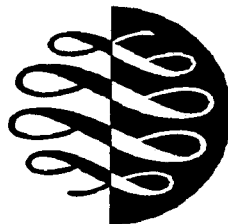




# **Prudential Annuities Limited**

Incorporated and Registered in England and Wales Registered number 2554213  
Registered Office 142 Holborn Bars London EC1N 2NH

**Annual FSA Insurance Returns for the year ended  
31st December 2001**



**Returns under the Accounts and Statements Rules**

**(Appendices 1 , 3 , 4 , 6 )**

# Returns under the Accounts and Statements Rules

## Prudential Annuities Limited

Year ended 31st December 2001

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**Statement of solvency**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**

R9	Company registration number	GL/UK/CM	Period ended			Units
			day	month	year	
	2554213	GL	31	12	2001	£000
	As at the end of this financial year	As at the end of the previous year	Source			
	1	2	Form	Line	Column	

**GENERAL INSURANCE BUSINESS****Available assets**

Other than long term insurance business assets allocated towards general insurance business required minimum margin	11			See instructions 1 and 2
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**Required minimum margin**

Required minimum margin for general insurance business	12			12 . 49
Excess (deficiency) of available assets over the required minimum margin (11-12)	13			

**LONG TERM INSURANCE BUSINESS****Available assets**

Long term insurance business admissible assets	21	11888099	11169047	10 . 11
Other than long term insurance business assets allocated towards long term insurance business required minimum margin	22	572322	564346	See instructions 1 and 3
Total mathematical reserves (after distribution of surplus)	23	11802004	11066571	See instruction 4
Other insurance and non-insurance liabilities	24	55922	97297	See instruction 5
Available assets for long term insurance business required minimum margin (21+22-23-24)	25	602495	569525	

**Implicit items admitted under Rule 2.10 [Regulation 23(5) of the Insurance Companies Regulations 1994]**

Future profits	31			
Zillmerising	32			
Hidden reserves	33			

Total of available assets and implicit items (25+31+32+33)	34	602495	569525	
--	----	--------	--------	--

**Required minimum margin**

Required minimum margin for long term insurance business	41	472065	442858	60 . 69
Explicit required minimum margin (1/6 x 41, or minimum guarantee fund if greater)	42	78678	73810	
Excess (deficiency) of available assets over explicit required minimum margin (25-42)	43	523817	495715	
Excess (deficiency) of available assets and implicit items over the required minimum margin (34-41)	44	130430	126667	

**CONTINGENT LIABILITIES**

Quantifiable contingent liabilities in respect of other than long term insurance business as shown in a supplementary note to Form 15	51			See instruction 6
Quantifiable contingent liabilities in respect of long term insurance business as shown in a supplementary note to Form 14	52			See instruction 6

**Covering sheet to Form 9**

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**

..... **G M Wood** **Chief Executive**

..... **D J Belsham** **Director**

..... **M J Moores** **Director**

**London 24 April 2002**

**Statement of net assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**

	R10	Company registration number	GL/UK/CM	Period ended			Units
		2554213	GL	day	month	year	£000
				31	12	2001	
		As at the end of this financial year 1	As at the end of the previous year 2	Source			
				Form	Line	Column	
Long term insurance business - admissible assets	11	11888099	11169047	13	89	1	
Long term insurance business - liabilities and margins	12	11888099	11169047	14	59	1	
Other than Long term insurance business - admissible assets	21	575923	570513	13	89	1	
Other than Long term insurance business - liabilities	22	3601	6167	15	69	1	
Net admissible assets (21-22)	23	572322	564346				
Other assets allowed to be taken into account in covering the required minimum margin		Unpaid amounts (including share premium) on partly paid shares	24				
		Supplementary contributions for a mutual carrying on general insurance business	25				
Liabilities allowed to be left out of account in covering the required minimum margin		Subordinated loan capital	26				
		Cumulative preference share capital	27				
Available assets (23 to 27)	29	572322	564346				

**Represented by:**

Paid up share capital (other than cumulative preference share capital)	51	550000	550000			
Amounts included in lines 24 to 27 above	52					
Amounts representing the balance of net assets	56	22322	14346			
Total (51 to 56) and equal to line 29 above	59	572322	564346			

**Movement of balance of net assets for solvency purposes - as per line 56**

Balance brought forward at the beginning of the financial year	61	14346	(14051)	10	56	2
Retained profit/(loss) for the financial year	62	9646	28397	16	59	1
Movement in asset valuation differences	63	(1670)		See instruction 2		
Decrease/(increase) in the provision for adverse changes	64			See instruction 3		
Other movements (particulars to be specified by way of supplementary note)	65					
Balance carried forward at the end of the financial year (61 to 65)	69	22322	14346			

**Analysis of admissible assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**Category of assets **Total other than long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R13	2554213	GL	31	12	2001	£000	1
					day	month	year		
<b>Investments</b>					As at the end of this financial year 1			As at the end of the previous year 2	
Land and buildings					11				
Investments in group undertakings and participating interests	UK insurance business dependants	Shares	21						
		Debt securities issued by, and loans to, dependants	22						
	Other insurance dependants	Shares	23						
		Debt securities issued by, and loans to, dependants	24						
	Non-insurance dependants	Shares	25						
		Debt securities issued by, and loans to, dependants	26						
	Other group undertakings and participating interests	Shares	27						
		Debt securities issued by, and loans to, group undertakings	28						
		Participating interests	29						
		Debt securities issued by, and loans to, undertakings in which the insurer has a participating interest	30						
Total sheet 1 (11 to 30)					39				

**Analysis of admissible assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**Category of assets **Total other than long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R13	2554213	GL	31	12	2001	£000	1
					day	month	year		
<b>Investments (continued)</b>					As at the end of this financial year 1		As at the end of the previous year 2		
<b>Deposits with ceding undertakings</b>									
<b>Assets held to cover linked liabilities</b>									
Other financial investments	Equity shares				41				
	Other shares and other variable yield securities				42				
	Holdings in collective investment schemes				43				
	Rights under derivative contracts				44		2947		2251
	Debt securities and other fixed income securities	Fixed interest	Approved securities		45		162887		148301
			Other		46		105488		171620
		Variable interest	Approved securities		47		84245		126447
			Other		48		160524		102458
	Participation in investment pools				49				
	Loans secured by mortgages				50				
	Other loans	Loans to public or local authorities and nationalised industries or undertakings			51				
		Loans secured by policies of insurance issued by the company			52				
		Other			53				
	Deposits with approved credit institutions and approved financial institutions	Withdrawal subject to a time restriction of one month or less			54		1397		
		Withdrawal subject to a time restriction of more than one month			55				
Other				56					
<b>Deposits with ceding undertakings</b>				57					
Assets held to match linked liabilities	Index linked			58					
	Property linked			59					
Reinsurers' share of technical provisions	Provision for unearned premiums			60					
	Claims outstanding			61					
	Provision for unexpired risks			62					
	Other			63					
<b>Total sheet 2 (41 to 63)</b>				69		517488		551077	

**Analysis of admissible assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**Category of assets **Total other than long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R13	2554213	GL	day	month	year		
					31	12	2001	£000	
								1	
<b>Debtors</b>					As at the end of this financial year 1			As at the end of the previous year 2	
<b>Other assets</b>									
Debtors arising out of direct insurance operations	Policyholders			71					
	Intermediaries			72					
Salvage and subrogation recoveries				73					
Debtors arising out of reinsurance operations	Due from ceding insurers and intermediaries under reinsurance business accepted			74					
	Due from reinsurers and intermediaries under reinsurance contracts ceded			75					
Other debtors	Due from dependants	Due in 12 months or less after the end of the financial year		76					
		Due more than 12 months after the end of the financial year		77					
	Other	Due in 12 months or less after the end of the financial year		78		311		486	
		Due more than 12 months after the end of the financial year		79					
Tangible assets				80					
Cash at bank and in hand	Deposits not subject to time restriction on withdrawal, with approved credit institutions and approved financial institutions and local authorities			81		52241		11134	
	Cash in hand			82					
Other assets (particulars to be specified by way of supplementary note)				83					
Prepayments and accrued income	Accrued interest and rent			84		5883		7816	
	Deferred acquisition costs			85					
	Other prepayments and accrued income			86					
Deductions (under rules 4.14(2)(b) and 4.14(3)) [regulations 57(2)(b) and 57(3) of the Insurance Companies Regulations 1994] from the aggregate value of assets				87					
Total sheet 3 (71 to 86 less 87)				88		58435		19436	
Grand total of admissible assets (39+69+88)				89		575923		570513	
<b>Reconciliation to asset values determined in accordance with the shareholder accounts rules</b>									
Total admissible assets (as per line 89 above)				91		575923		570513	
Total assets in excess of the admissibility limits of Appendix 4.2, [Schedule 12 of the Insurance Companies Regulations 1994] (as valued in accordance with those Rules before applying admissibility limits)				92					
Solvency margin deduction for insurance dependants				93					
Other differences in the valuation of assets (other than for assets not valued above)				94					
Assets of a type not valued above, (as valued in accordance with the shareholder accounts rules)				95		1670			
Total assets determined in accordance with the shareholder accounts rules (91 to 95)				99		577593		570513	
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance				100		7		26	



**Analysis of admissible assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**Category of assets **Total long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R13	2554213	GL	day	month	year	£000	10
<b>Investments</b>					As at the end of this financial year 1		As at the end of the previous year 2		
Land and buildings					11	164645		120016	
Investments in group undertakings and participating interests	UK insurance business dependants	Shares	21						
		Debt securities issued by, and loans to, dependants	22						
	Other insurance dependants	Shares	23						
		Debt securities issued by, and loans to, dependants	24						
	Non-insurance dependants	Shares	25						
		Debt securities issued by, and loans to, dependants	26						
	Other group undertakings and participating interests	Shares	27						
		Debt securities issued by, and loans to, group undertakings	28						
		Participating interests	29						
		Debt securities issued by, and loans to, undertakings in which the insurer has a participating interest	30						
Total sheet 1 (11 to 30)					39	164645		120016	

**Analysis of admissible assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**Category of assets **Total long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R13	2554213	GL	31	12	2001	£000	10
					day	month	year		
<b>Investments (continued)</b>					As at the end of this financial year 1		As at the end of the previous year 2		
<b>Deposits with ceding undertakings</b>									
<b>Assets held to cover linked liabilities</b>									
Other financial investments	Equity shares				41				
	Other shares and other variable yield securities				42				
	Holdings in collective investment schemes				43				
	Rights under derivative contracts				44		39592	6177	
	Debt securities and other fixed income securities	Fixed interest	Approved securities		45		1334520	864211	
			Other		46		7928823	7856559	
		Variable interest	Approved securities		47				
			Other		48				
	Participation in investment pools				49				
	Loans secured by mortgages				50		290315	242407	
	Other loans	Loans to public or local authorities and nationalised industries or undertakings			51		5050	5010	
		Loans secured by policies of insurance issued by the company			52				
		Other			53		55036	23320	
	Deposits with approved credit institutions and approved financial institutions	Withdrawal subject to a time restriction of one month or less			54		39031	16765	
		Withdrawal subject to a time restriction of more than one month			55				
	Other				56				
Deposits with ceding undertakings				57					
Assets held to match linked liabilities	Index linked			58		1796671	1654054		
	Property linked			59					
Reinsurers' share of technical provisions	Provision for unearned premiums			60					
	Claims outstanding			61					
	Provision for unexpired risks			62					
	Other			63					
<b>Total sheet 2 (41 to 63)</b>				<b>69</b>		<b>11489038</b>	<b>10668503</b>		

