

## NEWS RELEASE

For immediate release  
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### Equitable Life agrees to transfer £1.8 billion of with-profits annuity policies to Prudential

The Equitable Life Assurance Society ("Equitable Life" or "the Society") announces today that it has entered into an agreement with The Prudential Assurance Company Limited ("Prudential") for the transfer of its with-profits annuity policies, representing about 20% of the with-profits fund with an estimated value of approximately £1.8 billion at 31 December 2006.

Under the terms of the agreement, which is conditional on certain matters, the most important of which are referred to below, all of the Society's with-profits annuity policies will be transferred to Prudential by the end of the year. Equitable Life's members will have the opportunity to vote on the transfer and the completion of the transaction will be subject to the approval of voting members at an Extraordinary General Meeting (EGM) in the autumn. If members vote for the proposal (as the Board expects to recommend), the transfer will then be subject to the approval of the High Court.

The income payments from a majority of Equitable Life's with-profits annuities currently reduce each year. This is partly because the Society must keep most of its assets in fixed interest investments, which limit the bonus earning potential of the fund, whereas in many cases the rates of bonus anticipated when the policies were set up reflected higher investment returns at the time. Furthermore, it is not possible to surrender annuity policies, so with-profits annuitants are currently not free to leave the Society should they wish. The proposed transfer to Prudential will substantially improve both bonus earning prospects and investment flexibility for the Society's with-profits annuitants.

At the same time, the strategic opportunities for the Society will be significantly improved once the transfer of the with-profits annuities is completed. The Society's with-profits annuities are a relatively unusual product and only a few third parties such as Prudential currently have the experience and capability to operate them.

When completed, the agreement with Prudential will see approximately 62,000 with-profits annuities (representing some 50,000 annuitants) transferred into an actively managed fund which is one of the largest and strongest in the UK and which has much greater bonus earning potential than the current Equitable Life fund. Prudential's with-profits fund generated an investment return of 12.4% in 2006, 63.8% over the last 5 years and 161.9% over the last 10 years.

Prudential has committed to maintain expense charges for with-profits annuities at the level currently levied by Equitable Life and its profits will result from its management of its costs. This provides reassurance for transferring policyholders regarding future levels of charges.

As part of the legal process of completing the transfer, an Independent Expert will consider the potential impact of the transaction on with-profits annuitants, the remaining Equitable Life policyholders and Prudential's policyholders. The Independent Expert, whose findings will be published in full, will be asked to confirm whether any group of policyholders will be worse off as a result of the transaction. The proposal will also be assessed by the Financial Services Authority (FSA).

**Vanni Treves, Equitable Life's Chairman said:**

"The proposal, which will benefit all policyholders, to transfer with-profits annuity policies to Prudential is a further major success arising from the Society's ongoing review of strategic options. The Board has been very conscious of the particular difficulties faced by with-profits annuitants and we are pleased to have negotiated this excellent proposition for them. Our agreement with Prudential represents the next phase of our plan to improve prospects for all with-profits policyholders and to simplify further the Equitable Life book of business."

**Charles Thomson, Equitable Life's Chief Executive said:**

"The proposal from Prudential represents an excellent opportunity for with-profits annuitants to transfer to a fund where they will enjoy far greater investment flexibility and which has a much better recent bonus record. They will become part of an actively managed fund, which is one of the largest and strongest in the U.K. It will also help us in the search for the best strategic solution for the remaining 80% of policyholders."

**Nick Prettejohn, Chief Executive, Prudential UK, added:**

"This transaction demonstrates Prudential's ability to grow its with-profits business to create value for its policyholders and shareholders while providing Equitable Life policyholders with improved prospects and greater security by being part of one of the largest and financially strongest funds in the UK. The fund has delivered excellent investment returns over many years and as a result of this transaction, Equitable Life's with-profit annuitants will benefit from Prudential's considerable experience in the annuities market where we are a market leader."

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## Notes to Editors:

1. Letters are being sent to policyholders to explain the implications of the transaction for them. Copies are available on the Society's website [www.equitable.co.uk](http://www.equitable.co.uk)
2. Equitable Life has established a special number for policyholders with questions about the proposed transfer on 0800 408 0097.
3. Prudential is a leading life and pensions provider to approximately 7 million customers in the United Kingdom.

*Products:* Bulk and Individual Annuities, Corporate Pensions, With-Profits and Unit-Linked Bonds, Savings and Investments, Lifetime Mortgages, Healthcare and Protection.

*Distribution Channels:* Direct-to-customers/PruDirect (telephone, internet and mail), Financial Advisers, Business to Business (consulting actuaries and benefit advisers), and Partnerships (affinities and banks).

