



The Equitable Life Assurance Society
The Prudential Assurance Company Limited

*Report of the Independent Expert on the terms of a
proposed Scheme to transfer the with-profits annuity
business of The Equitable Life Assurance Society to
The Prudential Assurance Company Limited*

*Supplementary report as Independent Actuary on the
terms of the Guernsey Scheme and the Jersey Scheme*

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1 Introduction

- 1.1 The Equitable Life Assurance Society (“ELAS”) and The Prudential Assurance Company Limited (“PAC”) are making an application to the High Court of Justice in England and Wales for the sanction under Section 111 of the Financial Services and Markets Act 2000 (the “FSMA”) of an insurance business transfer scheme for the transfer of the with-profits annuity business of ELAS to PAC (the “Main Scheme”) and for certain further orders under Section 112 of the FSMA.
- 1.2 In connection with the Main Scheme, ELAS and PAC are:
- making an application to The Royal Court of Guernsey for the sanction under the Insurance Business (Bailiwick of Guernsey) Law, 2002 of an insurance business transfer scheme (the “Guernsey Scheme”) for the transfer of the with-profits annuity business of ELAS which forms part of the business of ELAS comprising policies issued to persons resident in Guernsey or issued by the Guernsey branch of ELAS to persons not resident in Guernsey (the “Guernsey Business”); and
 - making an application to The Royal Court of Jersey for the sanction under the Insurance Business (Jersey) Law 1996 of an insurance business transfer scheme (the “Jersey Scheme”) for the transfer of the with-profits annuity business of ELAS which forms part of the business of ELAS carried on in or from within Jersey (the “Jersey Business”).
- 1.3 I have been appointed jointly by ELAS and PAC to report:
- pursuant to Section 109 of the FSMA as Independent Expert on the terms of the Main Scheme;
 - pursuant to Section 44 of the Insurance Business (Bailiwick of Guernsey) Law, 2002 as Independent Actuary to the Royal Court of Guernsey on the terms of the Guernsey Scheme; and
 - pursuant to Article 27 of, and the Second Schedule to, the Insurance Business (Jersey) Law 1996 as Independent Actuary to the Royal Court of Jersey on the terms of the Jersey Scheme.
- 1.4 I have produced a report on the Main Scheme dated 30 August 2007 (my “Main Report”). This is a supplementary report on the Guernsey Scheme and the Jersey Scheme. This report should not be considered in isolation but should be read in conjunction with my Main Report. The reliances and limitations contained in section 1 of my Main Report also apply to this report. The definitions in this report follow those used in my Main Report.

2 Background information

- 2.1 Sections 2 and 3 of my Main Report contain background information on ELAS and PAC. Information on the financial position of ELAS and PAC is contained in Sections 5 and 6 of my Main Report, which also consider the likely impact of the Main Scheme on the financial position of ELAS and PAC.
- 2.2 The with-profits annuity business of ELAS included as part of the Guernsey Business and the Jersey Business together comprise a very small proportion of the total with-profits annuity business of ELAS.
- 2.3 As at 31 December 2006, ELAS had around 60,000 with-profits annuity policies in-force with aggregate annuities payable of £179 million per annum. Of these, only 57 policies (with aggregate annuities payable of £0.4 million) were sold by the Guernsey branch of ELAS. 10 of these policies (with aggregate annuities payable of less than £0.1 million per annum) were sold by the Guernsey branch to individuals who were Jersey residents at the point of sale.
- 2.4 In addition, as at 31 December 2006, there were 16 with-profits annuity policies in-force (with aggregate annuities payable of £0.1million) that were sold by ELAS (but not by the Guernsey branch) where the policyholder is currently believed to be resident in Guernsey and 14 with-profits annuity policies in-force (with aggregate annuities payable of less than £0.1million) that were sold by ELAS (but not by the Guernsey branch) where the policyholder is currently believed to be resident in Jersey.
- 2.5 Section 2 of my Main Report includes a description of the principal product features of the with-profits annuity policies issued by ELAS. The with-profits annuity policies included within the Guernsey Business and the Jersey Business (the “Guernsey WPA Policies” and “Jersey WPA Policies” respectively) share the same general product characteristics as other with-profit annuity policies issued by ELAS.
- 2.6 Section 2 of my Main Report also summarises the principles and practices of financial management that ELAS adopts in the management of its with-profits annuity business. The Guernsey Business and the Jersey Business is managed by ELAS in the same manner, and according to the same principles, as ELAS’s other with-profits annuity business.

