Equitable Life

Policyholder Circular

14 September 2007

The Equitable Life Assurance Society

Registered office

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Policyholder administration

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Board of Directors

Vanni Treves, Chairman
Peter Smith, Deputy Chairman
Charles Thomson, Chief Executive
David Adams OBE, Non-executive Director
Ian Brimecome, Non-executive Director
Fred Shedden, Non-executive Director
Andrew Threadgold, Non-executive Director
Jean Wood, Non-executive Director

With-profits Actuary and Head of Actuarial Function
Tim Bateman

Legal Advisers
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32 London Bridge Street
London
SE1 9SY

THIS *CIRCULAR* AND ITS ACCOMPANYING DOCUMENTS ARE IMPORTANT

AND REQUIRE YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the action you should take, please consult your financial adviser, solicitor, accountant or other professional adviser duly authorised under the Financial Services and Markets Act 2000.

Proposal to transfer the with-profits annuity business of

The Equitable Life Assurance Society

to

The Prudential Assurance Company Limited

OTHER PERSONS WHO MAY BE INTERESTED IN THE *TRANSFER*

Other persons may have an interest in your policy (for example, members of occupational pension schemes, joint holders, assignees, co-trustees, receivers and trustees in bankruptcy or sequestration). If you think someone falls within this description, please draw this *Circular* and its accompanying documents to their attention. If necessary, further copies of this *Circular* can be obtained by calling the *Equitable Life Helpline* (details given on page 4). Copies of this *Circular* can also be obtained by accessing the *Equitable Life* website on www.equitable.co.uk.

KEY INFORMATION AND EXPECTED TIMETABLE

- **Information provided:** This *Circular* and the accompanying key features document provide details of the proposed transfer of the with-profits annuity business of *Equitable Life* to *Prudential* (the ***"Transfer"***). The key features document provides an overview of the proposed *Transfer*. Part III of this *Circular* provides a more detailed outline of the terms of the insurance business transfer scheme for the *Transfer* (the ***"Scheme"***).

- **Italicised terms in this *Circular* have the meanings set out in Part XI (Definitions and Glossary of Terms), singular definitions including the plural (and vice versa) where the context requires.**

- **Approval by *Equitable Life Members*:** The *Transfer* is subject to the passing of the *Resolution* by *Members* of *Equitable Life*. *Notice* of the *Extraordinary General Meeting* of *Equitable Life* convened for 11:00 am on 26 October 2007 at Church House Conference Centre, Westminster, London SW1P 3NZ at which the *Resolution* will be considered and, if thought fit, passed is set out in Part X of this *Circular*. The text of the *Resolution* is set out in the *Notice*. The *Resolution* requires a majority of the votes cast by *Members*, whether in person or by proxy, to be in favour for it to be passed.

- **Recommendation by *Equitable Life Directors*: The *Directors* unanimously and strongly recommend the *Transfer* and urge all *Members* to vote in favour of the *Resolution* to be proposed at the forthcoming *Extraordinary General Meeting*.** Further information on the *Directors'* assessment of the proposed *Transfer* is set out in the letter from the Chairman of *Equitable Life* on page 6.

- **Approval by the *Court*:** The *Transfer* is to be implemented using the statutory transfer process available under Part VII of the Financial Services and Markets Act 2000 (the ***"FSMA"***). The *Transfer* is accordingly subject to the sanction of the *Court*.

- **Review by the Financial Services Authority:** The terms of the *Transfer* have been reviewed by the Financial Services Authority (the ***"FSA"***). The *FSA* is entitled to be heard by the *Court* at the hearing to determine whether the *Transfer* should be sanctioned.

- **Review by actuaries:** The terms of the *Transfer* have also been reviewed by the *Actuarial Function Holder* and *With-Profits Actuary* of *Equitable Life* and, in accordance with the requirements of the *FSMA*, by the *Independent Expert*, Mr S J Sarjant. Summaries of their reports are set out in Parts IV, V and VI of this *Circular*. With respect to *Equitable Life's* policies the *Independent Expert* concludes that, in his view:

    - 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.

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, the reasonable benefit expectations of the holders of *Transferring Policies* in aggregate will not be adversely affected by the *Scheme*.

- o The security of the *Transferring Policies'* guaranteed benefits will be enhanced by the *Scheme*.

- o 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 the security of the guaranteed benefits under these policies will remain at an acceptable level following implementation of the *Scheme*.

- **Overseas *Members*:** The *Transfer* in Guernsey and Jersey is also subject to the sanction of the courts in those jurisdictions. Details of the overseas court hearings will be given in separate communications to relevant policyholders. Further details can be found on page 84.

- **Timetable:** The key dates for the *Transfer* are as follows:

Deadline for receipt of proxy voting forms for the *Extraordinary General Meeting*	**11:00 am on 24 October 2007**
Extraordinary General Meeting	**11:00 am on 26 October 2007**
Expected date for *Court* hearing for sanction of the *Transfer*	**28 November 2007**
Expected date on which the *Transfer* will become effective	**11:59 pm on 31 December 2007**

ACTION TO BE TAKEN BY *MEMBERS*

Proxy voting forms: *Members* who are entitled to vote at the *Extraordinary General Meeting* have been sent a proxy voting form with this *Circular*. *Members* are requested to complete and return their proxy voting form to the Independent Scrutineer (Electoral Reform Services Ltd), The Election Centre, 33 Clarendon Road, London N8 0NW so that it is received no later than 11:00 am on 24 October2007 using the reply envelope provided. Returning the proxy voting form will not prevent a *Member* from voting at the *Extraordinary General Meeting* in person. The vote cast in person will replace the vote that would have been cast using the proxy voting form.

Registration: Registration for the *Extraordinary General Meeting* will commence at 11 am on 26 October 2007. **If you intend to be present at the *EGM* it is important that you return the attendance slip at the bottom of the covering letter. Please also bring the covering letter with you to the *EGM* as a means of identification.**

How to get to the *EGM*: A map as detailed within the *EGM Notice* in Part X of this *Circular* shows how to reach the *EGM* venue.

FURTHER INFORMATION

You are able to obtain copies of the full reports of the *Independent Expert* and the *Actuarial Function Holder* and *With-Profits Actuary of Equitable Life*, as well as a copy of the *Scheme* document, by accessing the *Equitable Life* website at www.equitable.co.uk (see page 85 for further details). Alternatively, copies may be requested by calling the *Equitable Life Helpline* (details provided below).

If you have any questions in relation to the *Transfer*, or need a copy of this document on audio cassette, CD or in Braille, please contact the *Equitable Life Helpline* on 0800 408 0097 (calls charged at local rates) or 00 800 1020 1040 if calling from outside the *UK* on any weekday (Monday to Friday) excluding *UK Bank Holidays* from 8.00 am to 8.00 pm and 8.00 am to 1.00 pm on Saturdays. Calls may be recorded and randomly monitored for your protection. **The helpline operators cannot provide financial advice but will be able to answer general questions in relation to the *Transfer*.**

This *Circular* is dated 14 September 2007.

Contents

Part I

Letter from the Chairman of *Equitable Life*

Dear *Members* and policyholders

Transfer of with-profits annuity policies to *Prudential*

I am pleased to be writing to you about the proposed *Transfer* of with-profits annuity policies to *Prudential*.

Under the proposed *Transfer*, with-profits annuity policies will be transferred to *Prudential* where they will participate in an actively managed fund which is one of the largest and strongest in the *UK* and which has greater bonus earning potential over the longer term than the current *Equitable Life* fund. The *Transfer* of the with-profits annuity policies is also expected to significantly improve our ability to find an attractive strategy for the benefit of all remaining policyholders.

Implementation of the *Transfer* is subject to the approval of *Members* at an *Extraordinary General Meeting* and the sanction of the *Court*. If the *Transfer* is approved, it is expected to become effective at 11:59 pm on 31 December 2007.

Board's recommendation

The *Directors* firmly believe that the best interests of the *Members* of *Equitable Life*, with-profits annuitants, other with-profits policyholders and other policyholders will be served by the implementation of the *Transfer*.

In reaching this view, the *Board* has relied on financial advice provided by *Lexicon*, actuarial advice provided by *Deloitte* and legal advice provided by *Lovells*. In providing such advice to the *Directors*, reliance was placed on the *Directors'* commercial assessment of the *Transfer*.

The *Directors* unanimously recommend the *Transfer* and urge all *Members* of *Equitable Life* to vote in favour of the *Resolution* to be proposed at the forthcoming *Extraordinary General Meeting*. For the *Transfer* to become effective a majority of the votes cast must be in favour of the *Resolution*.

If the *Resolution* is not passed, the *Transfer* will not proceed.

Further information

Full details of the *Transfer* are set out in this *Circular*. If you have any questions in relation to the contents of this letter or the *Circular*, please call our special helpline on 0800 408 0097 (00 800 1020 1040 if calling from outside the *UK*).

If you are in any doubt about the proposed *Transfer*, we recommend that you seek independent advice.

Yours faithfully

Vanni Treves

Vanni Treves
Chairman

Part II

Letter from the Chief Executive of *Prudential*

Dear *Equitable Life Members* and policyholders

Transfer of *Equitable Life* with-profits annuities to *Prudential*

I am pleased to have this opportunity to write to you on behalf of the Board of *Prudential* regarding the proposed *Transfer* of *Equitable Life's* with-profits annuities to us.

We are delighted that after detailed consideration, *Prudential* was selected as the preferred provider for the on-going management of your with-profits annuities. The *Board* of *Equitable Life* has concluded that the proposed *Transfer* is in your best interests and is recommending that *Members* vote in favour of the proposal. I encourage you to read the rest of the *Circular* which contains an overview of the proposed *Transfer*.

Who are we?

Established as the Prudential Mutual Assurance and Loan Association in 1848, today we are an international financial services company with a product range which extends from insurance, pensions and retail investments, to institutional fund management and property investments.

Our portfolio of well-known and respected brands, including *Prudential*, M&G Investments, Jackson National Life Insurance Company in the USA and Prudential Corporation Asia, has attracted more than 20 million customers (policyholders and unitholders) worldwide. Across the *Group* we have funds in excess of £250 billion under management (at 31 December 2006).

What we do

Our aim is to enhance and protect our customers' and their dependants' financial well-being, by offering a range of savings, protection and other retail financial services products.

In the *UK*, via the *Prudential* brand, we offer award winning annuities, corporate pensions, with-profits and unit-linked bonds, savings and investments products, protection policies, lifetime mortgages and health insurance products.

M&G Investments, our UK and European fund manager, is one of the *UK's* leading companies in retail fund management, institutional fixed income, pooled life and pension funds, property and private finance.

Leaders in Retirement

Prudential has been a provider of retirement income solutions for many years and is considered to be a provider of choice not only through financial advisers, but also by customers and corporate clients. We've been voted 'Best Annuity Provider' by the independent magazine Moneywise in 2004, 2005 and 2006. Furthermore, in each of the last three years we have also won What Investment's 'Best Pension Provider'.

Prudential's with-profits annuities are backed by one of the largest and one of the financially strongest, most successful funds of its type in the *UK* with assets under management of over £70 billion as at 31 December 2006. Our 2007 bonus announcement demonstrates our potential to deliver long-term value for our customers through our Portfolio Management Group's expertise and prudent investment management skills.

Part II

Letter from the Chief Executive of *Prudential* (Continued)

This transaction demonstrates *Prudential's* ability to grow its with-profits business to create value for its policyholders and shareholders while providing transferring *Equitable Life* policyholders with the potential for improved prospects and greater security by being part of one of the largest and financially strongest with-profits funds in the *UK*. *Prudential* will receive a large block of business from which they expect to make a profit (with no increase in current levels of charges).

Equitable Life's with-profits annuities will create opportunities for synergies within *Prudential* in terms of costs and investment management. The transaction represents a significant increase in *Prudential's* with-profits business, which is an area of its strategic focus.

Prudential's with-profits fund has a high proportion of its assets in equities. As a consequence, its performance may be more volatile than a fund more heavily invested in fixed interest type assets. Please note your income from your with-profits annuity will be dependent upon the performance of the with-profits fund and your income can go up or down in the future. Past performance is no guide to the future.

Opportunity

Prudential welcomes the proposal to transfer the *Equitable Life* with-profits annuitants to us at the year-end. We agree with your *Board* that it presents transferring policyholders with an opportunity to have their annuities included in the active management of one of the most successful with-profits funds in the *UK*.

I do hope to be able to welcome you to the *Prudential* at the end of this year.

Yours faithfully

Nick Prettejohn

Nick Prettejohn
CEO Prudential UK and Europe

Part III

Transfer overview

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 VI of this *Circular*). 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 this *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 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. Further details of those schemes can be found on page 84.

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 *Circular* and a provision of the *Scheme*, the *Scheme* shall prevail. As set out in Part IX, copies of the *Scheme* are available on *Equitable Life's* website.

Italicised terms have the meanings set out in Part XI (Definitions and Glossary of Terms).

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) of Part III).

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 this *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) of Part III below) 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: A*ggregate 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) of Part III below 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 III below.

(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) of Part III below.

(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) of Part III below.

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) of Part III above 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 III below. 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) of Part III above). *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) of Part III above, *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).

Transfer overview (Continued)

(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) of Part III above, 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) of Part III above.

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 III above; 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) of Part III below, 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) of Part III above. 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 the 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) of Part III below, 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 III below 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) of Part III above). *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.

Transfer overview (Continued)

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) of Part III above). 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) of Part III below). 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) of Part III below.

(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) of Part III above 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) of Part III above 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) of Part III above, *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 III above. 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) of Part III above). 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 III above, *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) of Part III above) 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 IV

Summary of the *Actuarial Function Holder's report*

1. Introduction

1.1 Purpose of the Report

- To summarise the impact of the proposed *Scheme*, to transfer with-profits annuities in payment from *Equitable Life* to *Prudential*, on all policyholders of *Equitable Life* (including, for the avoidance of doubt, all policyholders in Ireland, Germany, Guernsey, Jersey and the Isle of Man) and in particular how it would affect the security of their benefits and their reasonable benefit expectations. More complete details can be found in the full report which can be accessed on the *Equitable Life* website www.equitable.co.uk.
- To set out how the *Scheme* is consistent with the requirements to treat customers fairly.