**Analysis of admissible assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**Category of assets **Total long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R13	2554213	GL	31	12	2001	£000	10
					day		month	year	
<b>Debtors</b>							As at the end of this financial year	As at the end of the previous year	
<b>Other assets</b>							1	2	
Debtors arising out of direct insurance operations	Policyholders			71	418				
	Intermediaries			72					
Salvage and subrogation recoveries				73					
Debtors arising out of reinsurance operations	Due from ceding insurers and intermediaries under reinsurance business accepted			74	6321			2271	
	Due from reinsurers and intermediaries under reinsurance contracts ceded			75					
Other debtors	Due from dependants	Due in 12 months or less after the end of the financial year		76					
		Due more than 12 months after the end of the financial year		77					
	Other	Due in 12 months or less after the end of the financial year		78	16164			57740	
		Due more than 12 months after the end of the financial year		79					
Tangible assets				80					
Cash at bank and in hand	Deposits not subject to time restriction on withdrawal, with approved credit institutions and approved financial institutions and local authorities			81				91916	
	Cash in hand			82					
Other assets (particulars to be specified by way of supplementary note)				83					
Prepayments and accrued income	Accrued interest and rent			84	189146			217130	
	Deferred acquisition costs			85					
	Other prepayments and accrued income			86	22367			11471	
Deductions (under rules 4.14(2)(b) and 4.14(3) [regulations 57(2)(b) and 57(3) of the Insurance Companies Regulations 1994] from the aggregate value of assets				87					
Total sheet 3 (71 to 86 less 87)				88	234416			380528	
Grand total of admissible assets (39+69+88)				89	11888099			11169047	
<b>Reconciliation to asset values determined in accordance with the shareholder accounts rules</b>									
Total admissible assets (as per line 89 above)				91	11888099			11169047	
Total assets in excess of the admissibility limits of Appendix 4.2, [Schedule 12 of the Insurance Companies Regulations 1994] (as valued in accordance with those Rules before applying admissibility limits)				92					
Solvency margin deduction for insurance dependants				93					
Other differences in the valuation of assets (other than for assets not valued above)				94	2923			100	
Assets of a type not valued above, (as valued in accordance with the shareholder accounts rules)				95					
Total assets determined in accordance with the shareholder accounts rules (91 to 95)				99	11891022			11169147	
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance				100	20			12093	

**Long term insurance business liabilities and margins**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**Category of assets **Total long term business assets**

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets
			day	month	year		
R14	2554213	GL	31	12	2001	£000	10
		As at the end of this financial year 1	As at the end of the previous year 2		Source		
Mathematical reserves, after distribution of surplus		11	11802004	11066571		See Instruction 2	
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12				See Instruction 3	
Balance of surplus/(valuation deficit)		13	30173	5179		See Instruction 4	
Long term insurance business fund carried forward (11 to 13)		14	11832177	11071750		See Instruction 5	
Claims outstanding which had fallen due for payment before the end of the financial year	Gross amount	15					
	Reinsurers' share	16					
	Net (15-16)	17					
Provisions for other risks and charges	Taxation	21					
	Other	22					
Deposits received from reinsurers		23					
Creditors and other liabilities	Arising out of insurance operations	Direct insurance business	31	2199	3461		
		Reinsurance accepted	32	799	16484		
		Reinsurance ceded	33				
	Debenture loans	Secured	34				
		Unsecured	35				
	Amounts owed to credit institutions		36	4081			
	Other creditors	Taxation	37	3549	568		
		Other	38	36667	76784		
Accruals and deferred income		39	8627				
Provision for adverse changes (calculated in accordance with rule 5.3) [Regulation 61 of the Insurance Companies Regulations 1994]		41					
Total other insurance and non-insurance liabilities (17 to 41)		49	55922	97297			
Excess of the value of net admissible assets		51				See Instruction 6	
Total liabilities and margins		59	11888099	11169047			
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance		61	5705	11529			
Amounts included in line 59 attributable to liabilities in respect of property linked benefits		62					
Amount of any additional mathematical reserves included in line 51 which have been taken into account in the appointed actuary's certificate		63				See Instruction 7	

**Liabilities (other than long term insurance business)**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**

		Company registration number	GL/UK/CM	Period ended			Units		
		R15	2554213	GL	31	12	2001	£000	
				As at the end of this financial year 1			As at the end of the previous year 2		
				day	month	year			
Technical provisions (gross amount)	Provision for unearned premiums			11					
	Claims outstanding			12					
	Provision for unexpired risks			13					
	Equalisation provisions	Credit business			14				
		Other than credit business			15				
	Other			16					
	Total (11 to 16)			19					
Provisions for other risks and charges	Taxation			21					
	Other			22					
Deposits received from reinsurers				31					
Creditors	Arising out of insurance operations	Direct insurance business			41				
		Reinsurance accepted			42				
		Reinsurance ceded			43				
	Debenture loans	Secured			44				
		Unsecured			45				
	Amounts owed to credit institutions				46				
	Other creditors	Taxation			47			4636	
		Recommended dividend			48				
		Other			49		3601	1531	
Accruals and deferred income				51					
Total (19 to 51)				59		3601	6167		
Provision for adverse changes (calculated in accordance with rule 5.3) [Regulation 61 of the Insurance Companies Regulations 1994]				61					
Cumulative preference share capital				62					
Subordinated loan capital				63					
Total (59 to 63)				69		3601	6167		
Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance				71			154		

**Profit and loss account (non-technical account)**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**

		Company registration number	GL/UK/CM	Period ended			Units	
		R16	2554213	GL	31	12	2001	£000
		This financial year		Previous year		Source		
		1		2		Form	Line	Column
Transfer (to)/from the general insurance business technical account	From Form 20	11				20 . 59		
	Equalisation provisions	12						
Transfer from the long term insurance business revenue account		13				40 . 26		
Investment income	Income	14	25956	27491				
	Value re-adjustments on investments	15		4100				
	Gains on the realisation of investments	16	17491	11830				
Investment charges	Investment management charges, including interest	17	462	459				
	Value re-adjustments on investments	18	22309					
	Loss on the realisation of investments	19						
Allocated investment return transferred to the general insurance business technical account		20				20 . 51		
Other income and charges (particulars to be specified by way of supplementary note)		21	(164)	(106)				
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)		29	20512	42856				
Tax on profit or loss on ordinary activities		31	10866	14459				
Profit or loss on ordinary activities after tax (29-31)		39	9646	28397				
Extraordinary profit or loss (particulars to be specified by way of supplementary note)		41						
Tax on extraordinary profit or loss		42						
Other taxes not shown under the preceding items		43						
Profit or loss for the financial year (39+41-(42+43))		49	9646	28397				
Dividends (paid and proposed)		51						
Profit or loss retained for the financial year (49-51)		59	9646	28397				

**Analysis of derivative contracts**Name of insurer **Prudential Annuities Limited**

Global business

Insurance Business **Other than long term**Financial year ended **31st December 2001**Category of assets **Total other than long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R17	2554213	GL	31	12	2001	£000	1
		As at the end of this financial year			As at the end of the previous year				
		Assets 1	Liabilities 2	Assets 3	Liabilities 4				
<b>Derivative contracts</b>									
Futures contracts	Fixed-interest securities	11							
	Equity shares	12							
	Land	13							
	Currencies	14							
	Other	15							
Options	Fixed-interest securities	21							
	Equity shares	22							
	Land	23							
	Currencies	24							
	Other	25							
Contracts for differences	Fixed-interest securities	31							
	Equity shares	32							
	Land	33							
	Currencies	34							
	Other	35	2947	3542	2251	1377			
Adjustments for variation margin		41							
Total (11 to 41)		49	2947	3542	2251	1377			

**Analysis of derivative contracts**Name of insurer **Prudential Annuities Limited**

Global business

Insurance Business **Long term**Financial year ended **31st December 2001**Category of assets **Total long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R17	2554213	GL	31	12	2001	£000	10
		As at the end of this financial year			As at the end of the previous year				
		Assets 1	Liabilities 2	Assets 3	Liabilities 4				
<b>Derivative contracts</b>	Fixed-interest securities	11							
	Equity shares	12							
	Land	13							
	Currencies	14		1327				3084	
	Other	15							
<b>Futures contracts</b>	Fixed-interest securities	21							
	Equity shares	22							
	Land	23							
	Currencies	24							
	Other	25							
<b>Options</b>	Fixed-interest securities	31							
	Equity shares	32							
	Land	33							
	Currencies	34	1129	9921		2169		4948	
	Other	35	38463	17348		4008		2552	
<b>Contracts for differences</b>									
Adjustments for variation margin	41								
<b>Total (11 to 41)</b>	<b>49</b>	<b>39592</b>	<b>28596</b>	<b>6177</b>	<b>10584</b>				



**Long term insurance business : Revenue account**Name of insurer **Prudential Annuities Limited**

Global business

Ordinary insurance business

Financial year ended **31st December 2001**Name and number of fund/Summary **Summary**

	Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/Summary	No of part of Fund	
			day	month	year					
	R40	2554213	GL	31	12	2001	£000	OB	99	0
<b>Items to be shown net of reinsurance ceded</b>							The financial year		Previous year	
							1		2	
Earned premiums						11	847725		921230	
Investment income receivable before deduction of tax						12	749755		703992	
Increase (decrease) in the value of non-linked assets brought into account						13	(10030)		124685	
Increase (decrease) in the value of linked assets						14				
Other income						15	9			
Total income (11 to 15)						19	1587459		1749907	
Claims incurred						21	782745		705960	
Expenses payable						22	44237		41034	
Interest payable before deduction of tax						23	50		900	
Taxation						24				
Other expenditure						25				
Transfer to (from) non technical account						26				
Total expenditure (21 to 26)						29	827032		747894	
Increase (decrease) in fund in financial year (19-29)						39	760427		1002013	
Fund brought forward						49	11071750		10069737	
Fund carried forward (39+49)						59	11832177		11071750	

**Long term insurance business : Revenue account**Name of insurer **Prudential Annuities Limited**

Global business

Ordinary insurance business

Financial year ended **31st December 2001**Name and number of fund/Summary **Ordinary Branch Long Term 1**

	Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/ Summary	No of part of Fund
			day	month	year				
<b>R40</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2001</b>	<b>£000</b>	<b>OB</b>	<b>1</b>	<b>0</b>
<b>Items to be shown net of reinsurance ceded</b>						<b>The financial year</b>	<b>Previous year</b>		
						<b>1</b>	<b>2</b>		
Earned premiums						<b>11</b>	<b>847725</b>	<b>921230</b>	
Investment income receivable before deduction of tax						<b>12</b>	<b>749755</b>	<b>703992</b>	
Increase (decrease) in the value of non-linked assets brought into account						<b>13</b>	<b>(10030)</b>	<b>124685</b>	
Increase (decrease) in the value of linked assets						<b>14</b>			
Other income						<b>15</b>	<b>9</b>		
Total income (11 to 15)						<b>19</b>	<b>1587459</b>	<b>1749907</b>	
Claims incurred						<b>21</b>	<b>782745</b>	<b>705960</b>	
Expenses payable						<b>22</b>	<b>44237</b>	<b>41034</b>	
Interest payable before deduction of tax						<b>23</b>	<b>50</b>	<b>900</b>	
Taxation						<b>24</b>			
Other expenditure						<b>25</b>			
Transfer to (from) non technical account						<b>26</b>			
Total expenditure (21 to 26)						<b>29</b>	<b>827032</b>	<b>747894</b>	
Increase (decrease) in fund in financial year (19-29)						<b>39</b>	<b>760427</b>	<b>1002013</b>	
Fund brought forward						<b>49</b>	<b>11071750</b>	<b>10069737</b>	
Fund carried forward (39+49)						<b>59</b>	<b>11832177</b>	<b>11071750</b>	

**Long term insurance business : Analysis of premiums and expenses**Name of insurer **Prudential Annuities Limited**

Global business

Ordinary insurance business

Financial year ended **31st December 2001**Name and number of fund/Summary **Summary**

	Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/ Summary	No of part of Fund	
			day	month	year					
	<b>R41</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2001</b>	<b>£000</b>	<b>OB</b>	<b>99</b>	<b>0</b>
						<b>Gross</b>	<b>Payable to or recoverable from reinsurers</b>	<b>Net of reinsurance (1-2)</b>		
						<b>1</b>	<b>2</b>	<b>3</b>		
Earned premiums in the financial year	Life assurance and general annuity contracts	Single premium		<b>11</b>						
		Regular premium		<b>12</b>						
	Pension business contracts	Single premium		<b>13</b>		<b>847725</b>			<b>847725</b>	
		Regular premium		<b>14</b>						
	Permanent health contracts	Single premium		<b>15</b>						
		Regular premium		<b>16</b>						
	Other contracts	Single premium		<b>17</b>						
		Regular premium		<b>18</b>						
	Total premiums	Single premium		<b>19</b>		<b>847725</b>			<b>847725</b>	
		Regular premium		<b>29</b>						
Total premiums at lines 19 and 29 attributable to	UK contracts		<b>31</b>		<b>847725</b>			<b>847725</b>		
	Overseas contracts		<b>32</b>							
Expenses payable in the financial year	Commission payable in connection with acquisition of business			<b>41</b>		<b>1127</b>			<b>1127</b>	
	Other commission payable			<b>42</b>						
	Management expenses in connection with acquisition of business			<b>43</b>		<b>7812</b>			<b>7812</b>	
	Management expenses in connection with maintenance of business			<b>44</b>		<b>22449</b>			<b>22449</b>	
	Other management expenses			<b>45</b>		<b>12849</b>			<b>12849</b>	
	Total expenses (41 to 45)			<b>49</b>		<b>44237</b>			<b>44237</b>	
	Total expenses at line 49 attributable to	UK contracts		<b>51</b>		<b>44237</b>			<b>44237</b>	
Overseas contracts			<b>52</b>							

**Long term insurance business : Analysis of premiums and expenses**Name of insurer **Prudential Annuities Limited**

Global business

Ordinary insurance business

Financial year ended **31st December 2001**Name and number of fund/Summary **Ordinary Branch Long Term 1**

		Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/ Summary	No of part of Fund	
		R41	2554213	GL	31	12	2001	£000	OB	1	0
					Gross		Payable to or recoverable from reinsurers	Net of reinsurance (1-2)			
					1		2	3			
Earned premiums in the financial year	Life assurance and general annuity contracts	Single premium	11								
		Regular premium	12								
	Pension business contracts	Single premium	13	847725					847725		
		Regular premium	14								
	Permanent health contracts	Single premium	15								
		Regular premium	16								
	Other contracts	Single premium	17								
		Regular premium	18								
	Total premiums	Single premium	19	847725					847725		
		Regular premium	29								
Total premiums at lines 19 and 29 attributable to	UK contracts	31	847725					847725			
	Overseas contracts	32									
Expenses payable in the financial year	Commission payable in connection with acquisition of business		41	1127					1127		
	Other commission payable		42								
	Management expenses in connection with acquisition of business		43	7812					7812		
	Management expenses in connection with maintenance of business		44	22449					22449		
	Other management expenses		45	12849					12849		
	Total expenses (41 to 45)		49	44237					44237		
	Total expenses at line 49 attributable to	UK contracts	51	44237					44237		
Overseas contracts		52									

**Long term insurance business : Analysis of claims**Name of insurer **Prudential Annuities Limited**

Global business

Ordinary insurance business

Financial year ended **31st December 2001**Name and number of fund/Summary **Summary**

	Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/Summary	No of part of Fund	
			day	month	year					
	<b>R42</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2001</b>	<b>£000</b>	<b>OB</b>	<b>99</b>	<b>0</b>
<b>Claims incurred in the financial year</b>				<b>Gross</b>		<b>Recoverable from reinsurers</b>		<b>Net of reinsurance (1-2)</b>		
				<b>1</b>		<b>2</b>		<b>3</b>		
Life assurance and annuity contracts	On death			<b>11</b>						
	By way of lump sums on maturity			<b>12</b>						
	By way of annuity payments			<b>13</b>						
	By way of payments arising from other insured events			<b>14</b>						
	On surrender or partial surrender			<b>15</b>						
	Total life assurance and annuity claims (11 to 15)			<b>19</b>						
Pension business contracts	On death			<b>21</b>		<b>1345</b>			<b>1345</b>	
	By way of lump sums on vesting			<b>22</b>		<b>1783</b>			<b>1783</b>	
	By way of vested annuity payments			<b>23</b>		<b>770433</b>	<b>201</b>		<b>770232</b>	
	On surrender or partial surrender			<b>24</b>		<b>9385</b>			<b>9385</b>	
	Total pension business claims (21 to 24)			<b>29</b>		<b>782946</b>	<b>201</b>		<b>782745</b>	
Permanent health contracts	By way of lump sums			<b>31</b>						
	By way of periodical payments			<b>32</b>						
	Total permanent health claims (31+32)			<b>39</b>						
Other contracts	By way of lump sums			<b>41</b>						
	By way of periodical payments			<b>42</b>						
	Total claims (41+42)			<b>49</b>						
Total claims (19+29+39+49)				<b>59</b>		<b>782946</b>	<b>201</b>		<b>782745</b>	
Total claims at line 59 attributable to	UK contracts			<b>61</b>		<b>782946</b>	<b>201</b>		<b>782745</b>	
	Overseas contracts			<b>62</b>						

**Long term insurance business : Analysis of claims**Name of insurer **Prudential Annuities Limited**

Global business

Ordinary insurance business

Financial year ended **31st December 2001**Name and number of fund/Summary **Ordinary Branch Long Term 1**

	Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/ Summary	No of part of Fund	
			day	month	year					
	R42	2554213	GL	31	12	2001	£000	OB	1	0
<b>Claims incurred in the financial year</b>				<b>Gross</b>		<b>Recoverable from reinsurers</b>	<b>Net of reinsurance (1-2)</b>			
				<b>1</b>		<b>2</b>	<b>3</b>			
Life assurance and annuity contracts	On death			11						
	By way of lump sums on maturity			12						
	By way of annuity payments			13						
	By way of payments arising from other insured events			14						
	On surrender or partial surrender			15						
	Total life assurance and annuity claims (11 to 15)			19						
Pension business contracts	On death			21		1345			1345	
	By way of lump sums on vesting			22		1783			1783	
	By way of vested annuity payments			23		770433	201		770232	
	On surrender or partial surrender			24		9385			9385	
	Total pension business claims (21 to 24)			29		782946	201		782745	
Permanent health contracts	By way of lump sums			31						
	By way of periodical payments			32						
	Total permanent health claims (31+32)			39						
Other contracts	By way of lump sums			41						
	By way of periodical payments			42						
	Total claims (41+42)			49						
Total claims (19+29+39+49)				59		782946	201		782745	
Total claims at line 59 attributable to	UK contracts			61		782946	201		782745	
	Overseas contracts			62						

**Long term insurance business : Summary of changes in ordinary long term business**Name of insurer **Prudential Annuities Limited**

Global business

United Kingdom business

Non-linked

Financial year ended **31st December 2001**

		Company registration number		GL/UK/CM		Period ended			Units	UK/OS	NL/LN
		R46	2554213	GL	31	12	2001	£000	UK	NL	
		Life assurance and general annuity		Pensions business		Permanent health		Other business			
		No of contracts	Annual premiums	No of contracts	Annual premiums	No of contracts	Annual premiums	No of contracts	Annual premiums		
		1	2	3	4	5	6	7	8		
In force at beginning of year	11			443922							
New business and increases	12			45285							
Net transfers and other alterations 'on'	13			69732							
Total 'on' (12+13)	19			115017							
Deaths	21			14805							
Other insured events	22										
Maturities	23										
Surrenders	24										
Forfeitures	25										
Conversions to paid-up policies for reduced benefits	26										
Net transfers, expiries and other alterations 'off'	27										
Total 'off' (21 to 27)	29			14805							
In force at end of year (11+19-29)	39			544134							

## Long term insurance business : Summary of changes in ordinary long term business

Name of insurer **Prudential Annuities Limited**

Global business

United Kingdom business

Linked

Financial year ended **31st December 2001**

	Company registration number	GL/UK/CM	Period ended			Units	UK/OS	NL/LN	
			day	month	year				
	R46	2554213	GL	31	12	2001	£000	UK	LN
	Life assurance and general annuity		Pensions business		Permanent health		Other business		
	No of contracts	Annual premiums	No of contracts	Annual premiums	No of contracts	Annual premiums	No of contracts	Annual premiums	
	1	2	3	4	5	6	7	8	
In force at beginning of year	11		21948						
New business and increases	12		8128						
Net transfers and other alterations 'on'	13		2935						
Total 'on' (12+13)	19		11063						
Deaths	21		691						
Other insured events	22								
Maturities	23								
Surrenders	24								
Forfeitures	25								
Conversions to paid-up policies for reduced benefits	26								
Net transfers, expiries and other alterations 'off'	27								
Total 'off' (21 to 27)	29		691						
In force at end of year (11+19-29)	39		32320						



## Long term insurance business : Analysis of new ordinary long term business

Name of insurer Prudential Annuities Limited

Global business

Financial year ended 31st December 2001

Company registration number	GLUK/CM				Period ended		Units
	R47	2554213	GL	31	12	2001	

Type of insurance	Single premium contracts			Regular premium contracts		
	No of contracts	Premiums	Sums assured, annuities per annum or other measures of benefit	No of contracts	Annual premiums	Sums assured, annuities per annum or other measures of benefit
1	2	3	4	5	6	7
<b>UK DIRECT WRITTEN BUSINESS</b>						
Pension Business						
Non-Linked Non-Profit Policies						
Annuity in payment	8064	170274	13403 pa			
Group deferred annuity	20	6652	950 pa			
<b>Sub total: Non-Linked Non-Profit Policies</b>	<b>8084</b>	<b>176926</b>	<b>14353 pa</b>			
Index Linked Contracts						
Annuity in payment	7526	63438	5780 pa			
Group deferred annuity	6103	12547	2014 pa			
<b>Sub total: Index Linked Contracts</b>	<b>13629</b>	<b>75985</b>	<b>7794 pa</b>			
<b>Total: Pension Business</b>	<b>21713</b>	<b>252911</b>	<b>22147 pa</b>			
<b>Total: UK Direct Written Business</b>	<b>21713</b>	<b>252911</b>	<b>22147 pa</b>			

## Long term insurance business : Analysis of new ordinary long term business

Name of insurer Prudential Annuities Limited

Global business

Financial year ended 31st December 2001

Company registration number	GL/JK/CM			Period ended		Units
	R47	2554213	GL	31	12	
£000						

Type of insurance	Single premium contracts			Regular premium contracts		
	No of contracts	Premiums	Sums assured, annuities per annum or other measures of benefit	No of contracts	Annual premiums	Sums assured, annuities per annum or other measures of benefit
1	2	3	4	5	6	7
<b>UK REINSURANCE ACCEPTED</b>						
Pension Business						
Non-Linked Non-Profit Policies						
Annuity in payment	37221	583209	42710 pa			
Group deferred annuity	225	8299	656 pa			
<b>Sub total: Non-Linked Non-Profit Policies</b>	<b>37446</b>	<b>591508</b>	<b>43366 pa</b>			
Index Linked Contracts						
Annuity in payment	602	2753	475 pa			
Group deferred annuity	106	553	95 pa			
<b>Sub total: Index Linked Contracts</b>	<b>708</b>	<b>3306</b>	<b>570 pa</b>			
<b>Total: Pension Business</b>	<b>38154</b>	<b>594814</b>	<b>43336 pa</b>			
<b>Total: UK Reinsurance Accepted</b>	<b>38154</b>	<b>594814</b>	<b>43336 pa</b>			