3 The proposals

- 3.1 The Guernsey Scheme and the Jersey Scheme each incorporate the terms of the Main Scheme. Section 4 of my Main Report summarises the terms of the Main Scheme.
- 3.2 It is intended that, under the terms of the Main Scheme, the majority of the with-profit annuity policies of ELAS (the “Transferring Policies”), including the Guernsey WPA Policies and the Jersey WPA Policies, together with assets attributable to those with-profits annuities will transfer from ELAS to PAC at 11.59pm GMT on 31 December 2007 or such other time and date that ELAS and PAC may agree (the “Effective Date”).
- 3.3 The liabilities under the Transferring Policies, any liabilities under the transferring assets and the rights, benefits and powers of ELAS under the Transferring Policies will also transfer from ELAS to PAC under the terms of the Main Scheme, save for any liabilities arising from acts or omissions occurring on or before the Effective Date (including, for example, mis-selling liabilities or liabilities arising from breaches of policy conditions or regulatory requirements), which will remain with ELAS.
- 3.4 The Main Scheme also contains provisions covering the financial management of the Transferring Policies by PAC with effect from the Effective Date.
- 3.5 The provisions of the Main Scheme applying to the with-profits annuity policies of ELAS transferring under the Main Scheme will apply identically to the Guernsey WPA Policies transferring under the Guernsey Scheme and the Jersey WPA Policies transferring under the Jersey Scheme. Following the implementation of the Main Scheme, the Guernsey Scheme and the Jersey Scheme, I understand that PAC intends to manage the Guernsey WPA Policies and the Jersey WPA Policies in all respects in the same manner, and according to the same principles, as the other transferring with-profits annuity policies.

4 Implications for policyholders

- 4.1 I interpreted the primary purpose of my Main Report to be to provide an opinion of the likely effects of the Main Scheme on policyholders, distinguishing between:
- holders of Transferring Policies;
 - policyholders of ELAS whose contracts will not be transferred; and
 - policyholders of PAC.
- 4.2 Sections 7, 8 and 9 of my Main Report consider the implications of the Main Scheme for these groups of policyholders.
- 4.3 I believe that the likely effects of the Guernsey Scheme on the holders of the Guernsey WPA Policies and of the Jersey Scheme on the holders of the Jersey WPA Policies will be identical to the likely effects of the Main Scheme on the holders of Transferring Policies, as discussed in my Main Report.
- 4.4 Similarly, I believe that the likely effects of the Guernsey Scheme and the Main Scheme on the Guernsey Business that will not be transferred and of the Jersey Scheme and the Main Scheme on the holders of the Jersey Business that will not be transferred will be identical to the likely effects of the Main Scheme on the other policyholders of ELAS whose contracts will not be transferred, as discussed in my Main Report.
- 4.5 In addition, I do not believe that there are any material implications resulting from the Main Scheme, the Guernsey Scheme or the Jersey Scheme affecting the Guernsey Business or the Jersey Business that are not considered in my Main Report.
- 4.6 As a consequence of the above, my views on the implications of the Guernsey Scheme on the Guernsey Business and my views on the implications of the Jersey Scheme on the Jersey Business are identical to the views I express in my Main Report on the implications of the Main Scheme on ELAS's other business.

5 Conclusions

5.1 My conclusions in respect of the impact of the Guernsey Scheme on the holders of policies contained within the Guernsey Business and of the Jersey Scheme on the holders of policies contained within the Jersey Business are the same as my conclusions, as set out in my Main Report, in respect of the impact of the Main Scheme on the other policyholders in ELAS. These conclusions are summarised in my Main Report as follows:

- For Transferring Policies, the Scheme will give rise to benefit expectations which are different to those applying in ELAS 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 ELAS 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 PAC policyholders and that the security of guaranteed benefits of these policyholders will not be materially affected by the Scheme.

5.2 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 ELAS and PAC is consistent with those policyholders being treated fairly.



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