1.2 Other advice and opinions

- I have prepared a report on the *Scheme* in my role as the actuary appointed to the with-profits actuary function of *Equitable Life* (the *With-Profits Actuary*).
- Advice was received from *Deloitte* with regard to the proposed *Scheme* and its impact on *Equitable Life's* risk profile and capital requirements.
- The *Board* also received legal advice from *Lovells* and financial advice from *Lexicon*.
- The *Board* have expressed the view that the *Scheme* is of benefit to all with-profits policyholders.

1.3 Disclosure

I am a Fellow of the Institute of Actuaries. I was appointed to the role of *Actuarial Function Holder* on 1 April 2005. I was appointed General Manager (Finance) on 19 April 2007.

I am an employee of *Equitable Life*. I am not a director of *Equitable Life*. I am not a policyholder of *Equitable Life*. I have two unit-linked pension policies and a motor insurance policy with *Prudential*, and my wife has a motor insurance policy with *Prudential*. I have no direct interest in the shares of *Prudential* or any associated company of *Prudential*.

2. Rationale for the *Scheme*

2.1 Rationale for the *Scheme* for with-profits annuitants

The *Scheme* will improve bonus earning prospects as a result of the increased flexibility to invest more in "real" investments such as equities and property. However, greater investment in "real" assets also comes with increased downside risk from adverse investment returns.

Prudential will commit for the duration of the *Scheme* to maintain expense charges at the 1 per cent per annum level currently levied by *Equitable Life* and will make its profits from the management of its costs. That commitment will provide greater certainty to with-profits annuitants about the levels of future expense charges than could be provided by *Equitable Life*.

Prudential will also commit to limit its annual charge for the future costs of guarantees to 0.5 per cent per annum. That is at the same level as *Equitable Life's* current charge for guarantees, which was reduced from 1 per cent per annum to 0.5 per cent per annum in April 2005. This commitment from *Prudential* provides greater certainty to with-profits annuitants about the guarantee charges deducted from the *Asset Shares* providing their benefits in future. The *Up-front Guarantee Charge* will be paid to *Prudential* to provide that commitment and greater certainty.

2.2 Rationale for *Scheme* for the remaining with-profits policyholders

The transfer to *Prudential* of the with-profits annuities, with their significantly different nature and characteristics, will simplify *Equitable Life's* with-profits business. That will make it more standard business to manage in a closed fund and should allow strategic approaches to be developed for the benefit of the remaining with-profits policyholders going forward.

The *Transfer* should also help to accelerate the distribution of capital to the remaining with-profits business. That is because the *Scheme* will remove the potential need for deferral in the distribution of capital to those remaining with-profits policies in order to have sufficient provision to cover the capital needs and the risks of the significantly longer-term with-profits annuity benefits.

Equitable Life has exposure in its with-profits annuity book to the risk that annuitant longevity improves at a faster rate than currently anticipated. This risk arises only from annuities already in payment given that *Equitable Life* no longer writes with-profits new business following its closure to new business in December 2000. *Equitable Life* has a relatively limited amount of capital available to meet regulatory requirements and, as a mutual company, has no access to proprietary capital. For the with-profits policyholders who remain, the *Scheme* removes this longevity risk arising from the *Transferring Policies* in exchange for the payment to *Prudential* of a *Mortality Premium* of which the remaining policyholders will pay their proportionate share from working capital.

3. Financial Position of *Equitable Life* before and after the *Transfer*

Equitable Life is a "realistic basis" company. This means that, under *FSA Rules*, it has to calculate its solvency on both the "regulatory" basis and the "realistic" basis and, if the latter requires the higher level of reserves, hold a With-Profits Insurance Capital Component in the regulatory basis equal to the difference.

In the table below is shown the 31 December 2006 realistic balance sheet (***"RBS"***) position for the with-profits business that will remain with *Equitable Life* after the *Transfer* and the estimated post-*Transfer RBS* position if the *Scheme* had been implemented on 31 December 2006. Both the "before" and "after" positions exclude the assets and liabilities in respect of the annuity business that was wholly reassured with *Canada Life* on 31 December 2006 prior to being transferred to *Canada Life* on 9 February 2007.

RBS position as at 31 December 2006 for the remaining with-profits policies	Value before transfer (£m)	Change (£m)	Value after transfer (£m)
Total Assets	7,485.8	87.8	7,573.6
Total Liabilities	6,794.9	112.2	6,907.2
Working Capital (Assets less Liabilities)	691.0	-24.5	666.4
Solvency Ratio (Working Capital / Assets)	9.2%		8.8%

4. Effect of the *Scheme*

4.1 *Transferring Policies*

a. Security

Prudential's life fund has a Standard and Poor's financial strength rating of AA+ which is considerably better than that of *Equitable Life*, and which recognises the significantly larger capital resources that *Prudential* has to draw on.

The *Transferring Policies* should have increased certainty arising from the following fixed or limited annual charges and costs that can be deducted from each *Asset Share* as a proportion of its value:

- a fixed charge of 1 per cent per annum of *Asset Shares* for expenses;
- a maximum limit of 0.5 per cent of *Asset Shares* for the costs of future guarantees; and
- a maximum reduction in non-guaranteed annuity equivalent to an annual *Asset Share* charge of 0.5 per cent per annum for greater than expected changes in annuitant longevity.

Increased certainty should also be provided by the 0 per cent smoothing floor in the *Scheme* (that in normal circumstances limits any reduction in annuity from one policy year to the next to be no greater than that resulting from 0 per cent bonus being allocated to non-guaranteed income).

b. Benefit expectations

Prudential will have substantially greater investment flexibility and a much higher *Equity Backing Ratio* than *Equitable Life*. At the *Scheme Effective Date*, *Prudential's Target Equity Backing Ratio* is expected to be 70 per cent as compared to the current *Equity Backing Ratio* for *Equitable Life* of less than 20 per cent.

Prudential's higher *Equity Backing Ratio* and investment flexibility will significantly enhance the benefit prospects for with-profits annuitants and bring the investments underlying their policies more into line with their expectations at outset. A higher *Equity Backing Ratio* will also increase the possibility of adverse investment returns affecting annuity payments, subject to guarantees and smoothing. The *Scheme* has been established on the basis that the assets transferred for the *Transferring Policies* reflect a fair price for that increased investment in equity-type assets.

c. Policy terms and conditions

No changes will be made to policy terms and conditions of the annuities under the *Scheme*.

d. Quality of administration

Prudential has experience in administering very large portfolios of annuities including a substantial portfolio of with-profits annuities. I have no reason to believe that the quality of service that the annuitants will receive following the *Transfer* will be any lower than at present.

Prudential is committed for the foreseeable future to allocating bonuses to the *Transferring Policies* using the same structure as that used by *Equitable Life* for its with-profits benefits. *Equitable Life* is assisting and advising *Prudential* to ensure that consistency and continuity is achieved at and after the *Scheme Effective Date* and I have no reason to believe that this will not be achieved.

4.2 Other with-profits policyholders

a. Effect of the *Scheme*

I consider that the *Transfer* will be to the advantage of the holders of the remaining with-profits policyholders.

That is because this *Scheme* has been developed to:

- provide for the with-profits policies that remain, increased flexibility in the financial management and the development of strategic solutions for the holders of these remaining policies;
- remove the position whereby, as the business of *Equitable Life* runs off, capital cannot be distributed to the *Equitable Life* non-annuity with-profits business to the extent that it would be possible if there was no with-profits annuity business with its much longer expected lifetime and particular risks to cover;
- remove all of the longevity risk for with-profits annuitants in exchange for meeting part of the cost of the *Mortality Premium*;
- leave the with-profits business that remains no worse off in respect of provisioning for future expenses; and
- provide potential bonus earning power that is about the same or slightly improved as compared to the position that would apply otherwise.

In forming this opinion, I have taken into account the view of the *Board* and my opinion on the *Scheme* in my role as *With-Profits Actuary*.

b. Security

The working capital position after the *Transfer* will be similar to the working capital attributable to the remaining with-profits business before the *Transfer*.

Equitable Life expects and plans to meet the regulatory reporting and solvency requirements in the same way as it did before the *Transfer*.

4.3 Non-Profit and Unit-Linked Policies

a. Security and benefits expectations

The security and benefit expectations for holders of other than with-profits benefits are not affected materially by the *Scheme*.

5. Conclusion

For all holders of *Transferring Policies* (including holders of *Transferring Policies* effected through *Equitable Life's* branches in Guernsey, the Republic of Ireland and Germany and, for the avoidance of doubt, including all holders resident in Guernsey, Jersey and the Isle of Man), the *Scheme* will substantially improve bonus earning prospects as a result of the increased investment flexibility that *Prudential* is able to provide given its much greater financial strength. The *Scheme* will also bring much greater certainty to these with-profits annuity policyholders in respect of the future charges on *Asset Shares* ("Policy Values" in *Equitable Life's PPFM*) for expenses and costs of guarantees.

For the holders of the with-profits policies that remain, the *Scheme* should make available more strategic approaches for the management of their with-profits business and the benefit of those policyholders. The *Scheme* will also help to accelerate the distribution of capital to the remaining with-profits business that would otherwise have to be held back for with-profits annuity business, and it will bring more certainty with the removal of with-profits annuitant longevity risk from *Equitable Life*. The current security of benefits for *Equitable Life* policyholders will be maintained at an acceptable level after the *Scheme* is implemented.

The *Scheme* has no material effect on the security and benefit expectations of holders of benefits that are not *Equitable Life* with-profits.

In my opinion therefore, the implementation of the *Scheme* will be of benefit to all classes of *Equitable Life* with-profits policyholders and there will be no material adverse effect from the *Scheme* for any class of *Equitable Life* policyholder.

TJ Bateman

***Actuarial Function Holder*, The Equitable Life Assurance Society**

29 August 2007

Part V

Summary of the *With-Profits Actuary's* report

1. Introduction

1.1 Purpose of the Report

The *Scheme* to transfer with-profits annuities in payment from *Equitable Life* to *Prudential* describes the process to be followed in order to determine the *WPA Allocated Amount*, the ***"WPA Share of Working Capital"*** (the *Transferring Policies'* share of *Equitable Life's* working capital) and the ***"Aggregate Policyholder Entitlement"*** (the amount, if any, available for uplifting *Transferring Policies'* non-guaranteed income).

The purpose of this report is to provide for all policyholders of *Equitable Life* (including, for the avoidance of doubt, all policyholders in Ireland, Germany, Guernsey, Jersey and the Isle of Man) a summary of the principles that will be followed when sharing out the assets of the with-profits fund in a fair manner, between the with-profits annuity (***"WPA"***) policyholders and the remaining policyholders. A worked example of the calculations, performed as at 31 December 2006, is also provided. More complete details can be found in the full report which can be accessed on the *Equitable Life* website www.equitable.co.uk.

1.2 Disclosure

I am a Fellow of the Institute of Actuaries. I was appointed to the role of *With-Profits Actuary* on 1 April 2005. I was appointed General Manager (Finance) on 19 April 2007.

I am an employee of *Equitable Life*. I am not a director of *Equitable Life*. I am not a policyholder of *Equitable Life*. I have two unit-linked pension policies and a motor insurance policy with *Prudential*, and my wife has a motor insurance policy with *Prudential*. I have no direct interest in the shares of *Prudential* or any associated company of *Prudential*.

1.3 Definitions

- The term ***"Policy Value"*** is used extensively throughout this report.
- The concept of *Policy Value* is explained in *Equitable Life's PPFM*.
- Although according to the definition in the *PPFM* the term *Policy Value* is reserved for recurrent single premium business, an equivalent value is used in the context of *WPA* business.

2. Principles

The following principles are applied in the calculation of the *WPA Allocated Amount*, the *WPA Share of Working Capital* and the *Aggregate Policyholder Entitlement*:

- the calculation must be fair between the different groups of policyholders with particular attention paid to the situation of the remaining policyholders after the proposed *Scheme* has come into effect;
- the calculations and processes proposed should be as consistent as possible with existing practices; and
- the calculations and the results should be capable of explanation and presentation to policyholders in a reasonably straightforward manner.

3. Fair share of assets

This section deals with the overview of the components of the calculations which are performed to come up with the *Transferring Policies'* fair share of the assets.

3.1 The components of the fair share of assets

The *Transferring Policies'* fair share of assets is made up of four components which are explained in more detail in sections 3.2 to 3.5 below:

- the total *WPA Policy Values*;
- the total *WPA* cost of guarantees;
- the total *WPA* charge for guarantees; and
- the *WPA Share of Working Capital*.

3.2 The total *WPA Policy Values*

This amount is simply the total of the *Policy Values* attributable to the *Transferring Policies* calculated as at the *Scheme Effective Date*. It can be calculated in accordance with the existing practices of *Equitable Life*.

3.3 The total *WPA* cost of guarantees

This amount is calculated using projections that compare the guaranteed annuity with the total annuity in each year of the projection. Where the guaranteed amount is higher, the excess represents the cost of guarantees incurred.

The present values of the total cost of guarantees are averaged to give the mean present value of the cost of guarantees.

This cost can be calculated in accordance with the existing practices of *Equitable Life*.

3.4 The total *WPA* charge for guarantees

Equitable Life levies a charge, currently at the level of 0.5 per cent per annum, in respect of the guarantees arising under all of its with-profits contracts. This margin is intended to provide enough capital to meet the expected cost of guarantees and to provide some additional capital to act as a buffer against risks and adverse experience.

The calculation of this amount is straightforward and can be done in accordance with the existing practices of *Equitable Life*.

3.5 The *WPA Share of Working Capital*

Equitable Life's working capital, which is the capital in excess of that needed to meet its known liabilities, has to be apportioned between the *WPA* policyholders and the remaining policyholders.

4. The *WPA Share of Working Capital*

This section deals with the apportionment of *Equitable Life's* working capital and states the adjustments believed to be necessary to arrive at a fair share of the working capital for *WPA* policyholders and the remaining policyholders.

4.1 Key calculations and adjustments

The following are key aspects of the determination of the fair share of working capital;

- the use of *Policy Value* for the apportionment of *Equitable Life* working capital;
- treatment of margins in provisions as at 31 December 2006;
- allowance for the *deal costs* for the *Transfer*;
- allowance for the impact of the *Scheme* on expenses for the remaining policyholders; and
- allowance for the remaining policyholders' share of corporation tax for post-1991 *UK* with-profits purchased life annuities.

