



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 2002**



(Appendices 1 , 3 , 4 , 6)

Prudential Annuities Limited

Year ended 31st December 2002

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Statement of solvencyName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2002**

R9	Company registration number 2554213	GL/UK/CM GL	Period ended			Units £000
			day	month	year	
			31	12	2002	
	As at the end of this financial year 1	As at the end of the previous year 2	Source			
			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	13014470	11888099	10 . 11
Other than long term insurance business assets allocated towards long term insurance business required minimum margin	22	782878	572322	See instructions 1 and 3
Total mathematical reserves (after distribution of surplus)	23	12622166	11802004	See instruction 4
Other insurance and non-insurance liabilities	24	342304	55922	See instruction 5
Available assets for long term insurance business required minimum margin (21+22-23-24)	25	832878	602495	

Implicit Items admitted under Rule 2.10(5) as modified

Future profits	31			
Zillmerising	32			
Hidden reserves	33			

Total of available assets and implicit items (25+31+32+33)	34	832878	602495	
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Required minimum margin

Required minimum margin for long term insurance business	41	504866	472065	60 . 69
Explicit required minimum margin (1/6 x 41, or minimum guarantee fund if greater)	42	84144	78678	
Excess (deficiency) of available assets over explicit required minimum margin (25-42)	43	748734	523817	
Excess (deficiency) of available assets and implicit items over the required minimum margin (34-41)	44	328012	130430	

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 2002**

.....

G M Wood

Chief Executive

.....

D J Belsham

Director

.....

T J W Tookey

Director

London 26 March 2003

Analysis of the effect of financial engineering on long-term available assets

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2002**

	R9A	Company registration number 2554213	GL/UK/CM GL	Period ended			Units
				day	month	year	
				31	12	2002	£000
		As at the end of this financial year 1	As at the end of the previous year 2	Source			
Required minimum margin for long term insurance business	11	504866		See instruction 2			
Excess (deficiency) of available assets and implicit items over the required minimum margin	12	328012		See instruction 3			
Total available assets and implicit items (11+12)	13	832878					
Analysed as follows:							
Value of implicit items	14			See instruction 5			
Financial reinsurance- ceded	15			See instruction 6			
Financial reinsurance- accepted	16			See instruction 7			
Outstanding contingent loans	17			See instruction 8			
Any other charges on future profits	18			See instruction 9			
Sum of financial engineering adjustments (14+15-16+17+18)	19						
Other assets (13-19)	20	832878					
Total available assets and implicit items (19+20)	21	832878					

Statement of net assets

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2002**

	R10	Company registration number 2554213	GL/UK/CM GL	Period ended			Units £000
				day	month	year	
				31	12	2002	
				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	13014470	11888099	13	89	1	
Long term insurance business - liabilities and margins	12	13014470	11888099	14	59	1	
Other than Long term insurance business - admissible assets	21	870502	575923	13	89	1	
Other than Long term insurance business - liabilities	22	87624	3601	15	69	1	
Net admissible assets (21-22)	23	782878	572322				
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	782878	572322				
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	232878	22322				
Total (51 to 56) and equal to line 29 above	59	782878	572322				
Movement of balance of net assets for solvency purposes - as per line 56							
Balance brought forward at the beginning of the financial year	61	22322	14346	10	56	2	
Retained profit/(loss) for the financial year	62	208886	9646	16	59	1	
Movement in asset valuation differences	63	1670	(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	232878	22322				

Analysis of admissible assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2002**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	2002	£000	1
						As at the end of this financial year 1		As at the end of the previous year 2		
Investments										
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 assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2002**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	2002	£000	1	
Investments (continued)					As at the end of this financial year 1		As at the end of the previous year 2			
Deposits with ceding undertakings										
Assets held to cover linked liabilities										
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			
	Debt securities and other fixed income securities	Fixed interest	Approved securities		45	236176		162887		
			Other		46	82657		105488		
		Variable interest	Approved securities		47	75433		84245		
			Other		48	182439		160524		
	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	1122		1397		
		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						
	Property linked			59						
Reinsurers' share of technical provisions	Provision for unearned premiums			60						
	Claims outstanding			61						
	Provision for unexpired risks			62						
	Other			63						
Total sheet 2 (41 to 63)			69	577827		517488				

Analysis of admissible assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2002**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	2002	£000	1	
				day	month	year				
Debtors				As at the end of this financial year			As at the end of the previous year			
Other assets				1			2			
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		68		311		
		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		286052		52241			
	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		6555		5883			
	Deferred acquisition costs		85							
	Other prepayments and accrued income		86							
Deductions (under rules 4.14(2)(b) and 4.14(3)) from the aggregate value of assets			87							
Total sheet 3 (71 to 86 less 87)			88		292675		58435			
Grand total of admissible assets (39+69+88)			89		870502		575923			
Reconciliation to asset values determined in accordance with the insurance accounts rules										
Total admissible assets (as per line 89 above)				91		870502		575923		
Total assets in excess of the admissibility limits of Appendix 4.2 (as valued in accordance with those Rules before applying admissibility limits)				92						
Solvency margin deduction for subsidiary undertakings which are insurance undertakings				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 insurance accounts rules)				95		1670				
Total assets determined in accordance with the insurance accounts rules (91 to 95)				99		870502		577593		
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance				100					7	

Analysis of admissible assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2002**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
Investments						As at the end of this financial year 1		As at the end of the previous year 2		
Land and buildings						11	269315		164645	
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	269315		164645	

Analysis of admissible assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2002**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	2002	£000	10	
					day	month	year			
Investments (continued)					As at the end of this financial year 1		As at the end of the previous year 2			
Deposits with ceding undertakings										
Assets held to cover linked liabilities										
Other financial investments	Equity shares			41						
	Other shares and other variable yield securities			42	8					
	Holdings in collective investment schemes			43						
	Rights under derivative contracts			44	70055		39592			
	Debt securities and other fixed income securities	Fixed interest	Approved securities		45	2082594		1334520		
			Other		46	8148299		7928823		
		Variable interest	Approved securities		47					
			Other		48	46992				
	Participation in investment pools			49						
	Loans secured by mortgages			50	282627		290315			
	Other loans	Loans to public or local authorities and nationalised industries or undertakings			51	5081		5050		
		Loans secured by policies of insurance issued by the company			52					
		Other			53	50145		55036		
	Deposits with approved credit institutions and approved financial institutions	Withdrawal subject to a time restriction of one month or less			54	4233		39031		
		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	1823112		1796671			
	Property linked			59						
Reinsurers' share of technical provisions	Provision for unearned premiums			60						
	Claims outstanding			61						
	Provision for unexpired risks			62						
	Other			63						
Total sheet 2 (41 to 63)			69	12513146		11489038				

