TRANSFER OF WITH-PROFITS ANNUITY BUSINESS OF THE EQUITABLE LIFE ASSURANCE SOCIETY TO THE PRUDENTIAL ASSURANCE COMPANY LIMITED

SUMMARY OF THE SCHEME AND OF THE INDEPENDENT EXPERT'S REPORT

PART I: BACKGROUND

It is proposed that most of the with-profits annuity business (the "***Transferring Business***") of The Equitable Life Assurance Society ("***Equitable Life***") will be transferred to The Prudential Assurance Company Limited ("***Prudential***"). This transfer of the *Transferring Business* (the "***Transfer***") is to be implemented under the statutory process available under Part VII of the Financial Services and Markets Act 2000 (the "***FSMA***") for the transfer of insurance businesses.

As required by paragraph 3(4) of the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001, this document provides details of the terms of the scheme (the "***Scheme***") under which it is intended that the *Transfer* will be implemented and a summary of the report on the terms of the *Scheme* dated 30 August 2007 prepared by an independent expert (the "***Independent Expert's Report***"). The *Independent Expert's Report* was prepared by Mr Steve Sarjant FIA (the "***Independent Expert***"), who is a consulting actuary working in the Insurance & Financial Services Practice of Watson Wyatt Limited.

The information in this document is only a summary of the *Scheme* and of the *Independent Expert's Report*. If you require further information, you are recommended to read the *Independent Expert's Report*. Copies of the *Independent Expert's Report* and the *Scheme* document can be obtained, free of charge, from *Equitable Life*, from its website at www.equitable.co.uk, by writing to Equitable Life, Walton Street, Aylesbury, Bucks HP21 7QW or by telephone on 0800 408 0097 (or 00 800 1020 1040 if calling from overseas).

Italicised terms in this document have the meanings set out in Part IV of this document.

PART II: SUMMARY OF THE SCHEME

1. Introduction

The following provides an overview of the proposed *Transfer* of the with-profits annuity business of *Equitable Life* to *Prudential*.

The *Transfer* is to be implemented under Part VII of the *FSMA*. Accordingly, application has been made to the *Court* for approval of the *Transfer* and a report on the *Transfer* has been prepared by the *Independent Expert* (a summary of his report appears in Part III of this document). Reports on the *Transfer* have also been prepared by the *Actuarial Function Holder* and the *With-Profits Actuary* of *Equitable Life*, (a summary of these reports appears in Parts IV and V of the *Circular*). Full copies of the *Independent Expert's* report and the reports of the *With-Profits Actuary* and *Actuarial Function Holder* are available on *Equitable Life's* website www.equitable.co.uk (see page 85 of the *Circular* for further information).

The final *Court* hearing has been scheduled for 28 November 2007.

Similar transfer schemes are to take place in Guernsey and Jersey.

Every effort has been made to ensure the accuracy of this overview. Nevertheless, the complex nature of the actuarial calculations and variables detailed in the *Scheme* cannot be fully replicated in summary. To the extent that there is any inconsistency between this document and a provision of the *Scheme*, the *Scheme* shall prevail. Copies of the *Scheme* are available on *Equitable Life's* website.

2. Conditions to the *Transfer* becoming effective

The *Transfer* is subject to the following conditions:

(a) the passing of the *Resolution* by a simple majority of votes cast in person or by proxy at the *EGM*;

(b) the granting of an order of the *Court* sanctioning the *Scheme*; and

(c) the obtaining of certain *Tax Clearances* and confirmations.

If the *Transfer* does not become effective on or before 14 September 2008, either *Equitable Life* or *Prudential* may decide not to proceed with the *Transfer*. However, assuming the above conditions are satisfied in time, the *Transfer* is expected to become effective at 11.59 pm GMT on 31 December 2007. The date the Scheme takes effect is referred to as the ***"Scheme Effective Date"***.

3. *Transfer* of the *Transferring Policies* and the *Transferring Assets* to *Prudential*

(a) **Identification of policies to be transferred**

For the purposes of the *Scheme*, *Equitable Life* will prepare a list of its with-profits annuity policies and this list will be agreed with *Prudential*. The list is referred to as the ***"Final Policy List"***. The list will include all the with-profits annuity policies of *Equitable Life* with the exception of 17 policies issued under German law before 1 July 1994 which, because of their particular bonus structure, will not be transferred to *Prudential*. These 17 policies represent only a small proportion of all with-profits annuity policies issued in Germany. The vast majority of with-profits annuity policies issued in Germany will be transferred to *Prudential* under the *Scheme*.

On the *Scheme Effective Date*, the policies on the *Final Policy List* will be transferred to *Prudential*, with certain further exceptions. The exceptions are:

(i) *Expired Policies* (that is, policies where no further income is payable because of the death of all relevant annuitants prior to the *Scheme Effective Date* (including secondary annuitants) or because the policy has otherwise terminated - these policies will not be in force any longer on the *Scheme Effective Date*, so it would be meaningless for them to be transferred to *Prudential*);

(ii) *Ineligible Policies* (that is, policies which are not actually with-profits annuity policies - this ensures that *Equitable Life* will remain responsible for any other types of policy which may have been included on the *Final Policy List*); and

(iii) *Excluded Policies* (that is, policies which cannot be transferred under the *Scheme* - more detail on these policies is set out below in paragraph 7(a)).

The policies on the *Final Policy List* which are not *Expired Policies*, *Ineligible Policies* or *Excluded Policies* will constitute the **"*Transferring Policies*"**.

The *Transferring Policies* are to be transferred to *Prudential* together with the assets attributable to the *Transferring Policies* and the *Excluded Policies* and the *Records* relating to the *Transferring Policies* and those assets.

(b) **Effect of transfer of *Transferring Policies***

The transfer of the *Transferring Policies* will have the effect that *Prudential* will become the insurer under the *Transferring Policies* in place of *Equitable Life* on the *Scheme Effective Date*. Any person who is a *Member* (or could become a

Member) of *Equitable Life* by virtue of a *Transferring Policy* will cease to be a *Member* (and cannot become a *Member* in future) unless that person is entitled to membership by virtue of another policy participating in the profits of *Equitable Life* after the *Scheme Effective Date*.

Where payments are currently made by *Equitable Life* under *Transferring Policies*, payments due after the *Transfer* will be made by *Prudential*. Payments due within a short period after the *Scheme Effective Date* may be made by *Equitable Life* in advance, prior to the *Scheme Effective Date*, in order to ensure that there is no delay in payments as a result of the *Transfer*. *Prudential* will reimburse *Equitable Life* for any such payments.

In a small number of cases, a single policy issued by *Equitable Life* provides for a with-profits annuity and certain other benefits. Under the *Scheme*, responsibility for the with-profits annuity will be transferred to *Prudential* and *Equitable Life* will remain responsible for the other benefits.

In July 2004, the Parliamentary Ombudsman announced her decision to conduct a further investigation into the prudential regulation of *Equitable Life*. Her inquiry is independent of the government and can recommend to Parliament that the government pays compensation. The Parliamentary Ombudsman recently stated that she can give no commitment as to the timetable for publication of her report.

If the Parliamentary Ombudsman recommends that the government should pay compensation, and the government agrees to do so, *Equitable Life* would support the fair distribution of compensation amongst its policyholders and former policyholders, such as transferred with-profits annuitants. However, the distribution of any compensation would ultimately have to be in accordance with the government's instructions.

(c) **The share of assets fairly attributable to the *Transferring Policies***

The assets attributable to the *Transferring Policies* and which accordingly are to be transferred to *Prudential* (the ***"Transferring Assets"***) include not just the assets out of which *Equitable Life* intends to pay income to the policyholders thereunder and reserves to cover the expected cost of guarantees under the *Transferring Policies*, but also a share of the working capital of *Equitable Life*. (Essentially this amount is the same as “Excess Realistic Assets” in the financial statements in Part VII of the *Circular*).

The *Board* will determine the share of working capital for which the primary requirement is that the calculation must be fair between all affected groups of *Equitable Life’s* policyholders (including having regard to the appropriate allocation of the costs of the *Transfer* and the fact that the *Transferring Policies* will cease to share the cost of future expenses of *Equitable Life* and the cost of the *Excluded Liabilities* (see paragraph 3(h)) and the fact that the remaining policies will no longer share the mortality risk and certain tax liabilities associated with the *Transferring Policies*). The amount of assets determined to be fairly attributable to the *Transferring Policies* is described as the ***"WPA Allocated Amount"***.

(d) **Allocations of assets and liabilities**

The assets and liabilities referable to the *Transferring Policies* will be transferred to *Prudential* in three different allocations.

(i) **First allocation: *Aggregate Initial Asset Share* and liability to pay non-guaranteed income**

Each *Transferring Policy* has two levels of income associated with it: the **"non-guaranteed income"** and the **"guaranteed income"**. *Equitable Life* pays policyholders whichever level of income is higher at any time. This means that at any time the guaranteed income represents the minimum level of income that is payable at that time, while the non-guaranteed income may be higher if rates of non-guaranteed bonus have exceeded the assumed rate that was used when setting the initial level of guaranteed income (paragraph 5(g) provides more information about this assumed rate).

Prudential will establish *Asset Shares* for the *Transferring Policies* to fund the non-guaranteed income over the remaining lifetime of the *Transferring Policies*. (The *Asset Shares* will effectively represent the reserves required for the non-guaranteed income in respect of the *Transferring Policies* over their remaining expected lifetimes, each being set equal to the present value of all those future income payments for the *Transferring Policy*.) The aggregate amount of the initial *Asset Shares* which are to be established at the *Scheme Effective Date* is referred to as the ***"Aggregate Initial Asset Share"***.

For the purposes of funding the establishment of the *Asset Shares*, *Equitable Life* will transfer the *Aggregate Initial Asset Share Transferring Assets* to the Defined Charges Participating Sub-Fund ***("DCPSF")*** within *Prudential's* long-term insurance fund. The liability to pay non-guaranteed income in respect of the *Transferring Policies* will also be allocated to *Prudential's DCPSF*.

More detail on the management of the *Asset Shares* is set out in paragraph 5 of Part II.

(ii) **Second allocation: *Up-front Guarantee Charge* and *Guarantee Liabilities***

Income under the *Transferring Policies* will only be funded from *Asset Shares* to the extent of the non-guaranteed income component. If the guaranteed income in respect of a *Transferring Policy* exceeds the non-guaranteed income, the liability to pay the excess will not be funded from *Asset Shares*. Instead, it will be funded by the With-Profits Sub-Fund (***"WPSF"***) within *Prudential's* long-term insurance fund. This result will be achieved by allocation of the *Guarantee Liabilities* (that is, the liability to pay the excess of the guaranteed income over the non-guaranteed income under the *Transferring Policies*) to *Prudential's WPSF*.

As payment to *Prudential's WPSF* for taking on this liability, *Equitable Life* will pay the *Up-front Guarantee Charge* to *Prudential*. The *Up-front Guarantee Charge* will be paid by the transfer to *Prudential's WPSF* of the *Up-front Guarantee Charge Transferring Assets*. In addition to the *Up-front Guarantee Charge*, ongoing guarantee charges of a maximum of 0.5 per cent per year of the *Asset Shares* will be deducted from the investment returns credited to the *Asset Shares* and paid to *Prudential's WPSF* as described in paragraph 5(i)(ii).

(iii) **Third allocation: *Mortality Premium* and liability to limit reductions in non-guaranteed income caused by changes in mortality assumptions**

Prudential's WPSF will also take on, to a certain extent, the risk of a further fall in mortality rates of the annuitants under the *Transferring Policies* (that is, the risk of annuitants living longer than expected) to a level below that which has already been factored into current expected mortality assumptions that have been agreed for the *Transferring Policies*. A further such fall in mortality rates would be disadvantageous for the *Transferring Policies* because *Prudential* would have to change the expected mortality basis it uses for setting the levels of non-guaranteed income. This change in mortality assumptions would result in a reduction in the non-guaranteed income under the policies, which would be necessary to permit income to continue to be paid over longer annuitant lifetimes. *Prudential's WPSF* will take the risk that changes in *Prudential's* expected mortality assumptions would result in a reduction in the

Transferring Policies' non-guaranteed income equivalent to a reduction of more than 0.5 per cent per year over the lifetime of the *Transferring Policies* (when compared against the current agreed expected mortality assumptions) by meeting the cost over and above a 0.5 per cent per year reduction.

Further explanation as to how mortality experience is managed is set out in paragraph 5(f).

As payment to *Prudential's WPSF* for taking on this risk, *Equitable Life* has agreed to pay the *Mortality Premium* to *Prudential*. The *Mortality Premium* will be paid by the transfer to *Prudential's WPSF* of the *Mortality Premium Transferring Assets*.

(e) **Reasons for allocations**

Equitable Life and *Prudential* have decided to allocate the assets and liabilities referable to the *Transferring Policies* in the manner described above because of the objectives of (i) enabling the *Transferring Policies* to continue to benefit from 100 per cent of the investment return on the assets backing them; and (ii) reducing the exposure of the *Transferring Policies* to two key risks – namely the risk of guaranteed income exceeding non-guaranteed income (the **"guarantee risk"**) and the risk of a fall in mortality rates (the **"mortality risk"**).

The first objective could not be achieved by transferring the *Transferring Policies* to *Prudential's WPSF*, as 10 per cent of all profits arising in that fund are allocable to *Prudential's* shareholders. By contrast, *Prudential's* shareholders have no right to any of the profits arising in *Prudential's DCPSF*, so it was appropriate for the *Asset Shares* to be established in this fund.

The second objective could not be achieved by allocating the guarantee risk and the mortality risk to *Prudential's DCPSF* because *Prudential's DCPSF* has no surplus assets available to fund the additional payments that might be required. *Prudential* has a significant amount of surplus assets in its *WPSF* (constituting its "inherited estate"), so it was appropriate for the guarantee risk and the mortality risk to be allocated to this fund.

Accordingly, the *Aggregate Initial Asset Share Transferring Assets* will be transferred to *Prudential's DCPSF* to fund the establishment of *Assets Shares* and the *Up-front Guarantee Charge Transferring Assets* and the *Mortality Premium Transferring Assets* will be transferred to *Prudential's WPSF* in payment for the assumption by *Prudential's WPSF* of the guarantee risk and the mortality risk.

(f) **Adjustment Payment**

The assets and liabilities described in paragraph 3(d) will be transferred on the *Scheme Effective Date*. The value of assets required to be transferred will depend on the amount of the liabilities as at the *Scheme Effective Date*, but this will not be known with precision until several months after the *Scheme Effective Date*.