5. Results of Calculations as at 31 December 2006

5.1 Proforma realistic balance sheet as at 31 December 2006

Equitable Life's realistic balance sheet (***"RBS"***) position at 31 December 2006 will have improved by around £12 million from that published as a result of the successful completion of the transfer of non-profit annuities to *Canada Life* in February 2007. The figures shown in section 5 of this report allow for this adjustment.

5.2 Split *RBS* as at 31 December 2006

RBS position as at 31 December 2006 (£m)	*WPA*	Other	Total
Policy Value proportion	22.8%	77.2%	100%
Working Capital (Assets less Liabilities)	204.6	691.0	895.6

Summary of the *With-Profits Actuary's* report (Continued)

5.3 Calculation of *WPA Share of Working Capital*

Given the apportionment of *Equitable Life's* working capital shown in section 5.2 above and the adjustments stated in section 4 of this report, the *WPA Share of Working Capital* as at 31 December 2006 is estimated to be as follows:

Calculation of *WPA Share of Working Capital* – 31 December 2006	**Amount (£m)**
WPA Share of Working Capital (Before Adjustments)	204.6
Less: *WPA* portion of total estimated *Deal Costs*	-29.6
Plus: Adjustment for *Deal Costs* already incurred or included in provisions	2.7
Plus: *WPA* portion of margins in provisions as at 31 December 2006	10.3
Less: Allowance for impact of *Scheme* on expenses	-89.0
Plus: *WPA* portion of exceptional expenses provision for the remaining policyholders	4.1
Plus: Allowance for remaining policyholders' share of the *Mortality Premium*	13.1
Plus: Allowance for remaining policyholders' share of corporation tax for post-1991 *UK* with-profits purchased life annuities	0.6
Equals: *WPA Share of Working Capital* – Estimated at 31 December 2006	116.8

5.4 *WPA Allocated Amount*

Based on this £116.8 million estimated *WPA Share of Working Capital*, the estimated *WPA Allocated Amount* as at 31 December 2006 can be calculated as shown below.

Calculation of *WPA Allocated Amount* – 31 December 2006	**Amount (£m)**
Policy Values	1,726.8
Guarantee Charges	-62.1
Cost of Basic Guarantees	72.9
Total Liabilities	**1,737.6**
WPA Share of Working Capital	116.8
***WPA Allocated Amount* – Estimated at 31 December 2006**	**1,854.4**

6. The position of the remaining policyholders post the *Scheme* - Proforma as at 31 December 2006

6.1 Estimated *RBS* position post the *Scheme* allowing for the adjustments above

Based on the payment of the *WPA Allocated Amount* above, the *RBS* position of *Equitable Life* as at 31 December 2006 after the *Scheme* coming into force and after the adjustments described above would have been slightly weaker, with an excess of assets over realistic liabilities of around £665 million. This reduction of around £25 million from the position before adjustments shown in section 5.2 of this report arises from adjustments for the *WPA* policyholders' share of margins in provisions and the remaining policyholders' share of the *Mortality Premium*.

6.2 Estimated impact on bonus earning power

Equitable Life has performed calculations in order to estimate the impact of the *Scheme* on the bonus earning power of the remaining policyholders. The results suggest that the deal has a small beneficial impact on the remaining policyholders in terms of their future bonus expectations.

6.3 Individual Capital Assessment (*"ICA"*) analysis

After the *Scheme Effective Date*, the remaining policyholders are left with slightly higher risks, as evidenced by the *ICA* analysis performed in my capacity as *Actuarial Function Holder*. It would seem reasonable that they should have slightly improved prospects in return.

7. Allocation of the *WPA Allocated Amount* by *Prudential* post the *Scheme*

The *WPA Allocated Amount* will be allocated by *Prudential* between its *DCPSF* and *WPSF* based on the position post the *Transfer*. An estimate of that post-*Transfer* position is shown in the table below.

Allocation of *WPA Allocated Amount* following uplift – estimated position at 31 December 2006	**Amount (£m)**
Pre-Augmentation Aggregate Initial Share	1,733.3
Available for uplift of non-guaranteed income	60.0
Post-Augmentation Aggregate Initial Share (*DCPSF*)	**1,793.3**
Mortality Premium cap	17.6
Up-front Guarantee Charge	43.5
Allocated to *WPSF*	**61.1**
WPA Allocated Amount	**1,854.4**

The estimated *Up-front Guarantee Charge* of £43.5 million is greater than the £10.8 million included for guarantees in the calculation of the *WPA Allocated Amount* (that is, the total of the amounts for guarantees shown in section 5.4 of this report). That is reasonable given the current *Target Equity Backing Ratio* for the *Prudential* life fund is much higher than the *Equity Backing Ratio* of the *Equitable Life* with-profits fund.

The estimated £17.6 million allocated for the mortality "cap and floor" is reasonable and reflects the proportionately higher risk resulting from the uplifted non-guaranteed income.

The table above shows an estimate of £60 million available to uplift non-guaranteed income as at 31 December 2006. This amount will be recalculated as at the effective date of the *Scheme* and it may be more or less than the estimate shown above. It is possible, though very unlikely, for the amount to be negative in extreme circumstances. It is proposed that any amount available for uplifting non-guaranteed income (the "*Aggregate Policyholder Entitlement*") will be allocated between *WPA* policyholders in proportion to *Policy Values* and consequently that the same percentage uplift will apply to the non-guaranteed income of all *WPA* policyholders. That seems fair and reasonable given that a *Policy Value* apportionment is used for other aspects such as the *WPA* policyholders' share of the *Equitable Life* working capital.

8. Conclusion

In my opinion, the principles and methodology described in this report for apportioning *Equitable Life* with-profits funds under the *Scheme* and the impact of the *Scheme* are fair to all *Equitable Life* with-profits policyholders (including, for the avoidance of doubt, policyholders in Ireland, Germany, Guernsey, Jersey and the Isle of Man), and ensure that all policyholders continue to be treated fairly after the *Scheme Effective Date* compared to the position immediately before the *Scheme*.

Tim Bateman

With-Profits Actuary, The Equitable Life Assurance Society

29 August 2007

Part VI

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 withdrawals 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:

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

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 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 the 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 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:

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

S J Sarjant FIA

30 August 2007

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Part VII

Financial information on *Equitable Life*

1. Introduction

The financial statements contained in the following sections of Part VII do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

This section includes extracts from the audited financial statements for 2006 for *Equitable Life*.

It also includes the updated financial position quoted in *Equitable Life's* 2007 Interim Review, together with an update of activities in that period.

It then includes a set of proforma accounts, which adjusts *Equitable Life's* results at 30 June 2007 for the impact of the proposed *Transfer* as though it had taken place as at 30 June 2007. In practice, assuming that the *Scheme* takes effect at 11.59 pm on 31 December 2007, the financial statements for the year to 31 December 2007 will reflect the actual *Transfer*. The proforma accounts also reflect the repurchase of the subordinated debt which took place on 6 August 2007.

Finally, it includes the results of 2006 for *Equitable Life* restated for the introduction of FRS 26, Financial Instruments: Measurement. These restated results will be quoted as comparatives in the 2007 Financial Statements.

Contents

2. Extract from 2006 Financial Statements

Profit and Loss Account for the year ended 31 December 2006

Technical account - long-term business

	2006	2005
	£m	£m
Earned premiums, net of reinsurance		
Gross premiums written	177	210
Outward reinsurance premiums		
- Continuing operations	(109)	(98)
- Discontinued operations	(4,608)	-
	(4,540)	112
Investment income	1,054	982
Unrealised gains on investments	-	467
Other technical income	6	3
	(3,480)	1,564
Claims incurred, net of reinsurance		
Claims paid – gross amount	1,675	1,639
Reinsurers' share	(626)	(268)
	1,049	1,371
Change in provision for claims – gross amount	13	(5)
	1,062	1,366
Changes in other technical provisions, net of reinsurance		
Long-term business provision – gross amount	(1,239)	72
Reinsurers' share	(3,530)	(45)
	(4,769)	27
Comprising - Continuing operations	*(797)*	*(275)*
- Discontinued operations	*(3,972)*	*302*
Technical provisions for linked liabilities – gross amount	16	300
Reinsurers' share	(671)	(255)
	(655)	45
Comprising - Continuing operations	*(5)*	*4*
- Discontinued operations	*(650)*	*41*
Net operating expenses – non-exceptional	55	51
Net operating expenses – exceptional	29	46
Net operating expenses	84	97
Investment expenses including interest	29	27
Other technical charges	19	-
Unrealised losses on investments	737	-
Taxation attributable to the long-term business	13	2
	882	126
	(3,480)	1,564
Balance on the Technical account	-	-

All significant recognised gains and losses are dealt with in the Profit and Loss Account.

Note: The 2006 financial statements were prepared on a consolidated basis. The above results reflect *Equitable Life* only which formed the major part of the *Group*.

Financial information on *Equitable Life* (Continued)

2. Extract from 2006 Financial Statements (Continued)

Balance Sheet as at 31 December 2006

Assets

	2006 £m	2005 £m
Investments		
Land and buildings	837	710
Investments in *Group* undertakings	19	17
Other financial investments	13,051	13,596
	13,907	14,323
Assets held to cover linked liabilities	87	741
Reinsurers' share of technical provisions		
Long-term business provision	3,950	420
Technical provisions for linked liabilities	3,240	2,569
	7,190	2,989
Debtors		
Debtors arising out of direct insurance operations	31	30
Other debtors	47	34
	78	64
Other assets		
Cash at bank and in hand	11	9
Prepayments and accrued income		
Accrued interest and rent	207	209
Other prepayments and accrued income	111	143
	318	352
Total assets	**21,591**	**18,478**

Balance Sheet as at 31 December 2006

Liabilities	2006 £m	2005 £m
Subordinated liabilities	167	167
Technical provisions		
Long-term business provision - gross amount	13,587	14,826
Claims outstanding	15	2
	13,602	14,828
Linked liabilities	3,326	3,310
	16,928	18,138
Provisions for other risks and charges	36	50
Creditors		
Creditors arising out of direct insurance operations	47	41
Deposits received from reinsurer- secured	4,316	-
Creditors arising out of reinsurance operations	25	2
Amounts owed to credit institutions	19	19
Other creditors including taxation and social security	27	36
	4,434	98
Accruals and deferred income	26	25
Total liabilities	**21,591**	**18,478**

Accounting policies

Basis of presentation

The extract financial statements are not consolidated and represent the results of *Equitable Life* only (and not its subsidiaries). The results are not materially different from those of the *Group*. The extract statements are consistent, except as stated below, with *Equitable Life* data inherent in the statutory accounts for 2005 and 2006.

The extract financial statements contained in this section (section 2) have been extracted from the statutory accounts of *Equitable Life* for the year ended 31 December 2006. The statutory accounts were prepared in accordance with applicable accounting standards and have been delivered to the Registrar of Companies.

PricewaterhouseCoopers LLP audited the statutory accounts of *Equitable Life* in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Their report, under section 235, was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985. Their report was, however, modified to include an Emphasis of Matter relating to contingent liabilities and uncertainties facing *Equitable Life*. The wording of the Emphasis of Matter was:

> "In arriving at our opinion we have considered the adequacy of the disclosures made in relation to contingent liabilities and uncertainties in Note 25 and under the heading "The Board's conclusions on provisions and going concern" in the Financial Review, in respect of the potential additional claims against the Society, expenses and increases in provisions that could arise as a result of different legal and regulatory views on its historical conduct and any changes in provisions arising from GIR policyholder behaviour. If the uncertainties

2. Extract from 2006 Financial Statements (Continued)

Accounting policies (Continued)

> prevail, further obligations would arise in respect of mis-selling and other claims, which in extreme circumstances may also have consequences for the going concern preparation of the financial statements."

Note 25 referred to above is included in the Annual Report and Accounts for the year ended 31 December 2006.

The particulars of the contingent liabilities and uncertainties affecting *Equitable Life* as at 30 June 2007 are included in Note 6 of section 3 of this Part VII.

Change in accounting policies

In 2006 *Equitable Life* modified the way in which investment assets are valued at the balance sheet date by using bid value market prices rather than mid-market prices. This change has been made in order to bring the basis of valuation into line with a similar change for the annual *FSA* regulatory returns. Due to the limited impact of this change, *Equitable Life* did not restate the financial statements for 2005.

The *Directors* have reviewed the accounting policies and satisfied themselves as to their appropriateness. Other than the changes outlined here, there are no other changes in accounting policy from the prior year.

Earned premiums

Premiums earned are accounted for on a cash basis in respect of single premium business and recurrent single premium pension business and on an accruals basis in respect of all other business.

All pension policies contain an open market option under which, in lieu of the benefits that must be taken on retirement, the equivalent lump sum can be transferred to another provider. All such lump sums, arising from policies within *Equitable Life*, are included in claims paid. Where such lump sums are used to purchase annuities from *Equitable Life*, these are included in premium income.

Reassurance contracts

Outward reassurance premiums are recognised when payable. Reassurance recoveries are credited to match the relevant gross claims.

Investment income

Property rental income arising under operating leases is recognised in equal instalments over the period of the lease.

Realised gains and losses on investments

Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost.

Unrealised gains and losses on investments

Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Claims incurred

Death claims are recorded on the basis of notifications received. Surrenders are recorded when notified, maturities and annuity payments are recorded when due. Claims on participating business include bonuses payable and interest. Claims payable include direct costs of settlement.

Bonuses

Equitable Life announces bonuses annually. Guaranteed bonuses are included in the long-term business provision. Non-guaranteed final bonuses are payable when a claim is made and an estimate of these non-guaranteed benefits, including any future discretionary increases to policy values, is included in the long-term business provision. Non-guaranteed final bonuses, payable when a claim is made, are included in claims paid.

Taxation

The charge for taxation in the Profit and Loss Account is based on the method of assessing taxation for long-term funds. Provision has been made for deferred tax assets and liabilities using the liability method on all material timing differences including revaluation gains and losses on investments recognised in the Profit and Loss Account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and has not been discounted.