Analysis of admissible assets

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2002**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	2002	£000	10
				day	month	year			
Debtors							As at the end of this financial year 1	As at the end of the previous year 2	
Other assets									
Debtors arising out of direct insurance operations	Policyholders			71	188			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	17247			6321	
	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	7619			16164	
		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					
	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	193768			189146	
	Deferred acquisition costs			85					
	Other prepayments and accrued income			86	13187			22367	
Deductions (under rules 4.14(2)(b) and 4.14(3)) from the aggregate value of assets				87					
Total sheet 3 (71 to 86 less 87)				88	232009			234416	
Grand total of admissible assets (39+69+88)				89	13014470			11888099	
Reconciliation to asset values determined in accordance with the insurance accounts rules									
Total admissible assets (as per line 89 above)				91	13014470			11888099	
Total assets in excess of the admissibility limits of Appendix 4.2 (as valued in accordance with those Rules before applying admissibility limits)				92					
Solvency margin deduction for subsidiary undertakings which are insurance undertakings				93					
Other differences in the valuation of assets (other than for assets not valued above)				94	4239			2923	
Assets of a type not valued above, (as valued in accordance with the insurance accounts rules)				95					
Total assets determined in accordance with the insurance accounts rules (91 to 95)				99	13018709			11891022	
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance				100	10			20	

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

Global business

Financial year ended **31st December 2002**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	2002	£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	12622166	11802004		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	50000	30173		See Instruction 4	
Long term insurance business fund carried forward (11 to 13)		14	12672166	11832177		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	4429	2199		
		Reinsurance accepted	32	1616	799		
		Reinsurance ceded	33				
	Debenture loans	Secured	34				
		Unsecured	35				
	Amounts owed to credit institutions		36	224556	4081		
	Other creditors	Taxation	37	4633	3549		
		Other	38	95329	36667		
Accruals and deferred income		39	11741	8627			
Provision for adverse changes (calculated in accordance with rule 5.3)		41					
Total other insurance and non-insurance liabilities (17 to 41)		49	342304	55922			
Excess of the value of net admissible assets		51				See Instruction 6	
Total liabilities and margins		59	13014470	11888099			
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance		61	2131	5705			
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 2002**

		Company registration number	GL/UK/CM	Period ended			Units	
		R15	2554213	GL	31	12	2002	£000
				day month year				
				As at the end of this financial year 1			As at the end of the previous year 2	
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			79056		
		Recommended dividend	48					
Other		49			8568		3601	
Accruals and deferred income		51						
Total (19 to 51)		59			87624		3601	
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			87624		3601	
Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance		71						

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

Global business

Financial year ended **31st December 2002**

		Company registration number	GL/UK/CM	Period ended			Units	
		R16	2554213	GL	31	12	2002	£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	255839		40 . 26			
Investment income	Income	14	26833	25956				
	Value re-adjustments on investments	15	22117					
	Gains on the realisation of investments	16	1851	17491				
Investment charges	Investment management charges, including interest	17	484	462				
	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	(151)	(164)				
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)		29	306005	20512				
Tax on profit or loss on ordinary activities		31	97119	10866				
Profit or loss on ordinary activities after tax (29-31)		39	208886	9646				
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	208886	9646				
Dividends (paid and proposed)		51						
Profit or loss retained for the financial year (49-51)		59	208886	9646				

Analysis of derivative contractsName of insurer **Prudential Annuities Limited**

Global business

Insurance Business **Other than long term**Financial year ended **31st December 2002**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	2002	£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				
Derivative contracts									
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			8535		2947		3542
Adjustments for variation margin		41							
Total (11 to 41)		49			8535		2947		3542

Analysis of derivative contractsName of insurer **Prudential Annuities Limited**

Global business

Insurance Business **Long term**Financial year ended **31st December 2002**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	2002	£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				
Derivative contracts									
Futures contracts	Fixed-interest securities	11							
	Equity shares	12							
	Land	13							
	Currencies	14		4388				1327	
	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	4881	28590		1129		9921	
	Other	35	65174	45338		38463		17348	
Adjustments for variation margin		41							
Total (11 to 41)		49	70055	78316		39592		28596	

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

Global business

Ordinary insurance business

Financial year ended **31st December 2002**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	2002	£000	OB	99	0
Items to be shown net of reinsurance ceded							The financial year 1	Previous year 2		
Earned premiums						11	814336	847725		
Investment income receivable before deduction of tax						12	781609	749755		
Increase (decrease) in the value of non-linked assets brought into account						13	359904	(10030)		
Increase (decrease) in the value of linked assets						14				
Other income						15	117	9		
Total income (11 to 15)						19	1955966	1587459		
Claims incurred						21	825240	782745		
Expenses payable						22	34897	44237		
Interest payable before deduction of tax						23	1	50		
Taxation						24				
Other expenditure						25				
Transfer to (from) non technical account						26	255839			
Total expenditure (21 to 26)						29	1115977	827032		
Increase (decrease) in fund in financial year (19-29)						39	839989	760427		
Fund brought forward						49	11832177	11071750		
Fund carried forward (39+49)						59	12672166	11832177		

