase.
<b>Does this 25% replace the 12.5% distribution announced in 2011?</b>	Yes.
<b>Are you paying policyholders to leave?</b>	No. Definitely not.
<b>How do I know that you will have enough money for policyholders who aren't planning to take their benefits for some years?</b>	We have gone to great lengths to establish an appropriate level of fairness between policyholders who leave and those who stay. We know that we can afford the 25% now. That doesn't mean to say it will never go down, because it might. We believe that the 25% currently best meets the balance between policyholders who want to take their benefits now, compared with those who want to take theirs in the years to come.
<b>Why aren't you increasing the guaranteed value by 25%?</b>	If we increased the guaranteed value of your policy beyond that we are already committed to, we would have to increase the amount of capital that we hold. That's the very opposite of what we are trying to achieve.
<b>Do I need to do anything now?</b>	No, you do not need to take any action now.
<b>Where can I find further details on the Society's performance?</b>	On our website <a href="http://www.equitable.co.uk">www.equitable.co.uk</a>
<b>Where can I get financial advice?</b>	We recommend you speak to an Independent Financial Advisor or visit the website <a href="http://www.moneyadvice.service.org.uk">www.moneyadvice.service.org.uk</a>