Valuation of investments

Investments, including assets held to cover linked liabilities are stated at current value at the balance sheet date, calculated as follows:

- Freehold and leasehold properties are valued individually by qualified surveyors on the basis of open market value, less the estimated costs of disposal;
- Investments in limited partnerships are held at net asset value;
- No depreciation is provided in respect of investment properties. The *Directors* consider that this accounting policy is appropriate for the financial statements to give a true and fair view as required by SSAP 19 (Accounting for Investment Properties). Depreciation is only one of the factors reflected in the annual valuations and the amount which might otherwise have been shown cannot be separately identified or quantified;
- Listed securities and units in unit trusts are valued at bid value;
- Short-term deposits are included at cost;
- Unlisted investments, stated at *Directors'* valuation, are generally valued using local industry valuation guidelines;
- Investments in subsidiaries are held at net asset value; and
- Securities lent, where substantially all the risks and rewards of ownership remain with *Equitable Life*, are retained on the Balance Sheet at their current value. Collateral received in respect of securities lent is not recorded on the Balance Sheet.

Certain valuations are adjusted, where appropriate, to reflect liquidity considerations.

Technical provisions - Long-term business provision and provision for linked liabilities.

The long-term business provision is determined following an investigation of the long-term funds and is calculated in accordance with the rules contained in the *FSA Rules*. The investigations are carried out as at 31 December. For the with-profits business of *Equitable Life*, the liabilities to policyholders are determined in accordance with the *FSA* realistic capital regime and in accordance with the requirements of FRS 27. These liabilities include an estimate of non-guaranteed benefits, including future discretionary increases to policy values, and provision for any guaranteed values which are in excess of policy values. Also included in the liability is an amount representing the excess of assets over other realistic liabilities. This amount is referred to as "Excess Realistic Assets" in these financial statements and is a key measure of *Equitable Life's* resources, representing the amount available to meet any unforeseen liabilities and liabilities in excess of those provided for at the balance sheet date and to enhance bonuses in the future.

The calculation of the long-term business provision for all non-profit business is calculated using the gross premium valuation method. For such business, the technical provisions represent the amounts needed to meet the guaranteed benefits under contracts, including any announced reversionary bonuses (where appropriate) added up to and including the date of the financial statements, and make allowance, in accordance with the assumptions adopted, for specific levels of future contractually-guaranteed bonuses and are discounted where appropriate.

The technical provision in respect of index-linked annuities in payment is equal to the discounted value of the annuity benefits which allows for indexation. The technical provision in respect of other linked business is equal to the value of the assets to which the contracts are linked.

2. Extract from 2006 Financial Statements (Continued)

Accounting policies (Continued)

Foreign currency translation

Assets and liabilities in foreign currencies are expressed in sterling at the exchange rates ruling at the balance sheet date. Revenue transactions and those relating to the acquisition and realisation of investments have been translated at rates of exchange ruling at the time of the respective transactions.

Segmental reporting

In the opinion of the *Directors*, *Equitable Life* operates in one business segment, being that of long-term insurance business.

3. Interim Review for the half year ended 30 June 2007

Corporate and Financial Review

Dear *Members*,

We are pleased to tell you of the continued progress of *Equitable Life*, both in strategic developments and in financial terms.

Since our last report:

- *Equitable Life's* financial position has remained stable. Excess Realistic Assets of £849 million represent 9.6% of the with-profits fund (9.4% at the last year-end);
- In April, we reduced the Financial Adjustment for early surrenders of *UK* with-profits policies from 8% to 5%;
- The demanding work to enable the transfer of £1.8 billion of with-profits annuity policies to *Prudential* (subject to *Members'* approval) continues to plan;
- The transfer of £4.6 billion of non-profit pension annuities to *Canada Life* and the sale of University Life to Reliance Mutual have been completed; and
- We have redeemed the outstanding £171 million of 8% subordinated debt, as we no longer need this expensive form of capital support.

Financial position

Equitable Life's financial position complies fully with the much more stringent capital requirements that the regulator has introduced over the past few years. We have an appropriate level of Excess Realistic Assets for a closed fund in 'run off' and our focus has now moved from building *Equitable Life*'s strength, which is now achieved, to ensuring that we pay as much as we can to those taking their benefits during the next few years (as well as providing properly for those who will take their benefits later). Further details are outlined below.

Transfer of with-profits annuity policies to *Prudential*

In March, we reached an agreement to transfer all *Equitable Life*'s with-profits annuity policies to The Prudential Assurance Company Limited ("*Prudential*").

Since that time work has continued to make that complex transfer as smooth and secure as possible. This includes a vote of *Members* which will take place at an *Extraordinary General Meeting* (*EGM*) in October. The transfer itself is expected to take place at the end of the year.

Work is continuing to plan and we have taken the opportunity to include this interim report within the Policyholder *Circular* for the *EGM*, so making significant savings in the cost of production and mailing.

The *Board* unanimously recommends the proposed transfer to *Members*. It is clearly in the interests of those who have with-profits annuities and also those who have other with-profits policies. With-profits annuitants will join an actively managed fund which is one of the largest and strongest insurers in the UK and which has greater bonus earning potential than the current *Equitable Life* fund. The transfer of the with-profits annuities will also greatly improve the prospects of the *Board* finding an attractive long term strategy for remaining with-profits policyholders.

Parliamentary Ombudsman

In May, the Parliamentary Ombudsman announced that she would not be able to publish her report into the regulation of *Equitable Life* as planned, before Parliament's summer recess. She promised to update Parliament again in October.

We share the frustration and disappointment of policyholders that this important report has been delayed again, though we recognise the need for the job to be done thoroughly.

We believe that the Parliamentary Ombudsman's report provides the best hope for Government compensation for policyholders and if she makes such a recommendation, we will be among the first to encourage the Government to do the right thing.

Financial information on *Equitable Life* (Continued)

3. Interim Review for the half year ended 30 June 2007 (Continued)

Corporate and Financial Review (Continued)

In June, the European Parliament adopted the report of its special Committee into *Equitable Life* in the European context. The report recommended (among other things) that the *UK* Government should pay compensation to *Equitable Life's* policyholders, but it also acknowledged that this recommendation has no force. The Government's reaction has been to wait for the Parliamentary Ombudsman's report.

Transfer of non-profit pension annuities to *Canada Life*

Following High Court approval, the transfer of the bulk of *Equitable Life*'s non-profit pension annuities to *Canada Life* was completed in February 2007. This transfer has greatly reduced the exposure of the with-profits fund to the risk of unexpected and unquantifiable improvements in life expectancy.

University Life Assurance Society

The transfer of University Life to Reliance Mutual Insurance Society Limited was completed on 31 May 2007, as planned. We took this step to simplify *Equitable Life*'s business, thereby making it easier to assess and implement strategic options.

Subordinated debt

On 6 August 2007, we took the opportunity to redeem the outstanding subordinated debt. The debt, in the form of Bonds, was issued in 1997 as a way of raising capital. It is a sign of *Equitable Life*'s steadily improving financial health that we were able to repurchase approximately £179 million of the Bonds in 2005 with the remainder of £171 million being redeemed in August of this year. *Equitable Life* no longer needs this expensive form of financial support.

Review of *Equitable Life's* financial position

The key measure of *Equitable Life*'s net resources is the excess of realistic assets over liabilities before deduction of the estimated value of future discretionary enhancements to policy values ("Excess Realistic Assets"). This amount, which is reported as a policy-related liability in the technical provisions, is available to meet any unforeseen liabilities and liabilities in excess of those provided for at the balance sheet date and to enhance bonuses in the future.

At 30 June 2007, Excess Realistic Assets were £849 million. The key movements in the Excess Realistic Assets during the period are shown in the following table:

	January to June 2007	January to December 2006
	£m	£m
Opening Excess Realistic Assets	**884**	**669**
Investment performance	(44)	69
Mortality experience and assumption changes	2	97
Surrender experience and assumption changes	(11)	28
Changes in other valuation assumptions	(3)	(12)
Variances in provisions and expenses	13	13
Other movements	8	20
Closing Excess Realistic Assets	**849**	**884**

Equitable Life seeks to maintain the Excess Realistic Assets balance at a level that protects solvency whilst treating both continuing and exiting policyholders fairly. The balance at 30 June 2007 has fallen slightly, but it now represents 9.6% of with-profits realistic assets, an increase from the equivalent figure of 9.4% at 31 December 2006. The *Board* believe that the level of *Equitable Life*'s Excess Realistic Assets is now appropriate for a closed fund in 'run off'.

The reduction in Excess Realistic Assets over the period is mainly attributable to the decline in the value of fixed-interest investments, due to rising interest rates, a decline which exceeded the gains and income from the equity and property investments. Higher expense provisions for the planned strategic steps have been more than offset by other provision reductions and favourable economic factors reducing the provision for future expenses.

In line with most other insurers, *Equitable Life* has implemented the accounting standard FRS 26 (Financial Instruments: Measurement) for these interim results and restated the comparatives accordingly. This change in accounting policy has no overall impact on the Excess Realistic Assets. However, it does separate the liabilities for those policies which do not have significant insurance content, as these are now classified as ‘investment contracts’. Where these policies are not linked to the with-profits fund, the premiums and claims no longer pass though the Profit and Loss Account, instead passing directly to the Balance Sheet. It can be seen in Note 5 that ‘investment contracts’ actually represent the majority of *Equitable Life*’s liabilities.

As stated above, the transfer of most of the non-profit pension annuity business to *Canada Life* was completed on 9 February 2007, with these interim accounts reflecting the reduction of assets and liabilities for this business as well as the unwinding of the reassurance arrangements and the removal of the secured deposit back from *Canada Life*. This, of course, has had the effect of reducing the size of *Equitable Life*’s Balance Sheet significantly.

After the period end, *Equitable Life* purchased a series of interest rate swaptions to match its potential liabilities more closely in circumstances where interest rates were to decline for a sustained period. This action is designed to provide a better match for the potential higher costs of fulfilling policyholders’ guarantees, such as the guaranteed investment return of 3.5% which applies to many policies.

Looking ahead

After years of hard work and difficult decisions, our strategic initiatives are now delivering real opportunities to improve the prospects for policyholders. The transfer of with-profits annuity policies to *Prudential* will represent a major step forward for those annuitants and will greatly enhance our ability to find and assess opportunities for the remaining with-profits policyholders.

You may rest assured that your *Board* will continue to do everything in its power to improve further the prospects for all policyholders.

Vanni Treves and Charles Thomson on behalf of *Equitable Life’s* Board of Directors

Vanni Treves
Chairman

Charles Thomson
Chief Executive

10 September 2007

Financial information on *Equitable Life* (Continued)

3. Interim Review for the half year ended 30 June 2007 (Continued)

Profit and Loss Account for the period ended 30 June 2007

Technical account - long-term business

		Half year ended 30 June		Full year to 31 December
		2007	2006 Restated	2006 Restated
	Notes	£m	£m	£m
Earned premiums, net of reinsurance				
Gross premiums written		64	59	114
Outward reinsurance premiums				
- Continuing operations		(13)	(16)	(47)
- Discontinued operations		-	(4,628)	(4,608)
		51	(4,585)	(4,541)
Investment income	2	555	693	1,054
Other technical income		37	116	8
		643	(3,776)	(3,479)
Claims incurred, net of reinsurance				
Claims paid – gross amount		634	689	1,408
Reinsurers' share		(87)	(179)	(358)
		547	510	1,050
Change in provision for claims		(13)	11	13
	3	534	521	1,063
Changes in other technical provisions, net of reinsurance				
Long-term business provision – gross amount		(4,210)	(765)	(1,267)
Reinsurers' share		3,645	(3,667)	(3,502)
		(565)	(4,432)	(4,769)
Comprising - *Continuing Operations*		*(565)*	*(710)*	*(797)*
- Discontinued Operations		-	*(3,722)*	*(3,972)*
Technical provisions for linked liabilities – gross amount		(500)	37	222
Reinsurers' share		497	(695)	(879)
		(3)	(658)	(657)
Comprising - *Continuing Operations*		*(3)*	*(19)*	*(7)*
- Discontinued Operations		-	*(639)*	*(650)*
Net operating expenses – non exceptional		23	29	55
Net operating expenses – exceptional	4	24	2	29
Net operating expenses		47	31	84
Investment expenses and charges	2	13	17	29
Other technical charges		-	1	21
Unrealised losses on investments	2	615	741	737
Taxation attributable to the long-term business		2	3	13
		677	793	884
		643	(3,776)	(3,479)
Balance on the Technical Account		-	-	-

All significant recognised gains and losses are dealt with in the Profit and Loss Account.

Balance Sheet as at 30 June 2007

Assets

	Notes	30 June 2007 £m	30 June 2006 Restated £m	31 December 2006 Restated £m
Investments				
Land and buildings		794	761	837
Investments in *Group* undertakings		17	19	19
Shares & units in unit trusts		598	560	544
Fixed-income securities		7,342	12,449	11,952
Deposits and other investments		365	483	555
		9,116	14,272	13,907
Assets held to cover linked liabilities		84	86	87
Reinsurers' share of technical provisions				
Long-term business provision		277	4,050	3,922
Technical provisions for linked liabilities		2,613	3,197	3,240
		2,890	7,247	7,162
Debtors				
Debtors arising out of direct insurance operations		43	27	31
Other debtors		5	30	47
		48	57	78
Other assets				
Cash at bank and in hand		25	7	11
Prepayments and accrued income				
Accrued interest and rent		146	210	207
Other prepayments and accrued income		87	120	111
		233	330	318
Total assets		**12,396**	**21,999**	**21,563**

Liabilities

	Notes	30 June 2007 £m	30 June 2006 Restated £m	31 December 2006 Restated £m
Subordinated liabilities		167	167	167
Technical provisions				
Long-term business provision - gross amount	5a	9,349	14,014	13,559
Claims outstanding		2	13	15
Linked liabilities	5b	2,697	3,280	3,326
		12,048	17,307	16,900
Provisions for other risks and charges		3	30	36
Creditors				
Creditors arising out of direct insurance operations		71	46	47
Deposits received from reinsurer - secured		-	4,361	4,316
Creditors arising out of reinsurance operations		9	10	25
Amounts owed to credit institutions		21	26	19
Other creditors including taxation and social security		56	30	27
		157	4,473	4,434
Accruals and deferred income		21	22	26
Total liabilities		**12,396**	**21,999**	**21,563**

Financial information on *Equitable Life* (Continued)

3. Interim Review for the half year ended 30 June 2007 (Continued)

Notes on the Accounts

1. Basis of Preparation

Equitable Life's Interim Accounts do not constitute statutory financial statements as defined in section 240 of the Companies Act 1985. The results for the six month period to 30 June 2007 and to 30 June 2006 are unaudited.