The Prudential Assurance Company Limited's (PAC) long-term fund remains very strong and is rated AA+ by Standard & Poor's, Aa1 by Moody's and AA+ by Fitch Ratings. The Prudential with-profits sub-fund, which had total assets of £71.9 billion as at 31 December 2006, delivered a pre-tax return of 12.4 per cent in 2006, and over the last five years the fund has achieved a total return of 63.8 per cent against 41.1 per cent for the FTSE 100 total return and 50.2 per cent for the FTSE All-Share (Total Return) index (figures are to 31 December 2006, before tax and charges). Much of this excellent investment performance was achieved through the active asset allocation of the fund.

4. Prudential will receive a large block of business from which they expect to make a profit (with no increase in current levels of administration charges) and which will create opportunities for synergies within Prudential in terms of costs, investment management and administration. The transaction represents a significant increase in Prudential's with-profits business, which is an area of its strategic focus.
5. Alternatives: The Board has considered a number of internal strategies and external approaches relating to with-profits annuities and compared them to the proposal from Prudential. The Board is clear that the Prudential proposal represents the best approach for all policyholders - giving with-profits annuitants something closer to what they originally purchased (a pension which depends on the returns from a broadly based investment fund), whilst providing to the remaining with-profits policyholders the benefits of a simplified business and improved prospects for strategic options in the future. Based on our discussions and research with thousands of policyholders over several years, none of the other alternatives which the Board has considered would have been as attractive to policyholders as the Prudential proposal. In particular, effecting changes which would allow significantly greater investment freedom without involving a third party would be much more complex, involve significant changes to policy terms, create greater risks for policyholders and would be expected to be much less likely to appeal to a broad range of policyholders than the Prudential proposal. Policyholders have told us that they have little enthusiasm for options involving converting with-profits annuities to non-profit policies (for example, to provide fixed reducing pensions). The Board also considered rejecting strategic change in favour of continuing to run all of the Society's business within the current framework. That would leave with-profits annuitants in a fund with continuing limited bonus earning potential and would increase the difficulties of finding a strategic opportunity which might benefit the other policyholders.

6. Safeguards:
  - The Board believes strongly that the proposal represents the best way forward for the Society. To reach that conclusion the Board has taken legal advice from Lovells, actuarial advice from Deloitte and financial advice from Lexicon respectively. In due course, the Board expects to recommend that members vote in favour of the agreement with Prudential.
  - The Financial Services Authority (FSA) is the regulator for both Equitable Life and Prudential. Part of its remit is investor protection. The FSA has a right to be heard by the Court before a transfer can be sanctioned.
  - An Independent Expert will be appointed with a duty to advise the Court of the potential impact of the proposal on policyholders, including those who will transfer to Prudential, those who will stay with Equitable Life and also Prudential's policyholders. The FSA will approve the appointment of the Independent Expert and will also approve the form of his report to the Court. Although the Independent Expert will be approved by the FSA and his fee will be paid jointly by Equitable Life and Prudential, his duty is to the Court alone.
  - The Board will not implement the transfer unless the members approve the proposal at a vote which will be arranged for later in the year. Finally, the Court will not sanction the transfer unless it considers that the proposal as a whole is fair to all those involved. Anyone who believes the scheme may adversely affect them has the right to be heard by the Court in due course.
7. The total pre-tax cost of the transfer covering the data audit, the systems development, the legal process and the communications is estimated to be in the region of £35 million which will be met from the Society's Excess Realistic Assets. The majority of the costs will be covered by the with-profits annuitants' share of Excess Realistic Assets as they will see the most significant benefits if the transfer proceeds.
8. There is unlikely to be any noticeable effect on the Society's bonus rates. With-profits annuitants may receive a small special bonus addition to their policies if the transfer proceeds because their share of the Society's Excess Realistic Assets will no longer be required to support their part of the Society's business. Part of these Excess Realistic Assets will be used to cover costs arising from the transfer and any balance will be available in the form of a special bonus. The special bonus, if any, is not expected to be significant. The remaining policyholders' share of the Society's Excess Realistic Assets will continue to support the Society's remaining business.
9. Lexicon Partners Limited ("Lexicon"), which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for the Society and no-one else in connection with the transaction described herein and will not be responsible to anyone other than the Society for providing protections afforded to clients of Lexicon or for giving advice to anyone other than the Society in relation to the transaction described herein, the contents of this announcement or any other matter referred to herein. Lexicon have placed reliance on the directors' commercial assessments of the transaction and on advice received by the board of directors from the Society's actuarial and legal advisers.
10. Deloitte & Touche LLP ("Deloitte") provided actuarial advice to the Board of Directors of the Society ("the Board"). Deloitte's advice is exclusively to the Board in connection with the transaction described herein and Deloitte is not advising any other person or treating any other person as its client in relation thereto and will not be liable to anyone other than the Board for the advice provided, the contents of this announcement or any other matter referred to herein. In providing advice to the Board, Deloitte has placed reliance on the directors' commercial assessments of the transaction and on advice received by the Board from the Society's other advisers.