

UNDERSTANDING PARTICIPATING WHOLE LIFE INSURANCE

CLIENT GUIDE



equimax

ABOUT EQUITABLE LIFE OF CANADA®



Equitable Life® is one of Canada's largest mutual life insurance companies in Canada. For generations we've provided policyholders with sound financial protection, and we look forward to continuing to deliver long-term financial value. We're focused on the needs of our clients, and pride ourselves on the breadth and quality of our financial and insurance products and on our premier client service.

The mutual structure of our company ensures that our participating policyholders are owners with voting rights on company issues. With no shareholders imposing undue emphasis on short-term earnings, Equitable Life always operates in the best interest of our policyholders.

Equitable Life is a focused, stable and strong company.

Our mutual structure is a key element of our value proposition, along with our diversified product portfolio and superior service. As an organization we're progressive, competitive and firmly committed to serving the best interests of our policyholders, through longer-term strategies that foster ongoing stability, growth and profitability.

ABOUT THIS GUIDE

This guide provides information to help you understand Equimax participating whole life insurance, including some key financial facts about the management, performance and strength of Equitable Life's Participating Account, how dividends are calculated and how they impact your policy.



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WHAT IT MEANS TO OWN A PARTICIPATING WHOLE LIFE POLICY

Life insurance is basically a contract between a policy owner and an insurer to pay a sum of money to the designated beneficiary on death of the life insured by the contract.

When you purchase an Equimax® participating whole life insurance policy, you benefit from a guaranteed death benefit, cash values and premiums. These guaranteed benefits are determined using long-term assumptions for factors such as investment returns in the Participating Account¹ as well as mortality, expense, lapse, claims experience, taxes and other experience of the participating block of policies.

As a participating policyholder, you are also eligible to participate in the distributable earnings of the Participating Account in the form of dividends.² Each year the Company's Board of Directors determines the amount of distributable earnings to be paid to participating policyholders in the form of dividends in accordance with Equitable Life's Dividend Policy.³

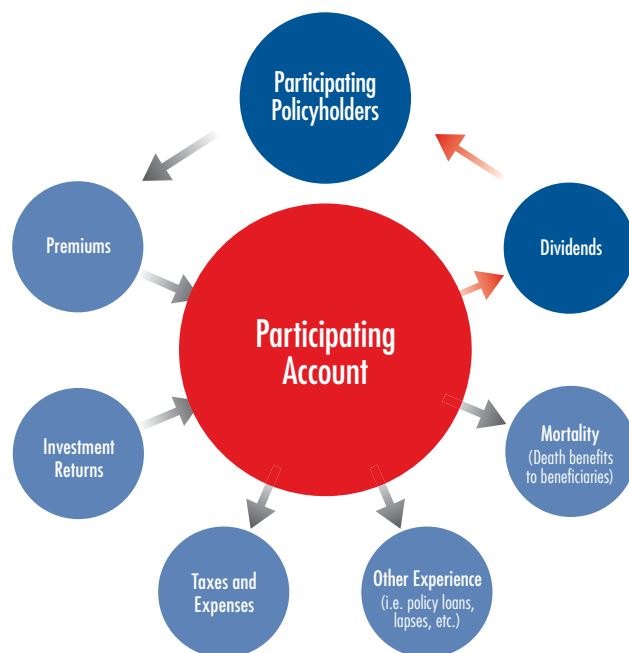
We have credited dividends² every year since we first launched participating whole life in 1936.

HOW DIVIDENDS ARE CALCULATED

The amount of premiums from the participating block of policies that is not required to pay for current benefits and expenses flows into the Participating Account and is invested. The investments in the Participating Account are managed by the Equitable Life Asset Management Group, which is ideal for clients who are looking for a more stable, hands-off investment approach.

Determining the dividends² takes into consideration various components of the participating block of policies. The investment performance of the Participating Account is just one component. The Participating Account is managed for investment yield as well as the risk associated with paying all future obligations of the participating block of policies. These include death claims and lapses, taxes, and other expenses that are associated with the sale and administration of the participating block of policies.

Improvements in some of the components can help to offset declines in other components. For example, improvements in mortality can help offset the impact of declining interest rates on investment performance.



