



# **Prudential Annuities Limited**

Incorporated and Registered in England and Wales Registered number 2554213  
Registered Office Laurence Pountney Hill, London, EC4R 0HH

**Annual FSA Insurance Returns for the year ended**

**31 December 2005**



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



# PRUDENTIAL ANNUITIES LIMITED

Year ended 31 December 2005

## Contents

	Page	
<b>Appendix 9.1</b>		
Form 2	Long term insurance business: Statement of solvency	3
	Covering sheet to Form 2	4
Form 3	Components of capital resources	5
Form 13	Analysis of admissible assets	8
Form 14	Long term insurance business liabilities and margins	14
Form 15	Liabilities (other than long term insurance business)	15
Form 16	Profit and loss account (non-technical account)	16
Form 17	Analysis of derivative contracts	17
<b>Appendix 9.3</b>		
Form 40	Long term insurance business: Revenue account	19
Form 41	Long term insurance business: Analysis of premiums	20
Form 42	Long term insurance business: Analysis of claims	21
Form 43	Long term insurance business: Analysis of expenses	22
<b>Appendix 9.4</b>		
Form 46	Long term insurance business: Summary of new business	23
Form 47	Long term insurance business: Analysis of new business	24
Form 48	Long term insurance business: Non-linked assets	25
Form 49	Long term insurance business: Fixed and variable interest assets	26
Form 50	Long term insurance business: Summary of mathematical reserves	27
Form 51	Long term insurance business: Valuation summary of non-linked contracts (other than accumulating with-profits contracts)	28
Form 54	Long term insurance business: Valuation summary of index linked contracts	30
Form 56	Long term insurance business: Index linked business	32
Form 57	Long term insurance business: Analysis of valuation interest rates	33
Form 58	Long term insurance business: Distribution of surplus	34
Form 60	Long term insurance capital requirement	35
	Long term insurance valuation report – Rule 9.31	36
<b>Appendix 9.6</b>		
	Notes to the Return	51
	Directors' Certificate – Rule 9.34(a)	57
	Auditors' Report – Rule 9.35	58
	Additional information on Derivative Contracts Rule – 9.29	61
	Additional information on Controllers – Rule 9.30	64

**Statement of solvency - long-term insurance business**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2005**

Solo solvency calculation

R2	Company registration number	GL/UK/CM	day month year			Units
			31	12	2005	
	2554213	GL				£000
			As at end of this financial year			As at end of the previous year
			1			2

**Capital resources**

Capital resources arising within the long-term insurance fund	11	48100	89902
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	1058236	897273
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	1106336	987175

**Guarantee fund**

Guarantee fund requirement	21	197518	188552
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	908818	798623

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	31	592555	565657
Resilience capital requirement	32		
Base capital resources requirement	33	2030	2087
Individual minimum capital requirement	34	592555	565657
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	592555	565657
Excess (deficiency) of available capital resources to cover 50% of MCR	37	810058	704347
Excess (deficiency) of available capital resources to cover 75% of MCR	38	661920	562933

**Enhanced capital requirement**

With-profits insurance capital component	39		
Enhanced capital requirement	40	592555	565657

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	41	592555	565657
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	513781	421518

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51		
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**Covering Sheet to Form 2**

**Form 2**

Name of insurer      **Prudential Annuities Limited**

Global business

Financial year ended      **31 December 2005**

\_\_\_\_\_ N E Prettejohn      **Chief Executive**

\_\_\_\_\_ D J Belsham      **Director**

\_\_\_\_\_ T V Boardman      **Director**

**London 22 March 2006**

**Components of capital resources**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2005**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	<b>R3</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year		
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>		

**Core tier one capital**

Permanent share capital	<b>11</b>		550000	550000	550000
Profit and loss account and other reserves	<b>12</b>		1040051	1040051	801235
Share premium account	<b>13</b>				
Positive valuation differences	<b>14</b>				
Fund for future appropriations	<b>15</b>				
Core tier one capital in related undertakings	<b>16</b>				
Core tier one capital (sum of 11 to 16)	<b>19</b>		1590051	1590051	1351235

**Tier one waivers**

Unpaid share capital / unpaid initial funds and calls for supplementary contributions	<b>21</b>				
Implicit Items	<b>22</b>				
Tier one waivers in related undertakings	<b>23</b>				
Total tier one waivers as restricted (21+22+23)	<b>24</b>				

**Other tier one capital**

Perpetual non-cumulative preference shares as restricted	<b>25</b>				
Perpetual non-cumulative preference shares in related undertakings	<b>26</b>				
Innovative tier one capital as restricted	<b>27</b>				
Innovative tier one capital in related undertakings	<b>28</b>				