**Long term insurance business : Expected income from admissible assets not held to match liabilities in respect of linked benefits**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**Category of assets **Total long term business assets**

Type of asset	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	<b>R48</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2001</b>	<b>£000</b>	<b>10</b>
			Value of admissible assets as shown on Form 13 <b>1</b>		Expected income from admissible assets <b>2</b>		Yield % <b>3</b>	
Land and buildings		<b>11</b>	<b>164645</b>		<b>11610</b>		<b>6.72</b>	
Fixed interest securities	Approved securities	<b>12</b>	<b>1354612</b>		<b>77702</b>		<b>5.43</b>	
	Other	<b>13</b>	<b>8095159</b>		<b>556705</b>		<b>6.63</b>	
Variable interest and variable yield securities (excluding items shown at line 16)	Approved securities	<b>14</b>						
	Other	<b>15</b>						
Equity shares and holdings in collective investment schemes		<b>16</b>						
Loans secured by mortgages		<b>17</b>	<b>293151</b>		<b>23188</b>		<b>6.89</b>	
All other assets	Producing income	<b>18</b>	<b>138709</b>		<b>1551</b>		<b>4.51</b>	
	Not producing income	<b>19</b>	<b>45152</b>					
Total (11 to 19)		<b>29</b>	<b>10091428</b>		<b>670756</b>		<b>6.38</b>	

**Long term insurance business : Analysis of admissible fixed interest and variable interest and variable yield securities not held to match liabilities in respect of linked benefits**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**Category of assets **Total long term business assets**

Redemption period in years	Value of admissible assets as shown on Form 13 1	Gross redemption yield % 2	Value of admissible higher yielding assets 3	GL/JUK/CM	Period ended			Gross redemption yield % 5	Value of admissible higher yielding assets 6
					day	month	year		
			R49	2554213	GL	31	12	2001	£000
11	137	4.34	3						
12	23178	5.78	1121						
13	39083	6.38			Variable interest and variable yield approved securities excluding equities				
14	180063	6.32							
15	322670	5.59							
16	99945	5.67							
17	536330	5.19							
18	153206	5.23							
19	1354612	5.43	1121						
21	25427	8.62	2038						
22	156117	6.56	2032						
23	343010	7.26	41684		Other variable interest and variable yield securities excluding equities				
24	1071512	6.94	40944						
25	1699312	6.75	61648						
26	1488998	6.72	35181						
27	2876584	6.37	109028						
28	434199	6.93							
29	8095159	6.63	292555						

## **PRUDENTIAL ANNUITIES LIMITED**

**Returns for the year ended 31 December 2001**

**Valuation Report on Prudential Annuities Limited as at 31 December 2001**

**1. Date of investigation**

The investigation relates to 31 December 2001.

**2. Date of previous investigation**

The previous investigation related to 31 December 2000.

**3. Conformity with Rule 5.6**

The valuation of long term business liabilities shown in this report conforms with Rule 5.6 of the Interim Prudential Sourcebook for Insurers.

**4. Description of non-linked contracts**

(1) (c) Categories of in force non-linked business are as follows:

(i) Annuities in payment

These are non-profit annuities, written on either a single life or joint life and last survivor basis, which provide a level series of payments throughout the life of the annuitant(s), or incorporate a provision for payments to increase annually at a guaranteed rate. The annuity may incorporate a minimum guaranteed period of payment. Enhanced annuities are available to policyholders suffering from a range of medical conditions that have an adverse impact on life expectancy.

(ii) Deferred annuities

These are non-profit deferred annuities, written on either a single life or joint life and last survivor basis, which are either single premium or fully paid-up contracts. Benefits are expressed as amounts of deferred annuity per annum payable at retirement. The benefit at retirement may be a level series of payments throughout the life of the annuitant(s), or incorporate a provision for payments to increase annually at a guaranteed rate. The annuity may incorporate a minimum guaranteed period of payment starting at retirement. On death before the end of the deferred period, a lump sum or dependant's annuity may be payable.

## Valuation Report as at 31 December 2001 (continued)

### 5. Description of linked contracts

- (1) (a) RPI linked annuities
  - (b) These contracts are classified as:  
United Kingdom pensions business;  
Business is written directly, and reinsurance is accepted and ceded;  
Non-profit annuities in payment and in deferment.
  - (c) These are all single premium contracts.
  - (d) These are non-profit annuities, written on either a single life or joint life and last survivor basis, which provide a series of payments throughout the life of the annuitant(s) which are revalued, annually, in line with the Retail Price Index. The annuity may incorporate a minimum guaranteed period of payment. In some cases, the revaluation may have a maximum and/or minimum percentage increase. Enhanced annuities are available to policyholders suffering from a range of medical conditions that have an adverse impact on life expectancy.
  - (e) There are no guaranteed investment returns other than those implicit in the guaranteed annuity benefit.
  - (f) The guaranteed annuity benefit is calculated incorporating an allowance for initial and renewal expenses and commission.
  - (g) Not applicable.
  - (h) Not applicable.
  - (i) See (d) above.
  - (j) None.
  - (k) The contract was open to new business during the year to the valuation date.
  - (l) Not applicable.
- (2) No linked contract contains a with-profit option.
- (3) Not applicable.
- (4) Not applicable.
- (5) Not applicable.
- (6) Not applicable.

## Valuation Report as at 31 December 2001 (continued)

### 6. Valuation principles and methods

- (1) The mathematical reserve for annuities in payment is the present value of the annuities.

The mathematical reserve for RPI-linked annuities is, in general, determined without an explicit allowance for future increases in annuity payments, which is consistent with the treatment of the matching assets. The treatment of RPI-linked annuities which are subject to maximum and minimum percentage annual increases are described in 6.1(h) below.

The mathematical reserve for non-profit deferred annuities is the present value of the annuity secured to date.

In particular the following principles have been observed:

- (a) Derivative contracts as at 31 December 2001 comprised:
- i) A contract to swap US Dollars for UK sterling at a variable rate (£LIBOR) plus a fixed margin;
  - ii) A contract to swap the £LIBOR for fixed UK sterling;
  - iii) A contract to swap euros at a floating rate to fixed UK sterling;
  - iv) A currency futures contract to change euros into UK Sterling.
  - v) Contracts to swap future income increasing at a fixed rate each year for income varying in line with changes in RPI/LPI;

The effect of the contracts under i) and ii) is to convert cashflows from US Dollar denominated bonds into fixed UK sterling cashflows.

The effect of the contracts under iii) and v) is to convert cashflows from euro denominated bonds into RPI-linked UK sterling cashflows.

The cashflows involved in these arrangements were included in the aggregate cashflows from the portfolio, to give the aggregate yield on the portfolio. This is in accordance with a waiver under section 148 of the Financial Services and Markets Act 2000 which was originally issued in December 1995 as a section 68 order under the Insurance Companies Act 1982.

- (b) Not applicable.
- (c) The net premium method has not been used.
- (d) There are no contracts where negative values could arise.
- (e) No reserve for future bonuses is required

## Valuation Report as at 31 December 2001 (continued)

- (f) No provision for any prospective liability for tax on unrealised capital gains has been included in the mathematical reserves since the Company transacts pension business only and no capital gains tax liability is expected to arise.
- (g) Not applicable
- (h) As described in 5(1)(d), some RPI-linked annuities are subject to maximum and minimum percentage increases. These fall into two categories:
  - (1) RPI –linked annuities subject to a minimum annual increase of 0% and a maximum annual increase of 5%. For valuation purposes these are treated as being identical to normal RPI-linked annuities.
  - (2) RPI-linked annuities subject to a minimum annual increase of 2.5% and a maximum of 5%. For valuation purposes these are treated as annuities with fixed 5% annual increases. They are included in these returns as linked business. Thus, in particular, Form 56 includes sufficient fixed interest assets to match the corresponding liabilities.
- (i) The additional reserve includes £14,000,000 in respect of counterparty risks in connection with derivative contracts. The reserve is assessed based on counterparty exposure limits and arrangements for the use of collateral. The additional reserve also includes allowance for general contingencies.

(2) Not applicable

### 7. Interest, mortality bases, resilience, etc.

- (1) See Forms 51 and 54 and notes to these Forms. The '+3' in mortality bases B and C refers to a 3 year addition to the age.
- (2) The mortality tables used are published tables.
- (3) All business is written in the UK and UK-based mortality tables have been used.
- (4) Annuities are generally valued using a percentage of the 92 series (year of birth) tables for annuitants and pensioners. The percentage is selected so that the valuation makes allowance for future mortality improvement at a faster rate than that implicit in the underlying tables. For some annuity contracts in deferment, a calendar year table is used; for these contracts a further deduction of 0.35% from the valuation rate of interest of 5.83% has been made during the deferred period, to allow for expected mortality improvements prior to vesting.



## Valuation Report as at 31 December 2001 (continued)

- (5) No allowance is made or reserve is held, in addition to the assumptions in 7 (4) above, in respect of possible changes in the incidence of disease or development in medical science.
- (6) The scenarios tested were:
- (a) an immediate decrease of 20% in the rates of interest obtainable on fixed interest securities, an immediate decrease of 25% in the real yields on index-linked stocks and an immediate fall in property values of 10%.
  - (b) an immediate increase of 3 percentage points in the rates of interest obtainable on fixed interest securities, an immediate increase of 1 percentage point in the real yields on index-linked stocks and an immediate fall in property values of 20%.

Scenario (a) was the more onerous.

As the effect of the derivatives described in 6 (1) (a) i) to iv) is to produce fixed UK sterling cashflows, irrespective of future exchange rates, the scenarios have been tested against the aggregate yield of the US \$ assets and their associated derivatives, using the methodology of the section 148 waiver (originally issued as a section 68 order in December 1995).

Similarly, the effect of the swap contracts described in 6 (1) (a) v) is to produce RPI linked sterling cashflows, and the scenarios have been tested against the aggregate yield of the non linked assets and their associated swap contracts.

- (7) The reserve required under Rule 5.17(a) of the Interim Prudential Sourcebook for Insurers is calculated by projecting:
- (i) the risk adjusted cashflows from the assets held, including the assets backing the additional reserve held under Rule 5.17(a), and
  - (ii) the future liability payments on the valuation assumptions.

The cashflow projection shows that there is an excess of income over outgo in the earlier years. These amounts are assumed to be invested in cash and accumulated to meet the shortfall of asset income in later years. The cash investment rate is assumed to be 4.36%. In later years where outgo exceeds income the cash borrowing rate is assumed to be 6.36%. The additional reserve is set so that all liability cashflows can, on these assumptions, be met as they fall due.

A total reserve of £255,078,000 was held at 31 December 2001.

## Valuation Report as at 31 December 2001 (continued)

- (8) (a) Valuation rates of interest are adjusted as shown in Form 57. No other assumptions are changed.
- (b) Assets are hypothecated to liabilities as shown in Form 57. Yields on assets are adjusted by 0.40 % and 0.30% to allow for defaults on fixed interest and RPI-linked assets (other than government securities) respectively.
- (c) Under the scenario which produces the most onerous requirement:
  - (i) the aggregate amount of the long term liabilities increased by £1,289,001,000 after allowing for the release of the mismatching reserve described in 7(7) above.
  - (ii) the aggregate amount of the assets backing these liabilities increased by £1,461,810,000.

Hence the reserve shown in 7(7) is adequate to cover the provision required in respect of Rules 5.17(a) and 5.17(b).

- (9) Liabilities are all in sterling. There are some US\$ and Euro denominated assets. These assets with their associated derivatives produce income in UK sterling. See 6(1)(a) for details.