The comparatives for *Equitable Life* for the full year ended 31 December 2006 are consistent, except as stated below, with *Equitable Life* data included in the consolidated Annual Report and Accounts for 2006, which have been audited and filed with the Registrar of Companies.

Equitable Life has amended its accounting policies to adopt FRS 26, Financial Instruments: Measurement and has consequently restated prior periods in accordance with FRS 3, Reporting Financial Performance. There has also been a reclassification of certain assets in the Balance Sheet as at 30 June 2006, relating to the *Canada Life* arrangements.

The Interim Accounts are not consolidated and therefore represent the results of *Equitable Life* only (and not its subsidiaries). The *Group* figures are not materially different from those of *Equitable Life*. The Interim Accounts were approved by the *Board* of *Directors* on 10 September 2007.

The *Directors* have considered the appropriateness of the going concern basis used in the preparation of the financial statements, having regard to the ability of *Equitable Life* to be able to meet its liabilities as and when they fall due, and the adequacy of available assets to meet liabilities. In the opinion of the *Directors*, the going concern basis adopted in the preparation of these Interim Accounts continues to be appropriate.

Apart from the above change for FRS 26, the Interim Accounts have been prepared in accordance with the accounting policies set out in the Annual Report and Accounts as at 31 December 2006 other than in respect of the long-term business provision. A full valuation of the provisions in the long-term fund is carried out annually for the Annual Report and Accounts. The majority of provisions comprising the long-term business provision in the Interim Accounts have been calculated using the same methodology. However, some elements of the provision have been calculated using an approximate method that adjusts for changes in the period.

2. Investment return

	Half year ended 30 June		
	2007 £m	2006 Restated £m	Full year to 31 December 2006 Restated £m
Investment return arises from:			
Land and buildings	26	67	114
Shares and units in unit trusts	76	77	87
Fixed-income securities	(178)	(206)	95
Deposits and other investments	16	14	21
Interest and investment expenses	(13)	(17)	(29)
	(73)	**(65)**	**288**

These figures include £555m of investment income and realised gains in the period (£693m for period to 30 June 2006, £1,054m for year to 31 December 2006), but this is more than offset by unrealised losses from fixed-income securities during the period.

3. Claims paid, after recoveries from reinsurers

	Half year ended 30 June 2007	2006 Restated	Full year to 31 December 2006 Restated
	£m	£m	£m
Claims comprise:			
On death	13	14	26
On maturity	255	213	492
On surrender	139	154	269
Periodic payments	125	138	273
Claims handling expenses	2	2	3
	534	**521**	**1,063**

4. Net operating expenses – exceptional

	Half year ended 30 June 2007	2006 Restated	Full year to 31 December 2006 Restated
	£m	£m	£m
Rectification and other GAR-related expenses	1	1	2
Pension costs for former staff	(7)	(7)	5
Costs of strategic initiatives	28	6	19
Other projects	2	2	3
	24	**2**	**29**

The costs of strategic initiatives include the costs incurred during the period for the arrangements with *Canada Life* and *Prudential*. These costs include the assessment of options, the legal and advisory costs for the agreements and the *Court* approval process, the communications with policyholders, costs of exiting from existing third party arrangements and the physical transfer of policyholder data and *Records*.

5. Technical provisions

5a. Gross long-term business technical provisions

	30 June 2007	30 June 2006 Restated	31 December 2006 Restated
	£m	£m	£m
Non-profit insurance technical provisions	814	4,616	4,487
Non-profit investment technical provisions	5	6	6
With-profits insurance technical provisions			
Policy values	2,176	2,401	2,272
Future charges	(96)	(102)	(100)
Impact of early surrenders	(1)	(3)	(3)
Cost of guarantees	94	167	138
Other long-term liabilities	122	154	140
	2,295	2,617	2,447
With-profits investment technical provisions			
Policy values	5,097	5,462	5,287
Future charges	(182)	(197)	(188)
Impact of early surrenders	(29)	(45)	(47)
Cost of guarantees	273	531	428
Other long-term liabilities	227	250	255
	5,386	6,001	5,735
Excess Realistic Assets	849	774	884
Total with-profits technical provisions	8,530	9,392	9,066
	9,349	**14,014**	**13,559**

Financial information on *Equitable Life* (Continued)

3. Interim Review for the half year ended 30 June 2007 (Continued)
Notes on the Accounts (Continued)

The Excess Realistic Assets is a key measure of *Equitable Life*'s resources and represents the amount available to meet any unforeseen liabilities and liabilities in excess of those provided for at the balance sheet date and to enhance bonuses in the future.

5b. Gross linked liabilities

	30 June 2007	30 June 2006 Restated	31 December 2006 Restated
	£m	£m	£m
Index-linked annuities	86	724	707
Other linked insurance liabilities	246	251	255
Other linked investment liabilities	2,365	2,305	2,364
	2,697	**3,280**	**3,326**

5c. Impact of adoption of FRS 26, Financial Instruments: Measurement on technical provisions

The implementation of FRS 26 has introduced a further split of the technical provisions between insurance contracts and investment contracts. Investment contracts represent those policies that do not have significant insurance content, which collectively represented £7,756m at 30 June 2007. At 30 June 2006, investment contracts represented £8,312m of the technical provisions and at 31 December 2006 they represented £8,105m and the comparatives have been restated accordingly in Note 5a and 5b above.

Investment contracts with discretionary participation features (i.e. with-profits contracts) continue to be treated like insurance contracts within the Long-Term Business Technical Account. However, non-profit and unit-linked investment contracts are now treated as Financial Instruments, with gross premiums and claims no longer passing though the Technical Account. Instead only income generated from these contracts passes through the Technical Account. The restatement for the period to 30 June 2006 has removed £41m of gross premiums and £144m of gross claims from the Technical Account, together with the related re-insurance amounts. For the year to 31 December 2006, the restatement has removed £63m of gross premiums and £267m of gross claims.

5d. The long-term business provision – miscellaneous provisions

Technical provisions include amounts in respect of specific provisions:

- An amount of £68m (31 December 2006: £68m), which is the current estimate of the compensation or adjustments to future benefits which may be payable under the Rectification Scheme to policyholders who had policies with guaranteed annuity options which matured prior to the House of Lords' decision over the treatment of such options, and compensation and other costs which may be payable under the review of managed pensions sales. This provision is based on an assessment of the likely level of claims, the level of current interest rates and the possible form of compensation which may be payable on individual cases, if a claim is found to be appropriate.
- Anticipated additional exceptional expenses of £118m (31 December 2006: £115m) over future years, including contractual commitments to HBOS in respect of pension scheme future service costs, the costs associated with implementing new regulations, costs of completing the arrangements with *Prudential* and anticipated additional costs associated with servicing policies in the medium term.
- An amount of £115m (31 December 2006: £128m) for other miscellaneous liabilities. The principal components are provisions for potential mis-selling claims, a provision for other legal claims against *Equitable Life*, and provisions relating to the reassurance of the linked and part of the non-profit book to HBOS in 2001.

6. Contingent liabilities and uncertainties

As noted in the following sections of this Note, there exist certain uncertainties that, in the event they materialised, could adversely impact on the appropriateness of the going concern basis of preparation of these financial statements. Certain of those risks, in extreme adverse scenarios, could prejudice the continuing solvency of *Equitable Life*. The *Board* has assessed the probability of these uncertainties arising and, on the basis of current information and having taken legal and actuarial advice, has concluded that it remains appropriate to prepare these financial statements on a going concern basis.

These uncertainties and potential additional claims are as follows:

- As reported previously, the report of the 'Equitable Life' inquiry, led by Lord Penrose, was published in March 2004. Lord Penrose commented upon several aspects of *Equitable Life's* affairs in a way that may impact on the likelihood of further claims being made against *Equitable Life* for breach of statutory duty, or in tort or contract. Although some complaints have been received by *Equitable Life* that have included matters commented upon by Lord Penrose, including the claim by certain with-profits annuitants referred to below, there has only been a small number of complaints received arising directly out of the report by Lord Penrose.
- Following publication of the report by Lord Penrose, the Parliamentary Ombudsman announced in July 2004 her decision to open a new investigation. It is an inquiry that is independent of the government and can recommend to Parliament compensation payable by the government, but cannot require *Equitable Life* to take any particular action. However, the terms of reference of the inquiry's report may result in findings that could result in policyholders trying to assert claims against *Equitable Life*. *Equitable Life* has had lengthy and confidential discussions with representatives of the Parliamentary Ombudsman, but after a significant submission from the government, the Parliamentary Ombudsman has had to postpone the issue of her report to consider these matters fully. A further update on the publication timetable is now expected in the Autumn.
- The Institute of Chartered Accountants in England and Wales has initiated disciplinary proceedings against Ernst & Young in respect of its conduct in certain of its audits of *Equitable Life*. Although these proceedings cannot result in a requirement for *Equitable Life* to take any particular action, their findings could influence the way in which claims are presented against *Equitable Life*.
- As previously reported, in relation to with-profits annuities, there have been a number of complaints made to the FOS and to date there has been a very limited number upheld on the basis of their respective facts. The FOS approach to these complaints has not been on the basis of generic mis-selling. However, an action has been brought by 403 with-profits annuity policy claimants, who allege, inter alia, generic mis-selling and over-allocation of bonus. Having taken legal advice, *Equitable Life* believes that whilst some of the claimants may have legitimate complaints that could be compensated under our normal procedures and provisions, any generic claims are not well-founded and is defending the action, which is expected to be considered by the *Court* in 2008.
- It is *Equitable Life's* intention that any future bonuses will be in a non-guaranteed form. Allowance is made for continuing contractual commitments, such as the GIR of 3.5% p.a. that is applicable to many policies. In valuing policy liabilities, guarantees are valued under a range of economic scenarios. The calculation of the technical provisions is based on a projection of current market conditions, allowing for current retirement experience. There remains a risk to *Equitable Life* that investment conditions change or that policyholders defer their retirement. Further provisions would be required if greater premium income were to be received in such circumstances.

3. Interim Review for the half year ended 30 June 2007 (Continued)

Notes on the Accounts (Continued)

- As previously reported, *Equitable Life* was unable to reach agreement over the amount of the premium in respect of its 2001 reassurance arrangement with HBOS and the matter was referred to an independent umpire for resolution. On 22 September 2006, the umpire issued his determination, the resultant amount due and paid to HBOS being within the provision held by *Equitable Life* for this matter. The determination is subject to a further claim by HBOS which resulted in the matter being referred back to the umpire who has recently reconfirmed his original decision. It remains to be seen if HBOS will refer the matter back to *Court* or possibly seek leave to appeal.
- *Equitable Life* has contractual commitments in respect of two pension schemes for which HBOS is the principal employer. Although full provision is made for estimated contractual liabilities calculated on a basis consistent with that adopted by the Scheme Actuary in his triennial valuations, there remains the possibility that it may be necessary for a more conservative basis to be adopted in future in calculating *Equitable Life's* obligations.

Equitable Life has made appropriate provisions for future expenses, alleged mis-selling and other risks based on currently available information. Over time, as more information becomes available, the range of possible outcomes in relation to these issues can be expected to continue to narrow and the degree of confidence around the levels of the individual provisions can be expected to increase. However, the potential impact of the range of uncertainties relating to provisions may be significant.

4. Proforma based on 30 June 2007 results

Profit and Loss Account for the period ended 30 June 2007

Technical account – long-term business

	As reported 30 June 2007	Sub debt repayment (Note 3)	Impact of *Transfer* to *Prudential* (Note 2)	Proforma 30 June 2007
	£m	£m	£m	£m
Earned premiums, net of reinsurance				
Gross premiums written	64	-	-	64
Outward reinsurance premiums	(13)	-	-	(13)
	51	-	-	51
Investment income	555	-	-	555
Other technical income	37	-	-	37
	643	-	-	643
Claims incurred, net of reinsurance				
Claims paid – gross amount	634	-	-	634
Reinsurers' share	(87)	-	-	(87)
	547			547
Change in provision for claims – gross amount	(13)	-	-	(13)
	534	-	-	534
Changes in other technical provisions, net of reinsurance				
Long-term business provision – gross amount	(4,210)	-	(1,757)	(5,967)
Reinsurers' share	3,645	-	-	3,645
	(565)	-	(1,757)	(2,322)
Technical provisions for linked liabilities – gross amount	(500)	-	-	(500)
Reinsurers' share	497	-	-	497
	(3)	-	-	(3)
Net operating expenses – non exceptional	23	-	-	23
Net operating expenses – exceptional	24	-	-	24
Net operating expenses	47	-	-	47
Investment expenses including interest	13	-	-	13
Other technical charges	-	-	1,757	1,757
Unrealised losses on investments	615	-	-	615
Taxation attributable to the long-term business	2	-	-	2
	677	-	1,757	2,434
	643	-	-	643
Balance on the Technical Account	-	-	-	-

Financial information on *Equitable Life* (Continued)

4. Proforma based on 30 June 2007 results (Continued)

Balance Sheet as at 30 June 2007

Assets	As reported 30 June 2007	Sub debt repayment (Note 3)	Impact of *Transfer* to *Prudential* (Note 2)	Proforma 30 June 2007
	£m	£m	£m	£m
Investments				
Land and buildings	794	-	(167)	627
Investments in *Group* undertakings	17	-	-	17
Shares and units in unit trusts	598	-	(62)	536
Fixed-income securities	7,342	-	(1,383)	5,959
Deposits and other investments	365	(167)	(119)	79
	9,116	(167)	(1,731)	7,218
Assets held to cover linked liabilities	84	-	-	84
Reinsurers' share of technical provisions				
Long-term business provision	277	-	-	277
Technical provisions for unit linked liabilities	2,613	-	-	2,613
	2,890	-	-	2,890
Debtors				
Debtors arising out of direct insurance operations	43	-	-	43
Other debtors	5	-	-	5
	48	-	-	48
Other assets				
Cash at bank and in hand	25	-	-	25
Prepayments and accrued income				
Accrued interest and rent	146	-	(26)	120
Other prepayments and accrued income	87	-	-	87
	233	-	(26)	207
Total assets	**12,396**	**(167)**	**(1,757)**	**10,472**