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		1590051	1590051	1351235
Investments in own shares	<b>32</b>				
Intangible assets	<b>33</b>				
Amounts deducted from technical provisions for discounting	<b>34</b>				
Other negative valuation differences	<b>35</b>		481815	481815	362960
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>		481815	481815	362960
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		1108236	1108236	988275

**Components of capital resources**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2005**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Tier two capital**

Implicit items, (tier two waivers and amounts excluded from line 22)	<b>41</b>				
Perpetual non-cumulative preference shares excluded from line 25	<b>42</b>				
Innovative tier one capital excluded from line 27	<b>43</b>				
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	<b>44</b>				
Perpetual cumulative preference shares	<b>45</b>				
Perpetual subordinated debt and securities	<b>46</b>				
Upper tier two capital in related undertakings	<b>47</b>				
<b>Upper tier two capital (44 to 47)</b>	<b>49</b>				

Fixed term preference shares	<b>51</b>				
Other tier two instruments	<b>52</b>				
Lower tier two capital in related undertakings	<b>53</b>				
<b>Lower tier two capital (51+52+53)</b>	<b>59</b>				

<b>Total tier two capital before restrictions (49+59)</b>	<b>61</b>				
Excess tier two capital	<b>62</b>				
Further excess lower tier two capital	<b>63</b>				
<b>Total tier two capital after restrictions, before deductions (61-62-63)</b>	<b>69</b>				

**Components of capital resources**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2005**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	<b>71</b>				
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		1108236	1108236	988275
Inadmissible assets other than intangibles and own shares	<b>73</b>		1900	1900	1100
Assets in excess of market risk and counterparty limits	<b>74</b>				
Deductions for related ancillary services undertakings	<b>75</b>				
Deductions for regulated non-insurance related undertakings	<b>76</b>				
Deductions of ineligible surplus capital	<b>77</b>				
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		1106336	1106336	987175

**Available capital resources for PRU tests**

Available capital resources for guarantee fund requirement	<b>81</b>		1106336	1106336	987175
Available capital resources for 50% MCR requirement	<b>82</b>		1106336	1106336	987175
Available capital resources for 75% MCR requirement	<b>83</b>		1106336	1106336	987175

**Financial engineering adjustments**

Implicit items	<b>91</b>				
Financial reinsurance - ceded	<b>92</b>				
Financial reinsurance - accepted	<b>93</b>				
Outstanding contingent loans	<b>94</b>				
Any other charges on future profits	<b>95</b>				
<b>Sum of financial engineering adjustments (91+92-93+94+95)</b>	<b>96</b>				



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

Global business

Financial year ended **31 December 2005**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>		
	Debts and loans	<b>28</b>		
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>			
Other shares and other variable yield securities	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>		1107	
Rights under derivative contracts	<b>44</b>	443	627	
Fixed interest securities	Approved	<b>45</b>	678842	499656
	Other	<b>46</b>	115593	110423
Variable interest securities	Approved	<b>47</b>	7052	61661
	Other	<b>48</b>	120578	204763
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>			
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>			
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	30370	24652
	More than one month withdrawal	<b>55</b>		
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>		
	Property linked	<b>59</b>		

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

Global business

Financial year ended **31 December 2005**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
<b>R13</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>	<b>1</b>
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>
						<b>1</b>	<b>2</b>

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	
	Intermediaries	<b>72</b>	
Salvage and subrogation recoveries		<b>73</b>	
Reinsurance	Accepted	<b>74</b>	
	Ceded	<b>75</b>	
Dependants	due in 12 months or less	<b>76</b>	
	due in more than 12 months	<b>77</b>	
Other	due in 12 months or less	<b>78</b>	
	due in more than 12 months	<b>79</b>	

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	97437	1616
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	10769	8126
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	1061084	912631
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**Analysis of admissible assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2005**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets
R13	2554213	31	12	2005	£000	1
					As at end of this financial year	As at end of the previous year
					1	2

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting**

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	91	1061084	912631
Assets in excess of market and counterparty limits	92		
Capital resources requirement deduction of regulated related undertakings	93		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	94		
Inadmissible assets of regulated related insurance undertakings	95		
Book value of related ancillary services undertakings	96		
Other differences in the valuation of assets (other than for assets not valued above)	97		1100
Deferred acquisition costs excluded from line 89	98		
Reinsurers' share of technical provisions excluded from line 89	99		
Other asset adjustments (may be negative)	100	(96625)	
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100)	101	964459	
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102		

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

Global business

Financial year ended **31 December 2005**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>		348389	294391	