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

Global business

Ordinary insurance business

Financial year ended **31st December 2002**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				
R40	2554213	GL	31	12	2002	£000	OB	1	0
Items to be shown net of reinsurance ceded						The financial year	Previous year		
						1	2		
Earned premiums						11	814336	847725	
Investment income receivable before deduction of tax						12	781609	749755	
Increase (decrease) in the value of non-linked assets brought into account						13	359904	(10030)	
Increase (decrease) in the value of linked assets						14			
Other income						15	117	9	
Total income (11 to 15)						19	1955966	1587459	
Claims incurred						21	825240	782745	
Expenses payable						22	34897	44237	
Interest payable before deduction of tax						23	1	50	
Taxation						24			
Other expenditure						25			
Transfer to (from) non technical account						26	255839		
Total expenditure (21 to 26)						29	1115977	827032	
Increase (decrease) in fund in financial year (19-29)						39	839989	760427	
Fund brought forward						49	11832177	11071750	
Fund carried forward (39+49)						59	12672166	11832177	

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 2002**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					
	R41	2554213	GL	31	12	2002	£000	OB	99	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	814336			814336		
		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	814336			814336		
		Regular premium		29						
Total premiums at lines 19 and 29 attributable to	UK contracts		31	814336			814336			
	Overseas contracts		32							
Expenses payable in the financial year	Commission payable in connection with acquisition of business			41	50			50		
	Other commission payable			42						
	Management expenses in connection with acquisition of business			43	11254			11254		
	Management expenses in connection with maintenance of business			44	11199			11199		
	Other management expenses			45	12394			12394		
	Total expenses (41 to 45)			49	34897			34897		
	Total expenses at line 49 attributable to	UK contracts		51	34897			34897		
Overseas contracts		52								

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 2002**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	2002	£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	814336				814336			
		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	814336					814336		
		Regular premium	29								
Total premiums at lines 19 and 29 attributable to	UK contracts	31	814336					814336			
	Overseas contracts	32									
Expenses payable in the financial year	Commission payable in connection with acquisition of business		41	50				50			
	Other commission payable		42								
	Management expenses in connection with acquisition of business		43	11254				11254			
	Management expenses in connection with maintenance of business		44	11199				11199			
	Other management expenses		45	12394				12394			
	Total expenses (41 to 45)		49	34897				34897			
	Total expenses at line 49 attributable to	UK contracts	51	34897				34897			
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 2002**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					
	R42	2554213	GL	31	12	2002	£000	OB	99	0
Claims incurred in the financial year				Gross		Recoverable from reinsurers		Net of reinsurance (1-2)		
				1		2		3		
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		1286			1286	
	By way of lump sums on vesting			22		1581			1581	
	By way of vested annuity payments			23		815619	326		815293	
	On surrender or partial surrender			24		7080			7080	
	Total pension business claims (21 to 24)			29		825566	326		825240	
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		825566	326		825240	
Total claims at line 59 attributable to	UK contracts			61		825566	326		825240	
	Overseas contracts			62						

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

Global business

Ordinary insurance business

Financial year ended **31st December 2002**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	2002	£000	OB	1	0
Claims incurred in the financial year					Gross		Recoverable from reinsurers	Net of reinsurance (1-2)			
					1		2	3			
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		1286				1286	
	By way of lump sums on vesting			22		1581				1581	
	By way of vested annuity payments			23		815619	326			815293	
	On surrender or partial surrender			24		7080				7080	
	Total pension business claims (21 to 24)			29		825566	326			825240	
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		825566	326			825240	
Total claims at line 59 attributable to	UK contracts			61		825566	326			825240	
	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 2002**

		Company registration number		GL/UK/CM	Period ended			Units	UK/OS	NL/LN				
		R46	2554213		GL	31	12				2002	£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			544134										
New business and increases	12			46824										
Net transfers and other alterations 'on'	13			2385										
Total 'on' (12+13)	19			49209										
Deaths	21			16160										
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			16160										
In force at end of year (11+19-29)	39			577183										

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 2002**

		Company registration number		GL/UK/CM	Period ended			Units	UK/OS	NL/LN				
		R46	2554213		GL	31	12				2002	£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			32320										
New business and increases	12			1586										
Net transfers and other alterations 'on'	13			390										
Total 'on' (12+13)	19			1976										
Deaths	21			950										
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			950										
In force at end of year (11+19-29)	39			33346										

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

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2002**

Company registration number	GLUK/CM	Period ended		Units	
		day	month		year
R47	2554213	GL	31 12	2002	£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
UK DIRECT WRITTEN INSURANCE BUSINESS						
Pension Insurance Business						
Non-Linked Non-Profit Policies						
Annuity in payment	4011	41195	3757 pa			
Group deferred annuity	116	1130	178 pa			
Sub total: Non-Linked Non-Profit Policies	4127	42325	3935 pa			
Index Linked Contracts						
Annuity in payment	753	2330	248 pa			
Group deferred annuity	1	996	116 pa			
Sub total: Index Linked Contracts	754	3326	364 pa			
Total: Pension Insurance Business	4881	45651	4299 pa			
Total: UK Direct Written Insurance Business	4881	45651	4299 pa			

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

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2002**

Company registration number	R47	2554213	GL	Period ended			Units
				day	month	year	
				31	12	2002	£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		
UK REINSURANCE ACCEPTED								
Pension Insurance Business								
Non-Linked Non-Profit Policies	42813	762136	51641 pa					
Annuity in payment	127	2834	300 pa					
Group deferred annuity								
Sub total: Non-Linked Non-Profit Policies	42940	764970	51941 pa					
Index Linked Contracts								
Annuity in payment	833	3715	822 pa					
Group deferred annuity								
Sub total: Index Linked Contracts	833	3715	822 pa					
Total: Pension Insurance Business	43773	768685	52763 pa					
Total: UK Reinsurance Accepted	43773	768685	52763 pa					

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

Global business

Financial year ended **31st December 2002**Category of assets **Total long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R48	2554213	GL	31	12	2002	£000	10
Type of asset			Value of admissible assets as shown on Form 13 1	Expected income from admissible assets 2				Yield % 3	
Land and buildings		11	269315	17238				5.84	
Fixed interest securities	Approved securities	12	2110248	116812				4.92	
	Other	13	8311635	544474				6.29	
Variable interest and variable yield securities (excluding items shown at line 16)	Approved securities	14							
	Other	15	47647	2249				4.91	
Equity shares and holdings in collective investment schemes		16							
Loans secured by mortgages		17	285386	21713				6.62	
All other assets	Producing income	18	129514	16				5.25	
	Not producing income	19	37613						
Total (11 to 19)		29	11191358	702502				5.96	