Balance Sheet as at 30 June 2007

Liabilities	As reported 30 June 2007	Sub debt repayment (Note 3)	Impact of *Transfer* to *Prudential* (Note 2)	Proforma 30 June 2007
	£m	£m	£m	£m
Subordinated liabilities	167	(167)	-	-
Technical provisions				
Long-term business provision - gross amount (Note 1)	9,349	-	(1,757)	7,592
Claims outstanding	2	-	-	2
Linked liabilities	2,697	-	-	2,697
	12,048	-	(1,757)	10,291
Provisions for other risks and charges	3	-	-	3
Creditors				
Creditors arising out of direct insurance operations	71	-	-	71
Creditors arising out of reinsurance operations	9	-	-	9
Amounts owed to credit institutions	21	-	-	21
Other creditors including taxation and social security	56	-	-	56
	157	-	-	157
Accruals and deferred income	21	-	-	21
Total liabilities	**12,396**	**(167)**	**(1,757)**	**10,472**

Financial information on *Equitable Life* (Continued)

4. Proforma based on 30 June 2007 results (Continued)

Notes to the Proforma

1. Gross long-term business technical provisions

	As reported 30 June 2007	Sub debt repayment (Note 3)	Impact of *Transfer* to *Prudential* (Note 2)	Proforma 30 June 2007
	£m	£m	£m	£m
Non-profit insurance technical provisions	814	-	-	814
Non-profit investment technical provisions	5	-	-	5
With-profits insurance technical provisions				
Policy values	2,176	-	(1,668)	508
Future charges	(96)	-	61	(35)
Impact of early surrenders	(1)	-	-	(1)
Cost of guarantees	94	-	(44)	50
Other long-term liabilities	122	-	(21)	101
	2,295	-	(1,672)	623
With-profits investment technical provisions				
Policy values	5,097	-	-	5,097
Future charges	(182)	-	-	(182)
Impact of early surrenders	(29)	-	-	(29)
Cost of guarantees	273	-	-	273
Other long-term liabilities	227	-	110	337
	5,386	-	110	5,496
Excess Realistic Assets	849	-	(195)	654
Total with-profits technical provisions	8,530	-	(1,757)	6,773
	9,349	-	(1,757)	7,592

2. Proforma Adjustments - Proposed *Transfer* to *Prudential*

The above proforma accounts adjust the results at 30 June 2007 for the impact of the proposed Transfer to *Prudential* on 31 December, as though it had taken place as at 30 June 2007. If the *Scheme* takes effect at 11.59 pm on 31 December 2007 then the true impact of this *Transfer* will be reflected in the financial statements as at 31 December 2007.

If the transfer had taken place as at 30 June 2007, £1,757m of assets and liabilities would have moved to *Prudential*. The split of assets to transfer reflects the current investment mix, leaving the *Equity Backing Ratio* (including property) of *Equitable Life* broadly unchanged. The liabilities transferring relate mostly to with-profits insurance technical provisions of the with-profits annuity policies, impacting Policy values, Future charges and Cost of guarantees.

Within technical provisions, there are balancing movements for Other long-term liabilities which, when not specific, are split between insurance and investment in proportion to policy values. Clearly, these ratios will change due to the transfer.

The movement in the Excess Realistic Assets relates to the with-profits annuitants' fair share of assets plus their contribution to future expenses for the remaining policyholders (both of which are explained in section 5.3 of the With-Profits Actuary's report).

The 31 December 2007 financial statements will also contain further discontinued operations disclosures in accordance with FRS 3, Reporting Financial Performance.

3. Proforma Adjustments - Repayment of subordinated guaranteed bonds

On 6 August 1997, Equitable Life Finance plc, a wholly-owned subsidiary of *Equitable Life*, issued £350m 8.0% undated subordinated guaranteed bonds (the "Bonds"), which were guaranteed by

Equitable Life. The proceeds, after deduction of costs associated with the issue, were loaned to *Equitable Life* on similar terms as to interest, repayment and subordination as to those applicable to the Bonds. In accordance with the terms of the loan agreements, the Bonds and the related loan to *Equitable Life* were repaid on 6 August 2007. The above proforma adjusts the results at 30 June 2007 for the impact of the loan repayment by *Equitable Life*, as if this had taken effect on 30 June 2007. The actual impact will be reflected in the financial statements as at 31 December 2007.

5. Restatement of 2006 Financial Statements for FRS 26, Financial Instruments: Measurement

Profit and Loss Account for the year ended 31 December 2006

Technical account - long-term business	2006 Reported	FRS 26 adjustment	2006 Restated
	£m	£m	£m
Earned premiums, net of reinsurance			
Gross premiums written	177	(63)	114
Outward reinsurance premiums			
- Continuing operations	(109)	62	(47)
- Discontinued operations	(4,608)	-	(4,608)
	(4,540)	(1)	(4,541)
Investment income	1,054	-	1,054
Other technical income	6	2	8
	(3,480)	1	(3,479)
Claims incurred, net of reinsurance			
Claims paid – gross amount	1,675	(267)	1,408
Reinsurers' share	(626)	268	(358)
	1,049	1	1,050
Change in provision for claims – gross amount	13	-	13
	1,062	1	1,063
Changes in other technical provisions, net of reinsurance			
Long-term business provision – gross amount	(1,239)	(28)	(1,267)
Reinsurers' share	(3,530)	28	(3,502)
	(4,769)	-	(4,769)
Comprising - Continuing operations	*(797)*	-	*(797)*
- Discontinued operations	*(3,972)*	-	*(3,972)*
Technical provisions for linked liabilities – gross amount	16	206	222
Reinsurers' share	(671)	(208)	(879)
	(655)	(2)	(657)
Comprising - Continuing operations	*(5)*	*(2)*	*(7)*
- Discontinued operations	*(650)*	-	*(650)*
Net operating expenses – non-exceptional	55	-	55
Net operating expenses – exceptional	29	-	29
Net operating expenses	84	-	84
Investment expenses including interest	29	-	29
Other technical charges	19	2	21
Unrealised losses on investments	737	-	737
Taxation attributable to the long-term business	13	-	13
	882	2	884
	(3,480)	1	(3,479)
Balance on the Technical account	-	-	-

Note: The 2006 financial statements were prepared on a consolidated basis. The above results reflect *Equitable Life* only.

Balance Sheet as at 31 December 2006

Assets	2006 Reported	FRS 26 adjustment	2006 Restated
	£m	£m	£m
Investments			
Land and buildings	837	-	837
Investments in *Group* undertakings	19	-	19
Other financial investments	13,051	-	13,051
	13,907	-	13,907
Assets held to cover linked liabilities	87	-	87
Reinsurers' share of technical provisions			
Long-term business provision	3,950	(28)	3,922
Technical provisions for linked liabilities	3,240	-	3,240
	7,190	(28)	7,162
Debtors			
Debtors arising out of direct insurance operations	31	-	31
Other debtors	47	-	47
	78	-	78
Other assets			
Cash at bank and in hand	11	-	11
Prepayments and accrued income		-	
Accrued interest and rent	207	-	207
Other prepayments and accrued income	111	-	111
	318	-	318
Total assets	**21,591**	**(28)**	**21,563**

5. Restatement of 2006 Financial Statements for FRS 26, Financial Instruments: Measurement (Continued)

Balance Sheet as at 31 December 2006

Liabilities	2006 Reported	FRS 26 adjustment	2006 Restated
	£m	£m	£m
Subordinated liabilities	167	-	167
Technical provisions			
Long-term business provision - gross amount	13,587	(28)	13,559
Claims outstanding	15	-	15
	13,602	(28)	13,574
Linked liabilities	3,326	-	3,326
	16,928	(28)	16,900
Provisions for other risks and charges	36	-	36
Creditors			
Creditors arising out of direct insurance operations	47	-	47
Deposits received from reinsurer- secured	4,316	-	4,316
Creditors arising out of reinsurance operations	25	-	25
Amounts owed to credit institutions	19	-	19
Other creditors including taxation and social security	27	-	27
	4,434	-	4,434
Accruals and deferred income	26		26
Total liabilities	**21,591**	**(28)**	**21,563**

1. Accounting policies

FRS 26, Financial Instruments: Measurement

Equitable Life has recently adopted FRS 26, Financial Instruments: Measurement for the financial year ending 31 December 2007. Consequently *Equitable Life* has restated the prior period, 2006, in accordance with FRS 3, Reporting Financial Performance. The restated financial statements are not consolidated and represent the results of *Equitable Life* only.

The FRS 26 adjustments in the extracted statements have been audited.

The introduction of FRS 26 results in two significant changes in the financial statements. FRS 26 requires each class of *Equitable Life's* business to be classified as either insurance or investment business. Investment business, which includes the majority of the linked business, is deposit accounted in the Balance Sheet. FRS 26 also requires *Equitable Life's* insurance and investment technical assets to be analysed separately.

Earned premiums and claims incurred

Historically, all premiums earned and claims incurred have been reported through the Profit and Loss Account. Under FRS 26 premiums earned and claims incurred in respect of investment business, without discretionary participation features, are deposit accounted in the Balance Sheet and are not reported in the Profit and Loss Account. Only the income generated from these contracts is reported in the Profit and Loss Account as other technical income.

Technical assets and liabilities

Equitable Life's technical assets and liabilities have been restated for FRS 26. The only net impact of the restatement is the removal of the unit linked sterling reserves of £28m from both the Long-term business provision and the corresponding reinsurers' share.

An analysis of the gross technical liabilities is provided below.

2a. Gross long-term business technical provisions

	Insurance Liabilities	Investment Liabilities	Other Liabilities	2006 as reported	FRS 26 Adjustment	2006 Restated
	£m	£m	£m	£m	£m	£m
Non-profit technical provisions	4,487	34	-	4,521	(28)	4,493
With-profits technical provisions						
Policy values	2,272	5,287	-	7,559	-	7,559
Future charges	(100)	(188)	-	(288)	-	(288)
Impact of early surrenders	(3)	(47)	-	(50)	-	(50)
Cost of guarantees	138	428	-	566	-	566
Other long-term liabilities	140	255	-	395	-	395
	2,447	5,735	-	8,182	-	8,182
Excess Realistic Assets	-	-	884	884	-	884
Total with-profits technical provisions	2,447	5,735	884	9,066	-	9,066
	6,934	**5,769**	**884**	**13,587**	**(28)**	**13,559**

The Excess Realistic Assets is a key measure of *Equitable Life's* resources and represents the amount available to meet any foreseen liabilities and liabilities in excess of those provided for at the balance sheet date and to enhance bonuses in the future.

2b. Gross linked liabilities

	Insurance Liabilities	Investment Liabilities	Other Liabilities	2006 as reported	FRS 26 Adjustment	2006 Restated
	£m	£m	£m	£m	£m	£m
Index-linked annuities	707	-	-	707	-	707
Other linked business	255	2,364	-	2,619	-	2,619
	962	**2,364**	**-**	**3,326**	**-**	**3,326**

Part VIII

Financial information on *Prudential*

1. Company information

1.1 *Prudential* is a proprietary company, the shares of which are wholly owned by its immediate parent company, Prudential plc.

1.2 *Prudential's* principal activity is long-term insurance business, which is written in the company's long-term fund; *Prudential* also conducts some general insurance business, which is written in the company's shareholder fund.

1.3 *Prudential's* long-term business consists of:

a. life and annuity, pensions, permanent health, and linked long-term business, which is carried on in the *Ordinary Branch*; and

b. life business which is carried on in the *Industrial Branch*. The *Industrial Branch* was closed to new business on 1 January 1995.

The company's long-term business includes conventional with-profits, accumulating with-profits, non-linked non-profit and linked business. *Prudential's* long-term business is predominantly with-profits, and is transacted mainly in the *UK*.

1.4 The company's *UK* business consists of:

a. business written directly in *Prudential*,

b. business transferred into *Prudential* from the Scottish Amicable Life Assurance Society (***"SALAS"***) on 30 September 1997 and from Scottish Amicable Life plc (***"SAL"***) on 31 December 2002; and

c. business reassured into *Prudential* from other insurance subsidiaries of Prudential plc, including Prudential (AN) Limited (***"PANL"***).

1.5 *Prudential* also contains business written outside of the *UK*, comprising:

a. business written by branches of *Prudential* in Hong Kong, France and Malta; and

b. business reassured into *Prudential* by other insurance subsidiaries of Prudential plc, including Prudential International Assurance plc (***"PIA"***), or by other external insurers.

1.6 The *Prudential* long-term fund is divided into four sub-funds to facilitate the management of the various risk-bearing and profit-sharing arrangements that apply.

The Prudential Assurance Company Limited					
Shareholder Fund		Long-Term Fund			
General Insurance Fund	Other	With-Profits Sub-Fund "90:10"	Defined Charge Participating Sub-Fund "100:0"	Scottish Amicable Insurance Fund "100:0"	Non-Profit Sub-Fund "0:100"

This diagram does not indicate relative sizes

These sub-funds are described further in section 2 below.

2. Long term fund structure

Prudential's Articles of Association provide for the *Directors* to identify the profits arising on different blocks of business, and (within certain constraints) to attribute those profits between policyholders and shareholders. These powers have been applied, and the profits emerging in *Prudential's* long-term business fund are identified and allocated as shown below.

The descriptions given in this section show the structure of the sub-funds prior to the proposed *Transfer*. *Prudential's* Articles of Association will be amended as necessary to incorporate the requirements of the *Scheme*.

2.1 With-Profits Sub-Fund

The With-Profits Sub-Fund (***"WPSF"***) consists mainly of with-profits business, which comprises:

a. business written by *Prudential*, both *Ordinary Branch* (including Hong Kong and Malta) and *Industrial Branch*;

b. business written by *SAL* and transferred into *Prudential*; and

c. business written by *PANL*, and reassured into *Prudential*.

The *WPSF* also contains a small amount of non-profit business, which consists of:

a. the non-profit (including unit-linked business) written by *Prudential* that is not allocated by the *directors* to the Non-Profit Sub-Fund (see section 2.4 below); and

b. certain types of business originally written by *SALAS* and now contained in the Scottish Amicable Account.

The *WPSF* contains the *Prudential* inherited estate, which consists of assets in the fund over and above the amounts that the company would expect to pay out over time to existing policyholders as claim values.