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>		
	Debts and loans	<b>28</b>		
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>			
Other shares and other variable yield securities	<b>42</b>	8	8	
Holdings in collective investment schemes	<b>43</b>		53227	
Rights under derivative contracts	<b>44</b>	142843	118117	
Fixed interest securities	Approved	<b>45</b>	2970027	2757948
	Other	<b>46</b>	8773032	8345828
Variable interest securities	Approved	<b>47</b>		
	Other	<b>48</b>	38406	41171
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>	238709	250606	
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>	545	516	
Loans secured by policies of insurance issued by the company	<b>52</b>			
Other loans	<b>53</b>	60418	54726	
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	303444	113985
	More than one month withdrawal	<b>55</b>		
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>	2165034	2056247
	Property linked	<b>59</b>		

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

Global business

Financial year ended **31 December 2005**Category of assets **Total long term insurance business assets**

	Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
	<b>R13</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>	<b>10</b>
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
						<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	160	190
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>	15	1166
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	6742	5791
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>		33814
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	205231	204799
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>	22855	22706

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	15275858	14355236
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**Analysis of admissible assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2005**Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
	R13	2554213	GL	31	12	2005	£000	10
						As at end of this financial year	As at end of the previous year	
						1	2	

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting**

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	91	15275858	14355236
Assets in excess of market and counterparty limits	92		
Capital resources requirement deduction of regulated related undertakings	93		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	94		
Inadmissible assets of regulated related insurance undertakings	95		
Book value of related ancillary services undertakings	96		
Other differences in the valuation of assets (other than for assets not valued above)	97		
Deferred acquisition costs excluded from line 89	98		
Reinsurers' share of technical provisions excluded from line 89	99	6644	
Other asset adjustments (may be negative)	100	61147	
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100)	101	15343649	
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102		

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

Global business

Financial year ended **31 December 2005**Total business/Sub fund **Ordinary Branch Long Term**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus		<b>11</b>	14813876	14141806
Cash bonuses which had not been paid to policyholders prior to end of the financial year		<b>12</b>		
Balance of surplus/(valuation deficit)		<b>13</b>	50000	50000
Long term insurance business fund carried forward (11 to 13)		<b>14</b>	14863876	14191806
Claims outstanding	Gross	<b>15</b>	16561	16528
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	16561	16528
Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers		<b>23</b>		
Creditors	Direct insurance business	<b>31</b>		
	Reinsurance accepted	<b>32</b>	431	
	Reinsurance ceded	<b>33</b>		
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions		<b>36</b>	35186	
Creditors	Taxation	<b>37</b>	45417	5070
	Other	<b>38</b>	314161	99794
Accruals and deferred income		<b>39</b>	2126	2136
Provision for "reasonably foreseeable adverse variations"		<b>41</b>		
Total other insurance and non-insurance liabilities (17 to 41)		<b>49</b>	413882	123528
Excess of the value of net admissible assets		<b>51</b>		39902
Total liabilities and margins		<b>59</b>	15277758	14355236

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance		<b>61</b>		1650
Amounts included in line 59 attributable to liabilities in respect of property linked benefits		<b>62</b>		

Total liabilities (11+12+49)		<b>71</b>	15227758	14265334
Increase to liabilities - DAC related		<b>72</b>		
Reinsurers' share of technical provisions		<b>73</b>	6644	
Other adjustments to liabilities (may be negative)		<b>74</b>	(519151)	
Capital and reserves and fund for future appropriations		<b>75</b>		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75)		<b>76</b>	14715251	14265334

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

Global business

Financial year ended **31 December 2005**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	<b>R15</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>
						<b>As at end of this financial year 1</b>	<b>As at end of the previous year 2</b>

**Technical provisions (gross amount)**

Provisions for unearned premiums		<b>11</b>			
Claims outstanding		<b>12</b>			
Provision for unexpired risks		<b>13</b>			
Equalisation provisions	Credit business	<b>14</b>			
	Other than credit business	<b>15</b>			
Other technical provisions		<b>16</b>			
Total gross technical provisions (11 to 16)		<b>19</b>			

**Provisions and creditors**

Provisions	Taxation	<b>21</b>			
	Other risks and charges	<b>22</b>			
Deposits received from reinsurers		<b>31</b>			
Creditors	Direct insurance business	<b>41</b>			
	Reinsurance accepted	<b>42</b>			
	Reinsurance ceded	<b>43</b>			
Debenture loans	Secured	<b>44</b>			
	Unsecured	<b>45</b>			
Amounts owed to credit institutions		<b>46</b>			
Creditors	Taxation	<b>47</b>		1003	13647
	Recommended dividend	<b>48</b>			
	Other	<b>49</b>		1845	1711
Accruals and deferred income		<b>51</b>			
Total (19 to 51)		<b>59</b>		2848	15358
Provision for "reasonably foreseeable adverse variations"		<b>61</b>			
Cumulative preference share capital		<b>62</b>			
Subordinated loan capital		<b>63</b>			
Total (59 to 63)		<b>69</b>		2848	15358