### 8. Valuation of non linked business

- (a) Not applicable
- (b) See Form 51
- (c) Not applicable
- (d) Not applicable

### 9. Valuation of linked business

- (a) See Form 54 and 6 (1) above.
- (b) The annuity loadings in 10 (1) are calculated without assuming any contribution from the loadings in new business written after the valuation date.

## Valuation Report as at 31 December 2001 (continued)

### 10. Expenses

- (1) A real discount rate of 2% p.a. was used to convert prudent per policy renewal expenses into percentage of annuity loadings.

For immediate annuities, the implicit per policy loadings at the end of 2001, before inflation, were approximately £19 p.a.

Deferred annuities costs were assumed to be £1 p.a. per life during deferment and then as for immediate annuities in possession. An additional allowance (not included in the immediate loading above) was made for current systems developments.

Investment management expenses are allowed for by deducting 0.1% p.a. from the valuation rates of interest. The valuation rates of interest in Forms 51,54 and 57 (and the asset yields in Forms 48 and 57) are shown before this deduction.

- (2) Based on the annualised annuity amounts in payment and deferment at 31 December 2001, the amount released to meet renewal expenses over 2002 (excluding the allowance for systems developments) will be £10,857,000. In addition, £11,808,000 will be released to meet investment management expenses.
- (3) New business premium rates incorporate a charge to cover acquisition and set-up costs. The annuity loadings in 10 (1) are calculated without assuming any contribution from the loadings in new business written after the valuation date.
- (4) An allowance for expenses arising from closure to new business, if closure occurred twelve months after the valuation date, has been compared with the margins in expense loadings arising from the in force business. As the costs are covered by the margins, no additional reserve is required.

### 11. Currency Matching

- (1) Not applicable
- (2) Not applicable

### 12. Reinsurance

Long term business is reassured on a facultative basis to a reinsurer who is authorised to carry on business in the UK.

13. to 16. Not applicable

**Valuation Report as at 31 December 2001 (continued)**

**17. Changes in long term business**

See Form 46

Group non-profit deferred annuities are not included in Form 46. These consist of 1,411 schemes covering an estimated 77,799 lives, and 25,648 individual arrangements for non-linked contracts and 25,333 individual arrangements for linked contracts at 31 December 2001.

**18. New business**

See Form 47.

**19. Assets covering long term liabilities**

(1) See Forms 48 and 49. The yield shown for land and buildings in line 11 of Form 48 is net of expected outgo on maintenance costs and leases. This treatment is consistent with that adopted on Form 57. However, it should be noted that in Form 40 all investment expenses, including outgo on property maintenance costs and leases, are shown as expenses.

(2) Changes in the amounts reported on Form 48 at 31 December 2001 which would result from the exercise of rights or obligations under derivative contracts or contracts having the effect of derivative contracts (assuming that options would be exercised only if it would be prudent to do so) are as follows:

Form 48	Column 1 £'000's	Column 2 £000's	Column 3 %
Line 18	(28,596)	4,897	1.04

(3) Corresponding changes which would result from the exercise of all rights or obligations under derivative contracts, or contracts having the effect of derivative contracts are as follows:

Form 48	Column 1 £'000's	Column 2 £000's	Column 3 %
Line 18	(28,596)	4,897	1.04

(4) The maximum changes to the amounts if the conditions in (2) and (3) above had applied at any time during the year as follows:

Form 48	Column 1 £000's	
	Conditions noted in (2) £000's	Conditions noted in (3) £000's
Line 18	(43,875)	(43,875)

## Valuation Report as at 31 December 2001 (continued)

### 20. Valuation summaries

See Forms 51 and 54.

On Form 54 the figures shown in column 7 are the amounts of annuity per annum in payment; the figures in columns 11 and 12 are the total net liability including allowance for future mortality and expenses.

### 21. Matching rectangle

- (1) See Form 57.
- (2) Aggregate yields have been adjusted by 0.40% and 0.30% to allow for potential defaults within the fixed interest and RPI-linked portfolios respectively.

The default allowance is determined from data supplied by our investment manager, which itself is based upon research carried out by one of the major rating agencies. This analysis, based on actual default experience over a 30 year period, produces mean default rates according to credit quality and term to redemption. Volatility is also analysed and standard deviations of the rates for each credit quality are provided.

In the event of default it may be possible to recover some capital, especially if the loan is secured. The allowance for recovery (or partial recovery) of the loan varies according to the level of security and the following recovery rates are assumed:

First Mortgage Debenture/Senior Secured	75%
Senior Unsecured	45%
Subordinated Debt	20%
Preference Shares	0%

To calculate the overall default provision, the corporate bond portfolio is broken down according to credit rating and level of security. The default rate for each group is assumed to be the appropriate mean default rate plus two standard deviations, reduced by the expected recovery. The derived default rates for each group are set out below:

Default rates - basis points per annum:

Seniority	AAA	AA	A	BBB	BB and lower
First Mortgage Debenture/ Senior Secured	4.5	7.0	11.5	30.0	193.0
Senior Unsecured	10.3	16.4	25.9	66.2	420.0
Subordinated	14.8	23.4	37.4	96.2	613.0
Preference	18.0	29.0	46.0	121.0	765.0

## Valuation Report as at 31 December 2001 (continued)

Regard is also paid to the yield differential between corporate and government bonds, and prevailing economic circumstances. Additional allowance for counterparty risks in connection with derivative contracts is included in the additional reserve described in 6(1)(i). The yields shown in Form 48 column 3 were calculated using the method of the section 148 waiver (the December 1995 section 68 order). The aggregate yields on the portfolio using the method of the section 148 waiver were also used to derive the valuation rates of interest in Form 57 Row 31.

- (3) The yield on property is derived in the same way as a fixed interest asset, equating the market value with future rental income and disposal value, in accordance with the section 148 waiver (previously issued as a section 68 order in December 1995). No allowance for increase in rental income or market value is made. Defaults are allowed for at an aggregate level as described in 21(2) above, the default allowance therefore being the same as for the other fixed interest investments.

### 22. Valuation results

See Form 58.

### 23. Required minimum margin

See Form 60.

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D J Belsham, Appointed Actuary

## Long term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profit policies)

Name of insurer Prudential Annuities Limited

Global business

United Kingdom business

Financial year ended 31st December 2001

Type of business Pension Business

Category of surplus 11: Global Business (issued in the United Kingdom)

Type of insurance or name of contract	Valuation basis		No of contracts	Company registration number	Period ended				Units	UK/OS	Type of business		Category of surplus		
	Rate of interest	Mortality or morbidity table			GL/UK/CM		day month year				Office premiums	Net premiums		Value of annual premiums	Pens
					GL	CM	31	12							
1	2	3	4	R51	2554213	GL	31	12	2001	£000	UK	11			
<b>DIRECT WRITTEN BUSINESS</b>															
<b>Non-Profits Policies</b>															
Annuity in payment: Individual	5.83	A (a)	52244		154216 pa					2394353		2394353			
Annuity in payment: Group	5.83	B (a)	24883		34214 pa					344278		344278			
Deferred annuity: Group	5.83	D (b)	700		1846 pa					20983		20983			
Deferred annuity: Group	5.83	C (b)	23582		62540 pa					328734		328734			
Mismatching reserves										61697		61697			
Additional reserves										32390		32390			
<b>Sub total: Non-Profits Policies</b>			<b>101409</b>		<b>252816 pa</b>					<b>3182435</b>		<b>3182435</b>			
<b>Sub total: Direct Written Business</b>			<b>101409</b>		<b>252816 pa</b>					<b>3182435</b>		<b>3182435</b>			
<b>REASSURANCE ACCEPTED</b>															
<b>Non-Profits Policies</b>															
Annuity in payment: Individual	5.83	A (a)	467007		473526 pa					6396033		6396033			
Deferred annuity: Group	5.83	D (b)	2774		25569 pa					149405		149405			
Miscellaneous deferred annuity	5.83	E (b)	3		9 pa					134		134			
Mismatching reserve										130911		130911			
Additional reserve										68729		68729			
<b>Sub total: Non-Profits Policies</b>			<b>469784</b>		<b>499104 pa</b>					<b>6745212</b>		<b>6745212</b>			

## Long term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profit policies)

Name of insurer Prudential Annuities Limited

Global business

United Kingdom business

Financial year ended 31st December 2001

Type of business Pension Business

Category of surplus 11: Global Business (issued in the United Kingdom)

Type of insurance or name of contract	Valuation basis		No of contracts	Amount of sums assured or annuities per annum, including vested reversionary bonuses	Amount of annual premiums		Proportion of office premiums reserved for expenses and profits			Value of sums assured or annuities per annum, including vested reversionary bonuses	UK/OS		Type of business	Category of surplus
	Rate of interest	Mortality or morbidity table			Office premiums	Net premiums	2001	2001	2001		Value of annual premiums			
											Office premiums	Net premiums		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Sub total: Reassurance Accepted			469784	499104 pa				6745212						6745212
REASSURANCE CEDED														
Non-Profits Policies				136 pa				3501						3501
Deduct reinsurance ceded														
Sub total: Non-Profits Policies				136 pa				3501						3501
Sub total: Reassurance Ceded				136 pa				3501						3501
Net total: Pension Business			571193	751784 pa				9924146						9924146
Net total: United Kingdom Business			571193	751784 pa				9924146						9924146



**Prudential Annuities Limited**

Global business

United Kingdom business

Financial year ended **31st December 2001**

Type of business **Pension Business**

Category of surplus **11: Global Business (Issued in the United Kingdom)**

Name of contract	Valuation basis		No of contracts	Amount of sums assured or annuities per annum, including vested reversionary bonuses			Company registration number		Period ended year			Units		UK/OS	Type of business	Category of surplus
	Rate of interest	Mortality or morbidity table		Guaranteed on death	Current on death/current payable per annum	Guaranteed on maturity	Amount of annual premiums		day	month	year	Investment liability				
			GL				Net premiums	31				12	2001	£000	UK	Pens
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>		
<b>R54</b>	<b>2554213</b>	<b>GL</b>	<b>2554213</b>	<b>GL</b>	<b>2554213</b>	<b>2554213</b>	<b>2554213</b>	<b>2554213</b>	<b>2554213</b>	<b>2554213</b>	<b>2554213</b>	<b>2554213</b>	<b>2554213</b>	<b>2554213</b>	<b>2554213</b>	<b>2554213</b>
<b>DIRECT WRITTEN BUSINESS Non-Profits Policies</b>																
Annuity in payment Individual	3.00	A (a)	6897			19646 pa			Retail Prices Index	377967						377967
Annuity in payment:Group	3.00	B (a)	12786			27605 pa			Retail Prices Index	398147						398147
Annuity in payment:Group	6.00	B (a)	8217			16596 pa			Retail Prices Index	293317						293317
Deferred annuity:Group	3.00	C (b)	13351			18122 pa			Retail Prices Index	138135						138135
Deferred annuity:Group	5.83	C (b)	11982			16831 pa			Retail Prices Index	206585						206585
Mismatching reserves																47659
Additional reserves																14830
<b>Sub total: Non-Profits Policies</b>			<b>53233</b>			<b>98800 pa</b>				<b>1414161</b>						<b>1476640</b>
<b>Sub total: Direct Written Business</b>			<b>53233</b>			<b>98800 pa</b>				<b>1414161</b>						<b>1476640</b>
<b>REASSURANCE ACCEPTED Non-Profits Policies</b>																
Annuity in payment Individual	3.00	A (a)	4420			19325 pa			Retail Prices Index	384269						384269
Mismatching reserve																14811
Additional reserve																3888



**Long term insurance business : Analysis of assets and liabilities matching investment liabilities in respect of index linked benefits**Name of insurer **Prudential Annuities Limited**

Global business

United Kingdom business

Financial year ended **31st December 2001**Category of surplus **11: Global Business (Issued in the United Kingdom)**