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 2002**

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			Units	Category of assets
					day	month	year		
					31	12	2002	£000	
					Value of admissible assets as shown on Form 13 4		Gross redemption yield % 5		Value of admissible higher yielding assets 6
11									
12		4.26	4995						
13		4.93			Variable interest and variable yield				
14	Fixed interest approved securities	5.20			approved securities excluding equities				
15		4.91							
16		5.08							
17		4.87							
18		4.75							
19		4.92	4995						
21		4.53							
22		5.93	12202						
23		6.24	65560		Other variable interest and variable yield securities excluding equities				
24	Other fixed interest securities	6.48							
25		6.53	135693						
26		6.20	73731					47647	4.91
27		5.97	155805						
28		7.31	423168						
29		6.29	8311635					47647	4.91
			442991						

PRUDENTIAL ANNUITIES LIMITED

SCHEDULE 4

Valuation Report on Prudential Annuities Limited as at 31 December 2002

1. Date of investigation

The investigation relates to 31 December 2002.

2. Date of previous investigation

The previous investigation related to 31 December 2001.

3. Conformity with Rule 5.6

The valuation of long term insurance 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 and may be enhanced where the policyholder suffers 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 2002 (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) and which are revalued, annually, in line with the Retail Price Index. In some cases the annuity may incorporate a minimum guaranteed period of payment, the revaluation may have a maximum and/or minimum percentage increase, and the annuity may be enhanced where the policyholder suffers 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-profits option.
- (3) Not applicable.
- (4) Not applicable.
- (5) Not applicable.
- (6) Not applicable.

Valuation Report as at 31 December 2002 (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 2002 comprised:
- i) Contracts to swap US dollars for UK sterling LIBOR plus a fixed margin;
 - ii) Contracts to swap UK sterling LIBOR for fixed UK sterling;
 - iii) Contracts to swap fixed UK sterling for UK sterling LIBOR
 - iv) Contracts to swap fixed US dollars for fixed UK sterling
 - v) Contracts to swap fixed US dollars for US dollar LIBOR
 - vi) Contracts to swap US dollar LIBOR for UK sterling LIBOR
 - vii) Contracts to swap fixed Euros for fixed UK sterling
 - viii) Currency forward contracts to exchange Euros into UK sterling
 - ix) 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), ii), iv), v) and vi) is to convert cashflows from US dollar denominated bonds into fixed UK sterling cashflows.

The effect of the contracts under iii) combined with contracts under ii) is to lengthen the duration of fixed UK sterling cashflows.

The effect of the contracts under vii) and viii) is to convert cashflows from Euro denominated bonds into UK sterling cashflows.

The effect of the contracts under ix) is to convert fixed UK sterling cashflows into RPI / LPI 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.

Valuation Report as at 31 December 2002 (continued)

- (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.
 - (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 £8,000,000 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. Enhanced annuities are valued using the tables specified in note 5102, but include a policy specific age adjustment to the mortality rate used.
- (2) The mortality tables used are published tables.
- (3) All business is written in the UK and UK-based mortality tables have been used.

Valuation Report as at 31 December 2002 (continued)

- (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. The resulting effective rate of future mortality improvement assumed is in line with the revised mortality data published by the Continuous Mortality Investigation in November 2002. 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 5.38% has been made during the deferred period, to allow for expected mortality improvements prior to vesting.
- (5) No allowance is made or reserve 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 1 percentage point in the rates of interest obtainable on fixed interest securities, an immediate decrease of 25% in real yields on index-linked stocks and an immediate fall in property values of 15%.
 - (b) an immediate increase of 2 percentage points in the rates of interest obtainable on fixed interest securities, an immediate increase of 25% in real yields on index-linked stocks and an immediate fall in property values of 15%.

Scenario (a) was the more onerous

As the effect of the derivatives described in 6 (1) (a) i) and 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 dollar assets and their associated derivatives, using the methodology of the 148 waiver (originally issued as a section 68 order in December 1995).

Similarly, the effect of the swap contracts described in 6 (1) (a) ix) is to produce RPI / LPI 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

Valuation Report as at 31 December 2002 (continued)

ii) the future liability payments on the valuation assumptions.

The cash-flow 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 4.00%. In later years, where outgo exceeds income, the cash borrowing rate is assumed to be 6.00%. The additional reserve is set so that all liability cash-flows can, on these assumptions, be met as they fall due.

A total reserve of £120,000,000 was held at 31 December 2002.

- (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. The yields on assets shown in Form 57 have been adjusted by 0.45% and 0.35% to allow for defaults on fixed interest and RPI-linked assets respectively.
- (c) Under the scenario which produces the most onerous requirement:
- (i) the aggregate amount of the long term liabilities increased by £1,212,908,000 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 £1,265,044,000.

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 dollar 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.

Valuation Report as at 31 December 2002 (continued)

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.

10. Expenses

- (1) A real discount rate of 2% p.a. is 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 2002, before inflation, were approximately £19 p.a.

Deferred annuities costs were assumed to be £5 p.a. per life during deferment and then as for immediate annuities in possession.

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.

Outgo on property maintenance costs and leases is allowed for directly in the valuation rates of interest used (and the assets yields shown in Forms 48 and 57 are shown after this deduction).

- (2) Based on the annualised annuity amounts in payment and deferment at 31 December 2002, the amount released to meet renewal expenses in 2003 will be £16,747,000. In addition, £12,753,000 will be released to meet investment management expenses (excluding outgo on property maintenance costs and leases).
- (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.

Valuation Report as at 31 December 2002 (continued)

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.

17. Changes in long term business

See Form 46.

Group non-profit deferred annuities are not included in Form 46. These consist of 1,405 schemes covering an estimated 72,888 lives, and 16,776 individual arrangements for non-linked contracts and 13,156 individual arrangements for linked contracts at 31 December 2002.

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. Similarly in Form 40 the outgo on property maintenance costs and leases is deducted from investment income. The outgo on property maintenance costs and leases amounted to £0.3m.

