

Walton Street
Aylesbury
Bucks
HP21 7QW

Website: www.equitable.co.uk

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Dear Policyholder

I am pleased to be able to tell you about the progress of the Society over the last six months.

Getting capital back into the hands of policyholders

In response to the last few turbulent years in the financial markets, we have been building up the Society's capital base as well as reducing the risk profile of our investments. Indeed, it was this build up of capital which gave the Board the confidence to begin a capital distribution programme last March.

So, from 1 April 2011, the Society earmarked a sum equivalent to 12.5% of policy values at 31 December 2010 to enhance payments to policyholders who leave the Society. The way to see what that is worth to you is by turning to the surrender value or transfer value of your with-profits benefits in your Annual Statement. That's what your policy was worth at the end of 2010. Since 1 April, for policyholders who leave the Society, an amount of £125 has been added for every £1,000 of their policy value.

For many policyholders, the enhancement has been a straight addition to their payout. For those where their policy value was below any guaranteed value, the guaranteed value will often have prevailed. You can see the policy guaranteed value on your Annual Statement.

One positive consequence of the capital distribution is that there are many fewer cases where the guaranteed amount exceeds the policy value. This means the cost of guarantees will be lower and so we can reduce the charge for guarantees from 1% to ½% pa. We estimate this frees up around £300m that we will be able to distribute as policies mature.

As we have reported previously, the new European solvency regulations are expected to be introduced in 2013. Until then, we do not propose to alter our accounting approach and we shall continue to use Excess Realistic Assets as the principal way to report on capital using consistent methods and assumptions to the ones we used at the end of 2010.

At 30 June 2011, our Excess Realistic Assets had grown to £766m, up from £694m at the end of 2010. Since the beginning of July, the economic climate has been very volatile and, while the level of Excess Realistic Assets will reflect market falls, the Society's solvency ratios remain in good shape.

The Board will typically review the level of payment enhancement in March each year when we publish our annual results. It is the Board's hope that the 12.5% level will be maintained or increased over time, adverse market conditions apart.

The current economic climate

Over the last few months, the economic climate has been particularly volatile, with uncertainties around the financial health of several European countries. Our investment policy has been conservative and we have no direct exposure to Greece or Portugal, and relatively limited exposure to Ireland, Spain and Italy. We manage our assets very carefully to ensure that the Society's solvency remains in good shape. If considered necessary as a result of further deterioration in economic conditions, we would adjust policy values and the payment enhancement appropriately.

Government compensation

In May, the Government published on their website how their compensation scheme will work and you may have seen publicity that compensation payments have commenced. This is a big step in the right direction but it is important to recognise that Government has given itself until June 2012 to get in touch with all eligible policyholders. We wrote to you at the beginning of July to let you have as much as we know about Government plans and hope this was helpful. There have been no significant developments since we wrote and we have been in touch with HM Treasury who are responsible for making payments, to emphasise that the sooner policyholders know where they stand, the better.

Administration services

Lastly, I am delighted to report that, in June, we completed the move of 350 administration staff from Lloyds Banking Group to the Society. The goodwill and dedication of the people as they returned to the fold gives us great flexibility on how we manage the Society's affairs. In particular, we now manage our own destiny in establishing the best way to get the Society's capital back into your hands as fairly as possible in the years ahead.

Yours sincerely



Chris Wiscarson
Chief Executive

The Government Compensation website can be found at:
<http://equitablelifepaymentscheme.independent.gov.uk>