	Company registration number	GL/UK/CM	Period ended			Units	UK/OS	Category of Surplus	
			day	month	year				
	R56	2554213	GL	31	12	2001	£000	UK	11
Type of assets and liabilities			Name of index link			Value of assets or liabilities	Gross derivative value		
			1			2	3		
Land and buildings			RPI			7927			
Rights under derivative contracts			RPI			(17148)	(17148)		
Government and public body non-linked bonds			RPI			130530			
Corporate non linked bonds			RPI			774589			
Government and public body index linked bonds			RPI			128469			
Corporate index linked bonds			RPI			722815			
Public or local authority and nationalised industry loan			RPI			239			
Loans secured by mortgages			RPI			13915			
Other loans			RPI			2607			
Deposits with approved credit institutions			RPI			1969			
Accrued Interest and rent			RPI			30759			



Long term insurance business : Matching rectangle

Sterling liabilities

Name of insurer Prudential Annuities Limited

Valuation rate(s) of interest 0.00%

Global business

Type of business Pension Business

Financial year ended 31st December 2001

Non profit

Category of assets Total long term business assets

Company registration number	GL/JUK/CM	Period ended			Units	Stg/ NonStg	Valuation rate of interest	L&GA/Pens/ PHI/Other	WP/NP	Category of assets	
		day	month	year							
R57	2554213	GL	31	12	2001	£000	Stg	0.00	Pens	NP	10
The valuation											
The resilience scenario											
Type of asset notionally allocated		Value of asset notionally allocated 1	Risk adjusted yield % 2			Value of assets notionally allocated			Risk adjusted yield % 6		
			On original allocation 3			Increase or decrease 4		Total under resilience scenario 5			
Land and buildings	11										
Fixed interest securities	12										
	13										
Variable interest and Variable yield securities (excluding items shown at line 16)	14										
	15										
Equity shares and holdings in collective investment schemes	16										
Loans secured by mortgages	17	230027			6.49	253770			253770		5.19
All other assets	18	131701			4.11	131701	(76963)		54738		3.29
	19	13187				13187	(13187)				
Total (11 to 19)	29	374915			5.43	398658	(90150)		308508		4.85
Gross valuation interest rate %	31										
Net valuation interest rate % (where appropriate)	32										
Mathematical reserve or other liability, net of reinsurance	33	374915							135699		

## Long term insurance business : Matching rectangle

Sterling liabilities

Name of insurer Prudential Annuities Limited

Valuation rate(s) of interest 3.00%

Global business

Type of business Pension Business

Financial year ended 31st December 2001

Non profit

## Category of assets Total long term business assets

Company registration number	GL/JUK/CM	Period ended			Units	Stg/NonStg	Valuation rate of interest	L&GA/Pens/PHI/Other	WP/NP	Category of assets	
		day	month	year							
R57	2554213	GL	31	12	2001	£000	Stg	3.00	Pens	NP	10
The valuation											
The resilience scenario											
Type of asset notionally allocated											
Value of asset notionally allocated		Risk adjusted yield %		Value of assets notionally allocated			Risk adjusted yield %				
1		2		On original allocation			Increase or decrease		Total under resilience scenario		
3		4		5			6				
11	19750	3.73	17775	17775	4	17775	4.14				
12											
13											
14	169928	2.76	184073	184073		184073	2.07				
15	1107091	3.12	1209557	1209557		1209557	2.34				
16											
17											
18		1.57				21863	1.18				
19											
29	1296769	3.08	1411405	1411405		21863	2.31				
31		3.00					2.18				
32											
33	1296769					1433268					
Land and buildings											
Fixed interest securities											
Approved securities											
Other											
Variable interest and Variable yield securities (excluding items shown at line 16)											
Approved securities											
Other											
Equity shares and holdings in collective investment schemes											
Loans secured by mortgages											
Producing income											
Not producing income											
All other assets											
Total (11 to 19)											
Gross valuation interest rate %											
Net valuation interest rate % (where appropriate)											
Mathematical reserve or other liability, net of reinsurance											



Long term insurance business : Matching rectangle

Sterling/Non sterling liabilities

Name of insurer Prudential Annuities Limited

Valuation rate(s) of interest Total

Global business

Type of business

Financial year ended 31st December 2001

With profits/Non profit

Category of assets Total long term business assets

Company registration number	GLUK/ICM	Period ended			Units	Stg/NonStg	Valuation rate of interest	L&GA/Pens/PHI/Other	WP/NP	Category of assets
		day	month	year						
R57	2554213	GL	31	12	2001	£000	99			10
The valuation										
The resilience scenario										
Type of asset notionally allocated	Value of asset notionally allocated	Risk adjusted yield %		Value of assets notionally allocated		Risk adjusted yield %				
		1	2	3	4	5	6			
Land and buildings	11	172572	6.02	155315		155315				7.02
Fixed interest securities	Approved securities	12	1417837	5.03	1606498		1606498			4.02
	Other	13	8470799	6.23	9612899		9612899			4.98
Variable interest and Variable yield securities (excluding items shown at line 16)	Approved securities	14	169928	2.76	184073		184073			2.07
	Other	15	1107091	3.12	1209557		1209557			2.34
Equity shares and holdings in collective investment schemes										
Loans secured by mortgages										
All other assets	Producing income	17	307066	6.49	338761		338761			5.19
	Not producing income	18	143524	4.11	143524		143524			2.97
		19	13187		13187		13187			
Total (11 to 19)										
Gross valuation interest rate %										
Net valuation interest rate % (where appropriate)										
Mathematical reserve or other liability, net of reinsurance										
		29	11802004	5.72	13263814		13263814			4.59
		31								
		32								
		33	11802004							13091005



**Long term insurance business : Valuation result and distribution of surplus**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2001**Company  
registration  
number

GL/UK/CM

Period ended

day month year

Units

Category  
of surplusCategory of surplus **11: Global Business ( Issued in the United Kingdom)**

	R58	2554213	GL	31	12	2001	£000	11
Valuation result	Fund carried forward			11	11832177			
	Bonus payments made to policyholders in anticipation of a surplus			12				
	Transfers out of fund/ parts of fund	Transfer to non-technical account		13				
		Transfer to other funds/parts of funds		14				
	Net transfer out of funds/parts of funds (13+14)			15				
	Total (11+12+15)			16	11832177			
	Mathematical reserves for accumulating with profit policies			17				
	Mathematical reserves for other non linked contracts			18	9924146			
	Mathematical reserves for property linked contracts			19				
	Mathematical reserves for index linked contracts			20	1877858			
	Total (17 to 20)			21	11802004			
	Surplus including contingency and other reserves held towards the solvency margin (deficiency) (16-21)			29	30173			
Composition of surplus	Balance of surplus brought forward unappropriated from last valuation			31	5179			
	Transfers into fund/part of fund	Transfer from non-technical account		32				
		Transfer from other funds/parts of fund		33				
	Net transfer into fund/part of fund (32+33)			34				
	Surplus arising since the last valuation			35	24994			
Total (31+34+35)			39	30173				
Distribution of surplus	Bonus payments made to policyholders in anticipation of a surplus			41				
	Allocated to policyholders by way of	Cash bonuses		42				
		Reversionary bonuses		43				
		Other bonuses		44				
		Premium reductions		45				
	Total allocated to policyholders (41 to 45)			46				
	Net transfer out of fund/part of fund			47				
	Total distributed surplus (46+47)			48				
	Balance of surplus (including contingency and other reserves held towards the solvency margin) carried forward unappropriated			49	30173			
Total (48+49)			59	30173				
Percentage of distributed surplus allocated to policyholders of fund/part of fund			61					
Corresponding percentage at three immediately previous valuations	Latest (year of valuation 2001 )		62					
	Earlier (year of valuation 2000 )		63					
	Earliest (year of valuation 1999 )		64					

## Long term insurance business : Required minimum margin

Name of insurer Prudential Annuities Limited

Global business

Company registration number R60 2554213

GL/JUK/CM

Period ended day month year 31 12 2001

Units £000

Financial year ended 31st December 2001

Class	Classes I, II & IX		Class III business with relevant factor of				Class IV and VI		Classes VII and VIII business with relevant factor of				Unallocated additional mathematical reserves with relevant factor of		Total for all classes		
	4% 1	4% 2	1% 3	Nil 4	Total 5	4% 6	1% 7	Nil 8	Total 9	4% 10	1% 11	Nil 12	Total 13	4% 14	1% 15	Total 16	
Relevant factor (Instruction 1)																	
Mathematical reserves before deduction of reinsurance	11	9633920	1798420		1798420									374915		11807255	11076560
Reserves for bonus allocated to policyholders	12																
Reserves after distribution of surplus	13	9633920	1798420		1798420									374915		11807255	11076560
Mathematical reserves after deduction of reinsurance	14	9630419	1796670		1796670									374915		11802004	11071750
Reserves for bonus allocated to policyholders	15																
Reserves after distribution of surplus	16	9630419	1796670		1796670									374915		11802004	11071750
Ratio of 16 to 13 or 0.85 if greater (see instruction 2)	17	0.9996			0.9990									1.0000			
Required margin of solvency - first result = (line 13) * (line 17) - relevant factor	19	385203			71865									14997		472065	442858
Non negative capital at risk before reinsurance (see instruction 3)	21																
Non negative capital at risk before reinsurance (see instruction 3)	22																
Non negative capital at risk after reinsurance (all contracts) (see instruction 3)	23																
Total (21 to 23)	29																
Required margin of solvency - second result (see instruction 4)	31																
Ratio of line 31 to line 29, or 0.50 if greater	32																
Required margin of solvency - second result (see instruction 4)	39																
Sum of first and second results (19+39)	49	385203			71865									14997		472065	442858
Required margin of solvency for supplementary Accident & Sickness Insurance & Class V business	51																
Total required margin of solvency for long term insurance business (49+51)	59															472065	442858
Minimum guarantee fund	61															497	465
Required minimum margin (greater of lines 59 and 61)	69															472065	442858

## **PRUDENTIAL ANNUITIES LIMITED**

**Returns for the year ended 31 December 2001**

**Supplementary notes to the returns**

### Form 9

**\*0901\* Section 148 waivers and Section 68 orders**

- (a) The Secretary of State, on the application of the Company, made an order on 1 August 1992 pursuant to section 68 of the Insurance Companies Act 1982 directing that section 31 of the Insurance Companies Act 1982 should not apply to the Company in respect of transactions entered into by the Company with The Prudential Assurance Company Limited, Prudential Holborn Pensions Limited and Prudential Pensions Limited pursuant to the reinsurance agreements dated 1 August 1992.
- (b) The Secretary of State, on the application of the Company, issued to the Company in December 1995 an Order under section 68 of the Insurance Companies Act 1982 requiring the Company to calculate the rates of interest to be used in calculating the present value of future payments by or to the Company on the aggregate yield basis defined as that rate of interest which equates the discounted value of the aggregate cash flows on the relevant asset portfolio with the total market value of that portfolio.

The Section 68 orders granted in December 1995 and August 1992 under the Insurance Companies Act 1982 (as amended) continue to have effect under the transitional arrangements set out in the Supervision Manual. Section 31 of the Insurance Companies Act 1982, referred to above, now exists as Rule 3.4 of the Interim Prudential Sourcebook for Insurers.

## Supplementary notes to the returns (continued)

### Form 10

*1001*	Reconciliation to shareholder accounts	2001 £'000s	2000 £'000s
	<i>Net assets per FSA return</i>		
	Line 99 on Form 13 (OLTB)	577,593	570,513
	Line 59 on Form 15	<u>(3,601)</u>	<u>(6,167)</u>
		573,992	564,346
	<i>Per shareholder accounts</i>		
	Capital and reserves	946,852	886,034
	<i>Difference</i>		
	Additional reserves held in long term fund	485,362	316,409
	Deferred tax held on additional reserves	(145,600)	-
	Unappropriated surplus held in long term fund		
	Line 49 on Form 58	30,173	5,179
	Valuation difference Line 94 on Form 13	<u>2,925</u>	<u>100</u>
		<u>372,860</u>	<u>321,688</u>

### Form 13

Notes 1301 to 1306 apply to the other than long term business fund.