For this reason, the assets and liabilities to be transferred on the *Scheme Effective Date* will be determined on the basis of agreed projections of the amounts required to be transferred, including taking into account the projected uplift in non-guaranteed income described in paragraph 4 of Part II. Following the *Scheme Effective Date*, a determination will be made of the precise value of assets that should have been transferred by *Equitable Life* to *Prudential*, taking into account the amount of liabilities of *Equitable Life* determined as at the *Scheme Effective Date*. To the extent that a greater or lesser value of assets was actually transferred, one or more adjustment payments will be made as appropriate from *Prudential* to *Equitable Life* or from *Equitable Life* to *Prudential* (the ***"Adjustment Payment"***).

(g) **Selection of assets**

Equitable Life and *Prudential* have agreed a procedure for the selection of the assets that will be transferred from *Equitable Life* to *Prudential*. This procedure is based on the agreed projections of the amounts required to be transferred on the *Scheme Effective Date* (which are subject to correction by the subsequent *Adjustment Payment(s)* described in paragraph 3(f)). *Equitable Life* will identify a pool of assets equal to 200 per cent of the total projected amount required to be transferred (in respect of the *Aggregate Initial Asset Share*, the *Up-front Guarantee Charge* and the *Mortality Premium*), and *Prudential* will select assets having a value equal to 100 per cent of each of the projected amounts, separated into the *Aggregate Initial Asset Share Transferring Assets*, the *Up-front Guarantee Charge Transferring Assets* and the *Mortality Premium Transferring Assets*.

The pool of assets identified by *Equitable Life* and the assets selected by *Prudential* (taken as a whole) will have materially the same asset mix profile, in terms of the proportions of different types of assets included therein, as *Equitable Life*'s with-profits fund as at 30 June 2007. This will ensure that the transfer of the *Transferring Assets* to *Prudential* does not affect the asset mix profile of the remaining assets of *Equitable Life* (thereby avoiding the potential prejudice to remaining policyholders that would result if the asset mix profile were significantly changed).

Following the transfer of the selected assets to *Prudential*, *Prudential* will be free to use those assets as it sees fit best to serve the interests of the *Transferring Policies* (for example, by selling them and reinvesting in other assets), subject to complying with its applicable investment policies.

(h) ***Excluded Liabilities***

Liabilities arising from acts or omissions of *Equitable Life* or its Directors, officers, employees, contractors or agents will not be transferred to *Prudential* under the *Scheme*. These liabilities include liability arising for mis-selling of policies or breach of policy terms or regulatory requirements prior to the *Scheme Effective Date*. In addition, liability for tax payable by *Equitable Life* will remain with *Equitable Life*, as will liabilities which derive from or which are attributable to property of *Equitable Life* which is not being transferred to *Prudential*. These liabilities are referred to as the **"*Excluded Liabilities*"**. Accordingly, to the extent that *Equitable Life* has any liability to a policyholder in respect of a policy because, for example, an income payment has not been made in the correct amount, *Equitable Life* will continue to have the liability, and any claim made by the policyholder will need to be made against *Equitable Life*, not against *Prudential*.

Currently, the cost of the *Excluded Liabilities* is shared between all with-profits policies of *Equitable Life*, whereas from the *Scheme Effective Date* the *Excluded Liabilities* will be borne solely by the remaining with-profits policies. As noted in paragraph 3(c), *Equitable Life* will therefore make allowance for the *Excluded Liabilities* when determining the *WPA Allocated Amount*, so that money which would otherwise have been allocable to the *Transferring Policies* will be left behind in *Equitable Life* to cover their share of the *Excluded Liabilities* (based on *Equitable Life's* current assessment of the level of those liabilities).

(i) **Continuity of proceedings**

The *Scheme* will provide that any proceedings issued or served in relation to the *Transferring Policies* or the *Transferring Assets* in respect of which *Equitable Life* is plaintiff, claimant or applicant will be continued by *Prudential*, save where they relate to the *Excluded Liabilities* which, as described in paragraph 3(h), will be retained by *Equitable Life*. However, this provision will not apply where proceedings have been brought against *Equitable Life*, where *Equitable Life* is defendant or respondent. Such proceedings will continue to be against *Equitable Life*.

4. **Application of uplift to non-guaranteed income**

Subject to the *Transfer* becoming effective, *Transferring Policies* may receive a special bonus addition in the form of an uplift to non-guaranteed income. There will only be such an uplift to the extent that the *WPA Allocated Amount* is sufficient after deduction of the minimum amounts required to be transferred to *Prudential* for the purpose of the *Transfer*. In extreme circumstances, the *WPA Allocated Amount* may not exceed the minimum amounts required to be transferred. In these circumstances, there will not be such an uplift and, as described more fully below, it is possible that there may need to be a reduction in non-guaranteed income on the *Transferring Policies*.

Any such uplift will be effected by making a corresponding uplift to the *Asset Shares* of the *Transferring Policies*, which will be funded from the amount by which the *WPA Allocated Amount* is greater than the sum of:

(a) the *Aggregate Initial Asset Share*;

(b) the *Up-front Guarantee Charge*; and

(c) the *Mortality Premium*,

each determined as the amount they would be if no such uplift were applied. Any uplift in the *Asset Shares*, and consequently any uplift in the non-guaranteed income of each *Transferring Policy*, will be made as a fixed percentage applicable to all *Transferring Policies*, and will be applied on the *Income Uplift Date*, being a date selected by *Prudential* falling within two months after the payment of the *Adjustment Payment* described in paragraph 3(f).

The uplift, if any, is not expected to be significant and will only change levels of non-guaranteed income. It will not change guaranteed income. **Accordingly, if the level of guaranteed income in respect of a *Transferring Policy* is higher than the level of non-guaranteed income both before and after the uplift, there will be no change as a result of the uplift to the income which is actually payable at that time in respect of that *Transferring Policy*.**

Nevertheless, even where there is no immediate change in income, the fact that the non-guaranteed income has been increased may mean that the policyholder will at some time in the future receive higher income than he or she otherwise would have done. Whether this will be the case will depend on a number of factors including the bonuses announced by *Prudential* and the extent of the difference between guaranteed income and non-guaranteed income.

Equitable Life can only transfer to *Prudential* the amount which is fairly allocable to the *Transferring Policies* - that is, the *WPA Allocated Amount*. The *WPA Allocated Amount* will depend on the level of working capital at the *Scheme Effective Date*. If there are significant falls in the working capital allocable to the *Transferring Policies* then the amount transferred to *Prudential* may not be sufficient to sustain the current level of non-guaranteed income on the *Transferring Policies*, and this might make it necessary for *Prudential* to reduce bonuses in the future or, where it has the approval of the *Prudential With-Profits Committee* to do so, to reduce the level of non-guaranteed income (just as *Equitable Life* might have had to do if the *Transfer* had not taken place). The level of guaranteed income on the *Transferring Policies* will not be affected by falls in working capital.

5. **Future management of the *Transferring Policies* by *Prudential***

On and with effect from the *Scheme Effective Date*, the following ***"Principles of Financial Management"*** shall apply to the *Transferring Policies* and the *Excluded Policies*.

(a) ***Transferring Policies Bonus Series***

The *Transferring Policies* will be allocated to the *Transferring Policies Bonus Series within Prudential's DCPSF*. The *Transferring Policies Bonus Series* will be a newly created bonus series to which only the Transferring Policies will be allocated. The *Transferring Policies Bonus Series* will not be merged or amalgamated with any other bonus series and no other *Prudential* policies, in whole or in part, will be allocated to the *Transferring Policies Bonus Series*.

This means that, in determining the bonus rate applicable to the *Transferring Policies*, *Prudential* will apply a methodology specified in the *Scheme*, as summarised below, without this methodology having to be consistent with the methodology used for its other policies. Accordingly, charges or other deductions which apply to *Prudential's* other policies will not affect bonuses payable on the *Transferring Policies*.

(b) **Income after the *Scheme Effective Date***

As at the time of the *Transfer* on the *Scheme Effective Date*:

(i) each *Transferring Policy* will have the same level of guaranteed income just after that time as it had immediately prior to the *Transfer* on the *Scheme Effective Date*;

(ii) each *Transferring Policy* will have the same level of non-guaranteed income just after that time as it had immediately prior to the *Transfer* on the *Scheme Effective Date* (this may be adjusted as described in paragraph 4 of Part II); and

(iii) until a new bonus rate is announced by *Prudential* with respect to the *Transferring Policies* on or after the *Scheme Effective Date*, any bonus rate, interim or otherwise, which is applicable immediately prior to the *Scheme Effective Date* will continue to apply.

(c) **Maintenance of separate *Asset Shares* for the *Transferring Policies***

The *Asset Shares* attaching to the *Transferring Policies* will be maintained separately from the *Asset Shares* of all other policies of *Prudential*. The *Transferring Policies* will have no exposure to, and will incur no adjustment for, profits and losses arising from *Prudential's* other policies, experience or business activities (save to the extent of unavoidable indirect exposure as a result of the effects of such profits and losses on *Prudential's* overall financial position).

(d) **Exhaustion of *Aggregate Asset Share* over the lifetime of the *Transferring Policies***

Income will be paid to the holders of the *Transferring Policies* at a level calculated to exhaust the *Aggregate Asset Share* (including any adjustment in accordance with the Scheme and any investment return attributable to the *Asset Shares*) over the lifetime of the *Transferring Policies*, allowing for *Prudential's* expectations of future mortality, in line with the principles and practices of financial management which are from time to time applicable to *Prudential's* with-profits funds, as set out in a document in which they are required to be established, maintained and recorded from time to time under *FSA Rules* (*Prudential's "**PPFM**")*.

The *Asset Shares* held in *Prudential's DCPSF* will fund payments only to the extent that they constitute payments of non-guaranteed income. Where in relation to a payment the guaranteed income exceeds the non-guaranteed income, the *Asset Shares* will fund so much of the payment as represents non-guaranteed income and the balance of the payment will be funded by *Prudential's WPSF*.

(e) **Investment return to be credited to the *Transferring Policies***

The asset mix backing the *Transferring Policies* will be identical to the asset mix of *Prudential's WPSF Asset Pool* (that is, the asset pool backing the greatest number of *Prudential's* with-profits policies). For the purposes of crediting investment return to *Asset Shares*, the investment return in each year (before deduction of charges and tax, but net of unrecoverable tax) will be the same as the investment return of the *WPSF Asset Pool*, subject to adjustments in accordance with applicable tax legislation. In determining the investment return, *Prudential* will not treat the *Transferring Policies* less favourably than the other policies for which the crediting of investment return to *Asset Shares* is determined by reference to the *WPSF Asset Pool*, and will not make adjustments for miscellaneous profits or losses or on account of smoothing. In addition, rates of non-guaranteed bonus will be the same for all *Transferring Policies* save to the extent that deductions are required to be made on account of the cost of guaranteed annuity rates, as described in paragraph 5(h), and rates of guaranteed bonus (in the event that any are ever declared, which is not expected) will be the same for all *Transferring Policies* having the same guaranteed interest rate. Asset pools other than the *WPSF Asset Pool*, with asset mixes different to the *WPSF Asset Pool*, may operate within *Prudential's WPSF* for certain specific categories of business but the *Transferring Policies* will not participate in the investment return of such asset pools.

(f) **Mortality experience**

In any year some with-profits annuitants will die. If more die than expected, the total amount of income paid out in that year will be less than expected, and there will be a profit. If fewer die than expected, there will be a loss. (The position actually depends on the mix of policy sizes and ages, but the principle holds true that there will be a profit or loss in any year due to differences in the number of actual and expected deaths). This profit or loss will accrue to *Prudential's WPSF*. At the end of each calendar year, the *Asset Shares* of the remaining *Transferring Policies* will be adjusted so as to redistribute to them the amount of the *Asset Shares* that would have been released or reduced if the actual incidence of death in that calendar year had been as expected.

There may come a point in the future where *Prudential* changes its view of the expected future longevity of the with-profits annuitants, and consequently changes the mortality assumptions which it uses when determining rates of non-guaranteed income under the *Transferring Policies*. For example, a major breakthrough in the treatment of cancer could lead to an increase in expected lifespans. If the revised mortality assumptions are that the with-profits annuitants will live longer than previously expected, the affordable level of non-guaranteed income would fall (there being only a given amount of *Asset Shares* available to fund all future non-guaranteed income payments).

This risk already applies in the existing *Equitable Life* fund, but it is shared across all of the with-profits fund. In practice, just over 20 per cent of the profit or loss currently falls to the *Transferring Policies* themselves, while just under 80 per cent falls to the remaining with-profits policies. (This represents a risk to the remaining with-profits policies which will be removed by the *Transfer*.) In *Prudential*, the establishment of a separate bonus series for the *Transferring Policies* would mean, if other measures were not adopted, that the *Transferring Policies* would bear all of the profit or loss of changes in mortality assumptions affecting them. To mitigate this, a mortality "cap and floor" has been arranged, paid for by the *Mortality Premium* which is transferred to *Prudential* under the *Scheme* as described in paragraph 3(d)(iii). The *Mortality Premium* is expected to be in the range of £15 million to £17 million. The "cap and floor" limits the size of any decrease or increase in non-guaranteed income borne by the with-profits annuitants as a result of changes in *Prudential's* mortality assumptions.

In return for receiving the *Mortality Premium*, *Prudential's WPSF* will take the risk that changes in *Prudential's* mortality assumptions would result in a total reduction in non-guaranteed income of more than 0.5 per cent per year over the remaining lifetime of the *Transferring Policies* by meeting the cost over and above a 0.5 per cent per year reduction. This will be determined by comparison of any new mortality assumptions with the agreed mortality assumptions used at the *Scheme Effective Date*. Broadly, therefore, the most adverse impact on the *Transferring Policies* of a change in *Prudential's* mortality assumptions will be a reduction in non-guaranteed income equivalent to 0.5 per cent per year over the remaining lifetime of the *Transferring Policies*. If changes in *Prudential's* mortality assumptions could cause a greater reduction, the *WPSF* will make a payment into the *DCPSF* to increase the *Asset Shares* of the *Transferring Policies* so as to limit the reduction in non-guaranteed income as a result of changes in mortality assumptions to 0.5 per cent per year.