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	<b>71</b>				
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Reinsurers' share of DAC	<b>81</b>				
Amounts deducted from technical provisions for discounting	<b>82</b>				
Other adjustments (may be negative)	<b>83</b>			(42)	
Capital and reserves	<b>84</b>			1590051	
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69+81-82+83+84)	<b>85</b>			1592857	15358



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

Global business

Financial year ended **31 December 2005**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		<b>R16</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>
				This financial year			Previous year	
				1			2	
Transfer (to)/from the general insurance business technical account	From Form 20		<b>11</b>					
	Equalisation provisions		<b>12</b>					
Transfer from the long term insurance business revenue account			<b>13</b>			96864		
Investment income	Income		<b>14</b>			43363	42318	
	Value re-adjustments on investments		<b>15</b>			9404	27893	
	Gains on the realisation of investments		<b>16</b>			39847	4404	
Investment charges	Investment management charges, including interest		<b>17</b>			531	839	
	Value re-adjustments on investments		<b>18</b>					
	Loss on the realisation of investments		<b>19</b>					
Allocated investment return transferred to the general insurance business technical account			<b>20</b>					
Other income and charges (particulars to be specified by way of supplementary note)			<b>21</b>			(283)	(280)	
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			<b>29</b>			188664	73496	
Tax on profit or loss on ordinary activities			<b>31</b>			28801	20682	
Profit or loss on ordinary activities after tax (29-31)			<b>39</b>			159863	52814	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			<b>41</b>					
Tax on extraordinary profit or loss			<b>42</b>					
Other taxes not shown under the preceding items			<b>43</b>					
Profit or loss for the financial year (39+41-(42+43))			<b>49</b>			159863	52814	
Dividends (paid and proposed)			<b>51</b>					
Profit or loss retained for the financial year (49-51)			<b>59</b>			159863	52814	

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

Global business

Financial year ended **31 December 2005**Category of assets **Total other than long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		<b>R17</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>	<b>1</b>
		As at the end of this financial year			As at the end of the previous year				
		Assets	Liabilities	Assets	Liabilities				
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>				
<b>Derivative contracts</b>									
Futures contracts	Fixed-interest securities	<b>11</b>							
	Equity shares	<b>12</b>							
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>							
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>							
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							
	Land	<b>33</b>							
	Currencies	<b>34</b>	443	1209					
	Other	<b>35</b>			627	563			
Adjustment for variation margin		<b>41</b>							
Total (11 to 41)		<b>49</b>	443	1209	627	563			

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

Global business

Financial year ended **31 December 2005**Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		<b>R17</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>	<b>10</b>
			As at the end of this financial year			As at the end of the previous year			
			Assets <b>1</b>	Liabilities <b>2</b>	Assets <b>3</b>	Liabilities <b>4</b>			
<b>Derivative contracts</b>									
Futures contracts	Fixed-interest securities	<b>11</b>							
	Equity shares	<b>12</b>							
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>							
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>							
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							
	Land	<b>33</b>							
	Currencies	<b>34</b>		17967	11613	46682	3138		
	Other	<b>35</b>		124876	63923	71435	41527		
Adjustment for variation margin		<b>41</b>							
Total (11 to 41)		<b>49</b>		142843	75536	118117	44665		

**Long-term insurance business : Revenue account**

Name of insurer **Prudential Annuities Limited**  
 Total business / subfund **Ordinary Branch Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	59638	363786
Investment income receivable before deduction of tax	12	806066	817207
Increase (decrease) in the value of non-linked assets brought into the account	13	876851	413931
Increase (decrease) in the value of linked assets	14		
Other income	15		
<b>Total income</b>	<b>19</b>	<b>1742555</b>	<b>1594924</b>

**Expenditure**

Claims incurred	21	911540	910548
Expenses payable	22	23907	31520
Interest payable before the deduction of tax	23		
Taxation	24	38174	
Other expenditure	25		
Transfer to (from) non technical account	26	96864	
<b>Total expenditure</b>	<b>29</b>	<b>1070485</b>	<b>942068</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	672070	652856
Fund brought forward	49	14191806	13538950
Fund carried forward (39+49)	59	14863876	14191806

**Long-term insurance business : Analysis of premiums**

Name of insurer **Prudential Annuities Limited**  
 Total business / subfund **Ordinary Branch Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Regular premiums	11				
Single premiums	12		59638	59638	363786