Investment performance	Mortality and lapse experience	Taxes and expenses
<p>Investment performance is based on the rate of return Equitable Life earns on the Participating Account. When the rate of return on the Participating Account is higher than anticipated, impact on dividends is positive. When the rate of return is lower than anticipated, impact on dividends is negative.</p> <p>The dividend scale interest rate reflects past and expected future investment performance of the Participating Account, and is used in the calculation of the investment performance component of the dividend.</p>	<p>Claims experience includes death claims as well as cancelled and lapsed policies, which can impact dividends either positively or negatively depending on the actual experience versus the estimates used for pricing.</p> <p>Lapse experience is the impact of policies that are no longer in effect for any reason other than a death claim.</p>	<p>Dividend calculations also consider the difference between the estimated and actual taxes and expenses required to administer the participating block of policies. Change in the taxes and expenses can therefore have a positive or negative impact on dividends.</p> <p>Typically, taxes and expenses experience are generally a smaller component of the total dividend compared to the investment and mortality experience.</p>

A CLOSER LOOK AT THE PARTICIPATING ACCOUNT

Investment mandate of the Participating Account

The assets within the Participating Account are managed with a dual mandate:

1. Meet the guarantees of the product;
2. Provide long-term income and capital appreciation to support the dividend scale.

Equitable Life Asset Management Group

The Equitable Life Participating Account is managed by the Equitable Life Asset Management Group.

Management Approach and Strength

Equitable Life uses an [active asset management](#) approach with a single team that ideally positions the Participating Account assets for asset mix decisions. Using a combination of techniques ([fundamental and technical analysis](#), as well as quantitative measurements), the managers actively allocate between asset classes based on the relative attractiveness of each category, market conditions, and expectations for the asset classes.

The single team approach ensures that the asset managers are directly responsible for the [asset allocation](#) decisions as well as the asset class performance. This enables the managers to provide input and feedback to the team on the relative attractiveness of their asset class, and focuses on a [top down asset allocation](#) process.

Investing 101

Active Asset Management

Active management relies on analytical research, forecasts, risk/reward comparisons and the experience of the asset managers and team in making investment decisions.

Asset Allocation

The process of determining which asset classes (bonds, private placements, mortgages, real estate, common and preferred equity) to invest in and the optimal proportions. Each asset class has a different level of risk and return and reacts differently to market conditions. Investing in different asset classes provides diversification, and can help reduce the variability of returns. The asset allocation process has historically been demonstrated to add the most significant value to the investment process.

Diversification

Often described as “not putting all your eggs in one basket”. Diversification is a way of managing investment risks by using a broad range of investments within a portfolio. Diversification can be achieved on many levels including asset class, geographic exposure, industry sector, and individual company exposure.

Fundamental Analysis

Involves analyzing the characteristics of a potential investment in order to estimate its value.

Technical Analysis

Studies the price movements in the market in an attempt to determine if trends are changing or may persist.

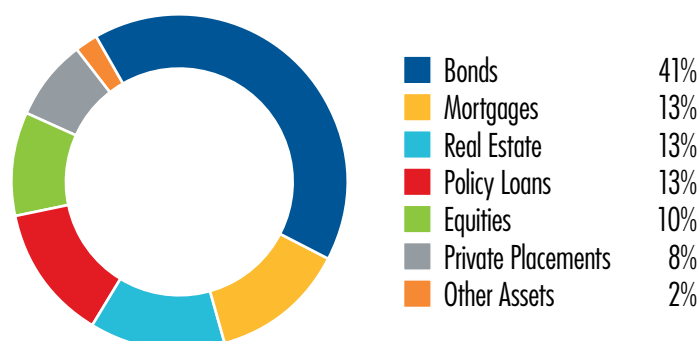
Top Down Asset Allocation

Involves looking at the “big picture” in the economic and political environment and determining the impact to financial markets in general, then moving more specifically to industry sectors and specific companies for potential investment.

HOW PAR PREMIUMS ARE INVESTED

The amount of premium that is not required to pay for current benefits and expenses is invested in the Participating Account to provide for future benefits. The asset mix of the Participating Account includes common and preferred equities, real estate, commercial mortgages, private and public bonds.

This pie chart provides a general overview of the composition of assets in the Participating Account portfolio as of December 31, 2011.