Prudential's WPSF will also be entitled to receive a payment from the *Asset Shares* of the *Transferring Policies* to the extent that changes in *Prudential's* mortality assumptions (as a result of increases in expected mortality rates) would result in a total increase of more than 0.5 per cent per year in the non-guaranteed income over the remaining lifetime of the *Transferring Policies*. Again, this will be determined by comparison of any new mortality assumptions with the agreed mortality assumptions used at the *Scheme Effective Date*. Broadly, this means that the total non-guaranteed income for the *Transferring Policies* will not be increased by more than 0.5 per cent per year as a result of changes in *Prudential's* mortality assumptions. If changes in *Prudential's* mortality assumptions could cause a greater increase, the *DCPSF* will make a payment into the *WPSF* to reduce the *Asset Shares* of the *Transferring Policies* so as to limit the increase in non-guaranteed income as a result of changes in mortality assumptions to 0.5 per cent per year. By allowing *Prudential's WPSF* to benefit from any such beneficial changes in mortality assumptions, it has been possible to agree a lower *Mortality Premium* than would otherwise have applied.

Prudential will not change arbitrarily the mortality assumptions it uses for the *Transferring Policies* since any proposed change in the mortality assumptions will require the consent of its *With-Profits Committee* (established in accordance with the *FSA Rules*).

(g) **Smoothing**

Bonus rates will in future be determined by *Prudential* after the *Scheme Effective Date*, with the aim at all times of distributing all of the assets backing the *Transferring Policies*, in as fair a manner as possible over the remaining lifetime of these policies, allowing for the agreed level of charges that can be deducted. Investment earnings on the backing assets will vary from year to year, but non-guaranteed bonuses awarded will be "smoothed" to try to ensure the objective of gradual, rather than erratic, changes in non-guaranteed income.

The bonus rate is the rate that is applied in respect of the non-guaranteed income of each *Transferring Policy* before reduction, in the case of each individual *Transferring Policy* that is not a *Low Start Annuity Policy*, by the assumed bonus and guaranteed interest rates that were used in calculating the starting level of income thereunder. *Low Start Annuity Policies* are an exception because the calculation of the starting level of income for *Low Start Annuity Policies* did not require assumed bonus or guaranteed interest rates to be used. As this is effectively the same as setting both rates to zero in the calculation, the non-guaranteed income for *Low Start Annuity Policies* does not reduce by reason of assumed bonus and guaranteed interest rates.

It is intended that, other than in certain circumstances, the bonus rate announced by *Prudential* each year for purposes of determining levels of non-guaranteed income, and before any reduction (if applicable) by the assumed bonus and guaranteed interest rates, will be in the range of 0 per cent to 11 per cent. Hence, if stock markets fall in any year and there is a negative return on the fund, in normal circumstances the smoothing account will be used to balance the effects of such a fall. The aim would be to avoid declaring a negative bonus. Similarly, if the return on the fund in one year was, say, 15 per cent, the bonus might be capped at 11 per cent. In any year the difference between the rate of return actually earned and the bonus rate announced could, as a result of smoothing, be lower or higher than the total charges deducted (see paragraph 5(i), and the resulting increase or decrease in annuity income for that year will be allocated to a notional account in *Prudential's WPSF* (the ***"Transferring Policies Smoothing Account"***). The *Transferring Policies Smoothing Account* will have a value of zero at the *Scheme Effective Date*, and will be managed with the ongoing aim that it will always tend to zero, subject to the need for short-term smoothing.

Broadly, during a run of good investment years, some investment return will be held back rather than being included in bonuses, and the resulting amounts held-back will subsequently be used to augment the bonus rates in future years when investment returns are poorer. The *Transferring Policies Smoothing Account* will be used to keep a record of exactly how much has been held back at any time so that, over time, the *Transferring Policies* receive the full benefit of all investment return which is attributable to them.

The description above suggests that money is saved up in the *Transferring Policies Smoothing Account* and then subsequently restored to the *Transferring Policies* in the future. However, the reverse process can also occur. After a run of poor investment years, the *Transferring Policies Smoothing Account* may have a negative balance, and the negative balance will subsequently be repaid by holding back investment return from future bonuses in good investment years.

The smoothing mechanism will be managed so that over time the *Transferring Policies* receive the full benefit of all the *Transferring Assets*, including all investment return thereon.

The *Transferring Policies Smoothing Account* will take account of the same rates of investment return as apply to the *Asset Shares* of the *Transferring Policies* in *Prudential's DCPSF*, subject to adjustment in accordance with applicable tax legislation and charges which apply to the *Transferring Policies*.

Smoothing is intended primarily to "even out" normal fluctuations in investment returns over time. If there is a really extreme return in any year, or if there is a sustained series of good or bad returns, it may be necessary to announce a bonus outside the standard 0 per cent to 11 per cent range. When determining whether smoothing rules and limits for the *Transferring Policies* should be changed, *Prudential* will apply the same principles as it would for other with-profits business as will be stated in *Prudential's PPFM* from time to time, taking account of the balance of the *Transferring Policies Smoothing Account*.

(h) **Cost of guaranteed annuity rates**

On 20 July 2000, the House of Lords ruled that the costs of guaranteed annuity rate options in *Equitable Life's* policies had to be shared equally by all with-profits policyholders and not just by those policyholders exercising their guaranteed annuity rate option. In accordance with the House of Lords ruling, the cost of guaranteed annuity rate options was allocated to all with-profits policies in force before 20 July 2000. It was decided that with-profits annuity policies' share of those costs should be applied over a number of years. *Equitable Life* has notified holders of with-profits annuities that the remaining balance of their share of guaranteed annuity rate costs will be recovered by a deduction of 0.5 per cent per annum from future bonuses for years up to and including 2010.

Following the *Transfer*, *Prudential* will continue to make deductions from bonuses on each *Transferring Policy* in the same manner as *Equitable Life* would have done until 2010, which would have been the last year in which *Equitable Life* would have made a deduction. After 2010 no further amounts will be deducted. It should be noted that these deductions do not apply, and will not apply, to with-profits annuity policies taken out or treated as having been taken out on or after 20 July 2000.

(i) **Charges**

Prudential will impose charges on the *Transferring Policies* by way of deduction from the gross investment return that would otherwise be credited to *Asset Shares* on the basis set out below:

(i) 1.0 per cent per annum of the *Asset Share* of the *Transferring Policy* throughout the lifetime of the policy for expenses, to be credited to the Non-Profit Sub-Fund within the long-term insurance fund of *Prudential* (the ***"NPSF"***); and

(ii) a maximum of 0.5 per cent per annum of the *Asset Share* of the *Transferring Policy* throughout the lifetime of the policy for the expected cost of guarantees, to be credited to *Prudential's WPSF*.

Charges at the same rates will be deducted from the investment returns applied to the *Transferring Policies Smoothing Account*.

These charges may be applied irrespective of whether the guaranteed income applicable to the *Transferring Policy* exceeds the non-guaranteed income applicable to the *Transferring Policy*. In the event that the charges were to exceed the gross investment return, smoothing would, in normal circumstances, be applied to set the bonus to at least zero (after allowing for the deduction of charges).

No other charges will be imposed on any *Transferring Policy*, including without limitation in respect of certain identified costs, namely investment management, transaction expenses arising from the transfer of the *Transferring Policies* to *Prudential* or capital support provided for the benefit of such policies, whether from *Prudential's WPSF* or otherwise (although paragraph 9 of Part II explains that deductions may be made from *Asset Shares* in certain limited circumstances). Subject to not making deductions for these costs, *Prudential* may determine the gross investment return for the *Transferring Policies* in the same manner as it determines the gross investment return for other policies for which the crediting of investment return to *Asset Shares* is determined by reference to the investment return of the *WPSF Asset Pool*.

(j) **Changes in charges for guarantees**

(i) ***Target Equity Backing Ratio***

Levels of non-guaranteed income under the *Transferring Policies* depend on the rates of investment return earned by *Prudential* on the assets backing the *Transferring Policies*. The rates of investment return depend in turn on the manner in which *Prudential* invests those assets. If *Prudential* maintains an investment profile which produces a high investment return, levels of non-guaranteed income would be expected to be higher over time, and vice versa.

A measure for the investment profile of a fund is the ***"Equity Backing Ratio"*** (that is, the percentage of the fund value which consists of investments such as equities and property). Equities and property are generally expected over the medium to long term to generate higher rates of investment return than gilts and corporate bonds.

It has been agreed that *Prudential* will use the same investment profile for the *Transferring Policies* as it uses for its *WPSF Asset Pool* (see paragraph 5(e)). *Prudential* currently has a ***"Target Equity Backing Ratio"*** for its *WPSF Asset Pool* of 70 per cent - that is, *Prudential* has a target for investing 70 per cent of the value of *WPSF* assets in equities and property. (This ratio is a "target" because the actual ratio will fluctuate to a certain extent from day to day as a result of changes in asset values.) By contrast, the *Equity Backing Ratio* of *Equitable Life's* fund is less than 20 per cent.

The consequence of a fund having a higher *Equity Backing Ratio* is that there is more risk of a significant rise in the value of the fund as well as more risk of a significant fall in the value of the fund, as equities and property are more susceptible to fluctuations in value than gilts and corporate bonds. This means that in certain scenarios levels of non-guaranteed income could be lower than if the *Transfer* had not taken place. However, *Prudential* can lower their *Equity Backing Ratio* in response to market conditions in order to maximise investment security.

In contrast, because guaranteed income cannot be affected by earned investment returns, *Equitable Life* has to ensure that its investment profile is sufficiently safe that it will always be able to pay at least the guaranteed income under all the *Transferring Policies*, to meet the guarantees under its other policies, and also to meet the required solvency standards set by the *FSA*. This is the reason why, given *Equitable Life's* limited capital and its mutual status, it has to maintain quite a low *Equity Backing Ratio*. If *Equitable Life* had a high *Equity Backing Ratio* and the asset values of equities and property were to fall significantly, it might cease to be able to meet the required solvency standard set by the *FSA*, and it would have no source of funds to call upon.

Prudential's greater financial strength means that it would have other assets to fall back on if the asset values of equities and property were to fall significantly, so it can afford to take more risk in having a much higher *Equity Backing Ratio*. *Prudential* has agreed that this high *Equity Backing Ratio* for the *WPSF Asset Pool* will be extended to the assets backing the *Transferring Policies* in the *DCPSF*.

A higher *Equity Backing Ratio* results in a higher *Up-front Guarantee Charge* due to the resulting increased potential for variability in future investment returns that may make it more likely for *Prudential's WPSF* to provide the balance of payments when levels of guaranteed income exceed the levels of non-guaranteed income (see paragraph 5(d)). As a result, the *Up-front Guarantee Charge* is higher than it would have been if a lower *Equity Backing Ratio* had been selected. Payment of the higher *Up-front Guarantee Charge* is considered beneficial because of the higher

Equity Backing Ratio requested by *Equitable Life* and the resulting potential for higher investment returns over the medium to long term which, if realised, should mean generally higher bonus rates being announced for the *Transferring Policies*.

(ii) **Reduction in the *Target Equity Backing Ratio***

The *Up-front Guarantee Charge* has been determined according to the existing high *Target Equity Backing Ratio*. If the *Target Equity Backing Ratio* is reduced for any reason (for example, to maximise investment security) ongoing charges for guarantees will be reviewed as detailed below. *Prudential* must retain the right to amend its existing *Target Equity Backing Ratio*, as not having this right would undermine its ability to act in the interests of all of its policyholders and, in any event, it would not be prudent to require *Prudential* to continue to invest heavily in equities and property in a scenario where it believes that their values are about to fall.

Instead, the *Scheme* provides that if, at any time after the *Scheme Effective Date*, the *Target Equity Backing Ratio* of *Prudential's WPSF* is reduced by a material amount (being a reduction below a percentage which is a multiple of 5, for example 70, 65, 60, 55 per cent) either in a single step or series of steps, then the reduction will be referred to *Prudential's With-Profits Committee* and, after reviewing recommendations which *Prudential* will produce, that committee will consider whether *Prudential's* ongoing charges for guarantees should be reduced. Any resulting reduction will be applied on a consistent basis as between the *Transferring Policies* and *Prudential's* other with-profits policies. There is no direct connection between the *Up-front Guarantee Charge* and the ongoing charges for guarantees, but the *Up-front Guarantee Charge* will be taken into account in determining any reduction in the ongoing charges for guarantees.

The effect of this provision is that, if *Prudential* reduces the *Target Equity Backing Ratio* of its *WPSF* by a material amount (as described above), *Prudential's With-Profits Committee* will be required to consider whether the ongoing charges to the *Asset Shares* for guarantees should be reduced below 0.5 per cent per annum.

(iii) **Increase in the *Target Equity Backing Ratio***

If the ongoing charges for guarantees applied to the *Transferring Policies* have been reduced below the maximum level of 0.5 per cent per annum and subsequently the *Target Equity Backing Ratio* is increased by a material amount (being an increase above a percentage which is a multiple of 5, for example 55, 60, 65, 70 per cent) either in a single step or a series of steps, then the increase will be referred to *Prudential's With-Profits Committee* and, after reviewing recommendations which *Prudential* will produce, that committee will consider whether *Prudential's* ongoing charges for guarantees should be increased. Any resulting increase will be applied on a consistent basis as between the *Transferring Policies* and *Prudential's* other with-profits policies, save that the increase of the ongoing charge for guarantees applied to the *Transferring Policies* will not be such as to increase this charge above the maximum level of 0.5 per cent per annum.

(iv) **Review of guarantee charges**

Any review of the ongoing charge for guarantees which is applied to any of *Prudential's* with-profits policies will also include, on a consistent basis, a review of the ongoing charge for guarantees applied to the *Transferring Policies*, in each case taking into account the amount of any up-front guarantee charge (including, in the case of the *Transferring Policies*, the *Up-front Guarantee Charge*). In each case, the *Prudential With-Profits Committee* will review recommendations which *Prudential* will produce and consider whether *Prudential's* ongoing charges for guarantees should be increased or reduced. Any resulting increase or reduction as a result of such a review will be applied on a consistent basis as between the *Transferring Policies* and *Prudential's* other with-profits policies, save that any increase of the ongoing charge for guarantees applied to the *Transferring Policies* will not be such as to increase this charge above the maximum level of 0.5 per cent per annum.