**Reinsurance - external**

Regular premiums	13				
Single premiums	14				

**Reinsurance - intra-group**

Regular premiums	15				
Single premiums	16				

**Net of reinsurance**

Regular premiums	17				
Single premiums	18		59638	59638	363786

**Total**

Gross	19		59638	59638	363786
Reinsurance	20				
Net	21		59638	59638	363786

**Long-term insurance business : Analysis of claims**

Name of insurer **Prudential Annuities Limited**  
 Total business / subfund **Ordinary Branch Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Death or disability lump sums	11		566		566	1190
Disability periodic payments	12					
Surrender or partial surrender	13		4307		4307	3642
Annuity payments	14		903182		903182	902290
Lump sums on maturity	15		3812		3812	3636
<b>Total</b>	<b>16</b>		<b>911867</b>		<b>911867</b>	<b>910758</b>

**Reinsurance - external**

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24		327		327	210
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>		<b>327</b>		<b>327</b>	<b>210</b>

**Reinsurance - intra-group**

Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33					
Annuity payments	34					
Lump sums on maturity	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Death or disability lump sums	41		566		566	1190
Disability periodic payments	42					
Surrender or partial surrender	43		4307		4307	3642
Annuity payments	44		902855		902855	902080
Lump sums on maturity	45		3812		3812	3636
<b>Total</b>	<b>46</b>		<b>911540</b>		<b>911540</b>	<b>910548</b>

**Long-term insurance business : Analysis of expenses**

Name of insurer **Prudential Annuities Limited**  
 Total business / subfund **Ordinary Branch Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Commission - acquisition	11		(1)	(1)	8
Commission - other	12				
Management - acquisition	13		1081	1081	3676
Management - maintenance	14		19186	19186	25407
Management - other	15		3641	3641	2429
<b>Total</b>	<b>16</b>		<b>23907</b>	<b>23907</b>	<b>31520</b>

**Reinsurance - external**

Commission - acquisition	21				
Commission - other	22				
Management - acquisition	23				
Management - maintenance	24				
Management - other	25				
<b>Total</b>	<b>26</b>				

**Reinsurance - intra-group**

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34				
Management - other	35				
<b>Total</b>	<b>36</b>				

**Net of reinsurance**

Commission - acquisition	41		(1)	(1)	8
Commission - other	42				
Management - acquisition	43		1081	1081	3676
Management - maintenance	44		19186	19186	25407
Management - other	45		3641	3641	2429
<b>Total</b>	<b>46</b>		<b>23907</b>	<b>23907</b>	<b>31520</b>

**Long-term insurance business : Summary of new business**Name of insurer **Prudential Annuities Limited**

Total business

Financial year ended **31 December 2005**Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Number of new policyholders/  
scheme members for direct  
insurance business**

Regular premium business	11					
Single premium business	12					
<b>Total</b>	<b>13</b>					

**Amount of new regular  
premiums**

Direct insurance business	21					
External reinsurance	22					
Intra-group reinsurance	23					
<b>Total</b>	<b>24</b>					

**Amount of new single  
premiums**

Direct insurance business	25		59638		59638	
External reinsurance	26					
Intra-group reinsurance	27					
<b>Total</b>	<b>28</b>		<b>59638</b>		<b>59638</b>	



**Long-term insurance business : Analysis of new business**

Name of insurer **Prudential Annuities Limited**  
 Total business  
 Financial year ended **31 December 2005**  
 Units **£000**  
 UK Pension / Direct Insurance Business

Product code number <b>1</b>	Product description <b>2</b>	Regular premium business		Single premium business	
		Number of policyholders / scheme members <b>3</b>	Amount of premiums <b>4</b>	Number of policyholders / scheme members <b>5</b>	Amount of premiums <b>6</b>
390	Deferred annuity non-profit				15454
400	Annuity non-profit (CPA)				19248
905	Index linked annuity				24936

**Long-term insurance business : Non- linked assets**

Name of insurer **Prudential Annuities Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2005**  
 Units **£000**

Unadjusted assets	Economic exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
1	2	3	4	5

**Assets backing non-profit liabilities and non-profit capital requirements**

Land and buildings	11	348389	348389	18612	5.34	
Approved fixed interest securities	12	3012770	3012770	150704	4.26	
Other fixed interest securities	13	8932894	8932894	516448	5.12	
Variable interest securities	14	39094	39094	1993	5.40	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	777677	777677	30828	3.96	
Total	19	13110824	13110824	718585	4.86	