Participating Account Asset Mix – Details

(As of December 31, 2011)

	\$ Thousands	Percentage
Short-term		
Cash and equivalents	\$ 378	<1%
Total short-term	\$ 378	<1%
Fixed Income		
Government bonds	\$ 53,693	18%
Corporate bonds	\$ 65,989	23%
Private placements	\$ 23,299	8%
Commercial mortgages	\$ 38,583	13%
Total fixed income	\$ 181,564	62%
Equities		
Real estate	\$ 39,443	13%
Common stock	\$ 17,161	6%
Preferred stock	\$ 12,622	4%
Total equities	\$ 69,226	23%
Total invested assets	\$ 251,169	86%
Policy loans	\$ 36,501	13%
Other assets	\$ 4,736	2%
Total participating assets	\$ 292,406	100%

Asset Classes

Bonds

The bond portfolio is invested primarily in Canadian securities with a mix of government and corporate issuers. The bond portfolio is investment grade with a focus on ensuring sufficient assets to meet the guarantees.

Real Estate and Commercial Mortgages

Real estate and commercial mortgage investments are exclusively Canadian and concentrated in major metropolitan areas.

Equities

Common equity investment allocations are diversified internationally with strategic weighting to geographic regions that are deemed to provide the most attractive opportunities. While Canadian equities play an important role in the equity portfolio, international investments are critical to gain greater exposure to the global economy and expand the range of industry sectors available for investment.

Preferred equity investments offer attractive yields relative to fixed income securities, but with more stable cash flows than common equities. Only Canadian issuers are considered for investment in the preferred portfolio.

INVESTING FOR OPTIMUM PERFORMANCE OF THE PARTICIPATING ACCOUNT

Asset Quality and Diversification are Critical

Although asset allocation has historically been demonstrated to add the largest proportion of value to fund management, selecting high quality securities remains critical. As such, thorough analysis is conducted on all fixed income assets by our experienced asset managers. Investment guidelines restrict purchases to investment grade securities.

Diversification is also achieved by:

- investing in a variety of maturities for the fixed income portfolio,
- limiting concentration to sectors and issuers,
- geographic distribution of the equity portfolio.

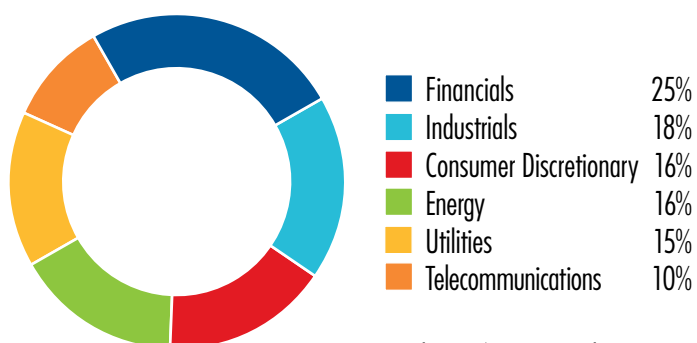
Investments by Quality	
Rating	Percentage
AAA	10%
AA	30%
A	56%
BBB	4%
BB or less	0%
Total	100%

As of December 31, 2011 for publicly rated fixed income securities.

Investments by Term		
Years to maturity	\$ Thousands	Percentage
0 to 5 years	\$ 57,692	32%
5 to 10 years	\$ 39,732	22%
Over 10 years	\$ 84,140	46%
Total	\$ 181,564	100%

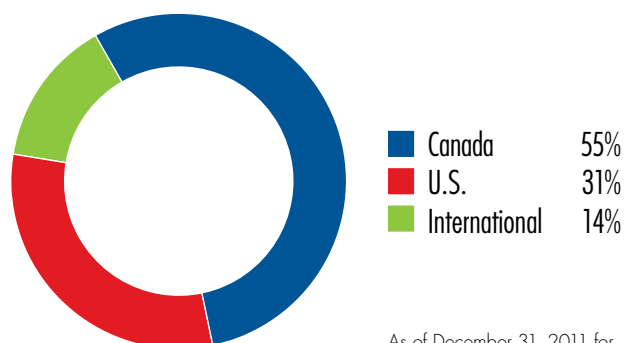
As of December 31, 2011 for fixed income securities.

Investments by Sector



As of December 31, 2011 for corporate bonds.

Geographic Distribution



As of December 31, 2011 for common stock.