Divisible profit arising in the *WPSF*, including profit that arises on the non-profit business in the *WPSF*, is divided between with-profits policyholders and shareholders. The Articles of Association permit up to 5 per cent of the divisible profit to be transferred to a common contingency fund before the balance is divided between policyholders and shareholders. The proportion of divisible profit attributable to with-profits policyholders in the *WPSF* is defined by the Articles of Association as being at least 90 per cent, with the balance attributable to shareholders. For virtually all business, the policyholders' proportion is currently 90 per cent. Thus the *WPSF* is a "90:10" fund.

2.2 Defined Charge Participating Sub-Fund

The Defined Charge Participating Sub-Fund (***"DCPSF"***) consists solely of the accumulated investment content of premiums paid in respect of Defined Charge Participating business, which comprises:

a. business reassured into *Prudential* from *PIA* or other companies; and

b. business written through *Prudential's* French branch (between 1 January 2001 and 31 December 2003).

Defined Charge Participating business is defined as with-profits business on which policyholders incur only the charges stated explicitly in the policy and, following the *Transfer*, charges specifically defined in any court sanctioned scheme which is applicable to the relevant policies (which include an annual management charge on the assets held within the *DCPSF*). These charges accrue to the Non-Profit Sub-Fund, which bears all expenses; hence the shareholders receive any profits or losses arising from the difference between the charges and expenses on this business.

The profit in the *DCPSF* arises solely from investment performance, and is entirely attributable to *DCPSF* policyholders, that is the *DCPSF* is a "100:0" fund.

2.3 Scottish Amicable Insurance Fund

The Scottish Amicable Insurance Fund (***"SAIF"***) is a closed sub-fund that contains the bulk of the business originally written by *SALAS* and acquired by *Prudential* on 30 September 1997. The balance of *SALAS'* business was transferred to the *WPSF* but the with-profits investment element of any with-profits policies is invested in *SAIF*, and is thus managed with all other *SAIF* with-profits policies.

SAIF also contains the *SAIF* inherited estate. This inherited estate consists of assets in the fund over and above the amounts that the company would normally expect to pay out over time to with-profits policies invested in *SAIF*, if the fund had remained open to new business. The *SAIF* inherited estate will be distributed to the with-profits policies invested in *SAIF* as an addition to the with-profits benefits arising in *SAIF*.

SAIF is provided with financial support from the *WPSF* by means of the Scottish Amicable Capital Fund (***"SACF"***), in return for an annual charge. *SACF* is treated as part of the free assets of *SAIF* for the purposes of setting *SAIF's* bonus and investment policy. However, *SACF* remains in the *WPSF* and does not form part of the *SAIF* inherited estate. *SACF* cannot exceed 15 per cent of the with-profits fund in *SAIF*, and will reduce in size as the *SAIF* fund reduces as a result of policyholder pay-outs. *SACF* would be used to fund any deficit in the *SAIF* bonus smoothing account, which is managed in accordance with the *SAIF* principles of financial management set out in the scheme that transferred *SALAS* into *Prudential*.

The whole of the profit arising in *SAIF*, including profits or losses on its non-profit business, will be allocated to with-profits policies invested in *SAIF*, that is *SAIF* is a "100:0" fund.

2.4 Non-Profit Sub-Fund

The Non-Profit Sub-Fund (***"NPSF"***) consists of such non-profit and unit-linked business as has been explicitly allocated to this sub-fund by the *directors*.

It also includes all defined charge participating business other than its investment content (which is allocated to the *DCPSF*). Therefore, all charges in respect of *DCPSF* business are credited to the *NPSF*, and the *NPSF* bears all of the associated expenses.

All the profit of the *NPSF* is attributable to shareholders, that is the *NPSF* is a "0:100" fund.

3. Financial Position of *Prudential*

3.1 Under the *UK* regulatory regime for insurers, *Prudential* is required to determine its Pillar I solvency on a "twin peaks" basis. This requires the company to carry out two separate solvency calculations, referred to as the regulatory and realistic peaks, for each of its with-profits funds, and to hold sufficient capital to cover whichever calculation proves to be the more onerous. At 31 December 2006, the realistic peak was the more onerous for each of the *WPSF*, the *DCPSF* and *SAIF*.

3.2 The transferring *Equitable Life* policyholders will rely principally for their security on the inherited estate of the *WPSF*. This inherited estate currently provides support for business in the *WPSF*, the *DCPSF* and *SAIF*, and the realistic solvency position of each of these funds at 31 December 2006 (and at 31 December 2005) was as follows:

Table 1 *WPSF*

	31 December 2006	31 December 2005
	£m	£m
Assets		
Regulatory value of assets	76,133	72,135
Adjustment for shares in subsidiaries	361	396
Future profits on NP business	448	666
Total assets	76,942	73,197
Liabilities		
With-profits benefit reserve	62,713	59,888
Past miscellaneous surplus attributable to *Asset Shares*	47	
Planned enhancements to *Asset Shares*	362	369
Planned deductions for guarantees	(1,165)	(1,105)
Other planned deductions from *Asset Shares*	(94)	(67)
Future cost of guarantees	1,278	1,398
Future costs of smoothing	184	481
Future cost of financial options	47	52
Other liabilities	1,514	1,069
Realistic value of current liabilities	3,436	3,132
Total liabilities	68,322	65,218
Free assets	8,619	7,979
Risk Capital Margin (***"RCM"***)	1,818	1,795
Surplus assets	6,801	6,184
RCM cover	4.7x	4.4x

Table 2 *DCPSF*

	31 December 2006	31 December 2005
	£m	£m
Assets		
Regulatory value of assets	1,575	1,307
Total assets	1,575	1,307
Liabilities		
With-profits benefit reserve	1,574	1,302
Planned deductions for guarantees	(61)	(40)
Future cost of guarantees	31	13
Other liabilities	30	27
Realistic value of current liabilities	1	5
Total liabilities	1,575	1,307
Free assets	-	-
RCM	-	-
Surplus assets	-	-
RCM cover	-	-

Financial information on *Prudential* (Continued)

Table 3 SAIF

	31 December 2006		31 December 2005	
	Internal presentation	*FSA* presentation	Internal presentation	*FSA* presentation
	£m	£m	£m	£m
Assets				
Regulatory value of assets	14,321	14,321	14,354	14,354
Future profits on NP business	323	323	451	451
Total assets	14,644	14,644	14,805	14,805
Liabilities				
With-profits benefit reserve	12,483	12,483	12,609	12,609
Planned enhancements to *Asset Shares*	205	1,104	198	895
Planned deductions for guarantees	(328)	(328)	(332)	(332)
Future cost of guarantees	84	84	175	175
Future costs of smoothing	(83)	(83)	68	68
Future cost of financial options	561	561	619	619
Other liabilities	210	210	134	134
Realistic value of current liabilities	612	612	638	638
Total liabilities	13,745	14,644	14,108	14,805
Free assets	899	0	697	0
RCM	526	0	645	0
Surplus assets	373	0	52	0
RCM cover	1.7x	n/a	1.1x	n/a

Note: Under the *FSA* requirements and actuarial guidance, all of the free assets of *SAIF* must be included in the published balance sheet as a liability (as a future enhancement to *Asset Shares*) since they are expected to ultimately be distributed to policyholders. A more meaningful presentation of the financial position of *SAIF* is also shown above (internal presentation).

Commentary on Tables above:

- It can be seen that the *WPSF* (Table 1) was in a very strong financial position at 31 December 2006, its *RCM* being covered 4.7 times by capital within the sub-fund.
- The zero surplus assets in the *DCPSF* (Table 2) reflect the fact that the *DCPSF* contains the *Asset Shares* of *DCPSF* business, and that these *Asset Shares* are expected to be distributed to policyholders over the outstanding lifetime of the business in force. The *DCPSF* thus contains no free assets.
- The zero surplus assets shown for the *FSA* representation of *SAIF* (Table 3) reflect the fact that the inherited estate of *SAIF* is expected to be distributed to policyholders over the outstanding lifetime of the business in force. The free assets of *SAIF* are therefore included as a liability (under future enhancements). A more meaningful presentation of the financial strength of *SAIF* is also shown (internal presentation), which identifies the free assets separately. This shows that *SAIF* had 1.7 times cover for its *RCM* at 31 December 2006, before allowing for any additional support available from *SACF*.
- Under the *FSA's* Pillar II solvency framework, *Prudential* is also required to hold sufficient capital to cover its individual capital assessment (*"ICA"*) and individual capital guidance. The capital held by the company comfortably covered these requirements at 31 December 2006.

4. Asset allocation

The Table below shows the asset split in the *Prudential WPSF* for the years shown.

	31.12.04	**31.12.05**	**31.12.06**
Prudential			
UK equities	33.5%	39.5%	36.3%
Non-*UK* equities	15.0%	18.8%	16.7%
Property	17.6%	15.3%	15.3%
Fixed interest	28.6%	21.2%	25.4%
Cash & Other Investments	3.2%	3.3%	3.9%
Alternative assets	2.1%	2.0%	2.4%

Note: Due to rounding, percentages may not add up to 100%

Part IX

Additional information

1. Responsibility

Equitable Life has taken all reasonable care to ensure that all information contained in this *Circular*, other than that relating to *Prudential*, is in accordance with the facts and does not omit anything likely to affect the import of such information.

Prudential has taken all reasonable care to ensure that all information contained in this *Circular* relating to *Prudential* is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. No material change statement

Save as disclosed in this *Circular* or the enclosed key features document, the *Directors* are not aware of any material change in the financial or trading position of *Equitable Life* since 31 December 2006 (being the date to which the last audited accounts of *Equitable Life* were prepared).

Save as disclosed in this *Circular*, the *directors* of *Prudential* are not aware of any material change in the financial or trading position of *Prudential* since 31 December 2006 (being the date to which the last audited accounts of *Prudential* were prepared).

3. *Directors* and *Directors'* interests

3.1 Interests in the *Transfer*

Save as disclosed below, there is no current or proposed arrangement for any payment or other benefit to be given to any *Director* in connection with the *Transfer*, including as compensation for loss of office or as consideration for or in connection with retirement from office.

Equitable Life operates an annual discretionary bonus scheme for executive *Directors*. *Equitable Life's* policy is to ensure that executive *Directors* are appropriately incentivised to meet the objectives of the business. Significant objectives against which targets are set and approved by *Equitable Life's* Remuneration Committee include the maintenance of solvency, the achievement of business stability, and the maintenance of effective service delivery. The maximum potential annual discretionary bonus Charles Thomson may be awarded is 50 per cent of his annual salary.

3.2 Interests in *Prudential*

As at 12 September 2007 (the latest practicable date before the publication of this *Circular*), no *Director* holds any interest (whether legal or beneficial) in *Prudential* shares, save for interests in unit trusts, investment trusts, PEPs or ISAs which may hold shares in *Prudential*.

Save as disclosed below, as at 12 September 2007 (the latest practicable date before the publication of this *Circular*), no *Director* holds any other material interest, including as the holder of a policy issued by a *Prudential Group* company, in the *Prudential Group*. The following *Directors* hold the following policies issued by a *Prudential Group* company.

Director	Policy Type	Approximate Value
Peter Smith	With-Profit Bonds	£65,000
Andrew Threadgold	Unit Trusts	£66,000
Vanni Treves	Retirement Annuities	£877,600

3.3 Interests in HBOS plc

As at 12 December 2007 (being the latest practical date prior to the printing of this *Circular*), the following *directors* of *Equitable Life* were interested in ordinary shares in HBOS plc as follows. Indirect holdings by way of investments in unit trusts, investment trusts, PEPs or ISAs are not listed.

Director	Number of Shares
Ian Reynolds	857 shares
Peter Smith	690 shares
Andrew Threadgold	185 shares

3.4 Interests in Equitable Life policies

As at 12 December 2007 (the latest practicable date before the publication of this *Circular*), the following *directors* of *Equitable Life* were interested in the following *Equitable Life* policies.

Director	Policy Type	Approximate Value
David Adams	Personal Pension Plan	£66,000
Ian Reynolds	With-Profits Annuity	£7,500
Fred Shedden	Term Assurance	£20,000
Peter Smith	Retirement Annuity Policy	£25,200
Charles Thomson	Personal Investment Plan	£1,000
Andrew Threadgold	Personal Investment Plan	£1,100
Jean Wood	Non-Profit Annuity Personal Investment Plan	£1,900 £1,100

The With-Profits Annuity held by Ian Reynolds is a Transferring Policy.

The value quoted is the approximate surrender value, save in the following cases: David Adams' Personal Pension Plan and Peter Smith's Retirement Annuity Policy where the approximate transfer value is quoted, Jean Wood's and Ian Reynolds' annuities where the approximate annual income is quoted, and Fred Shedden's Term Assurance Policy where the sum assured is quoted.

3.5 Other relevant interests

David Adams is a director of Keystone Investment Trust Plc (***"Keystone"***). *Equitable Life* has a holding of Keystone debentures, part of which may be transferred to *Prudential* under the terms of the *Scheme*.

4. Tax

The *Transfer* will not proceed unless certain confirmations and tax clearances (***"Tax Clearances"***) satisfactory to both *Equitable Life* and *Prudential* are received in advance of the *Scheme Effective Date*. Four specific *Tax Clearances* have been applied for from HM Revenue & Customs (***"HMRC"***). The clearances are that:

(a) the registered pension scheme status of the *Transferring Policies* will not change as a result of the *Transfer* and neither will any aspect of the *Transfer* result in any unauthorised payments for the purposes of the Finance Act 2004 (Pension Simplification);

(b) any tax exemption authorities issued to *Equitable Life* under the terms of relevant double taxation agreements between the *UK* and other countries will continue in force when the business is transferred to *Prudential*, such that relevant annuities may continue to be paid gross to certain non-resident annuitants;

(c) the transfer of assets and liabilities to *Prudential* will not be a supply giving rise to a liability to Value Added Tax; and

(d) no notice will be issued under section 703 of the Corporation Taxes Act 1998 (a tax anti-avoidance provision) in respect of the transactions contemplated by the *Scheme*.

In addition, it should be noted that, whilst it is not a condition precedent of the *Scheme*, *HMRC* Stamp Taxes have confirmed that the *Transfer* will not give rise to *ad valorem* Stamp Duty, Stamp Duty Reserve Tax or Stamp Duty Land Tax (which might otherwise have fallen on *Equitable Life* in accordance with the terms of the Business Transfer Agreement between *Equitable Life* and *Prudential* dated 14 March 2007).

In summary, the *Transfer* is not expected to alter the *UK* tax treatment of the *Transferring Policies*.