(k) ***Interim Arrangements***

The *Principles of Financial Management* summarised in this paragraph 5 are subject, in respect of the first year following the *Scheme Effective Date*, to the *Interim Arrangements*. The *Interim Arrangements* are a set of arrangements designed to ensure continuity of fair treatment of policyholders notwithstanding the transition of administrative practices and operational management from *Equitable Life* to *Prudential*. For example, they provide for the interim bonus rates that *Prudential* will use in the first three months following the *Scheme Effective Date* to have regard to *Equitable Life's* best estimate of the bonus rate to be announced by *Equitable Life* for the 2007 calendar year (as would have been the case if the *Transfer* had not taken place) and *Prudential's* best estimate of the interim bonus rate to be announced by *Prudential* for April 2008.

(l) **Application to *Excluded Policies***

The *Principles of Financial Management* will apply equally to the manner in which *Prudential* is required to carry out its obligations in respect of the *Excluded Policies* under the *Excluded Policies Reassurance Agreement* (see paragraph 7(a)). References to *Transferring Policies* in this paragraph 5 should be treated as including references to the *Excluded Policies*. More detail on *Excluded Policies* is set out in paragraph 7(a).

(m) **Interest in the inherited estate of *Prudential's WPSF***

The *Transferring Policies* will have no interest in any possible future distribution or reattribution of the inherited estate of *Prudential's WPSF*.

(n) **Amendment of terms of operation of the *Transferring Policies***

The terms on which *Prudential* will be permitted to operate the *Transferring Policies* may be amended in any of the following circumstances:

(i) to the extent required to facilitate a restructuring of the long-term insurance fund of *Prudential* provided that the provisions described in paragraphs 5(d), (e), (f), (h), (i) and (j) are not amended (other than to refer to different funds or sub-funds within *Prudential*) and provided that the operation of the *Transferring Policies* is not changed to the material detriment of the *Transferring Policies*;

(ii) at any time after 2009 provided that the provisions described in paragraphs 5(d), (e), (f), (h), (i) and (j) are not amended (other than to refer to different funds or sub-funds within *Prudential*) and provided that the operation of the *Transferring Policies* is not changed to the material detriment of the *Transferring Policies*; or

(iii) to the extent required in order to enable *Prudential* to comply with applicable law and regulation.

Any such amendment will require the approval of *Prudential's With-Profits Committee* and will be notified to the *FSA* in advance of the amendment taking effect.

(o) **Relaxation of the Scheme**

(i) With the exception of the restrictions on charges described in paragraph 5(i), *Prudential* may elect that the *Scheme* should cease to apply at any time after the realistic liabilities of the *Transferring Policies* have fallen below a threshold amount. The threshold amount is £100 million increased annually in line with the retail prices index.

(ii) If *Prudential* elects that the *Scheme* should cease to apply, any positive amount allocated to the *Transferring Policies Smoothing Account* will be distributed amongst the *Transferring Policies* by way of an enhancement to non-guaranteed income in a manner considered to be fair in all the circumstances by *Prudential's With-Profits Committee*.

6. **Administration and investment management services**

With effect from the *Scheme Effective Date*, *Prudential* will assume responsibility for the provision of investment management services in relation to the assets backing the *Transferring Policies*. *Prudential* will also assume responsibility for administration services from the *Scheme Effective Date* unless *Equitable Life* has not completed any data updates required. *Equitable Life* will however be responsible for any break fees, charges or other costs which are payable as a result of the relinquishment by HBOS Financial Services Limited of its role as the existing provider of investment management and administration services in relation to the *Transferring Policies*.

7. **Policies, assets and liabilities not capable of being transferred to *Prudential***

(a) ***Excluded Policies***

In the event that an overseas regulator objects to the transfer of any with-profits annuity policy under the *Scheme*, or if any with-profits annuity policy is subject to any other overseas regulatory requirements which have not been complied with, or if any with-profits annuity policy written by *Equitable Life* is not capable of being transferred under the *Scheme* on the *Scheme Effective Date*, then that policy (an ***"Excluded Policy"***) will not be transferred to *Prudential* under the *Scheme*. If a with-profits annuity policy was issued by *Equitable Life* to an individual who was at the time of issue habitually resident in an *EEA State* other than the *United Kingdom*, the insurance *Regulatory Authority* in that state must be informed of the *Scheme*.

It is not expected that there will be any *Excluded Policies*. However, because it is not certain that there will be none, the *Scheme* will contain provisions to deal with them.

The liabilities under the *Excluded Policies* will remain liabilities of *Equitable Life*. However, with effect from the *Scheme Effective Date*, *Prudential* will enter into an agreement with *Equitable Life* to provide reassurance in respect of the *Excluded Policies*. Under the reassurance agreement, *Prudential* will make payments to *Equitable Life* of the amounts that the policyholders would have received before tax if their policies had been transferred to *Prudential*, which *Equitable Life* will pay to policyholders after deduction of income tax as appropriate. This will include *Prudential* applying any adjustment in non-guaranteed income which applies as described in paragraph 4 of Part II. Since this will mean that the *Excluded Policies* will in future benefit from bonuses announced by *Prudential* in respect of the *Transferring Policies*, the terms of *Excluded Policies* will be amended by the *Scheme* to remove their entitlement to bonuses announced by *Equitable Life* (or otherwise to participate in the profits of *Equitable Life*).

Although the liability to pay annuity income under the *Excluded Policies* will remain with *Equitable Life*, *Prudential* will have a liability to forward annuity payments to *Equitable Life*. The corresponding assets will therefore be transferred to *Prudential* under the *Scheme* (in each of the three allocations described in paragraph 3(d)). The transfer of these assets will be deemed to constitute payment of the premium for the reassurance provided by *Prudential*.

For the purposes of the principles set out in paragraph 5 of Part II, *Prudential* will be required to act in respect of the *Excluded Policies* in the same way as if they had been *Transferring Policies*. For example, *Prudential* will be required to establish and manage the *Asset Shares* of the *Excluded Policies* in the same way it would have done if the *Excluded Policies* had been transferred to it.

Since the *Excluded Policies* will not be transferred to *Prudential*, *Equitable Life* will remain responsible for their administration, including making annuity payments to the policyholders (using the annuity payments it receives from *Prudential* under the reassurance agreement). However, because *Excluded Policies* will cease to be entitled to participate in the profits of *Equitable Life*, their holders' entitlement to be a *Member* of *Equitable Life* will cease (unless they are a *Member*, or could become a *Member*, by reason of holding another policy which entitles them to participate in the profits of *Equitable Life* after the *Scheme Effective Date*).

If any *Excluded Policy* is subsequently transferred to *Prudential*, it will be entitled to participate directly in bonuses announced by *Prudential*.

(b) **Assets and liabilities not transferred to Prudential**

If any assets of *Equitable Life* are not, or are not capable of being, transferred to *Prudential* pursuant to the *Scheme*, *Equitable Life* will hold such assets from the *Scheme Effective Date* on trust for *Prudential*. Similarly, certain liabilities may not be transferred immediately under the *Scheme*. With effect from the *Scheme Effective Date*, *Prudential* will indemnify *Equitable Life* against any charges, costs and claims arising in respect of liabilities which are not immediately transferred by the *Scheme* except to the extent that *Equitable Life* is entitled, and ultimately able, to recover any amount in respect of a liability from another person.

(c) **Omitted policies**

Every effort will be made to ensure that all with-profits annuity policies of Equitable Life (other than the 17 policies referred to in paragraph 3(a)) are included on the *Final Policy List* so that they will constitute *Transferring Policies* or, if this is not possible, *Excluded Policies*. There is of course a very remote risk that, because of administrative oversight, a with-profits annuity policy may be omitted from the list. Such a policy will not be transferred to *Prudential* and will not be an *Excluded Policy* within the terms of the *Scheme*. However, *Equitable Life* and *Prudential* have agreed that they will discuss any such policy in good faith with a view to its being reassured by and subsequently transferred to *Prudential* on terms as close as reasonably possible to the terms of the *Scheme*.

8. **Terms applying in respect of the *Transfer* prior to the *Scheme Effective Date***

On 14 March 2007, *Equitable Life* and *Prudential* entered into a Business Transfer Agreement under which it was agreed that the with-profits annuity policies of *Equitable Life* would be transferred to *Prudential* on the terms described above. The *Transfer* was dependent on the *Scheme* being approved by the *Court*. *Equitable Life* and *Prudential* agreed certain terms that would apply during the period between the execution of the Business Transfer Agreement and the *Scheme Effective Date*, as summarised below.

(a) **Further offers for the business**

Equitable Life has agreed not to solicit further offers in relation to its with-profits annuity business. If *Equitable Life* receives an unsolicited offer, it must notify *Prudential* of the offer and give *Prudential* the opportunity to improve the terms of the *Transfer* such that the *Board* is able to recommend *Equitable Life Members* to vote in favour of the *Transfer* at the *EGM*.

(b) **Recommendation and break fee**

With one exception, the Business Transfer Agreement requires the *Directors* unanimously and unconditionally to recommend that *Members* vote in favour of the *Resolution* at the *EGM*.

The exception is that, if there is a material change in circumstances following signing of the Business Transfer Agreement, the *Directors* can take legal, actuarial and financial advice. If, having taken such advice, they consider that they have a fiduciary duty not to give a recommendation or to withdraw or amend their recommendation, *Equitable Life* can terminate the Business Transfer Agreement and not proceed with the *Scheme*.

In these circumstances, *Equitable Life* would be required to reimburse *Prudential* in respect of time and effort reasonably and properly expended by it and its advisers in relation to the *Transfer* in an amount equal to the aggregate of (i) £450,000 and (ii) the lesser of (a) £2 million and (b) £50,000 multiplied by the number of completed weeks from 14 March 2007 to the date of termination. In addition, if *Equitable Life* were to sign a legally binding agreement in respect of another transaction for the transfer of the *Transferring Policies* and the *Transferring Assets* within 12 months of such termination, it would be required to pay *Prudential* a break fee of £5 million.

(c) **Termination rights**

Each party has rights in certain circumstances to terminate the Business Transfer Agreement so that it ceases to have any obligation to continue with the *Transfer*. For *Equitable Life*, these circumstances include the following:

(i) the realistic excess capital of *Prudential's WPSF* (after taking into account the deduction of the realistic value of liabilities and the risk capital margin of *Prudential's WPSF*), calculated under the realistic balance sheet methodology, falls below £4,000,000,000;

(ii) any change in tax law or practice introduced after the date the parties agreed the terms of the *Transfer* (14 March 2007) has or, in *Equitable Life's* opinion (acting reasonably), is reasonably likely to have a material adverse effect on the position of *Equitable Life* or its *Members* or policyholders in relation to the *Transfer* or on any benefit intended to be conferred on its *Members* or policyholders thereunder;

(iii) the transaction is not approved by *Equitable Life Members* representing the necessary majority at the *EGM*;

(iv) at any time the *FSA* or the *Independent Expert* objects to the *Transfer* and, *Equitable Life* having used reasonable endeavours to resolve any matter which is the basis of the objection for a period of not less than 30 days after the date on which the objection is notified to *Equitable Life* and *Prudential*, the objection is not withdrawn;

(v) in accordance with the Business Transfer Agreement, *Equitable Life* provides, with confirmation from an independent actuary, an estimate of the *WPA Allocated Amount* as it would have been on 30 June 2007 which is lower than its corresponding estimate of the minimum amounts required to be transferred to *Prudential* for the purpose of the *Transfer* as they would have been on 30 June 2007; or

(vi) the *Scheme* has not become effective by 14 September 2008.

For *Prudential*, these circumstances include the following:

(i) any change in tax law or practice introduced after the date the parties agreed the terms of the *Transfer* (14 March 2007) has or, in *Prudential's* opinion (acting reasonably), is reasonably likely to have a material adverse effect on the position of *Prudential* or its members or policyholders in relation to the *Transfer* or any benefit intended to be conferred on its members or policyholders thereunder;

(ii) at any time the *FSA* or the *Independent Expert* objects to the *Transfer* and *Prudential*, having used reasonable endeavours to resolve any matter which is the basis of the objection for a period of not less than 30 days after the date on which the objection is notified to *Equitable Life* and *Prudential*, the objection is not withdrawn;

(iii) in accordance with the Business Transfer Agreement, *Equitable Life* provides an estimate of the *WPA Allocated Amount* as it would have been on 30 June 2007 which is lower than its corresponding estimate of the minimum amounts required to be transferred to *Prudential* for the purpose of the *Transfer* as they would have been on 30 June 2007; or

(iv) the *Scheme* has not become effective by 14 September 2008.

(d) **Amendment of the terms of the Transfer**

The parties may agree amendments to the terms of the *Transfer* before or after the *EGM*. However, no material changes are expected.

9. Warranties and indemnities given by *Equitable Life*

Under the Business Transfer Agreement, *Equitable Life* has given in favour of *Prudential* warranties and indemnities in respect of the *Transferring Policies* and the *Transferring Assets*. With certain exceptions, the total aggregate liability of *Equitable Life* for any claim in relation to these warranties, indemnities and undertakings is limited to £25 million.

The main exceptions to the application of the £25 million aggregate limit on *Equitable Life's* liability are the **"excluded liabilities indemnity"** (under which *Equitable Life* will indemnify *Prudential* in respect of any *Excluded Liability* which, notwithstanding the intention that it should not be transferred to *Prudential*, is nevertheless transferred to *Prudential*) and the **"employment indemnity"** (under which *Equitable Life* will indemnify *Prudential* if any of the employees involved in its with-profits annuity business are transferred to *Prudential* by operation of law as a result of the transfer of the *Transferring Policies* and the *Transferring Assets*). It is considered to be very unlikely that any of the *Excluded Liabilities* or any employee will be transferred to *Prudential*, so these exceptions are not expected to be relevant in practice.

In certain circumstances an amount may be deducted from the *Asset Shares* of the *Transferring Policies* in respect of a loss which *Prudential* has suffered in connection with the transfer to it of the *Transferring Policies* and the *Transferring Assets*. This will only occur where *Prudential* has a claim against *Equitable Life* in respect of the loss and, in the opinion of *Prudential's With-Profits Committee*, it is proper for all or part of the loss to be absorbed by the *Transferring Policies* because they would otherwise obtain an improper benefit as a result of the circumstances which gave rise to the loss.

