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.