(2) Changes in the amounts reported on Form 48 at 31 December 2002 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	(78,316)	2,935	1.13
Line 29	(78,316)	2,935	0.04

(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	(78,316)	2,935	1.13
Line 29	(78,316)	2,935	0.04

Valuation Report as at 31 December 2002 (continued)

- (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
Conditions noted in (2)	Conditions noted in (3)
£000's	£000's
Line 18	(26,880)

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 0.45% and 0.35% 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 150% of 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:

Valuation Report as at 31 December 2002 (continued)

Default rates – basis points per annum:

Seniority	AAA	AA	A	BBB	BB and lower
First Mortgage Debenture/ Senior Secured	4.5	13.5	13.5	41.8	238.2
Senior Unsecured	10.5	31.2	30.6	88.6	518.7
Subordinated Debt	15.0	44.7	44.1	126.6	754.2
Preference Shares	18.0	55.5	54.0	157.3	941.7

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 the lower of the current rental yield and the “redemption yield”, which is the interest rate at which the market value equates with the present value of future rental income and the disposal value, in accordance with the section 148 waiver (previously issued as a section 68 order in December 1995). No allowance is made for any non-contractual increases in rental income. As an allowance for the risk of falls in value the disposal value is taken as 75% of the current market value. In Form 57 a further deduction is made to allow for the risk of default of rent. This deduction is the same as for fixed interest investments, as described in 21(2) above.

22. Valuation results

See Form 58.

23. Required minimum margin

See Form 60.

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 2002**

Type of business **Pension Insurance 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	31 day	12 month			2002 year	UK		Pens
			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			Value of annual premiums	
	2	3	4	R51	2554213	GL	31	12	2002	£000	UK	Pens	11
DIRECT WRITTEN INSURANCE BUSINESS													
Non-Profit Policies													
Annuity in payment: Individual	5.38	A (a)	47673	164639 pa						2477488			2477488
Annuity in payment: Group	5.38	B (a)	23911	29946 pa						417817			417817
Deferred annuity: Group	5.38	D (b)	670	1846 pa						23103			23103
Deferred annuity: Group	5.38	C (b)	14408	43277 pa						361298			361298
Mismatching reserves										29027			29027
Additional reserves										13250			13250
Sub total: Non-Profit Policies			86662	239708 pa						3321983			3321983
Sub total: Direct Written Insurance Business			86662	239708 pa						3321983			3321983
REASSURANCE ACCEPTED													
Non-Profit Policies													
Annuity in payment: Individual	5.38	A (a)	505599	551756 pa						7192783			7192783
Deferred annuity: Group	5.38	D (b)	3101	17746 pa						159972			159972
Miscellaneous deferred annuity	5.38	E (b)	2	2 pa						20			20
Mismatching reserve										65150			65150
Additional reserve										29739			29739

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 2002**

Type of business **Pension Insurance 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	Units	UK/OS	Type of business		Category of surplus		
	Rate of interest	Mortality or morbidity table			Office premiums		Net premiums					Office premiums	Net premiums		Value of annual premiums	
					GL	31	12	2002							£000	UK
1	2	3	4	5	6	7	8	9	10	11	11		11			
Sub total: Non-Profit Policies			508702	569504 pa				7447664					7447664			
Sub total: Reassurance Accepted			508702	569504 pa				7447664					7447664			
REASSURANCE CEDED																
Non-Profit Policies				142 pa				3758					3758			
Deduct reinsurance ceded																
Sub total: Non-Profit Policies				142 pa				3758					3758			
Sub total: Reassurance Ceded				142 pa				3758					3758			
Net total: Pension Insurance Business			595364	809070 pa				10765889					10765889			
Net total: United Kingdom Insurance Business			595364	809070 pa				10765889					10765889			

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Long term insurance business : Valuation summary of index linked contracts

Name of insurer **Prudential Annuities Limited**

Global business

United Kingdom business

Financial year ended **31st December 2002**

Type of business **Pension Insurance 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			Amount of annual premiums		Investment liability		Other liabilities		Category of surplus
	Rate of interest	Mortality or morbidity table		Guaranteed on death	Current on death/current payable per annum	Guaranteed on maturity	Office premiums	Net premiums	Name of index link	Current benefit value	Discounted value	Mortality and expenses	
			2										3
1													
DIRECT WRITTEN INSURANCE BUSINESS Non-Profit Policies													
Annuity in payment: Individual	2.42	A (a)	7254			21732 pa				392513			392513
Annuity in payment: Group	2.42	B (a)	12618			27405 pa				403045			403045
Annuity in payment: Group	5.38	B (a)	8232			16582 pa				273626			273626
Deferred annuity: Group	2.42	C (b)	6006			15547 pa				156341			156341
Deferred annuity: Group	5.38	C (b)	7150			15058 pa				211016			211016
Mismatching reserves													
Additional reserves													
Sub total: Non-Profit Policies			41260			96324 pa				1436641			1461975
Sub total: Direct Written Insurance Business			41260			96324 pa				1436641			1461975
REASSURANCE ACCEPTED Non-Profit Policies													
Annuity in payment: Individual	2.42	A (a)	5242			24622 pa				388396			388396
Mismatching reserve													6160
Additional reserve													1571
Sub total: Non-Profit Policies			5242			24622 pa				388396			396127

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Long term insurance business : Valuation summary of index linked contracts

Name of insurer **Prudential Annuities Limited**

Global business

United Kingdom business

Financial year ended **31st December 2002**

Type of business **Pension Insurance 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		Units		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	GL	CM	day	month	year	£000	UK	OS	
	2	3	4	5	6	7									8
1			4												
Sub total: Reassurance Accepted			5242			24622 pa				388396		388396			396127
REASSURANCE CEDED															
Non-Profit Policies						100 pa				1825		1825			1825
Deduct reinsurances															
Sub total: Non-Profit Policies						100 pa				1825		1825			1825
Sub total: Reassurance Ceded						100 pa				1825		1825			1825
Net total: Pension Insurance Business			46602			120846 pa				1823112		1823112			1866277
Net total: United Kingdom Insurance Business			46602			120846 pa				1823112		1823112			1866277