PART III: SUMMARY OF THE INDEPENDENT EXPERT'S REPORT

The Equitable Life Assurance Society
The Prudential Assurance Company Limited

Summary of the report of the *Independent Expert* on the terms of a proposed *Scheme* to transfer the with-profits annuity business of *Equitable Life* to *Prudential*

1. BACKGROUND

1.1 *Equitable Life* and *Prudential* are making an application to the Court for the transfer of the with-profits annuity business of *Equitable Life* to *Prudential*. I have been appointed jointly by *Equitable Life* and *Prudential* to report as Independent Expert on the terms of the Transfer.

1.2 This is a summary of my full report. For a more complete analysis of the implications of the *Transfer* on affected policyholders, the reader should consult my full report, a copy of which is available to policyholders of *Equitable Life* and *Prudential* and any person requesting the same in accordance with legal requirements.

Qualifications and experience

1.3 I am a Fellow of the Institute of Actuaries and hold a certificate issued by the Institute of Actuaries to act as a Life Actuary (including with-profits). I am a consulting actuary working in the Insurance & Financial Services Practice of Watson Wyatt Limited and have over 23 years experience in the *UK* life assurance Industry.

Independence

1.4 I have not undertaken any previous assignments for any companies in the *Equitable Life Group* or the *Prudential Group*. Other employees of Watson Wyatt Limited (and partners in, and employees of, its predecessor firms) are advising, or have previously provided advice to, companies in the *Equitable Life Group* and the *Prudential Group* and to the trustees of the *Prudential* Staff Pension Scheme. However, I do not believe that any of this advice is of such a nature as to affect my independence in relation to this appointment or to restrict my ability to report on the terms of the Scheme.

1.5 I am not a policyholder or customer of any company in either the *Equitable Life* Group or the *Prudential* Group, nor do I have any other financial interest in either Group. I was the holder of a with-profits personal pension plan with *Equitable Life* which I was required to transfer to another pension provider on accepting this appointment. The terms of the transfer were on *Equitable Life's* normal terms.

Scope of my report

1.6 I interpreted the primary purpose of my report to be to provide an opinion of the likely effects of the *Scheme* on policyholders, distinguishing between:

- holders of *Transferring Policies*;
- policyholders of *Equitable Life* whose contracts will not be transferred; and
- policyholders of *Prudential.*

Reliances and limitations

1.7 This summary of my report is subject to the reliances and limitations set out in my full report.

1.8 My full report was prepared in accordance with the guidance contained in the FSA Rules to meet the specific purposes of the *Court*, the *Regulatory Authority* and the *Directors* of *Equitable Life* and *Prudential* in relation to the proposed *Transfer* and must not be relied upon by any other person or for any other purpose. My report was not specifically intended to, and may not therefore, address the particular needs, concerns or objectives of any individual policyholder. No liability will be accepted for application of my report or this summary to a purpose for which it was not intended or for the results of any misunderstanding by any user of any aspect of this report. Nothing in my report or this summary should be taken as investment advice.

2. **BACKGROUND INFORMATION ON *EQUITABLE LIFE***

2.1 *Equitable Life* is a mutual company and accordingly has no shareholders.

2.2 In December 2000, *Equitable Life* closed to new business other than for certain increments to existing policies and the writing of annuities on the vesting of *Equitable Life* pension policies. All new annuities now written are non-profit annuities.

2.3 Since March 2001, while *Equitable Life* has continued to operate as an independent company, administration services have been provided under contract by HBOS.

Non-profit business

2.4 HBOS reinsures 100 per cent of *Equitable Life's* liabilities under non-profit policies, other than annuities in payment, on terms that effectively transfer the economic interest (risk and reward) to HBOS. Most of *Equitable Life's* non-profit annuities in payment were transferred to another company, *Canada Life*, in February 2007.

With-profits business

2.5 *Equitable Life* has two main basic types of with-profits policy, namely accumulating with-profits ("AWP") business (often referred to by *Equitable Life* as Recurrent Single Premium business) and with-profits annuity ("*WPA*") business. As at 31 December 2006, AWP business accounted for approximately 75 per cent by value of *Equitable Life's* with-profits business. *WPA* business accounted for approximately 23 per cent and other with-profits business for approximately 2 per cent.

AWP business

2.6 Each AWP policy provides a guaranteed minimum benefit in the form of a capital sum on the occurrence of specified events such as retirement or death. The guaranteed benefit increases at a guaranteed investment return ("GIR"), which is typically either 3.5 per cent or 0 per cent per annum. The guaranteed benefit also increases by any reversionary bonuses declared.

2.7 Each AWP policy also has a second value, called the "Policy Value". *Equitable Life* has used the concept of Policy Value for many years to represent a policy's fair share of the assets of *Equitable Life*. The Policy Value is used as the starting point for determining payout levels in relation to with-profits benefits.

2.8 Each year, and sometimes more often, the *Board* may decide to increase or reduce Policy Values. This is in contrast to guaranteed benefits which cannot be reduced (in the absence of withdrawal by the policyholder).

WPA business

2.9 Under a *WPA*, the benefits are stated as an annual income (ie an amount of annuity) rather than a capital sum. Each policy has a "guaranteed income" and a "non-guaranteed income" amount attaching to it. The income received by the policyholder in any policy year is the greater of the guaranteed income and the non-guaranteed income.

2.10 The initial amount of the guaranteed income was determined having regard to both a guaranteed investment return (the "GIR") and an Anticipated Bonus Rate ("ABR") (selected by the policyholder at outset). The guaranteed income reduces each year by the ABR and increases by the actual "guaranteed bonus" rate declared, if any.

2.11 The non-guaranteed income reduces each year by the combined effect of the ABR and the GIR and increases (or reduces) by the announced rates of "non-guaranteed bonus" which reflect actual investment returns achieved and charges. The non-guaranteed income is intended to represent the current level of income that can be afforded based on the policy's fair share of the assets of *Equitable Life* (the equivalent to the "Policy Value" for AWP business).

2.12 Each year, and sometimes more often, the *Board* may decide to increase or reduce non-guaranteed income amounts. This is in contrast to guaranteed income which cannot be reduced other than by any applicable ABR.

Bonus policy

2.13 Since 2000 all distributions of surplus have been in the form of non-guaranteed bonus and *Equitable Life* has indicated that there is no expectation of any further guaranteed bonus being awarded in the foreseeable future.

2.14 In setting bonus rates, profits and losses are typically shared across the whole of the with-profits business, not just among the policies concerned. For example, mortality profits and losses from the *WPA* policies are shared by the whole of the with-profits business, not just among the holders of *WPA* policies.

2.15 Reflecting the fact that *Equitable Life* is closed to new business, *Equitable Life* intends that all of its assets, after providing for its contractual liabilities, will be distributed amongst the existing holders of its with-profits policies over the lifetime of those policies. The timing of the distribution of excess assets over the Policy Values and amounts needed to meet its other liabilities (referred to as the "working capital") has regard to the need for *Equitable Life* to continue to meet its contractual obligations as they fall due and the need to maintain an appropriate level of capital to operate its business.

Charges

2.16 A deduction is made from all Policy Values and their equivalents for expenses and tax. *Equitable Life* aims, but does not guarantee, to maintain this expense deduction at 1 per cent per annum.

2.17 In order to have sufficient capital to meet the expected future cost of guarantees and to satisfy regulatory and other capital requirements, *Equitable Life* also makes a deduction, currently 0.5 per cent per annum (but this could change), from the amounts credited to Policy Values.

Adjustments to Policy Values

2.18 On occasions in the past, in order to bring aggregate Policy Values more in line with available assets, adjustments (both positive and negative) have been made to Policy Values and reflected in the non-guaranteed income for *WPA* policies.

2.19 For *WPA* policies issued before 20 July 2000 (referred to as "Deferred Cost Policies"), a reduction in non-guaranteed policy benefits that was applied to other with-profits policies in-force at that date is being phased in over time. Outstanding reductions in bonus of 0.5 per cent per annum are planned for 2007, 2008, 2009 and 2010.

Investment policy

2.20 *Equitable Life* currently operates a conservative investment policy as a result of its solvency position and its need for liquidity. This shields with-profits policyholders from the worst effects of falling stock markets, but also limits the returns that will be achieved in rising stock markets.

2.21 The current proportion of equity and property assets backing with-profits policies in *Equitable Life* (the "*Equity Backing Ratio*") is around 15 to 20 per cent. Prior to December 2000, when the majority of the *WPA* business was written, the *Equity Backing Ratio* was considerably higher than it is now, typically in a range that was broadly between 60 per cent and 80 per cent.

Smoothing

2.22 While *Equitable Life* has a preference that changes in levels of bonuses should be gradual, when investment returns are poor, there is limited scope for smoothing of bonuses because smoothing considerations are over-ridden by *Equitable Life's* need to be able to meet its contractual obligations to policyholders and other creditors and any capital requirements.

3. BACKGROUND INFORMATION ON *PRUDENTIAL*

3.1 *Prudential* is a proprietary insurance company and a wholly owned subsidiary of Prudential plc. *Prudential* has both life and non-life insurance business although it has not written new non-life insurance business since January 2002.

Fund structure

3.2 As is required by law, the life insurance business of *Prudential* is maintained in a fund (the "long-term insurance fund") separate from its other business. The outstanding liabilities in respect of *Prudential's* non-life business are provided for outside of the long-term insurance fund (in its "shareholders' fund").

3.3 *Prudential* has divided its long term insurance fund into the following sub-funds:

(a) **the Defined Charge Participating Sub-Fund ("*DCPSF*")** - This contains the investment element of Defined Charge Participating business. The only profit arising in the *DCPSF* is from investment performance and this is entirely attributable to *DCPSF* policyholders;

(b) **the Non-Profit Sub-Fund ("*NPSF*")** - All profits and losses arising in the *NPSF* are attributable to shareholders;

(c) **the Scottish Amicable Insurance Fund ("*SAIF*")** - The *SAIF* contains the bulk of the business originally written by Scottish Amicable Life Assurance Society ("*SALAS*") and acquired by *Prudential* in 1997. The SAIF Fund is operated as a mutual fund with all profits being distributed to the ex *SALAS* with-profits policyholders; and

(d) **the With-Profits Sub-Fund ("*WPSF*")** - This contains mainly with-profits business. Profit arising in the WPSF is divided between shareholders and *WPSF* with-profits policyholders (other than ex *SALAS* with-profits policyholders). At least 90 per cent of the divisible profit must be attributed to with-profits policyholders with the balance attributable to shareholders.

Inherited estate

3.4 The *WPSF* contains substantial assets in excess of those *Prudential* expects to pay out to meet its obligations to existing policyholders (the "Inherited Estate"). The Inherited Estate is capital of the fund and contributes significantly to the ability of *Prudential* to provide the benefits associated with smoothing of with-profits benefits and guarantees, and to invest a high proportion of the fund's assets in equity type investments (e.g. equity shares and property) when it considers this to be appropriate.

3.5 *Prudential* announced on 15 March 2007 that it is exploring the possibility of a reattribution of the inherited estate in the *WPSF. Prudential* has stated that reattribution will only proceed if it is in the interests of both policyholders and shareholders. Any reattribution will need to follow processes set out in the *FSA Rules* and have regard to the legal rights of those parties affected.

Investment policy for the WPSF

3.6 *Prudential's* investment strategy for with-profits business in the *WPSF* is to seek to secure the highest total return whilst maintaining an acceptable overall risk level for the fund. Reflecting this strategy, the distribution of assets backing the with-profits business is currently based primarily on equity and property assets. As at 31 December 2006, the Equity Backing Ratio for the majority of *Prudential's* with-profits business was 68 per cent. The current target *Equity Backing Ratio* is 70 per cent.

4. THE PROPOSED *TRANSFER*

4.1 It is intended that the *WPA* policies of *Equitable Life* (the "*Transferring Policies*") together with assets attributable to those *WPA* policies (the "*WPA Allocated Amount*") will transfer from *Equitable Life* to *Prudential* at 11.59pm GMT on 31 December 2007 or such other time and date that *Equitable Life* and *Prudential* may agree (the "*Scheme Effective Date*").

4.2 The *Transferring Policies* will be allocated to the *DCPSF* of *Prudential*. However:

- the liability for any payment of guaranteed income in excess of non-guaranteed income on *Transferring Policies* will be allocated to the *WPSF*; and
- if there is a material change in expected mortality, any increase in the liability to make future payments to *Transferring Policies* in excess of a certain cap (and any reduction in cost below a certain floor) will be allocated to the *WPSF*.

4.3 Reflecting this allocation of liabilities, a part of the *WPA Allocated Amount* (the "*Up-front Guarantee Charge*" and the "*Mortality Premium*") will be allocated to the *WPSF*, with the balance of the *WPA Allocated Amount* allocated to the *DCPSF.*

4.4 The amount of assets transferred from *Equitable Life* to *Prudential* will be determined as at the *Scheme Effective Date*.

Financial management of the *Transferring Policies*

4.5 The *Scheme* requires that as at the *Scheme Effective Date*, individual *Asset Shares* are established for the *Transferring Policies* and that the aggregate *Asset Shares* of the *Transferring Policies* (the "*Aggregate Asset Share*") be maintained separately from the *Asset Shares* of all other policies of *Prudential*. Income is to be paid to holders of the *Transferring Policies* at a level calculated to exhaust the *Aggregate Asset Share* over the lifetime of the *Transferring Policies*, allowing for *Prudential's* expectations of future mortality.

4.6 The initial amount of the *Aggregate Asset Share* will equal that part of the *WPA Allocated Amount* allocated to the *DCPSF.*

4.7 With effect from the *Scheme Effective Date*, the *Aggregate Asset Share* will be:

(a) credited with the achieved returns (net of applicable tax) on the assets backing the *Aggregate Asset Share*;

(b) debited with amounts in respect of payments made to holders of *Transferring Policies*;

(c) debited with the following charges:

- a charge of 1 per cent per annum for expenses (to be credited to the *NPSF*);
- a charge of up to 0.5 per cent per annum for the expected cost of guarantees (to be credited to the *WPSF*); and

(d) if applicable, credited or debited with Mortality Transfer Amounts (see below under the heading "Impact of changes in expected mortality").

4.8 The asset mix backing the asset shares of the *Transferring Policies* will be identical to the asset mix backing the greatest number of *Prudential's* with-profits policies unless, in the opinion of the *Prudential With-Profits Committee*, that pool of assets would be unfair to the holders of *Transferring Policies.* The investment return credited to the *Asset Shares* of the *Transferring Policies* shall reflect the investment return actually earned on this asset pool.