**Assets backing with-profits liabilities and with-profits capital requirements**

Land and buildings	21					
Approved fixed interest securities	22					
Other fixed interest securities	23					
Variable interest securities	24					
UK listed equity shares	25					
Non-UK listed equity shares	26					
Unlisted equity shares	27					
Other assets	28					
Total	29					

**Overall return on with-profits assets**

Post investment costs but pre-tax	31					
Return allocated to non taxable 'asset shares'	32					
Return allocated to taxable 'asset shares'	33					

## Long-term insurance business : Fixed and variable interest assets

Name of insurer **Prudential Annuities Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2005**  
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
<b>UK Government approved fixed interest securities</b>	<b>11</b>	1138037	13.83	4.14	4.14
<b>Other approved fixed interest securities</b>	<b>21</b>	1874733	13.00	4.33	4.33
<b>Other fixed interest securities</b>					
AAA/Aaa	<b>31</b>	642225	11.35	4.60	4.45
AA/Aa	<b>32</b>	1367463	11.71	4.68	4.40
A/A	<b>33</b>	2940863	12.03	5.03	4.54
BBB/Baa	<b>34</b>	1330283	9.78	5.36	4.43
BB/Ba	<b>35</b>	129481	11.89	6.00	3.17
B/B	<b>36</b>	28799	9.06	10.06	3.88
CCC/Caa	<b>37</b>	11950	7.64	9.55	3.37
Other (including unrated)	<b>38</b>	2481830	9.57	5.34	4.67
<b>Total other fixed interest securities</b>	<b>39</b>	8932894	10.90	5.12	4.51
<b>Approved variable interest securities</b>	<b>41</b>				
<b>Other variable interest securities</b>	<b>51</b>	39094	6.29	5.40	5.12
<b>Total (11+21+39+41+51)</b>	<b>61</b>	11984758	11.49	4.90	4.45

**Long-term insurance business : Summary of mathematical reserves**

Name of insurer **Prudential Annuities Limited**  
 Total business / subfund **Ordinary Branch Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Form 51 - with-profits	11				
Form 51 - non-profit	12		12593376		12593376
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16		2167088		2167088
Form 54 - non-linked	17		60246		60246
<b>Total</b>	<b>18</b>		14820710		14820710

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22		4780		4780
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26		2054		2054
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>		6834		6834

**Reinsurance - intra-group**

Form 51 - with-profits	31				
Form 51 - non-profit	32				
Form 52	33				
Form 53 - linked	34				
Form 53 - non-linked	35				
Form 54 - linked	36				
Form 54 - non-linked	37				
<b>Total</b>	<b>38</b>				

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42		12588596		12588596
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46		2165034		2165034
Form 54 - non-linked	47		60246		60246
<b>Total</b>	<b>48</b>		14813876		14813876

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Prudential Annuities Limited**  
 Total business / subfund **Ordinary Branch Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**  
 UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
390	Deferred annuity non-profit - Deferred annuities (reassurance accepted from PAC) (DAPA)		1076					13354
390	Deferred annuity non-profit - Deferred annuities (reassurance accepted from PAC) (GPDA)		14066					128808
390	Deferred annuity non-profit - Group deferred annuities (DAPA)	16711	39406					517039
390	Deferred annuity non-profit - Group deferred annuities (GPDA)	608	1547					27908
400	Annuity non-profit (CPA) - Group annuities in payment	24981	32568					519850
400	Annuity non-profit (CPA) - Individual annuities in payment	44779	164449					2618895
400	Annuity non-profit (CPA) - Individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)		593313					8223377
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment	2	7					216
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)		618					8962
440	Additional reserves non-profit OB - Mismatching							122397
440	Additional reserves non-profit OB - Policy related expenses							200802
440	Additional reserves non-profit OB - Miscellaneous							211768



**Long-term insurance business : Valuation summary of index linked contracts**

Name of insurer **Prudential Annuities Limited**  
 Total business / subfund **Ordinary Branch Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**  
 UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
905	Index linked annuity - Group annuities in payment	13576	30593		492210	492210		492210
905	Index linked annuity - Group annuities in payment - valued as fixed	17399	18383		317120	317120		317120
905	Index linked annuity - Group deferred annuities	16454	17114		161855	161855		161855
905	Index linked annuity - Group deferred annuities - valued as fixed	7107	12805		274635	274635		274635
905	Index linked annuity - Group deferred annuities (reassurance accepted from PAC)		503		7956	7956		7956
905	Index linked annuity - Individual annuities in payment	6201	21686		431272	431272		431272
905	Index linked annuity - Individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)		27427		446608	446608		446608
915	Additional reserves index linked - Miscellaneous						22429	22429
915	Additional reserves index linked - Mismatching						37817	37817
915	Additional reserves index linked - Policy related expenses				35432	35432		35432