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

Global business

United Kingdom business

Financial year ended **31st December 2002**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	2002	£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		9046						
Rights under derivative contracts	RPI		(23389)			(23389)			
Government and public body non-linked bonds	RPI		177079						
Corporate non-linked bonds	RPI		597723						
Government and public body index linked bonds	RPI		154584						
Corporate index linked bonds	RPI		871139						
Public or local authority and nationalised industry loan	RPI		171						
Loans secured by mortgages	RPI		9493						
Other loans	RPI		1684						
Deposits with approved credit institutions	RPI		142						
Accrued interest and rent	RPI		25440						

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

Global business

United Kingdom business

Financial year ended **31st December 2002**Category of surplus **11: Global Business (Issued in the United Kingdom)**

	Company registration number	GL/UK/CM	Period ended			Units	UK/JOS	Category of Surplus	
			day	month	year				
	R56	2554213	GL	31	12	2002	£000	UK	11
Type of assets and liabilities	Name of index link			Value of assets or liabilities		Gross derivative value			
	1			2		3			
Sub total assets				1846501					
Sub total liabilities				(23389)					
Sub total net assets				1823112					
Total assets				1846501					
Total liabilities				(23389)					
Net total assets				1823112					

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 Insurance Business

Financial year ended 31st December 2002

Non profit

Category of assets Total long term business assets

Company registration number	GL/UK/CM	Period ended		Units	Stg/NonStg	Valuation rate of interest	L&GA/Pens/PHI/Other	WP/NP	Category of assets			
		day	month							year		
R57	GL	31	12	2002	£000	Stg	0.00	Pens	NP	10		
										The valuation		
										The resilience scenario		
										The valuation		
										The resilience scenario		
	Value of asset notionally allocated	1	Risk adjusted yield %	2	Value of assets notionally allocated	On original allocation	Increase or decrease	Total under resilience scenario	5	Risk adjusted yield %	6	
						3	4					
11	Land and buildings	149376	5.84		165519	(60862)	104657			4.84		
12	Fixed interest securities											
13	Approved securities											
14	Other											
15	Variable interest and Variable yield securities (excluding items shown at line 16)	28954	2.53		31198	(19295)	11903			1.89		
16	Equity shares and holdings in collective investment schemes											
17	Loans secured by mortgages											
18	All other assets											
19	Producing income											
19	Not producing income											
29	Total (11 to 19)	178330	5.30		196717	(80157)	116560			4.54		
31	Gross valuation interest rate %											
32	Net valuation interest rate % (where appropriate)											
33	Mathematical reserve or other liability, net of reinsurance	178330					64424					

Long term insurance business : Matching rectangle

Sterling liabilities

Name of insurer Prudential Annuities Limited

Valuation rate(s) of interest 2.42%

Global business

Type of business Pension Insurance Business

Financial year ended 31st December 2002

Non profit

Category of assets Total long term business assets

Company registration number	GLUK/CM	Period ended			Units	Stg/ NonStg	Valuation rate of interest	L&GAPens/ PH/Other	WP/INP	Category of assets
		day	month	year						
		31	12	2002						
R57	2554213	GL	£000	Stg	2.42	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			5			
3		4		4			6			
11	6602	2.81	5611	5611		5611	3.30			
12	51047	1.91	57533	57533		57533	0.91			
13	199728	3.25	221886	221886		221886	2.25			
14	186753	1.83	198142	198142		198142	1.38			
15	859390	2.53	925989	925989		945284	1.89			
16										
17	6928	3.67	7446	7446		7446	2.75			
18	1457	4.12	1457	1457		1457	3.09			
19	18566		18566	18566		18566				
29	1330471	2.49	1436630	1436630		1455925	1.83			
31		2.42					1.73			
32										
33	1330471					1455925				
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										
All other assets										
Producing income										
Not producing income										
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 liabilities

Name of insurer Prudential Annuities Limited

Valuation rate(s) of interest 5.38%

Global business

Type of business Pension Insurance Business

Financial year ended 31st December 2002

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	2002	£000	Stg	5.38	Pens	NP	10			
The valuation										The resilience scenario				
Type of asset notionally allocated										Value of assets notionally allocated		Risk adjusted yield %		
1										On original allocation	Increase or decrease	Total under resilience scenario	5	6
11	267438			2		227322			227322		6.34			
12	2095542	Approved securities				2354860			2354860		3.47			
13	8253711	Other				9145699		60862	9206561		4.84			
14		Approved securities												
15	47315	Other				54016			54016		3.42			
16		Equity shares and holdings in collective investment schemes												
17	283397	Loans secured by mortgages				306004			306004		5.17			
18	128611	Producing income				128611			128611		4.25			
19	37351	Not producing income				37351			37351					
29	11113365	Total (11 to 19)				12253863		60862	12314725		4.59			
31		Gross valuation interest rate %									4.41			
32		Net valuation interest rate % (where appropriate)												
33	11113365	Mathematical reserve or other liability, net of reinsurance							12314725					

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 2002

With profits/Non profit

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	year						
		31	12	2002	2002						
R57	2554213	GL			£000		99				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			
			31	12	2002	2002	On original allocation 3		Increase or decrease 4	Total under resilience scenario 5	
11		274040	5.33		232933			232933	6.27		
12	Approved securities	2146589	4.41		2412393			2412393	3.41		
13	Other	8602815	5.78		9533104			9533104	4.78		
14	Approved securities	186753	1.83		198142			198142	1.38		
15	Other	935659	2.63		1011203			1011203	1.98		
16	Equity shares and holdings in collective investment schemes										
17	Loans secured by mortgages	290325	6.11		313450			313450	5.11		
18	Producing income	130068	5.24		130068			130068	4.24		
19	Not producing income	55917			55917			55917			
29	Total (11 to 19)	12622166	5.22		13887210			13887210	4.30		
31	Gross valuation interest rate %										
32	Net valuation interest rate % (where appropriate)										
33	Mathematical reserve or other liability, net of reinsurance	12622166						13835074			

Long term insurance business : Valuation result and distribution of surplus

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2002**Company
registration
number