There is a possibility that some transferring policyholders may see a short-term difference in tax deductions made. For *Equitable Life* policyholders who have two or more annuities taxed under the same tax office those annuity payments are consolidated for tax purposes, whereas *Prudential* manages multiple annuity payments differently and each annuity is set up with an individual tax code and the gross to date and tax deducted figures are maintained for each annuity. Both methods are approved by *HMRC*. *Prudential* is currently working with *HMRC* to arrange for the tax codes to be updated and are aiming to have this in place by the *Scheme Effective Date* to ensure transferring policyholders receive the same net annuity payment from the outset.

The above information on certain *UK* tax matters is intended as a guide only and is not a substitute for independent professional tax advice. *Members* and policyholders, including those resident outside the *UK*, should consider obtaining their own taxation advice, as appropriate.

5. Overseas *Members*

Persons who are *Members* of *Equitable Life* by virtue of a *Transferring Policy* and who are either currently resident in Jersey or Guernsey or who purchased the relevant policy through *Equitable Life's* branch in Guernsey (irrespective of where they are resident), will have received a supplemental enclosure entitled "Channel Islands Enclosure" detailing how they are affected by the *Transfer*. Such *Members* should refer to that enclosure.

The enclosure sets out information in relation to the Guernsey and Jersey transfer schemes. The Guernsey and Jersey schemes are substantially the same in effect as the *UK Scheme*. These schemes are also the subject of review by the insurance regulator and the sanction of the court in each of those jurisdictions. The enclosure contains a summary of the *Independent Expert's* assessment and conclusions in relation to the Guernsey and Jersey schemes, and a timetable for each of those schemes.

No other person receiving or accessing a copy of this *Circular* and/or the accompanying key features document and/or a proxy voting form and/or any other document enclosed with this *Circular* in any territory other than the *UK* may treat the same as any form of invitation or solicitation. Nor should any such person use a proxy voting form unless in the relevant territory such an invitation or solicitation could lawfully be made to him without contravention by any person of any registration or other legal or regulatory requirements. It is the responsibility of any such person wishing to vote at the *EGM* to satisfy himself as to full observance of the laws of the relevant territory in connection therewith, including obtaining any governmental or other consents or approvals or the observance of any other formalities which may be required in that territory.

6. General information

6.1 Mr Tim Bateman, the *Actuarial Function Holder* and the *With-Profits Actuary*, and Mr Steve Sarjant, the *Independent Expert*, have given, and have not withdrawn, their written consent to the issue of this *Circular* with the inclusion herein of the references to their names and to their reports and to the inclusion of the summaries of their reports in the form and context in which they respectively appear.

6.2 *Lexicon*, which is authorised and regulated in the *United Kingdom* by the *FSA*, has given, and has not withdrawn, its written consent to the issue of this *Circular* with the inclusion herein of the references to its name in the form and context in which it appears.

6.3 *Deloitte* has given, and has not withdrawn, its written consent to the issue of this *Circular* with the inclusion herein of the references to its name in the form and context in which it appears.

6.4 *Lovells* has given, and has not withdrawn, its written consent to the issue of this *Circular* with the inclusion herein of the references to its name in the form and context in which it appears.

6.5 *Lexicon* is acting for *Equitable Life* in relation to the *Transfer* and is not acting for any other person and will not be responsible to any other person for providing the protections afforded to clients of *Lexicon* or advising them on the contents of this *Circular* or any matters referred to herein. *Lexicon* has placed reliance on the *Directors'* commercial assessment of the *Transfer* and on advice received by the *Directors* from *Equitable Life's* actuarial and legal advisers.

6.6 *Deloitte* is acting for *Equitable Life* in relation to the *Transfer* and is not acting for any other person and will not be responsible to any other person for providing the protections afforded to clients of *Deloitte* or advising them on the contents of this *Circular* or any matters referred to herein.

6.7 *Lovells* is acting for *Equitable Life* in relation to the *Transfer* and is not acting for any other person and will not be responsible to any other person for providing the protections afforded to clients of *Lovells* or advising them on the contents of this *Circular* or any matters referred to herein.

7. Costs

Equitable Life estimates the total pre-tax cost of the *Transfer* (covering the audit of data relating to the *Transferring Policies*, the systems development, the legal process and the communications) to be in the region of £35 million which will be met from *Equitable Life's* Excess Realistic Assets. The majority of the costs will be covered by the with-profits annuitants' share of Excess Realistic Assets as they will see the most significant immediate benefits if the *Transfer* proceeds.

8. Documentation available for inspection

Copies of this *Circular* and the following documents will be available for inspection at the *Extraordinary General Meeting* and at (i) the *Equitable Life* website (www.equitable.co.uk), and (ii) the offices of *Equitable Life's* solicitors, *Lovells* at Atlantic House, 50 Holborn Viaduct, London EC1A 2FG in each case between 9.00 am and 5.00 pm on any weekday (Monday to Friday) excluding *UK Bank Holidays*, until the date on which the *Court* sanctions the *Scheme*:

(a) the report of the *Actuarial Function Holder*;

(b) the report of the *With-Profits Actuary*;

(c) the report of the *Independent Expert*;

(d) the Memorandum and Articles of Association of *Equitable Life*;

(e) the audited report and accounts of *Equitable Life* for the year ended 31 December 2006; and

(f) the *Scheme*, and a summary of the *Scheme*.

In addition, the audited consolidated report and accounts of *Prudential* for the year ended 31 December 2006 are available at the *Prudential* website (www.pru.co.uk/equitable).

Copies of the *Independent Expert's* report and the summary of his report will also be given free of charge on request.

Part X

Notice of *Extraordinary General Meeting*

Notice is hereby given that an *Extraordinary General Meeting* of The Equitable Life Assurance Society will be held at Church House Conference Centre, Westminster, London SW1P 3NZ on 26 October 2007 at 11:00 am when the following *Resolution* will be proposed as an ordinary resolution.

Resolution

THAT the proposed transfer of the with-profits annuity business of The Equitable Life Assurance Society, as described in the Policyholder Circular dated 14 September 2007 to *Members* and policyholders of *Equitable Life*, be approved.

On behalf of the *Board*

P W Wilmot

Secretary

14 September 2007

Registered Office:

20-22 Bedford Row

London

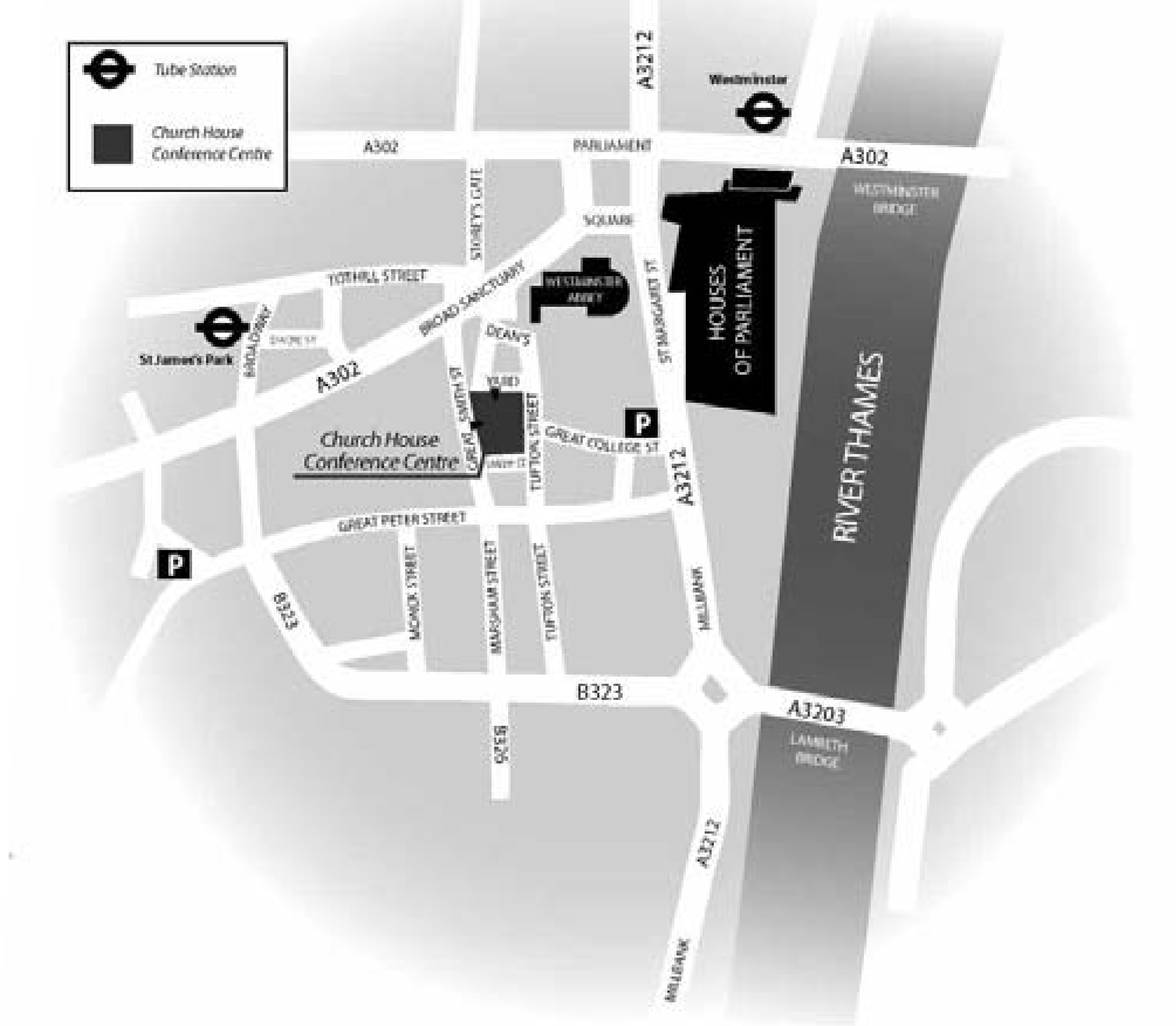
WC1R 4JS

Notes

1. As a *Member* of *Equitable Life* you are invited to attend the *EGM*. Only *Members* entitled to vote (or their duly appointed proxy) may take part in the meeting. To be entitled to vote at the *EGM* on 26 October 2007, a *Member* must hold a with-profits policy in his or her own name which has participated in profits continuously since before 1 January 2006 and which has a "total sum assured" (as defined in the Articles of Association) of at least £1,000.
2. In accordance with the provisions in Regulation 24(4) of *Equitable Life's* Articles of Association, the *Directors* have determined that in the event of a poll being called at the *EGM*, the number of votes to which each *Member* shall be entitled shall be the number arising from the total sum assured (as defined in the Articles of Association) held by that *Member* on 13 October 2007.
3. To assist in the orderly conduct of the meeting, it would be helpful if *Members* (or their duly appointed proxy) wishing to ask questions would indicate their intention to do so by registering their question(s) at the venue from 9.30 am on the day of the *EGM*.

Venue of *EGM*

Church House Conference Centre
Westminster, London SWIP 3NZ
Tel: 0207 390 1590
www.churchhouseconf.co.uk



Nearest underground
Westminster (Jubilee, District and Circle lines) and St James's Park (District and Circle lines).

Parking
There is a public car park close by, in addition to metered parking. This is located in Abingdon Street and Great College Street.

Venue access and facilities for the hard of hearing
Church House Conference Centre had wheelchair access via the Great Smith Street entrance. Facilities are available for the hard of hearing: those requiring assistance should ask at the registration desk. On the right hand side of the stage a sign language interpreter will reply the meeting.

Part XI

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 III, 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 III, paragraph 3(g) which will be transferred to *Prudential's DCPSF* under the *Scheme* to cover the *Asset Shares* of the *Transferring Policies*.
"Aggregate Policyholder Entitlement"	Means the amount, if any, available for uplifting the *Transferring Policies'* non-guaranteed income.
"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 this 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 Justice 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*.
"Deal Costs"	Means the costs of the *Transfer*.
"Deloitte"	Means Deloitte & Touche LLP.
"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.

"Equitable Life Helpline"	Means 0800 408 0097 (calls charged at local rates) or 00 800 1020 1040 if calling from outside the *UK* on any weekday (Monday to Friday) excluding *UK Bank Holidays* from 8.00 am to 8.00 pm and 8.00 am to 1.00 pm on Saturdays.
"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*.

"Industrial Branch"	In respect of *Prudential*, life insurance where premiums are collected by an insurance company agent at the policyholder's home, at intervals of less than two months, often for a relatively small amount. Whole life and endowment contracts are the only types of business written in the *Industrial Branch*. (See Part VIII.)
"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*.
"Lexicon"	Means Lexicon Partners Limited.
"Lovells"	Means Lovells LLP, a limited liability partnership with its registered office at Atlantic House, 50 Holborn Viaduct, London EC1A 2FG.
"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 III, 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 III, 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 III, paragraph 5(f).
"Notice"	Means the notice given to *Members* of *Equitable Life* prior to the *EGM*. A copy of the *Notice* of the *EGM* is set out in Part X of this *Circular*.
"NPSF"	Means the Non-Profit Sub-Fund within the long-term insurance fund of *Prudential*.
"Ordinary Branch"	In respect of *Prudential*, life insurance and pensions business where the premiums are usually paid through the banking system by cheque, standing order or direct debit. (See Part VIII.)
"PANL"	Means Prudential (AN) Limited.
"PIA"	Means Prudential International Assurance plc.
"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 III, paragraph 5.

“Prudential”	Means The Prudential Assurance Company Limited.
“RBS”	Means realistic balance sheet.
“RCM”	Means risk capital margin.
“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*.
“SACF”	Means the Scottish Amicable Capital Fund.
“SAIF”	Means the Scottish Amicable Insurance Fund.
“SAL”	Means Scottish Amicable Life plc.
“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.
“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 III, 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 III, paragraph 5(g).
"UK Bank Holidays"	Means any day on which banks in the *UK* are legally closed.
"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 III, paragraph 3(d)(ii).
"Up-front Guarantee Charge Transferring Assets"	Means certain assets selected by *Prudential* in accordance with the process described in Part III, 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 III, 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 III, paragraph 3(c) above.
"WPA Share of Working Capital"	Means the *Transferring Policies'* share of *Equitable Life's* working capital.
"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.