**Long-term insurance business: analysis of valuation interest rate**Name of insurer **Prudential Annuities Limited**Total business **Ordinary Branch Long Term**Financial year ended **31 December 2005**Units **£000**

Product group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
Form 51 : Immediate & deferred annuities	12053628		4.30	4.41
Form 51 : Additional reserves - policy related and miscellaneous expenses	200802		1.43	1.47
Form 51 : Additional reserves	334165			4.41
Form 54 : Immediate & deferred annuities	1537846		1.43	1.47
Form 54 : Immediate & deferred annuities - valued as fixed	591756		4.30	4.41
Form 54 : Additional reserves - policy related and miscellaneous expenses	35432		1.43	1.47
Form 54 : Additional reserves	60246			1.47
<b>Total</b>	14813875			

**Long-term insurance business : Distribution of surplus**

Name of insurer **Prudential Annuities Limited**  
 Total business / subfund **Ordinary Branch Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	14863876	14191806
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	96864	
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	14960740	14191806
Mathematical reserves	21	14813876	14141806
Surplus including contingency and other reserves held towards the solvency margin (deficiency) (15-21)	29	146864	50000

**Composition of surplus**

Balance brought forward	31	50000	50000
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	96864	
Total	39	146864	50000

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41		
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	96864	
Total distributed surplus (46+47)	48	96864	
Surplus carried forward	49	50000	50000
Total (48+49)	59	146864	50000

**Percentage of distributed surplus allocated to policyholders**

Current year	61		
Current year - 1	62		
Current year - 2	63		
Current year - 3	64		

**Long-term insurance capital requirement**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2005**Units **£000**

LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Reinsurance factor	LTICR Financial year	LTICR Previous year
1	2	3	4	5	6

**Insurance death risk capital component**

Classes I, II and IX	11	0.1%					
Classes I, II and IX	12	0.15%					
Classes I, II and IX	13	0.3%					
Classes III, VII and VIII	14	0.3%					
<b>Total</b>	<b>15</b>						

**Insurance health risk capital component**

Class IV and supplementary classes 1 and 2	21						
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**Insurance expense risk capital component**

Classes I, II and IX	31	1%	12593375	12588596	1.00	125886	120306
Classes III, VII and VIII (investment risk)	32	1%	2227334	2225280	1.00	22253	21108
Classes III, VII and VIII (expenses fixed 5 yrs +)	33	1%					
Classes III, VII and VIII (other)	34	25%					
Class IV	35	1%					
Class V	36	1%					
Class VI	37	1%					
<b>Total</b>	<b>38</b>					148139	141414

**Insurance market risk capital component**

Classes I, II and IX	41	3%	12593375	12588596	1.00	377658	360918
Classes III, VII and VIII (investment risk)	42	3%	2227334	2225280	1.00	66758	63325
Classes III, VII and VIII (expenses fixed 5 yrs +)	43	0%					
Classes III, VII and VIII (other)	44	0%					
Class IV	45	3%					
Class V	46	0%					
Class VI	47	3%					
<b>Total</b>	<b>48</b>		14820709	14813876		444416	424243

<b>Long term insurance capital requirement</b>	<b>51</b>					592555	565657
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# **PRUDENTIAL ANNUITIES LIMITED**

## **Appendix 9.4**

### **Valuation Report as at 31 December 2005**

#### **1. Introduction**

- (1) The investigation relates to 31 December 2005.
- (2) The previous investigation related to 31 December 2004.
- (3) No interim valuations have been carried out for the purposes of rule 9.4 since 31 December 2004.

#### **2. Product range**

(a) New products

No new products have been introduced during the financial year.

(b) New bonus series

No new bonus series have been introduced during the financial year.

(c) Products withdrawn

No products have been withdrawn during the financial year.

(d) Changes to options or guarantees under existing products

No changes have been made to options or guarantees on existing products during the financial year.

#### **3. Discretionary charges and benefits**

- (1) Not applicable
- (2) Not applicable
- (3) Not applicable
- (4) Not applicable
- (5) Not applicable
- (6) Not applicable
- (7) Not applicable

## Valuation Report as at 31 December 2005 (continued)

(8) Not applicable

(9) Not applicable

(10) Not applicable

### 4. Valuation basis (other than for special reserves)

For the purpose of reporting interest rates, mortality and expense bases, the following abbreviations are defined:

Description	Abbreviation
Reassurance accepted from The Prudential Assurance Company Limited, Prudential (AN) Limited & Prudential Pensions Limited	Reassurance accepted from PAC, P(AN)L & PPL
Group Pension Deferred Annuity Administration System	GPDA
Deferred Annuity Pension Administration System	DAPA