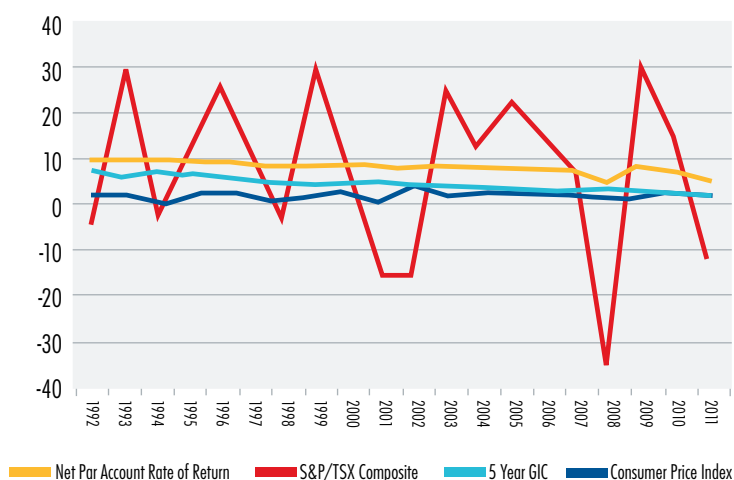
Looking for quarterly updates and commentary on the Participating Account?

Visit us at www.equitable.ca

HOW THE PARTICIPATING ACCOUNT RESPONDS TO MARKET CONDITIONS

During periods of high interest rates, the rate of return of the Participating Account tends to increase. Conversely, during periods of low interest rates, the rate of return of the Participating Account tends to decrease. However, in either case, the increase or decrease in rate of return will typically lag and potentially not be as volatile as the change in the interest rate environment.

The following shows the historical returns of Equitable Life's Participating Account, net of investment expenses, compared to other well-known economic indicators.⁴



Year	Net Par Account Rate of Return	S&P/TSX Composite Index	5 Year GIC	Consumer Price Index
1992	9.6	-4.6	7.8	2.1
1993	9.5	29.0	6.4	1.7
1994	9.6	-2.5	7.4	0.2
1995	9.4	11.9	7.1	1.8
1996	9.1	25.7	5.6	2.2
1997	8.5	13.0	4.7	0.8
1998	8.3	-3.2	4.4	1.0
1999	8.2	29.7	4.8	2.6
2000	8.2	6.2	5.3	3.2
2001	7.7	-13.9	4.0	0.7
2002	8.0	-14.0	3.9	3.8
2003	7.7	24.3	3.1	2.1
2004	7.6	12.5	2.9	2.1
2005	7.5	21.9	2.7	2.1
2006	7.6	14.5	3.2	1.7
2007	7.3	7.2	3.3	2.4
2008	4.9	-35.0	3.0	1.2
2009	8.6	30.7	2.0	1.3
2010	7.8	14.4	2.0	2.4
2011	6.0	-11.1	1.9	2.3

Average Annualized Returns				
1	6.0	-11.1	1.9	2.3
3	7.5	11.3	1.9	2.0
5	6.9	1.2	2.4	1.9
10	7.3	6.5	2.8	2.1
20	8.1	7.8	4.3	1.9
Standard deviation since 1992	1.2	17.6	1.8	0.9

DIVIDEND SCALE INTEREST RATE

The dividend scale interest rate, not to be confused with the rate of return of the Participating Account, is just one component in the formula that determines the dividends paid in a participating policy. It is a smoothed rate to reduce impact of volatility of the investments in the Participating Account.

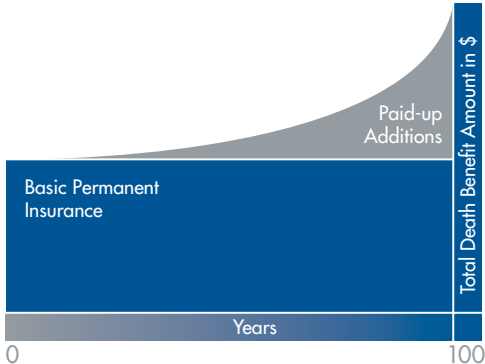
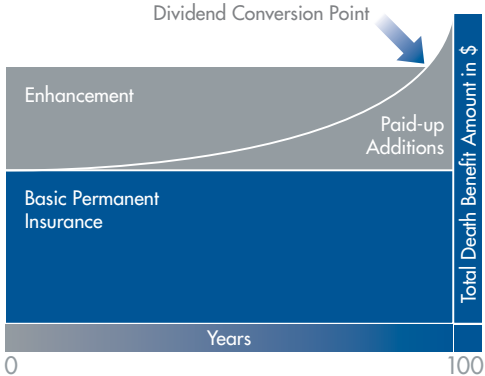
Here is a summary of our current and previous dividend scale interest rates:

Year	Dividend scale interest rate
1993	10.7%
1994	10.2%
1995	10.2%
1996	9.6%
1997	10.0%
1998	9.1%
1999	8.8%
2000	8.8%
2001	8.8%
2002	8.8%
2003	8.4%
2004	8.2%
2005	8.2%
2006	7.9%
2007	7.9%
2008	7.9%
2009	7.4%
2010	7.1%
2011	7.1%
2012	6.8%

The current dividend scale interest rate is effective for the period of July 1, 2012 to June 30, 2013.