- \*1301\* The Company held £61m in unlisted securities.
- \*1302\* The Company held £22m in hybrid securities.
- \*1304\* Amounts due to or from the Company have been set off to the extent permitted by generally accepted accounting principles.
- \*1305\* The maximum permitted exposure to any one counterparty other than short term deposits with an approved credit institution is set at 5% of the long term business amount. Maximum permitted exposure to any one approved credit institution is set at 20%. There were no breaches of these limits during the year.
- \*1306\* No counterparty exposure at the year end exceeded 5% of the long term business amount. Counterparty limits set were not exceeded during the year.

Notes 1308 to 1313 apply to the long term business fund.

- \*1308\* The Company held £807m in unlisted securities.
- \*1309\* The Company held £1,419m in hybrid securities.

### **Supplementary notes to the returns (continued)**

- \*1310\* Amounts due to or from the Company have been set off to the extent permitted by generally accepted accounting principles.
- \*1311\* The maximum permitted exposure to any one counterparty other than short term deposits with an approved credit institution is set at 5% of the long term insurance business amount. Maximum permitted exposure to any one approved credit institution is set at 20%. There were no breaches of these limits during the year.
- \*1312\* No counterparty exposure at the year end exceeded 5% of the long term business amount. Counterparty limits set were not exceeded during the year.
- \*1313\* At the year end the company had £6,121,000 of “secured obligations” to which paragraph 14 of Part 1 of Appendix 4.2 applies.

#### **Form 14**

- \*1401\* The long term fund held a number of interest rate and foreign currency swaps and foreign currency futures, during the year. The swaps involved the exchange of cash flows and not of the underlying principal amount. No provision for adverse change is required, as all derivatives that impose an obligation on the fund are strictly covered.
- \*1402\* (a) There were no charges attributable to the long term business assets.

(b) The long term fund does not attract tax, and therefore no provision, potential or otherwise, has been made for any liability to tax which might arise if the company disposed of its assets at the values stated in this return.

(c) There were no contingent liabilities at the year end.

(d) There were no guarantees, indemnities or other contractual commitments other than in the ordinary course of insurance business and in respect of related companies.

#### **Form 15**

- \*1501\* The other than long term fund held a number of interest rate swaps and foreign currency futures, during the year. The swaps involved the exchange of cash flows and not of the underlying principal amount. No provision for adverse change is required, as all derivatives that impose an obligation on the fund are strictly covered.

## Supplementary notes to the returns (continued)

- \*1502\* (a) There were no charges attributable to the other than long term business assets.
- (b) The total potential liability to taxation on capital gains which might arise if the company disposed of its assets was £1,300k. Full provision has been made at the year end.
- (c) There were no contingent liabilities at the year end.
- (d) There were no guarantees, indemnities or other contractual commitments other than in the ordinary course of insurance business and in respect of related companies.

### Form 16

- \*1601\* Revenue account items are translated at rates ruling on the transaction date.
- \*1603\* Balances in line 21 relate to management expenses.

### Form 40

- \*4002\* Other income is composed of fees charged for the provision of information, to unconnected parties, relating to the FSA pensions review.
- \*4008\* Management services are provided to the Company for day to day administration from The Prudential Assurance Company Ltd (the immediate holding company), Prudential Financial Services Ltd, M&G Investment Management Ltd, Prudential Property Investment Managers Ltd, PPM America Inc., PruTech Ltd and Prudential Services Ltd, all being group companies.
- \*4009\* The Company has a reinsurance agreement with a related company, Prudential Assurance Company Limited, in respect of non-participating approved annuity premiums. Included in earned premiums for the year is an amount of £592m received under this reinsurance agreement. The reinsurance agreement was drawn up under normal commercial terms which reflect the level of business transacted with the Company.

Also included within claims incurred is an amount of £508m arising from claims under this reinsurance agreement..

The liabilities included in the return, relating to this business amount to £6,693m at the year end.

**Supplementary notes to the returns (continued)**

**Form 46**

- \*4601\* The 'net transfers on' in from 46 have arisen from a change of administration systems, resulting in a different measure of the number of contracts for the purpose of the returns.

**Form 48**

- \*4801\* The amounts of accrued interest included in the value of admissible assets is:

Line	Description	2001 £'000
12	Fixed interest – approved securities	20,092
13	Fixed interest – other securities	<u>166,336</u>
		<u>186,428</u>

These amounts are included in line 84 on form 13.

- \*4802\* There are six assets where the payment of interest is in default. The expected income from these assets has been reduced by 50%.

- \*4803\* (a) Changes in the amounts reported on Form 48 at 31 December 2001 which would result from the exercise of rights or obligations under derivative contracts or contracts having the effect of derivative contracts (assuming that options would be exercised only if it would be prudent to do so) are as follows:

Form 48	Column 1 £000's	Column 2 £000's	Column 3 %
Line 18	(28,596)	4,897	1.04

- (b) Corresponding changes which would result from the exercise of all rights or obligations under derivative contracts, or contracts having the effect of derivative contracts are as follows:

Form 48	Column 1 £000's	Column 2 £000's	Column 3 %
Line 18	(28,596)	4,897	1.04

- (c) The maximum changes to the amounts if the conditions in 4803 (a) and 4803(b) above had applied at any time during the year are as follows:

Form 48	Column 1 £000's	
	Conditions noted in 4803(a)	Conditions noted in 4803(b)
Line 18	(43,875)	(43,875)

## Supplementary notes to the returns (continued)

### Form 51

**\*5102\*** The tables of mortality and disability assumed in the valuation are indicated in column 3 of Forms 51 and 54 by the following code letters:

- A** 80% PMA92 (U=2002) / 80% PFA92 (U=2002)
- B** 80% PMA92 (U=2002)+3 / 80% PFA92 (U=2002)+3
- C** [AM / AF92] - 3 (in deferment), 80% PMA92 (U=2002)+3 / 80% PFA92 (U=2002)+3 (in possession)
- D** [AM / AF92] - 3 (in deferment), 70% PMA92 (C=2002) / 70% PFA92 (C=2002) (in possession)
- E** Nil (in deferment), 80% PMA92 (U=2002) / 80% PFA92 (U=2002) (in possession)

Provision for the cost of paying annuities in possession is generally made by increasing the value of the annuity. The percentage addition to the value of the annuity, or the explicit expense provision per annum, is shown by a code letter in column 3, the meaning of the code letters being as follows:

- a** Expense loading of 2.50%
- b** Expense loading of 7.50%



**PRUDENTIAL ANNUITIES LIMITED**

**Returns for the year ended 31 December 2001**

**Directors' Certificate pursuant to Rule 9.34(a) of the Interim Prudential Sourcebook for Insurers**

We certify that:

1. (a) in relation to the part of this return comprising Forms 9, 10, 13 to 17 and 40 to 42 (and the supplementary notes thereto) and statements required by Rules 9.29 and 9.30 that:
  - (i) the return has been prepared in accordance with the Accounts and Statements Rules as modified by the orders referred to in supplementary note 0901 on Page 51 issued under Section 68 of the Insurance Companies Act 1982 which still have effect;
  - (ii) proper accounting records have been maintained and adequate information has been obtained by the Company; and
  - (iii) an appropriate system of control has been established and maintained by the Company over its transactions and records;
- (b) in respect of the Company's business which is not excluded by Rule 7.6, the assets held throughout the financial year enabled the company to comply with Rules 7.1 to 7.5 (matching and localisation); and
- (c) in relation to the statement required by Rule 9.36 that:
  - (i) for the purpose of preparing the statement, proper accounts and records have been maintained; and
  - (ii) the information given has been ascertained in conformity with that Rule.

**Certificate required by Rule 9.34(a) (continued)**

2. the margin of solvency required by Rule 2.1 has been maintained throughout the financial year.
3.
  - (a) the requirements of Rules 3.1 to 3.4 have been fully complied with and in particular that, subject to the provisions of Rule 3.2(2) to (4) and Rule 3.3, assets attributable to long term insurance business, the income arising therefrom, the proceeds of any realisation of such assets and any other income or proceeds allocated to the long term insurance business funds have not been applied otherwise than for the purpose of the long term insurance business;
  - (b) any amount payable from or receivable by the long term insurance business fund in respect of services rendered by or to any other business carried on by the Company or by a person who, for the purposes of Rule 3.4, is connected with it or is a subordinate company of it has been determined and where appropriate apportioned on terms which are believed to be no less than fair to that fund, and any exchange of assets representing such fund for other assets of the Company has been made at fair market value;
  - (c) no guarantees have been given by the Company of the performance by a related company of a contract binding on the related company which would fall to be met by any long term insurance business fund;
  - (d) no internal linked funds are maintained;
  - (e) the return in respect of long term insurance business is not distorted by agreements with any other company carrying on insurance business with which the Company has financial, commercial or administrative links or by any arrangements which could affect the apportionment of expenses and income; and
  - (f) the Company has fully complied with the requirement of Rule 3.5.

**Certificate required by Rule 9.34(a) (continued)**

4. (a) the systems of control established and maintained by the Company in respect of its business complied at the end of the financial year with the following published guidance:

- (i) Guidance Note P1 - Systems of control over the investments (and counterparty exposure) of insurance companies with particular reference to the use of derivatives; and
- (ii) Guidance Notes for the Insurance and Retail Products Financial Sector (issued by the Joint Money Laundering Steering Group)

and it is reasonable to believe that those systems continued to so comply subsequently and will continue to so comply in future;

(b) the return has been prepared in accordance with the following published guidance:

- (i) Guidance Note 4.1 - Guidance for insurers and auditors on the Valuation of Assets Rules;
- (ii) Guidance Note 4.2- The use of derivative contracts in insurance funds; and
- (iii) Guidance Note 9.1 - The preparation of returns.

.....

G M Wood  
Director

.....

D J Belsham  
Director

.....

M J Moores  
Director

24 April 2002

## **PRUDENTIAL ANNUITIES LIMITED**

**Returns for the year ended 31 December 2001**

### **Appointed Actuary's Certificate pursuant to Rule 9.34(b) of the Interim Prudential Sourcebook for Insurers**

I certify that:

- (a) (i) in my opinion proper records have been kept by the Company adequate for the purpose of the valuation of the liabilities of its long-term insurance business;
  - (ii) the mathematical reserves as shown in Form 14 constitute proper provision at 31 December 2001 for the liabilities (other than the liabilities which had fallen due before 31 December 2001) arising under or in connection with contracts for long-term insurance business including the increase in those liabilities arising from the distribution of surplus as a result of the investigation as at 31 December 2001 into the financial condition of the long-term insurance business;
  - (iii) for the purposes of sub-paragraph (ii) above, the liabilities have been assessed in accordance with Determination of Liabilities Rules in the context of assets valued in accordance with the Valuation of Assets Rules, as shown in Form 13;
  - (iv) the valuation complies with the guidance notes "GN1: The Prudential Supervision in the UK of Long-Term Insurance Business" issued by the Faculty and Institute of Actuaries dated 1 December 2001 and "GN8: Additional Guidance for Appointed Actuaries and Appropriate Actuaries on Valuation of Long-Term Insurance Business" issued by the Faculty and Institute of Actuaries, dated 1 December 2001;
  - (v) in my opinion, premiums for contracts entered into during the financial year and the income earned thereon are sufficient, on reasonable actuarial assumptions, and taking into account the other financial resources of the Company that are available for the purpose, to enable the Company to meet its commitments in respect of these contracts and, in particular, to establish adequate mathematical reserves.
- (b) the amount of the required minimum solvency margin applicable to the Company's long-term insurance business immediately following 31 December 2001 (including the amount resulting from any increase in liabilities arising from a distribution of surplus as a result of the investigation into the financial condition of the long-term insurance business) is £472,065,000.