4.9 No charges may be made on the *Asset Shares* of the *Transferring Policies* other than those referred to above and the *Asset Shares* of the *Transferring Policies* shall have no exposure to, and shall incur no adjustment for, profits and losses arising from *Prudential's* other policies, experience or business activities.

4.10 In each calendar year, the amount charged to the DCPSF and debited from the *Aggregate Asset Share* in respect of annuity payments made on *Transferring Policies* shall be the amount of annuity payments that would have been payable on the *Transferring Policies* if:

- actual mortality in that calendar year had been in line with the mortality assumptions made by *Prudential*;
- any guaranteed income amounts in excess of non-guaranteed income amounts had been disregarded; and
- smoothing had not applied.

4.11 To the extent that actual annuity payments made on *Transferring Policies* in any calendar year are less than or more than the amount debited from the *Aggregate Asset Share*, the difference will accrue to the *WPSF*.

Deferred Cost Policies

4.12 In determining bonus rates on Deferred Cost Policies, the planned deductions of 0.5 per cent per annum from bonuses declared for 2008, 2009 and 2010 will continue to apply as is currently the case in *Equitable Life*.

Smoothing

4.13 Smoothing will generally be applied to the non-guaranteed income. To the extent that smoothing results in a payment of income under a *Transferring Policy* which is less than or more than the payment that would have been made in the absence of smoothing, the difference is to be credited or debited to the *Transferring Policies Smoothing Account*. The *Transferring Policies Smoothing Account* will be established in the *WPSF* at the *Scheme Effective Date* with an initial value of zero.

4.14 In normal circumstances, the *Principles of Financial Management* set out in the *Scheme* require that smoothing will operate to ensure that:

(a) changes in bonus rates are gradual, rather than erratic;

(b) the *Transferring Policies Smoothing Account* is managed with the aim that it should always tend to zero, subject to the need for short-term smoothing;

(c) in any year, the fall or rise in the amount of non-guaranteed income is limited to that which would have applied if the investment return, net of charges, attributable to the *Transferring Policies* in that year had been no less than 0 per cent and no more than the smoothing cap. The smoothing cap will initially be 11 per cent but can be altered by *Prudential* with the approval of the *Prudential With-Profits Committee.*

4.15 In certain circumstances, for example following a significant fall or rise in market values (either sudden or over a period of years), *Prudential* is permitted to breach the above smoothing limits to protect the overall interests of all *Prudential* policyholders.

Impact of changes in expected mortality

4.16 Under the proposed *Scheme*, there is a cap and floor on the impact that changes in *Prudential's* view of future mortality in respect of the holders of *Transferring Policies* can have on the level of non-guaranteed income on *Transferring Policies*.

4.17 Broadly, if the impact of a change in mortality assumptions is greater than the impact of a 0.5 per cent per annum compound reduction or increase in the annual amount of non-guaranteed income compared to the position based on mortality assumptions specified in the *Scheme*, there will be a transfer (the "Mortality Transfer Amount") made from the *WPSF* to the *DCPSF*, or from the *DCPSF* to the *WPSF*, so as broadly to limit that impact to a reduction or increase of 0.5 per cent per annum compound in the annual amount of non-guaranteed income.

Adjustment

4.18 As at the *Scheme Effective Date*, a percentage (the "Adjustment Percentage") will be determined such that if the Adjustment Percentage is applied to increase or reduce the non-guaranteed income on each *Transferring Policy* the aggregate of:

- the present value of the projected future non-guaranteed income payments on the *Transferring Policies* based on assumptions, including mortality assumptions, set out in the Scheme;
- the *Up-front Guarantee Charge*; and
- the *Mortality Premium*.

each calculated after allowing for the adjustment to non-guaranteed income, will equal the *WPA Allocated Amount.*

4.19 If it is greater than 100%, the Adjustment Percentage will be applied to the non-guaranteed income on each *Transferring Policy* on a date to be determined by *Prudential* expected to be six to nine months after the *Scheme Effective Date*. If the Adjustment Percentage is less than 100%, it will mean that the amounts of non-guaranteed income will exceed the amounts that the *Aggregate Asset Shares* can support. The payments of income in excess of those that could be afforded may be recovered by reducing future non-guaranteed bonuses on the *Transferring Policies* and/or, with the approval of the *Prudential With-Profits Committee*, reducing the non-guaranteed income in respect of *Transferring Policies.*

4.20 The guaranteed income is not changed by the Percentage Uplift.

Inherited Estate of *Prudential*

4.21 The *Transferring Policies* will have no interest in any possible future distribution or reattribution of the Inherited Estate of *Prudential.*

5. IMPLICATIONS FOR THE HOLDERS OF *TRANSFERRING POLICIES*

Security of benefits

5.1 In extreme circumstances, the distinction between the sub-funds of *Prudential* would break down and the assets of one sub-fund could be used to meet the liabilities of another. When considering the security of the guaranteed benefits, it is therefore appropriate to have regard not only to the financial strength of the *WPSF*, which is the fund which will meet the cost of guarantees on *Transferring Policies*, but also to the financial strength of *Prudential* as a whole.

5.2 *Prudential* is a financially strong company. As at 31 December 2006, it had an excess of assets over liabilities on a "regulatory peak basis" of £27.6 billion, representing 36 per cent of its liabilities, which is a measure of its ability to meet guaranteed liabilities. This can be compared with an excess of assets over liabilities on a regulatory peak basis in *Equitable Life* (adjusted for certain post balance sheet events) of £1.0 billion, which represented only 11 per cent of its liabilities.

5.3 In *Equitable Life*, the *Transferring Policies* are exposed to a number of different risks including market risk, credit risk, insurance risk (including mortality risk), operational risk (including expense risk) and legal and regulatory risks. On transferring to *Prudential*, the *Transferring Policies* will be in a company exposed to generally similar types of risks to *Equitable Life.* In addition, *Prudential* is exposed to risks associated with seeking and writing new business and has a greater exposure to market risk due to the higher *Equity Backing Ratio* in its *WPSF.*

5.4 It is a requirement of the *Scheme* that *Transferring Policies* are not exposed to, and shall incur no adjustment for profits or losses arising from *Prudential's* other policies, experience or business activities. The *Transferring Policies* will therefore only be exposed to many of the risks in *Prudential* in extreme situations when *Prudential* is unable to meet its guaranteed liabilities. Following implementation of the *Scheme*, the *Transferring Policies* will also generally no longer be exposed to any risks in *Equitable Life* including liabilities arising from acts or omissions of *Equitable Life* in relation to the *Transferring Policies* (for example, mis-selling liabilities or liabilities arising from breaches of policy conditions or regulatory requirements) which will remain in *Equitable Life.*

5.5 Taking account of the above factors, it is my view that the security of the *Transferring Policies'* guaranteed benefits will be enhanced following the *Transfer*.

Policyholders' benefit expectations

5.6 The level of the income payable under a *Transferring Policy* will be determined as the maximum of the guaranteed and non-guaranteed income applicable to the policy. This is the current position in *Equitable Life* and will continue to be the position following the transfer to *Prudential.*

5.7 Each *Transferring Policy* will have the same level of guaranteed income immediately following the *Scheme Effective Date* as it had immediately before the Effective Date. After the *Scheme Effective Date, Prudential* will determine the level of any guaranteed bonuses. I understand that *Prudential* considers it unlikely that it will declare any such bonuses in the foreseeable future but this is no different to the current position in *Equitable Life.*

5.8 Each *Transferring Policy* will have the same level of non-guaranteed income immediately following the *Scheme Effective Date* as it had immediately before the *Scheme Effective Date.* The development of the non-guaranteed income currently depends on:

- the investment return on the with-profits assets;
- charges for expense and guarantee costs;
- assumptions about future mortality experience (and actual mortality experience);
- distributions of working capital; and
- smoothing.

I consider below how the *Transfer* will impact on each of these factors.

Investment return on with-profits assets

5.9 Investment return will be the primary driver of the future development of non-guaranteed income on the *Transferring Policies* and a significant factor affecting the investment return will be the investment mix of the assets backing the policies.

5.10 When the holders of *Transferring Policies* took out their policies, the *Equity Backing Ratio* in *Equitable Life* was substantially higher than it is now. Currently due to constraints arising from the financial position of *Equitable Life*, the *Transferring Policies* have an *Equity Backing Ratio* of around 15 to 20 per cent. By contrast the target *Equity Backing Ratio* following the *Transfer* is currently expected to be around 70 per cent.

5.11 Over the long-term, equity-type assets are generally expected to out-perform fixed interest and cash assets, which would result in the holders of *Transferring Policies* receiving higher non-guaranteed income. It should be noted however that out-performance is not certain and the greater exposure to equities and property is likely to give rise to more volatility of underlying investment returns.

5.12 While there is this likelihood of greater volatility of returns and a possibility that investment performance could be worse following the transfer than it would have been in the absence of the transfer, generally accepted views would support the greater exposure to equity-type investments in *Prudential* being a benefit to the policyholders of *Transferring Policies.* This greater exposure is also likely to be more consistent with the original expectations of the holders of *Transferring Policies* when taking out their policy.

Charges for expense and guarantee costs

5.13 Following the *Transfer, Transferring Policies* will benefit from greater certainty over the level of charges that they will incur for expenses and the cost of guarantees, both of which are capped by the *Scheme* but currently uncapped in *Equitable Life.*

Impact of changes in assumptions about future mortality experience

5.14 The level of non-guaranteed income payable on a *Transferring Policy* is dependent on the assumptions made about future annuitant mortality (i.e. the expected future lifetime of the policyholder).

5.15 Currently in *Equitable Life*, the cost or benefit of changes in annuitant mortality accrues initially to the working capital but will at some stage be reflected in the benefits payable to all with-profits policyholders in proportion to their Policy Values. The cost or benefit accruing to holders of *Transferring Policies* would only be, currently, around 23 per cent of the total cost or benefit; the balance of the cost or benefit accruing to other with-profits policies.

5.16 By contrast, following the implementation of the *Scheme*, the cost or benefit arising from changes to the assumption about future annuitant mortality applicable to the *Transferring Policies* will impact directly 100 per cent to the holders of *Transferring Policies.*

5.17 However, the impact of changes in the assumed level of future mortality on the level of non-guaranteed income will be limited broadly to the equivalent of a reduction or increase in annual non-guaranteed income of 0.5 per cent per annum.

5.18 To summarise, the holders of *Transferring Policies* are currently exposed to around 23 per cent of the impact of changes in mortality assumptions applicable to their policies without limit. Following the implementation of the Scheme, they will be exposed to 100 per cent of the impact but with a cap and floor. It is impossible to predict future rates of mortality with certainty and there could therefore be either a benefit or a cost to the holders of *Transferring Policies* compared to the position in the absence of the cap and floor. However, I believe that the limits on this uncertainty resulting from the cap and floor is a positive feature of the *Scheme* for the holders of *Transferring Policies.*

Impact of variation of mortality experience from the assumptions made

5.19 In *Equitable Life*, any differences between actual mortality experience and the assumptions implicit in the levels of non-guaranteed income result in profits or losses which accrue to the working capital and are subsequently allocated between all with-profits policies in proportion to their Policy Values. After the *Scheme Effective Date*, any profits or losses from this source will accrue to the *WPSF* of *Prudential* and have no impact on the holders of *Transferring Policies*. It is reasonable to assume, however, that any such profits and losses will be broadly neutral over time since the *Scheme* requires that *Prudential* shall use mortality bases for expected mortality which the *With-Profits Committee* has confirmed in advance, at least annually, to be best estimate bases for the *Transferring Policies* (without any known margins for prudence).

Smoothing

5.20 While *Equitable Life* has a preference that changes in levels of bonuses should be gradual, its ability to smooth bonuses in adverse scenarios is limited by its financial position. After the implementation of the *Scheme*, any short-term costs of smoothing the level of non-guaranteed income on *Transferring Policies* will be funded by the *WPSF* of *Prudential.* The strength of this fund means that it is more able to fund the costs of smoothing than *Equitable Life*. This is a benefit to the holders of *Transferring Policies* particularly given the greater volatility of investment returns they might experience as a result of the higher *Equity Backing Ratio.*

5.21 It should be noted, however, that while the *WPSF* will fund any short-term costs of smoothing, ultimately it will be the *Transferring Policies* that meet the cost of smoothing since the costs and benefits of smoothing will be allocated to a *Transferring Policies Smoothing Account* in the WPSF which is to be managed with the aim that it should tend to zero.

Distributions of working capital

5.22 *Equitable Life* intends that all of its assets in excess of its contractual liabilities (its "working capital") will be distributed by way of enhancements to non-guaranteed bonuses on with-profits policies over time.

5.23 Under the terms of the *Scheme*, there will be an allocation of the working capital of *Equitable Life* between that part which transfers to *Prudential* with the *Transferring Policies* and that part which remains in *Equitable Life* with the remaining policies. The *Scheme* does not fully define the method of determining the allocation of the working capital of *Equitable Life* between the *Transferring Policies* and the Remaining Policies, leaving the *Equitable Life Board* with some discretion over the precise allocation as at the *Scheme Effective Date.* The proposed methodology is that currently recommended to the *Equitable Life Board* by the With-Profits Actuary of *Equitable Life.*

5.24 The starting point for the allocation of working capital is to apportion it between *Transferring Policies* and Remaining Policies in proportion to Policy Values as at the *Scheme Effective Date*. I consider this to be reasonable given that it is *Equitable Life's* established practice to apply any distribution of working capital in proportion to Policy

Values and the proportions of total Policy Values represented by *Transferring Policies* and Remaining Policies are not expected to change materially over the next 20 years.

5.25 The allocation of working capital to *Transferring Policies* will not however be the full amount of the allocation based on an apportionment by Policy Values. This is because it is proposed that there will be various reallocations between the *Transferring Policies* and Remaining Policies in order to, for example, allow for *Equitable Life's* view of a fair allocation of the costs of the transaction and to compensate the Remaining Policies for diseconomies of scale. Part of the allocation of working capital to the *Transferring Policies* will also be used to fund part of the *Mortality Premium* and to meet part of the cost of the *Up-front Guarantee Charge*. These amounts are being allocated to the *WPSF* of *Prudential* and are not therefore available for distribution to the *Transferring Policies.*

5.26 In aggregate, based on the pro-forma figures as at 31 December 2006, had the *Scheme Effective Date* been 31 December 2006, while an allocation of working capital to the *Transferring Policies* based on Policy Values would have represented around 12% of their Policy Values, the amount allocated to the *Asset Shares* of the *Transferring Policies* would have been a little under 4% of the Policy Values of the *Transferring Policies.*

5.27 It is also important to appreciate that the amount of working capital allocated to the *Asset Shares* of *Transferring Policies* as at the *Scheme Effective Date* could differ materially from the 4% of Policy Values determined based on pro-forma figures as at 31 December 2006, and could even be negative. Factors that could adversely affect the size of the uplift include, in particular, poor investment performance in 2007. *Equitable Life* has estimated that a reduction in its working capital of around £200 million from the position at 31 December 2006 might eliminate any uplift completely. By way of illustration, it has been estimated that this might occur if, over 2007, there was a fall in the value of property investments held by *Equitable Life* of around 10% and an increase in the annual yield on fixed interest investments held by *Equitable Life* of around 1 percentage point. In this scenario, there would also be an adverse impact on *Equitable Life's* ability to make distributions from its working capital in the absence of the *Scheme*.

