

30 October 2003

EQUITABLE LIFE MEMBER ANNOUNCEMENT OCTOBER 2003

Dear Member

You will have received our previous announcements covering the situation at Equitable Life. Since our last update Equitable Life has made a further announcement regarding with-profits investments and released their 2002 end of year FSA returns. The Parliamentary Ombudsman has also recently given a ruling on the role of the Financial Services Authority (FSA) in relation to its regulation of Equitable Life.

Bonuses and policy values

The key messages regarding bonuses are as follows:

- There are no non-guaranteed bonuses for the year 2002 and first 3 months of 2003.
- Those policyholders who have a Guaranteed Interest Rate will receive 3.5% guaranteed bonus for 2002 added to the guaranteed value of their fund. The Civil Service AVC Scheme policy has a Guaranteed Interest Rate.
- An interim non-guaranteed bonus rate for 2003 of 3.5% p.a. was declared commencing from 1 April 2003.

In addition, Equitable Life has decided to make further changes to policy values and the financial adjustments. This means that:

- Indicative policy values are reduced by 10% as at 1 April 2003.
- The maturity adjustment has been set to zero, from a previous level of 10%.
- The financial adjustment on surrender (or MVA) has been reduced from 20% to 11.1% (i.e. 10% of the indicative policy value before these latest changes).

These changes are broadly a restatement of the position prior to 1 April 2003. The reductions or penalties which apply are based on the indicative policy value of your AVC account. As notified previously the indicative policy value may be less than the value shown on your benefit statement. On retirement the guaranteed value will be paid if this is higher than the indicative policy value.

Future Bonuses

Bonuses paid to policyholders depend on a number of factors but in particular on the terms of the contract (which includes a guaranteed interest rate of 3.5%) and the performance of the with-profits fund. Equitable Life has tried to match the liabilities of the fund as closely as possible with the underlying assets. The FSA returns confirm that 87% of the fund is now (as at 31 December 2002) invested in bonds and cash. Only 4% of the fund is held in shares and with little hope of re-entering the

stock market in the foreseeable future, the prospects for future discretionary bonuses are minimal.

The underlying performance of the with-profits fund for the calendar year 2002 was 4.8%. However because the assets are now broadly aligned to the liabilities the value of the liabilities has also increased over the year. This means that there is little scope to pay bonuses above the 3.5%.

Insolvency?

Equitable Life stated in its announcement that:

'Equitable Life remained solvent in 2002 and remains solvent today.'

It also confirmed that the Society

'maintains its ability to pay its guaranteed obligations to continuing policyholders and we more than satisfy the Required Minimum Margin requirements of the FSA.'

There remains fundamental uncertainty around the adequacy of the reserves they have established for future contingencies. Given the investment mix of the fund Equitable Life acknowledge the greatest risk to the fund in the future is regarding these reserves and other non-investment issues such as expense overruns and legal costs.

Benefit Statements

Statements produced after July 2003 will show the following:

- The guaranteed policy value. This is the minimum value you will receive on retirement. It includes the contributions paid (less expenses) plus guaranteed interest given to date.
- The current surrender value (i.e. your indicative policy value less the current financial adjustment). This is the amount you would receive if you were to transfer your funds away from Equitable Life before you retire (based on current bonus rates and adjustments). This amount may be less than the guaranteed policy value.

The statement will not show an indicative policy value including any non-guaranteed bonus which could be payable on retirement.

Inquiries and investigations

The Penrose Inquiry commissioned by the Treasury is still ongoing. It is hoped that the Inquiry will report later this year.

On 1 July 2003 the Parliamentary Ombudsman published the results of her investigation into the "prudential regulation" of Equitable Life by the FSA. The Ombudsman found no evidence to suggest that the FSA had failed in its regulatory responsibilities during the period under investigation. It should be said that the scope of the Ombudsman's remit was limited to one particular aspect of the FSA's role (that of prudential regulation) and covered a specific period (from January 1999 to

December 2000). It is possible that the Penrose Inquiry will comment further on the role of the FSA.

Equitable Life began its court case against nine former non-executive directors in September 2003. In addition Equitable Life has been given leave by the Court of Appeal to pursue its claim against Ernst & Young, the Society's former auditors. The trial is due to commence in October 2004.

Where to find help or advice

If you have any questions about the information in this announcement, please contact your scheme administrator. You should also refer back to the previous announcements you have received, as this latest update does not repeat many of the issues previously mentioned.

The Financial Services Authority (FSA) has information for policyholders of Equitable Life on their website www.fsa.gov.uk/consumer/whats_new/index.html. By clicking on 'Equitable Life' there are some questions and answers on Equitable Life and further information is included in the 'Notes to assist policyholders' link on this page. It was last updated on 8 May 2003.

Before you make any decision about your Equitable Life investment – such as whether or not to transfer - you should get advice from an independent financial adviser. The Scheme Managers or their advisers cannot give you financial advice as neither have a full understanding of your approach to investment, risk and your full financial circumstances.

If you do not already use a financial adviser you can contact IFA Promotions who will give you details of an independent financial adviser in your area.

Address: IFA Promotions Limited
17 – 19 Emery Road
Brislington
Bristol
BS4 5PF

Tel 0117 971 1177

Email: ifapmail@inchbrookmail.co.uk

Fax: 0117 972 4509

Internet: www.unbiased.co.uk

Under the Financial Services and Markets Act 2000, the Scheme Managers and their advisers are not able to give you individual financial advice.

On behalf of the Managers of the Civil Service AVC Scheme.
October 2003

This announcement represents our advisers understanding of the position at October 2003. Features and issues are liable to change without notice. This document has been issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. This document is intended to be a strategic commentary and not independent financial advice in respect of individual members or the Scheme Managers. .