GL/UK/CM

Period ended

Units

Category
of surplusCategory of surplus **11: Global Business (Issued in the United Kingdom)****R58****2554213****GL****31****12****2002****£000****11**

Category of surplus	Description	Period ended			Units	Category of surplus	
		day	month	year			
Valuation result	Fund carried forward	11			12672166		
	Bonus payments made to policyholders in anticipation of a surplus	12					
	Transfers out of fund/ parts of fund	Transfer to non-technical account	13			255839	
		Transfer to other funds/parts of funds	14				
	Net transfer out of funds/parts of funds (13+14)	15			255839		
	Total (11+12+15)	16			12928005		
	Mathematical reserves for accumulating with profit policies	17					
	Mathematical reserves for other non linked contracts	18			10765889		
	Mathematical reserves for property linked contracts	19					
	Mathematical reserves for index linked contracts	20			1856277		
	Total (17 to 20)	21			12622166		
Surplus including contingency and other reserves held towards the solvency margin (deficiency) (16-21)	29			305839			
Composition of surplus	Balance of surplus brought forward unappropriated from last valuation	31			30173		
	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			275666		
Total (31+34+35)	39			305839			
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			255839		
	Total distributed surplus (46+47)	48			255839		
	Balance of surplus (including contingency and other reserves held towards the solvency margin) carried forward unappropriated	49			50000		
Total (48+49)	59			305839			
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					

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Long term insurance business : Required minimum margin

Name of insurer **Prudential Annuities Limited**

Global business

Company registration number **R60**

GL/JUK/CM

Units

Financial year ended **31st December 2002**

Period ended
day month year

31 12 2002

£000

Class	Classes I, II & IX		Class III business with relevant factor of				Class IV and V				Classes VII and VIII business with relevant factor of				Unallocated additional mathematical reserves with relevant factor of		Total for all classes	
	4%	1%	4%	1%	Nil	Total	4%	1%	Nil	Total	4%	1%	Nil	Total	4%	1%	The financial year	The previous year
Relevant factor (Instruction 1)	1	3	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Mathematical reserves before deduction of reinsurance	11	10632481	1824937	1824937	1824937	1824937	1824937	1824937	1824937	1824937	170329	170329	12627747	11807255				
Reserves for bonus allocated to policyholders	12																	
Reserves after distribution of surplus	13	10632481	1824937	1824937	1824937	1824937	1824937	1824937	1824937	1824937	170329	170329	12627747	11807255				
Mathematical reserves after deduction of reinsurance	14	10628724	1823113	1823113	1823113	1823113	1823113	1823113	1823113	1823113	170329	170329	12622166	11802004				
Ratio of 16 to 13 or 0.85 if greater (see Instruction 2)	15																	
Reserves after distribution of surplus	16	10628724	1823113	1823113	1823113	1823113	1823113	1823113	1823113	1823113	170329	170329	12622166	11802004				
Required margin of solvency - first result = (line 15) ÷ (line 17) × relevant factor	17	0.9996				0.9990						1.0000						
Required margin of solvency - second result = (line 15) ÷ (line 17) × relevant factor	19	425129				72924						6813						
Temporary assurances with required margin of solvency of 0.1%	21																	
Non negative capital at risk before reinsurance (See Instruction 3)	22																	
Temporary assurances with required margin of solvency of 0.15%	23																	
All other assurances with required margin of solvency of 0.3%	23																	
Total (21 to 23)	29																	
Non negative capital at risk after reinsurance (all contracts) (see Instruction 3)	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	425129				72924						6813						
Required margin of solvency for supplementary business (Business Insurance & Class V)	51																	
Total required margin of solvency for long term insurance business (49+51)	59																	
Minimum guarantee fund	61																	
Required minimum margin (greater of lines 59 and 61)	69																504866	472065
																	507	497
																	504866	472065

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2002

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 (AN) 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		
		2002	2001
		£'000s	£'000s
	<i>Net assets per FSA return</i>		
	Line 99 on Form 13 (OLTB)	870,502	577,593
	Line 59 on Form 15	<u>(87,624)</u>	<u>(3,601)</u>
		782,878	573,992
	<i>Per shareholder accounts</i>		
	Capital and reserves	1,103,984	946,852
	<i>Difference</i>		
	Additional reserves held in long term fund	383,008	485,362
	Valuation difference Line 94 on Form 13	4,239	2,925
	Deferred tax held on additional reserves and valuation differences	(116,141)	(145,600)
	Unappropriated surplus held in long term fund		
	Line 49 on Form 58	50,000	30,173
		<u>321,106</u>	<u>372,860</u>

Form 13

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

- *1301* The Company held £66m 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 £1,050m in unlisted securities.

Supplementary notes to the returns (continued)

- *1309*** The Company held £1,330m in hybrid securities.
- *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 has been set in accordance with the counterparty limits detailed in the Interim Prudential Sourcebook for Insurers Appendix 4.2 Rule 4.14. Therefore exposures to non-approved counterparties have been restricted to a maximum of 5% of the business amount. No counterparty exposure during the year exceeded these limits.
- *1312*** No counterparty exposure at the year end exceeded 5% of the long term business amount.
- *1313*** No “secured obligations” were held at the year end.

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 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 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 £1,200k. 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 mainly of interest earned on corporation tax paid but also includes 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. 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 £765m 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 £547m arising from claims under this reinsurance agreement..

The liabilities included in the return, relating to this business amount to £7,461m at the year end.

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.

Supplementary notes to the returns (continued)

Form 48

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

Line	Description	2002 £'000
12	Fixed interest – approved securities	27,654
13	Fixed interest – unapproved securities	163,336
15	Variable interest – unapproved securities	647
		<u>191,637</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%.

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=2003) / 80% PFA92 (U=2003)
- B 80% PMA92 (U=2003)+3 / 80% PFA92 (U=2003)+3
- C [AM / AF92] - 3 (in deferment), 80% PMA92 (U=2003)+3 / 80% PFA92 (U=2003)+3 (in possession)
- D [AM / AF92] - 3 (in deferment), 70% PMA92 (C=2003) / 70% PFA92 (C=2003) (in possession)
- E Nil (in deferment), 80% PMA92 (U=2003) / 80% PFA92 (U=2003) (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 1.50%
- b Expense loading of 4.50%

Form 57

5704 The yield shown in line 29 column 2 of Form 57 is the aggregate yield calculated in accordance with the section 68 order and not the market weighted average yield of lines 11 to 19 inclusive.