Timing of distribution of working capital

5.28 *Equitable Life* has estimated that, in the absence of unforeseen costs, and assuming future experience in line with current best estimate assumptions, its working capital would be sufficient to fund additions to Policy Values for AWP policies, and enhancements to non-guaranteed income on with-profits annuities, of around 2% per annum for the lifetime of those policies. However, in practice, *Equitable Life* is constrained by other factors. In particular, the timing of the distribution has to have regard to the need for *Equitable Life* to continue to meet its contractual obligations as they fall due and the need to maintain an appropriate level of capital. Consequently in the short term, any distributions of working capital are expected to be at a lower rate than the 2% per annum referred to above. The non-guaranteed bonus announced by *Equitable Life* for 2006 included an addition of around 1% in respect of a distribution of working capital. To the extent that distributions of working capital are lower in the short term, reflecting the holding back of capital, future distributions should be higher. However, the level of these future distributions is subject to significant uncertainty arising from the possibility of unforeseen costs, or the possibility that foreseen costs turn out to be different from those expected.

5.29 On implementation of the *Scheme*, to the extent that the allocation of *Equitable Life's* working capital to *Prudential* exceeds, or falls short of, that required to fund the *Mortality Premium* and *Up-front Guarantee Charge*, it will be allocated to the *Asset Shares* of *Transferring Policies.* If there is a positive allocation to *Asset Shares*, it will result in an immediate uplift to non-guaranteed income around 6 to 9 months after the *Scheme Effective Date.* If there is a negative allocation to *Asset Shares*, *Prudential* may choose to either reflect this immediately in a reduction in non-guaranteed income or reduce future levels of non-guaranteed bonus.

5.30 Although any allocation of working capital to the *Asset Shares* of *Transferring Policies* as at the *Scheme Effective Date* will be less than the amount of working capital attributable to the *Transferring Policies* immediately before the *Scheme Effective Date* any such immediate allocation will be a benefit to the holders of *Transferring Policies* in that it will reduce uncertainty over them receiving it. This is because any working capital allocated to the *Asset Shares* of the *Transferring Policies* will no longer be exposed to the risks that the working capital in *Equitable Life* is exposed to, including expense risk, all risks in respect of *Equitable Life's* other business and liabilities arising from acts or omissions of *Equitable Life* (e.g. mis-selling liabilities) in respect of the *Transferring Policies* since these will remain in *Equitable Life.* The Scheme also requires that the *Asset Shares* of the *Transferring Policies* shall have no exposure to profits and losses arising from *Prudential's* other policies, experience or business activities.

5.31 Based on pro-forma figures as at 31 December 2006, had the *Scheme Effective Date* been 31 December 2006, there would have been a one-off positive adjustment to non-guaranteed income of around 3.5% (reflecting the allocation of working capital to the *Asset Shares* of *Transferring Policies* of a little under 4% of ELAS determined Policy Values). *Transferring Policies* would not then however have benefited from any further distributions of working capital after the *Scheme Effective Date*. By way of comparison, in the absence of the *Scheme*, had *Equitable Life* made a one off distribution of working capital of 3.5% as at 31 December 2006, *Equitable Life* has estimated that it might have been able to continue to make future distributions of working capital equivalent to around 1.75% per annum. This figure should be treated as illustrative only especially since, in practice, any such distributions would most likely be delayed and subject to the uncertainty arising from the risks referred to above. Nevertheless, in considering the impact of the *Scheme* on the *Transferring Policies*, it is useful to compare this indicative measure of the future distributions of working capital foregone as a result of the implementation of the *Scheme* with the positive impacts of the *Scheme* on *Transferring Policies* described below.

5.32 The most significant difference for *Transferring Policies* arising from the *Scheme* is the mix of assets backing their policies. The equity backing ratio is expected to increase from under 20% to around 70%. In the longer term, it is generally considered that investment in equities and property will provide higher investment returns than investment in fixed interest securities and cash, albeit at the expense of greater volatility and the risk of falls in values. Given the additional 50% of assets invested in equities and property, it might be assumed that in order to compensate the *Transferring Policies* for the 1.75% per annum distributions of working capital foregone, it will be necessary for the additional equity and property investments held to outperform the investment return on fixed interest securities and cash by 3.5% per annum. This however ignores the impact of guarantees and the volatility of investment returns, which is discussed below.

5.33 In practice, the extra equity and property investments held after implementation of the *Scheme* could result in significantly higher or significantly lower investment returns. (The distributions of working capital in *Equitable Life* in the absence of the *Scheme* could also be different). Consequently the non-guaranteed income on *Transferring Policies* could also be significantly higher or lower as a result of implementation of the *Scheme*. However, whereas the potential upside for policyholders is unlimited, the downside is limited by the guarantees under the policies, which will be unaltered by the *Scheme. Transferring Policies* will also have no further exposure to the cost of these guarantees since this will be met by the *WPSF* of *Prudential.*

5.34 In addition, *Transferring Policies* will benefit from greater certainty over the level of charges that they will incur for expenses and the cost of guarantees, both of which are capped by the *Scheme* but currently uncapped in *Equitable Life.* The impact of changes in the assumed level of future mortality on the level of non-guaranteed income will also be limited by the cap and floor mechanism described above. The premium for this reduction in mortality risk is around 1% of the Policy Values of *Transferring Policies,* which is an indication of the value of this benefit to the *Transferring Policies.*

Overall implications for reasonable benefit expectations

5.35 It is clear from the foregoing that, for *Transferring Policies,* the *Scheme* will give rise to benefit expectations which are different to those applying in *Equitable Life* currently. This is primarily a reflection of the significantly greater exposure to equity-type investments following implementation of the *Scheme* compared to the position currently. This greater level of exposure is similar to that which the holders of *Transferring Policies* may have expected when effecting their policies.

5.36 While the *Scheme* may result in future benefits payable on *Transferring Policies* which are similar to those which would have applied in the absence of the *Scheme*, it may also result in future benefits payable on *Transferring Policies* which are either materially greater than or materially less than those which would have applied in the absence of the *Scheme*. Whereas the potential upside is unlimited, the downside is limited by the guarantees under the policies, which will be unaltered by the *Scheme*. Considering the portfolio of *Transferring Policies* as a whole, it is my view that their reasonable benefit expectations of the holders of *Transferring Policies* in aggregate will not be adversely affected by the *Scheme.*

Administration and level of service

5.37 *Prudential* is experienced in administering its own portfolio of with-profits annuities and other companies in the *Prudential Group* have experience of accepting and integrating transfers of blocks of non-profit annuity business. Consequently, I believe that holders of *Transferring Policies* can expect the administration of their policies and the quality of service they receive to be at an appropriate level after the *Transfer.*

5.38 Where applicable, annuity payments are made to policyholders net of tax deducted on behalf of HM Revenue and Customs ("*HMRC*"). For some holders of *Transferring Policies*, there may be an increase in the tax deducted from annuity payments made until such time as *HMRC* issue *Prudential* with new tax codes. I understand that any over deductions of tax will be automatically corrected once the new tax codes are in place.

Amendment to terms of the Scheme

5.39 The *Scheme* includes certain provisions allowing the terms of the *Scheme* to be amended. Some amendments require an application to be made to the *Court* and a certificate from an independent actuary. Subject to the proposed change not being to the material detriment of the *Transferring Policies*, others only require approval of the *Prudential With Profits Committee* and advance notification to the *FSA*. Given the protections afforded, I consider that the terms on which the operation of the *Scheme* can be amended are reasonable from the point of view of the *Transferring Policies.*

6. IMPLICATIONS FOR THE HOLDERS OF POLICIES REMAINING IN *EQUITABLE LIFE*

Security of policyholders' benefits

6.1 The proposed *Scheme* removes the significant longevity risk associated with the *WPA* policies from the holders of the remaining policies. This is likely to be beneficial from the point of view of the security (and benefit expectations) of the remaining with-profits policyholders.

6.2 However, the proposed *Scheme* also results in a proportionately greater exposure to operational risks since most of the existing operational risks (including those in relation to the *Transferring Policies* arising from acts or omissions of *Equitable Life* that occurred on or before the *Scheme Effective Date*) will remain with *Equitable Life.*

6.3 *Equitable Life* has produced estimates of the expected impact of the proposed *Transfer* on its published solvency based on pro-forma figures as at 31 December 2006. These show that there is expected to be a reduction in the working capital of *Equitable Life* (i.e. the excess of assets over liabilities determined on a realistic basis) reflecting the fact that a proportion of the working capital will be transferred to *Prudential* with the *Transferring Policies*. When expressed as a percentage of the realistic value of with-profits liabilities, however, the working capital reduces only slightly from 10.5 per cent to 9.7 per cent.

6.4 When measured on a regulatory peak basis, the excess of assets over liabilities expressed as a percentage of liabilities reduces from 11.2 per cent to 7.7 per cent (based on pro-forma figures as at 31 December 2006 after certain post balance sheet events). Judged on the basis of the these figures, which are a measure of ability to meet guaranteed liabilities, this suggests a diminution in security of the guaranteed benefits of the holders of remaining policies. However, it is appropriate to also consider *Equitable Life's* individual assessment of its capital requirements (the "*ICA*"), which takes account of the actual risks to which *Equitable Life* is exposed.

6.5 The *ICA* capital requirement represents *Equitable Life's* assessment of the capital required to ensure that there is no significant risk that *Equitable Life's* liabilities cannot be met as they fall due. *Equitable Life* has produced calculations that demonstrate that *Equitable Life* has sufficient capital to meet its *ICA* capital requirement both before and after implementation of the *Scheme.* There is a reduction in the excess of available cover over the *ICA* capital requirement. However, given that *Equitable Life* is closed to new business, to the extent that it has any material working capital in excess of its *ICA* capital requirement, it is likely to distribute this capital to its with-profits policyholders. The reasonable expectations of policyholders are therefore that on an *ICA* basis, *Equitable Life* is only ever likely to maintain a small level of cover over its *ICA* capital requirements.

6.6 On the basis of the above analysis, it is my view that the security of the guaranteed benefits of holders of remaining policies can be expected to remain at an acceptable level following implementation of the *Scheme.*

Policyholders' benefit expectations

6.7 There is no impact of the *Scheme* on the benefit expectations of non-profit policyholders.

6.8 The benefit expectations of the remaining with-profit policyholders are impacted by the allocation of working capital between the *Transferring Policies* and remaining policies. I consider the approach proposed to be adopted by *Equitable Life* for dividing the working capital to be reasonable and fair from the point of view of the remaining policies. In particular, I note that the proposed approach includes an adjustment which aims to ensure that the expense charges made on the remaining policies after implementation of the *Scheme* are no higher than they would have been in the absence of the *Scheme*.

6.9 Although there is a small reduction in working capital as a percentage of with-profit policyholders' Policy Values, as a result of the removal of the long-term risks associated with the *WPA* business, *Equitable Life* considers it likely that it will be able to distribute the working capital more quickly as a result of the implementation of the *Scheme*. This is likely to be beneficial to some of the remaining policies.

6.10 Based on the above analysis, it is my view that there will be no material adverse impact of the *Scheme* on the reasonable benefit expectations of the holders of remaining policies.

Strategic options

6.11 The proposed *Scheme* results in a simplification of the underlying business within *Equitable Life*, which means potentially greater flexibility for *Equitable Life* with regards to possible future strategic options that might be undertaken for the benefit of the remaining with-profits policyholders.

7. IMPLICATIONS FOR THE EXISTING HOLDERS OF POLICIES IN *PRUDENTIAL*

7.1 The *Scheme* has no direct impact on the *SAIF* or, therefore, on the benefit expectations of policies allocated to the *SAIF.*

7.2 There should be no adverse impact on the *NPSF*. The *NPSF* will receive charges as compensation for meeting the expenses of administering the *Transferring Policies* which *Prudential* believes will be sufficient to cover both the costs of administering the *Transferring Policies* and the cost of compensating the *WPSF* for providing capital to support the risks it is taking on in respect of the *Transferring Policies* (see below).

7.3 There will also be no direct impact on the existing *Prudential* policies allocated to the *DCPSF.* The *DCPSF* will hold the *Asset Shares* of the *Transferring Policies.* However, it is a requirement of the Scheme that the *Asset Shares* of the *Transferring Policies* be maintained separately from the *Asset Shares* of all other *Prudential* policies and, other than investment profits and losses which will accrue to the *Asset Shares* of the

Transferring Policies, no profits or losses will arise in the *DCPSF* in respect of the *Transferring Policies.*

7.4 The only fund of the *Prudential* where there is any material impact of the *Scheme* is the *WPSF.* This fund will:

- meet the cost of guarantees in respect of *Transferring Policies* in return for receiving the *Up-front Guarantee Charge* and on-going charges of up to 0.5 per cent per annum of the *Asset Shares* of *Transferring Policies;*

- provide the "cap and floor" protection to the *Transferring Policies* in respect of changes in mortality assumptions in return for receiving the *Mortality Premium;*

- receive any mortality profits and meet any mortality losses (expected to be neutral in aggregate over time) resulting from mortality experience different to that assumed in setting non-guaranteed income levels on *Transferring Policies*; and

- provide capital to support the *Transferring Policies* in the *DCPSF* and the additional risks taken on in the *WPSF* in return for a contribution received from the shareholders of *Prudential* via the *NPSF.*

7.5 Overall, the *Scheme* is expected to have little net impact on the working capital (excess of assets over liabilities measured on a realistic basis) of the *WPSF*. There is expected to be an increase in the capital requirements of the fund (the Risk Capital Margin) reflecting the additional risks being taken by the fund. *Prudential* will compensate the *WPSF* for providing capital to support the risks it is taking on in respect of the *Transferring Policies* by making payments from the *NPSF* (i.e. at the cost of shareholders) equal to 0.14 per cent per annum of *Asset Shares*.