HOW DIVIDENDS IMPACT YOUR POLICY

Equimax participating whole life insurance is eligible to receive annual dividends through a variety of dividend options including Paid-up Additions (PUAs) and Enhanced Protection.

Dividend Option	How it works...
Paid-up Additions	<p>Dividends² are used to purchase participating paid-up additional insurance (PUAs).</p> 
Enhanced Protection	<p>The policy begins with a combination of basic permanent insurance and yearly renewable one-year term insurance (called the Enhancement). Dividends² are used first to pay for the one-year term insurance with any excess used to purchase participating paid-up additional insurance (PUAs). Any new PUAs automatically replace part of the one-year term insurance. Once all of the original one-year term insurance has been replaced by PUAs, the Dividend Conversion Point is reached. At that point, all future dividends are used solely to purchase additional PUAs.</p> 

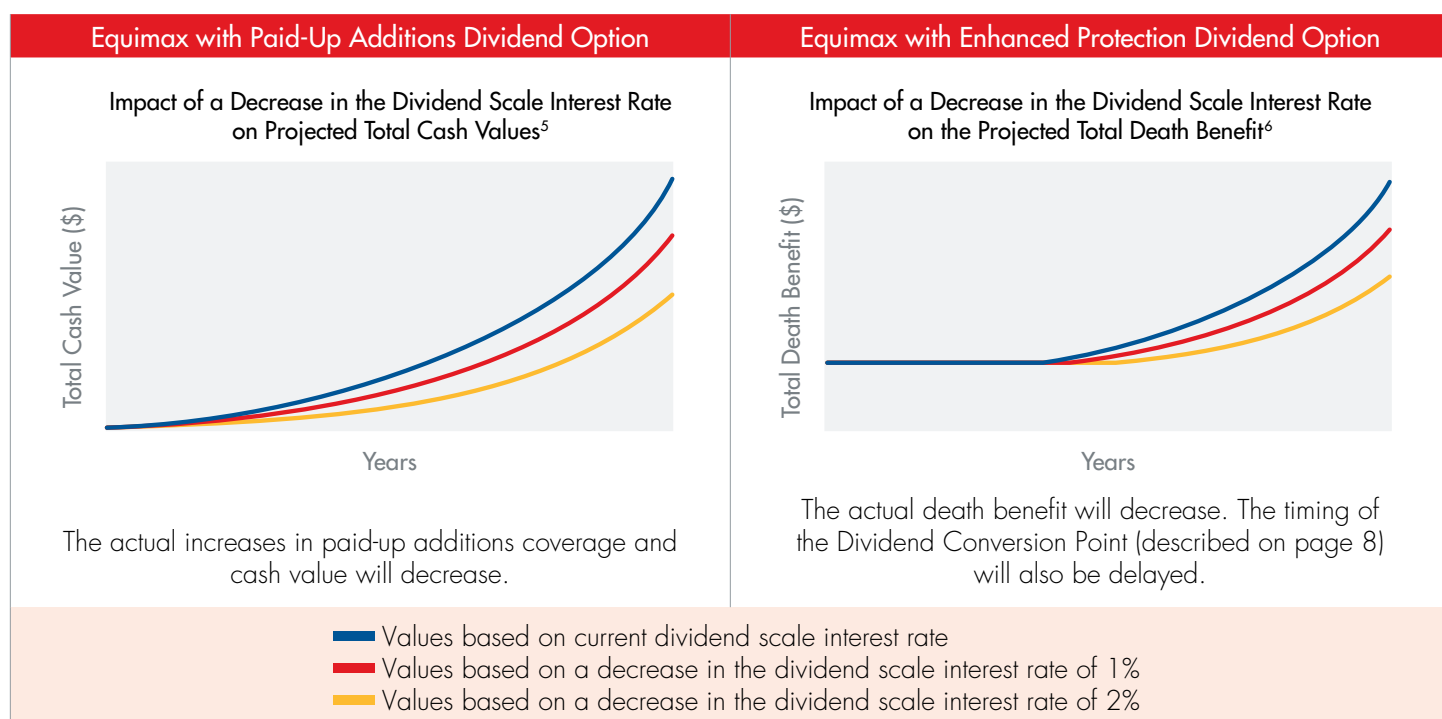
More information about Equimax and the dividend options available can be found in [Your Guide to Equimax](#).