D J Belsham  
Appointed Actuary

24 April 2002

## **PRUDENTIAL ANNUITIES LIMITED**

**Financial Year ended 31 December 2001**

### **Report of the auditors to the directors pursuant to Rule 9.35 of the Interim Prudential Sourcebook for Insurers**

We have examined the documents prepared by the Company pursuant to part I of chapter 9 to the Interim Prudential Sourcebook for Insurers (the Rules);

- Forms 9, 10, 13 to 17 and 40 to 42 (including the supplementary notes thereto) (“the Forms”);
- the statement required by Rule 9.29 on pages 63 to 65 (“the statement”); and
- the certificate signed in accordance with Rule 9.34(a) on pages 57 to 59 (“the certificate”).

In the case of the certificate, our examination did not extend to:

- (a) paragraph 1 in relation to the statements required by Rules 9.30 and 9.36 concerning shareholders controllers and information on the appointed actuary;
- (b) sub-paragraph 3 (d) concerning the investment policy and practice of internal linked funds required by Paragraph 4 (d) of Appendix 9.6; and
- (c) paragraph 4(a) to Appendix 9.6 in so far as it relates to controls with respect to Money Laundering.

### **Respective responsibilities of the Company and its auditors**

The Company is responsible for the preparation of an annual return (including the forms, statements and the certificate) under the provisions of the Rules. The requirements of the Rules have been modified, under section 68 of the Insurance Companies Act 1982, by orders issued in August 1992 and December 1995, which continue to have effect under the transitional arrangements set out in the supplementary note 0901 on page 51. Under rule 9.11 the Forms and statement are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules.

It is our responsibility to form an independent opinion as to whether the Forms and statements meet these requirements, and in the case of the certificate whether it was or was not unreasonable for the persons giving the certificate to have made the statements therein, and to report our opinions to you. Our responsibilities, as independent auditors, are established in the United Kingdom, by statute, the Auditing Practices Board, and by our profession’s ethical guidance.

## **Basis of opinions**

We conducted our work in accordance with Practice note 20: "The Audit of Insurers in the United Kingdom" issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms and statements. The evidence included that previously obtained by us relating to the audit of the financial statements of the company for the financial year on which we reported on 16 March 2002. It also included an assessment of the significant estimates and judgements made by the Company in the preparation of the Forms and statements.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms and statements are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with Rule 9.11.

In the case of the certificate, the work performed involved a review of the procedures undertaken by the signatories to enable them to make the statements therein, and does not extend to an evaluation of the effectiveness of the company's internal control systems.

In giving our opinion we have relied on the certificate of the actuary on page 60 with respect to the mathematical reserves and the required minimum margin.

## **Opinions**

In our opinion:

- (a) the Forms and statements fairly state the information provided on the basis required by the Rules as modified by section 68 orders granted on 1 August 1992 and December 1995 and have been properly prepared in accordance with the provisions of those Rules; and
- (b) according to the information and explanations received by us:
  - (i) the certificate has been properly prepared in accordance with the provisions of the Rules; and
  - (ii) it was not unreasonable for the persons giving the certificate to have made the statements therein.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
8 Salisbury Square  
London EC4Y 8BB

24 April 2002

## **PRUDENTIAL ANNUITIES LIMITED**

**Returns for the year ended 31 December 2001**

**Statement required by Rule 9.29 of the Interim Prudential Sourcebook for Insurers**

### **(a) Investment guidelines**

As requested by Rule 9.29 of the Interim Prudential Sourcebook for Insurers, the investment guidelines for the use of derivative contracts for both long term and other than long term funds are set out below. These are fully explained in the Company's Investment Management Agreement with its fund managers and are consistent with the investment strategy.

- (i) Derivatives are used for the purpose of efficient portfolio management or to reduce risk, specific examples being to implement tactical asset allocation changes around the strategic benchmark, hedge cash flows, or control the risk profile of an identified strategy.
- (ii) A number of restrictions on the use of derivatives have been agreed with the Company's fund managers and can only be overruled by prior agreement between the two parties:
  - all derivatives that impose obligations on the fund must be strictly covered.
  - all derivative contracts must satisfy the definition of approved under Rule 4.12 of the Interim Prudential Sourcebook for Insurers.
  - the maximum allowable exposure to counterparties should not be exceeded.
  - only certain permitted exchanges and contracts can be used.
- (iii) During the year the company has only used Currency and Interest Rate Swaps and redeemable convertible corporate bonds. The convertible bonds have not been categorised as derivative contracts as the derivative element is minimal and have therefore not been reported on form 17. The total value of these bonds on the form 13 is £56,595,000 for long term business and zero for other than long term business.

### **(b) Derivatives where exercise is unlikely (Long Term & Other Than Long-Term Funds)**

There are no specific guidelines for the use of contracts not reasonably likely to be exercised. However the Investment Management Agreement only allows the use of derivatives for the purpose of efficient portfolio management or to reduce risk and the Company's investment managers work within these constraints.

### **(c) Quantification of derivatives in (b) above**

During 2001 no such contracts were used.

- (d) **Effect on form 13 at 31 December 2001 of exercising derivatives where it would be prudent to assume options would be exercised. Decreases are shown in brackets.**

**Long-term funds**

Form 13 line 44;	(£43,756,000)
Form 13 line 54/55/81;	(£6,152,000)

**Other than long-term funds**

Form 13 line 44;	(£2,947,000)
Form 13 line 54/55/81;	(£595,000)

- (e) **Effect on form 13 at 31 December 2001 of exercising all derivatives. Decreases are shown in brackets.**

**Long-term funds**

Form 13 line 44;	(£43,756,000)
Form 13 line 54/55/81;	(£6,152,000)

**Other than long-term funds**

Form 13 line 44;	(£2,947,000)
Form 13 line 54/55/81;	(£595,000)

- (f) **Effect on form 13 under the conditions noted in (d) and (e) above at any other time during the year. Decreases are shown in brackets.**

**Conditions noted in (d)**

**Long-term funds**

Form 13 line 44;	(£7,323,000)
Form 13 line 54/55/81;	(£48,162,000)

**Other than long-term funds**

Form 13 line 44;	(£1,296,000)
Form 13 line 54/55/81;	£1,161,000

**Conditions noted in (e)**

**Long-term funds**

Form 13 line 44;	(£7,323,000)
Form 13 line 54/55/81;	(£48,162,000)

**Other than long-term funds**

Form 13 line 44;	(£1,296,000)
Form 13 line 54/55/81;	£1,161,000



The above figures are the maximum impact on the individual line items of exercising derivatives at any time during the year. The maximum impacts for each line will not necessarily occur on the same day.

**(g) Maximum exposure**

**Long-term funds**

The maximum loss which would have been incurred by the Company on the failure by any one other person to fulfil its obligations under derivative contracts at the end of the year was £4,748,000

Under foreseeable market conditions the company's exposure would not increase beyond £29,000,000 as timely actions would be taken by the Investment Manager in line with its collateral management policies to prevent further exposures arising. The maximum loss at any other time during the year was £6,864,000.

**Other than long-term funds**

The maximum loss which would have been incurred by the Company on the failure by any one other person to fulfil its obligations under derivative contracts at the end of the year was £2,947,000

Under foreseeable market conditions the company's exposure would not increase beyond £10,000,000 as timely actions would be taken by the Investment Manager in line with its collateral management policies to prevent further exposures arising. The maximum loss at any other time during the year was £3,921,000.

**(h) Derivatives not covered by Paragraph (2) of Rule 4.12 or the definition of a permitted derivative contract in the Interim Prudential Sourcebook for Insurers.**

There were no derivative contracts held during 2001 that did not satisfy the Rule 4.12 requirements of the Interim Prudential Sourcebook for Insurers.

**(i) Consideration for granting rights under derivative contracts**

No rights under derivative contracts have been granted.

## PRUDENTIAL ANNUITIES LIMITED

### Returns for the year ended 31 December 2001

#### Statement in accordance with Rule 9.30 of the Interim Prudential Sourcebook for Insurers

##### Additional information on shareholder controllers

We confirm that the following is a list of:

- (a) Persons who, to the knowledge of Prudential Annuities Limited (“the Company”), have been, at any time during the year ended 31 December 2001, a shareholder controller of the Company; and
- (b) In the case of each person who was a shareholder controller of the Company at 31 December 2001:
- (i) the percentage of shares he held at that time in the Company, or in another company of which the Company was a subsidiary undertaking; and
- (ii) the percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the Company, or another company of which it was a subsidiary undertaking;

in each case, either alone or with any associate or associates.

Persons who, to the knowledge of the Company, have been, at any time during the year ended 31 December 2001, a shareholder controller of the Company.	In the case of each person who was a shareholder controller of the Company at 31 December 2001:	
	The percentage of shares he held at that time in the Company, or in another company of which the Company was a subsidiary undertaking, either alone or ( <i>shown separately</i> ) with any associate or associates	The percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the Company, or another company of which it was a subsidiary undertaking, either alone or ( <i>shown separately</i> ) with any associate or associates
The Prudential Assurance Company Limited, being its immediate holding company	100%	100%
Prudential plc, being its ultimate holding company	100%	100%

## PRUDENTIAL ANNUITIES LIMITED

Year ended 31 December 2001

### Statement of information on the appointed actuary pursuant to Rule 9.36 of the Interim Prudential Sourcebook for Insurers

In accordance with Rule 9.36 of the above sourcebook, David Belsham, the appointed actuary of the Company, was requested to furnish and has provided the following information:

- (a) (i) He had an interest in 24,957 and 53,918 shares in the share capital of the holding company, Prudential plc, at the beginning and at the end of the year respectively.
- (ii) He had an interest under the Prudential Restricted Share Plan in shares in Prudential plc held in trust, representing the maximum award that could be made if performance requirements of the Plan were met, of 30,625 and 28,921 shares at the beginning and at the end of the year respectively. During the year 9,812 shares were released to him under the 1998 Scheme and 9,840 shares were conditionally awarded to him under the 2001 Scheme.
- (iii) He exercised the following options held under the Prudential Savings-Related Share Option Scheme to acquire shares in Prudential plc:

Number of Options Exercised	Exercise Price	Date Exercised
2,005	344p	2 June 2001
1,922	359p	3 December 2001

He held the following options granted under the Prudential Savings-Related Share Option Scheme to subscribe for shares in Prudential plc:

Number of Options over Shares	Exercise Price	Exercise Dates
454	759p	Between June 2003 and December 2003
1,110	608p	Between June 2006 and December 2006

- (iv) He exercised 25,000 options held under the Prudential Executive Share Option Scheme at a price of 256p on 19 December 2001 to acquire 25,000 shares in Prudential plc.
- (v) He also had an interest in 1,410 and 1,410 shares in Egg plc, a subsidiary of Prudential plc, at the beginning and the end of the year respectively.

- (b) He was interested in the following life and general insurance policies issued by the Company:
- (i) Three endowment assurance with-profits policies maturing between 2009 and 2011 with participating sums assured totalling £18,720, non-participating minimum death benefits of £48,000 and annual premiums of £776.
  - (ii) Two temporary assurance without-profits policies expiring in 2011 with sums assured totalling £202,000 and annual premiums of £457.
  - (iii) A home insurance policy covering buildings, household contents and personal effects and a motor insurance policy.
- (c) His total remuneration for the year was £252,850.
- (d) He is a member of the Prudential Staff Pension Scheme and contributions in respect of the year were paid by the Company.