7.6 The *WPSF* will remain financially strong. On a pro-forma basis as at 31 December 2006, *Prudential* has estimated that the impact of the *Scheme* is to reduce the amount of working capital in excess of the *WPSF's* required Risk Capital Margin from 10.0 per cent to 9.7 per cent of liabilities.

7.7 In conclusion, it is my view that the security of guaranteed benefits of existing *Prudential* policyholders will not be materially affected by the *Scheme.*

Policyholders' benefit expectations

7.8 I understand that *Prudential* intends that any profits or losses arising in the *WPSF* in respect of the support provided to the *Transferring Policies* will accrue to the Inherited Estate in that fund and not be reflected in the *Asset Shares* of policies contained in that fund. There is not therefore expected to be any direct impact arising from the *Scheme* on any existing policyholders in the *WPSF.*

7.9 There could be an indirect impact on holders of policies in the *WPSF* if the estate in the *WPSF* was reduced in size as a result of losses arising in respect of the *Transferring Policies* and this impacted on the investment freedom of the fund and the security provided by the estate. Given the financial strength of the fund referred to above, this outcome is however considered to be unlikely.

7.10 In conclusion, it is my view that there will be no adverse impact of the *Scheme* on the reasonable benefit expectations of *Prudential* policyholders.

8. SUMMARY OF CONCLUSIONS

8.1 Based on the analysis, outlined in my report and summarised above, of the impact of the *Scheme* on the various groups of policyholders affected in both *Equitable Life* and *Prudential,* my conclusions can be summarised as follows:

(a) For *Transferring Policies,* the *Scheme* will give rise to benefit expectations which are different to those applying in *Equitable* currently. This is primarily a reflection of the significantly greater exposure to equity-type investments following implementation of the *Scheme* compared to the position currently. This greater level of exposure is similar to that which the holders of *Transferring Policies* may have expected when effecting their policies.

(b) While the *Scheme* may result in future benefits payable on *Transferring Policies* which are similar to those which would have applied in the absence of the *Scheme,* it may also result in future benefits which are either materially greater than or materially less than those which would have applied in the absence of the *Scheme.* Whereas the potential upside is unlimited, the downside is limited by the guarantees under the policies, which will be unaltered by the *Scheme.* Considering the portfolio of *Transferring Policies* as a whole, it is my view that the reasonable benefit expectations of the holders of *Transferring Policies* in aggregate will not be adversely affected by the *Scheme*.

(c) It is my view that the security of the *Transferring Policies'* guaranteed benefits will be enhanced by the *Scheme*.

(d) It is my view that there will be no material adverse impact of the *Scheme* on the reasonable benefit expectations of the holders of policies remaining in *Equitable Life* and that the security of the guaranteed benefits under these policies will remain at an acceptable level following implementation of the *Scheme.*

(e) It is my view that there will be no adverse impact of the *Scheme* on the reasonable benefit expectations of *Prudential* policyholders and that the security of guaranteed benefits of these policyholders will not be materially affected by the *Scheme.*

8.2 Based on the above conclusions, I consider that the impact of the implementation of the *Scheme* on the various groups of policyholders affected in both *Equitable Life* and *Prudential* is consistent with those policyholders being treated fairly.

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30 August 2007

Authorised and regulated by the *FSA*

PART IV: DEFINITIONS AND GLOSSARY OF TERMS

"Actuarial Function Holder"	Tim Bateman, in his capacity as the actuarial function holder of *Equitable Life* under SUP 4.3.1 R (1) (a) of the *FSA Rules*.
"Adjustment Payment Date"	Means the date on which one or more adjustment payments are made as described in Part II, paragraph 3(f).
"Aggregate Asset Share"	Means the sum of the *Asset Shares* of the *Transferring Policies* from time to time.
"Aggregate Initial Asset Share"	Means the sum of the *Asset Shares* of the *Transferring Policies* to be established by *Prudential* on the *Scheme Effective Date*.
"Aggregate Initial Asset Share Transferring Assets"	Means certain assets selected by *Prudential* in accordance with the process described in Part II, paragraph 3(g) which will be transferred to *Prudential's DCPSF* under the *Scheme* to cover the *Asset Shares* of the *Transferring Policies*.
"Asset Share"	Means, in relation to a *Transferring Policy*, an amount representing the notional allocation of assets of *Prudential's DCPSF* to the *Transferring Policy*. The *Asset Share* will be established by *Prudential* on the *Scheme Effective Date* and will effectively represent the reserves required for the non-guaranteed income in respect of a *Transferring Policy* over the lifetime of the *Transferring Policy*. Thereafter it may be adjusted in accordance with the *Scheme* and will otherwise be managed in accordance with the *Principles of Financial Management*.
"Board"	Means the board of *Directors* of *Equitable Life*.
"Canada Life"	Means Canada Life Limited, with the reference relating to the transfer of non-profit annuity business from *Equitable Life* to Canada Life in 2007.
"Circular"	Means the Policyholder Circular, sent to *Members* and policyholders of *Equitable Life* in relation to the *Transfer* and convening the *EGM* at which the *Resolution* will be

	proposed.
"Conduct of Business Sourcebook"	Means the Conduct of Business Sourcebook, forming part of the *FSA Rules*.
"Court"	Means the High Court of England and Wales and, where relevant, the Royal Court of Guernsey and the Royal Court of Jersey.
"DCPSF"	Means the Defined Charges Participating Sub-Fund within the long-term insurance fund of *Prudential*.
"Directors"	Means the executive and non-executive directors of *Equitable Life*.
"EEA State"	Means the countries described as such by or for the purposes of Part VII of the *FSMA*.
"EGM" or "Extraordinary General Meeting"	Means the extraordinary general meeting of *Equitable Life* to be convened for the purposes of the *Members* of *Equitable Life* considering and, if thought fit, approving the *Resolution*, or any adjournment thereof.
"Equitable Life"	Means The Equitable Life Assurance Society.
"Equity Backing Ratio"	Means the percentage of the fund value which consists of investments such as equities and property.
"Excluded Liabilities"	Means liabilities arising from acts or omissions of *Equitable Life* or its *Directors*, officers, employees, contractors or agents which occurred on or before the *Scheme Effective Date*, including, without limitation, liability for mis-selling of policies or breach of policy terms or regulatory requirements prior to the *Scheme Effective Date*, liability for tax payable by *Equitable Life* and liabilities which derive from or which are attributable to property of *Equitable Life* which is not being transferred to *Prudential*.
"Excluded Policies Reassurance Agreement"	Means an agreement proposed to be entered into between *Equitable Life* and *Prudential* under which *Prudential* will provide reassurance to *Equitable Life* in respect of the *Excluded Policies* with effect from the *Scheme Effective Date* and on terms consistent with the

	Scheme.
"Excluded Policy"	Means any with-profits annuity policy of *Equitable Life* set out in the *Final Policy List* which is not capable of being transferred by the *Scheme* on the *Scheme Effective Date*.
"Expired Policies"	Means policies under which no payment of annuity will be payable on or after the *Scheme Effective Date* or which have terminated on or before the *Scheme Effective Date*.
"Final Policy List"	Means the list of policies provided to the *Court* for the purposes of the *Scheme*, purporting to set out the list of *Transferring Policies*.
"FSA"	Means the *UK* Financial Services Authority.
"FSA Rules"	Means the *FSA's* Handbook of Rules and Guidance.
"FSMA"	Means the Financial Services and Markets Act 2000.
"Group"	Means in respect of any party, that party itself, any holding company and any subsidiary from time to time of that party or of any such holding company.
"Guarantee Liabilities"	Means in respect of a *Transferring Policy*, such part of the liability under that *Transferring Policy* as represents the obligation to pay such part (if any) of the guaranteed income as exceeds the non-guaranteed income in respect of that *Transferring Policy* in circumstances where the guaranteed income exceeds the non-guaranteed income in respect of that *Transferring Policy*.
"HMRC"	Means HM Revenue & Customs.
"ICA"	Means individual capital assessment.
"Income Uplift Date"	Means a date selected by *Prudential* falling not more than two months after the *Adjustment Payment Date*.
"Independent Expert"	Means the independent expert appointed pursuant to Section 109 of the *FSMA* in relation to the *Scheme*.
"Ineligible Policies"	Means any policy which is not a with-profits annuity policy.
"Interim Arrangements"	Means the arrangements designed to ensure continuity of

	fair treatment of policyholders notwithstanding the transition of administrative practices and operational management from *Equitable Life* to *Prudential*.
"Low Start Annuity Policy"	Means a *Transferring Policy* or *Excluded Policy* whose terms provide that the guaranteed income for that policy will increase by 3.5 per cent per annum (before the effect of any bonus affecting the level of guaranteed income).
"Member"	Means a person described in Regulation 2 of *Equitable Life's* Articles of Association.
"Mortality Premium"	Means the amount to be transferred by *Equitable Life* to *Prudential* in payment for the provision by *Prudential's WPSF* of the protection against the risk of changes in mortality assumptions described in Part II, paragraphs 3(d)(iii) and 5(f).
"Mortality Premium Transferring Assets"	Means certain assets selected by *Prudential* in accordance with the process described in Part II, paragraph 3(g) which will be transferred to *Prudential's WPSF* under the *Scheme* in payment for the protection against the risk of changes in mortality assumptions described in Part II, paragraph 5(f).
"NPSF"	Means the Non-Profit Sub-Fund within the long-term insurance fund of *Prudential*.
"PPFM"	Means the principles and practices of financial management required to be established, maintained and recorded from time to time under section 6.10 of the Conduct of Business Sourcebook.
"Principles of Financial Management"	The principles of financial management as set out in Schedule 2 of the *Scheme*, and summarised in Part II, paragraph 5.
"Prudential"	Means The Prudential Assurance Company Limited.
"Records"	Means all documents, files and other records, whether in physical or electronic form, relating to the *Transferring Policies* and the *Transferring Assets* which are in the possession of, or under the control of, *Equitable Life*.

"Regulatory Authority"	Means the *FSA* and any other regulatory body in any jurisdiction with authority in respect of any party or the *Transfer*.
"Resolution"	Means the ordinary resolution to be proposed at the *EGM* as an ordinary resolution seeking the approval of *Members* for the *Transfer*.
"SAIF"	Means the Scottish Amicable Insurance Fund.
"SALAS"	Means Scottish Amicable Life Assurance Society.
"Scheme"	Means the proposed insurance business transfer scheme for the *Transfer*, as amended from time to time. Where applicable, references to the *Scheme* should be treated as references to each of the insurance business transfer schemes to be made under the laws of England and Wales, Guernsey and Jersey.
"Scheme Effective Date"	Means the date on which the *Scheme* takes effect. The *Scheme* is expected to take effect at 11:59 pm on 31 December 2007.
"Target Equity Backing Ratio"	Means the percentage set by the board of directors of *Prudential* as the target for the percentage of the value of *Prudential's WPSF Asset Pool* which should be constituted by equities, real property and other investments having projected investment returns characteristic of equities and real property (as distinct from cash and bonds and investments having projected investment returns characteristic of cash and bonds).
"Tax Clearances"	Means the confirmations and tax clearances referred to in paragraph 4 of Part IX of the *Circular*.
"Transfer"	Means the transfer of the *Transferring Policies* and the *Transferring Assets* from *Equitable Life* to *Prudential* pursuant to Part VII of the *FSMA* (and applicable legislation under the laws of Guernsey and Jersey).
"Transferring Assets"	Means the assets to be transferred by *Equitable Life* to *Prudential* on the *Scheme Effective Date*, being the rights, benefits and powers under or by virtue of the *Transferring*

	Policies, the *Aggregate Initial Asset Share Transferring Assets*, the *Up-front Guarantee Charge Transferring Assets*, the *Mortality Premium Transferring Assets* and the *Records*, but excluding any assets which are not capable of being so transferred, for which special provision is made in the *Scheme*, as described in Part II, paragraph 3.
"Transferring Policies"	Means the with-profits annuity policies of *Equitable Life* included on the *Final Policy List* which are not *Excluded Policies*, *Expired Policies* or *Ineligible Policies*. Although the *Transferring Policies* will not include any *Excluded Policies*, the *Principles of Financial Management* will apply equally to the manner in which *Prudential* is required to carry out its obligations in respect of the *Excluded Policies* under the *Excluded Policies Reassurance Agreement*, such that references to *Transferring Policies* should, for the most part, be treated as including references to the *Excluded Policies*.
"Transferring Policies Bonus Series"	Means a newly created bonus series in *Prudential's DCPSF* to which the *Transferring Policies* will be allocated on the *Scheme Effective Date*.
"Transferring Policies Smoothing Account"	Means the smoothing account to be held for the *Transferring Policies* in *Prudential's WPSF* reflecting the amounts held back or added to annuity payments by way of smoothing as described in Part II, paragraph 5(g).
"United Kingdom" or "UK"	Means the United Kingdom of Great Britain and Northern Ireland.
"Up-front Guarantee Charge"	Means the amount to be transferred by *Equitable Life* to *Prudential* in payment for the acceptance by *Prudential's WPSF* of the *Guarantee Liabilities* as described in Part II, paragraph 3(d)(ii).
"Up-front Guarantee Charge Transferring Assets"	Means certain assets selected by *Prudential* in accordance with the process described in Part II, paragraph 3(g) which will be transferred to *Prudential's WPSF* under the *Scheme* in payment for the acceptance by *Prudential's WPSF* of the *Guarantee Liabilities* as

described in Part II, paragraph 3(d)(ii).

"With-Profits Actuary"	Tim Bateman, in his capacity as the with-profits actuary of *Equitable Life* under SUP 4.3.1 R (1) (b) of the *FSA Rules*.
"With-Profits Committee"	Means the committee established in accordance with paragraph 6.11.6 of the *Conduct of Business Sourcebook*.
"WPA"	Means with-profits annuity.
"WPA Allocated Amount"	Means the amount of assets of *Equitable Life* determined to be fairly attributable to the *Transferring Policies*, as described in Part II, paragraph 3(c).
"WPSF"	Means the With-Profits Sub-Fund within the long-term insurance fund of *Prudential*.
"WPSF Asset Pool"	Means the pool of assets used to back the greatest number of *Prudential's* with-profits policies.