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2002

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

We certify:

1. (a) in relation to the part of this return comprising Forms 9, 9A, 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 Section 68 orders granted in August 1992 and December 1995 under of the Insurance Companies Act 1982 which continue to 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) that 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.
- (d) that proper records have been maintained and adequate information obtained by the insurer for the purpose of the declaration required by rule 9.39.

Certificate required by Rule 9.34(a) (continued)

2. that the margin of solvency required by rule 2.1 has been maintained throughout the financial year.
3.
 - (a) that the requirements of rules 3.1 to 3.4 have been fully complied with and in particular that, subject to the provisions of 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 fund has not been applied otherwise than for the purpose of the long term insurance business;
 - (b) that 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 subsidiary 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) that 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) that no internal linked funds are maintained;
 - (e) that 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) that the company has fully complied with the requirement of rule 3.5.

Certificate required by Rule 9.34(a) (continued)

4. (a) that the systems of control established and maintained by the company in respect of its business complied at the end of the financial year, and it is reasonable to believe that those systems continued to so comply subsequently and will continue to so comply in the future, with the following published guidance:
- (i) Guidance Note P.1 – ‘Systems of control over the investments of insurers’;
 - (ii) Guidance notes for the Insurance and Retail Products Financial Sector (issued by the Joint Money Laundering Steering Group);
- (b) that 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 – ‘Use of derivative contracts in insurance funds’;
and
 - (iii) Guidance Note 9.1 – ‘Preparation of annual returns’.

.....
G M Wood
Chief Executive

.....
D J Belsham
Director

.....
T J W Tookey
Director

26 March 2003

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2002

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 2002 for the liabilities (other than the liabilities which had fallen due before 31 December 2002) 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 2002 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 on Valuation of Long-Term Insurance Business" issued by the Faculty and Institute of Actuaries, dated 30 December 2002;
 - (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 2002 (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 £504,866,000.

D J Belsham
Appointed Actuary

26 March 2003

PRUDENTIAL ANNUITIES LIMITED

Financial Year ended 31 December 2002

Report of the auditor to the Directors pursuant to Rule 9.35 of the Accounts and Statements Rules.

We have examined the following documents prepared by the company pursuant to the Accounts and Statements Rules set out in part I of chapter 9 to the Interim Prudential Sourcebook for Insurers (“the Rules”) made by the Financial Services Authority (“FSA”) under section 138 of the Financial Services and Markets Act 2000:

- Forms 9, 9A, 10, 13 to 17 and 40 to 42 (including the supplementary notes thereto) (“the Forms”);
- the statement required by Rule 9.29 on pages 64 to 66 (“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) in so far as it relates to controls with respect to Money Laundering.

This report is made solely to the company’s directors, as a body, in accordance with the requirements of rule 9.35 of the Rules. We acknowledge that the directors are required to submit this report to the FSA, to enable the FSA to verify that an auditor’s report has been commissioned by the company’s directors and issued in accordance with the requirements of rule 9.35 of the Rules and to facilitate the discharge by the FSA of its regulatory functions in respect of the company, conferred on the FSA by or under the Financial Services and Markets Act 2000. Our audit work has been undertaken so that we might state to the company’s directors those matters we are required to state to them in an auditor’s report issued pursuant to rule 9.35 of the Rules and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s directors as a body, for our audit work, for this report, or for the opinions we have formed.

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. 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 obtained by us relating to the audit of the financial statements of the company for the financial year. 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) based on 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
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

26 March 2003

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2002

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 used interest rate and currency swaps in the long term business and interest rate swaps in the other than long term business.

(b) Derivatives where exercise is unlikely

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 2002 no such contracts were used.

- (d) **Effect on form 13 at 31 December 2002 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; (£75,860,000)

Form 13 line 54/55/81; (£31,648,000)

Other than long-term funds

Form 13 line 54/55/81; (£8,535,000)

- (e) **Effect on form 13 at 31 December 2002 of exercising all derivatives. Decreases are shown in brackets.**

Long-term funds

Form 13 line 44; (£75,860,000)

Form 13 line 54/55/81; (£31,648,000)

Other than long-term funds

Form 13 line 54/55/81; (£8,535,000)

- (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; (£15,346,000)

Form 13 line 54/55/81; £5,693,000

Other than long-term funds

Form 13 line 44; (£1,150,000)

Form 13 line 54/55/81; £1,150,000

Conditions noted in (e)

Long-term funds

Form 13 line 44; (£15,346,000)

Form 13 line 54/55/81; £5,693,000

Other than long-term funds

Form 13 line 44; (£1,150,000)

Form 13 line 54/55/81; £1,150,000

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 counterparty to fulfil its obligations under derivative contracts at the end of the year was £14,605,000

Under foreseeable market conditions the company's exposure would not increase beyond £15,335,000 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 £14,940,000.

Other than long-term funds

The maximum loss which would have been incurred by the Company on the failure by any one counterparty to fulfil its obligations under derivative contracts at the end of the year was £Nil.

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 £844,000.

(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 2002 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 2002

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 2002, 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 2002:
 - (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 2002, a shareholder controller of the Company.	In the case of each person who was a shareholder controller of the Company at 31 December 2002:	
	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

Returns for the year ended 31 December 2002

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 53,918 and 56,085 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 28,921 and 34,262 shares at the beginning and at the end of the year respectively. During the year 2,097 shares were released to him and under the 2002 Scheme 14,657 shares were conditionally awarded to him.
- (iv) 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 |
| 1,169 | 566p | Between June 2007 and December 2007 |
- (iii) He also had an interest in 1,410 shares in Egg plc, a subsidiary of Prudential plc, at the beginning and the end of the year.
- (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, travel and personal effects and a motor insurance policy.
- (c) His total remuneration for the year was £245,356.
- (d) He is a member of the Prudential Staff Pension Scheme and contributions in respect of the year were paid by the Company.