HOW A DIVIDEND SCALE CHANGE IMPACTS YOUR POLICY

A change in the dividend scale can affect your policy, particularly if you selected the Paid-up Additions (PUAs) or Enhanced Protection dividend options in which you are relying on dividends to increase the cash value or the death benefit of the policy.

The sales illustration provided by your insurance advisor for your policy projects the cash values and death benefit amounts into the future. Those projections assume continuation of the current dividend scale. Two additional projections are included in the sales illustration to show the impact a change in dividend scale interest rate can have on your policy. While fluctuations in dividends will not impact guaranteed cash values or guaranteed death benefit amounts, it will affect the non-guaranteed values of the Equimax policy. The sales illustration provided by your insurance advisor is for illustration purposes only.

The following graphs illustrate the impact of a decrease in the dividend scale interest rate.



These graphs are for illustration purposes only. Actual results may vary.

How a dividend scale change impacts Premium Offset

If you select a dividend option that offers the ability to use dividends earned to pay premiums, at some point in the future, the projected future dividends plus the non-guaranteed cash value within the policy may be sufficient to pay all future premiums. This is called the Premium Offset Point.

The sales illustration provided by your insurance advisor for your policy may have projected a date when the Premium Offset Point is expected to occur based on the current dividend scale.

Since the Premium Offset Point is dependent on dividends, it is not guaranteed. It is extremely sensitive to changes in the dividend scale interest rate. A decrease in the dividend scale interest rate may:

- Delay the Premium Offset Point and require you to pay premiums for longer than previously projected.
- Require you to resume paying premiums for a period of time if your policy is already on Premium Offset.



THE MUTUAL DIFFERENCE

Many life insurance companies in Canada are stock companies owned by shareholders who have voting rights and input into how the stock company conducts its business.

Only a few are mutually structured. Mutual companies have no shareholders. They are run to benefit participating policyholders, who are not only customers, but also have an ownership interest in the company.

Equitable Life of Canada is one of Canada's largest mutual life insurance companies.

Benefits of dealing with a Mutual Company

- Participating whole life policyholders are eligible to participate in the distributable earnings of the Participating Account in the form of dividends.² Dividends are undiluted by shareholder transfers.
- Participating policyholders elect our Board of Directors and have a right to vote on various other Company issues. We operate the Company in their interests and we answer only to them.
- Our mutual structure allows us to offer continuity and stability and to focus on growing the Company and meeting the long-term interests of our policyholders. We are not driven by shareholder pressures for quarterly results. As other insurance companies consolidate and restructure, our organization remains focused, stable and strong.
- Our commitment to our mutual status means that our customers know who they are doing business with—now and in the future—and will continue to receive customer-focused service.

QUESTIONS?

If you would like more information about Equimax or participating whole life insurance, please contact your advisor.

NOTES:

¹ For more information on the Participating Account, refer to "A closer look at the Participating Account" section of this guide.

² Dividends are not guaranteed. They are subject to change, and will vary based on the actual investment returns in the Participating Account as well as mortality, expense, lapse, claims experience, taxes and other experience of the participating block of policies.

³ A copy of Equitable Life's Dividend Policy and Participating Account Management Policy can be found on our website at www.equitable.ca.

⁴ Sources: Statistics Canada, Bank of Canada, Equitable Life of Canada. Historical results are not indicative of future performance.

⁵ The Total Cash Value is made up of the Guaranteed Cash Value and the cash value of any Paid-Up Additions purchased by dividends.

⁶ The Projected Total Death Benefit includes the Guaranteed Death Benefit plus the death benefit of the One-Year Term Insurance and any Paid-Up Additions purchased by dividends.

EQUITABLE LIFE OF CANADA. A wise choice.

Through personal service, superior products and an ongoing commitment to mutuality, Equitable Life can assist you in reaching your financial goals. Whether you're making your first investment, building your financial plan, or looking for ways to protect what is most important to you, we have the solutions you need. With customer-centred staff, and a prudent investment strategy focused on long-term stability, growth and profitability, we also have the focus and expertise you need. In all aspects of your life, we're committed to helping you achieve the financial future you're looking for, by putting you first.

While Equitable Life has made every effort to ensure the accuracy of the information presented here, the policy contract governs in all cases.



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Visit our website: www.equitable.ca

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