- (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/or minimum percentage increases, is as follows:

- (a) RPI-linked annuities subject to a minimum annual increase of 0% and a maximum annual increase of 5% are, for valuation purposes, treated as being identical to normal RPI-linked annuities.
- (b) RPI-linked annuities subject to a minimum annual increase of 2.5% and a maximum annual increase of 5% are, for valuation purposes, treated as annuities with fixed 5% annual increases.
- (c) RPI-linked annuities subject to a minimum annual increase of 4% and a maximum annual increase of 8.5% are, for valuation purposes, treated as annuities with fixed 8.5% annual increases.
- (d) RPI-linked annuities subject to a minimum annual increase of 3% are, for valuation purposes, treated as annuities with fixed 6% annual increases.

The annuities described under (b), (c) and (d) are included in these returns as linked business. Thus, in particular, Form 56 includes sufficient fixed interest assets to match the corresponding liabilities.

## Valuation Report as at 31 December 2005 (continued)

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

For deferred annuities where benefits include revaluation in deferment in line with RPI, followed by fixed escalation in payment, the revaluation in deferment is generally subject to a minimum annual increase of 0% and a maximum annual increase of 5%. For valuation purposes these are treated as annuities with fixed 5% annual revaluation throughout the deferred period followed by the actual fixed escalation in payment. These annuities are included in these returns as non-linked business.

A separate expense reserve is held. This is calculated as the present value of future expenses, allowing for inflation.

- (2) Interest rates used to value the liabilities are calculated in accordance with a waiver received under Section 148 of the Financial Services and Markets Act 2000, the effect of which is to modify the provisions of PRU 4.2.35R and IPRU (INS) Appendix 9.4 so that a more appropriate rate of interest will be used for assets taken in combination.

The interest rates used are as follows:

### Non-linked

Product code number	Product description	31 December 2005 %	31 December 2004 %
400	Annuity non-profit (CPA) – individual annuities in payment Annuity non-profit (CPA) – group annuities in payment Annuity non-profit (CPA) – individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)	4.30	4.83
405	Annuity non-profit (CPA impaired life) – individual annuities in payment Annuity non-profit (CPA impaired life) – individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)	4.30	4.83

## Valuation Report as at 31 December 2005 (continued)

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2005 %</b>	<b>31 December 2004 %</b>
390	Deferred annuity non-profit – group deferred annuities (GPDA) Deferred annuity non-profit – group deferred annuities (DAPA) Deferred annuity non-profit – group deferred annuities (reassurance accepted from PAC) (GPDA) Deferred annuity non-profit – group deferred annuities (reassurance accepted from PAC) (DAPA)	4.30	4.83

### Index-linked

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2005 %</b>	<b>31 December 2004 %</b>
905	Index linked annuity – individual annuities in payment Index linked annuity – group annuities in payment Index linked annuity – group deferred annuities Index linked annuity – individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL) Index linked annuity – group deferred annuities (reassurance accepted from PAC)	1.43	1.79
905	Index linked annuity – group annuities in payment – valued as fixed Index linked annuity – group deferred annuities – valued as fixed	4.30	4.83

Investment management expenses are allowed for by means of an appropriate deduction from the valuation rate of interest (see 4(6) below). The valuation rates of interest above are shown before the deduction for investment management expenses.



## Valuation Report as at 31 December 2005 (continued)

- (3) 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 35 year period, produces average default rates according to credit quality and term to redemption.

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%

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 category is assumed to vary between 100% and 200% of the appropriate mean default rate, reduced by the expected recovery, plus a further amount for credit risk. The derived default rates for each level of security are set out below:

Default rates – basis points per annum:

Seniority	AAA	AA	A	BBB	BB	B and lower
First Mortgage Debenture / Senior Secured	6.1	12.3	20.9	45.9	140.2	254.4
Senior Unsecured	10.3	18.1	31.0	68.1	218.4	427.8
Subordinated Debt	13.9	22.9	39.4	86.5	283.6	572.2

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 mathematical reserves.

The yields shown in Form 48 column 4 were determined in accordance with the requirements of PRU 4.2. The risk adjusted yields shown in Form 57 column 5 were calculated using the method of the section 148 waiver, after allowance for defaults.

## Valuation Report as at 31 December 2005 (continued)

In applying the section 148 waiver, the yield on property is taken to be 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. No allowance is made for 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. A further deduction is made to allow for the risk of default of rent. This deduction is calculated in the same way as for corporate bonds (having regard to the credit quality of the relevant tenants), as described above.

Aggregate yields on the backing assets have been adjusted by 0.50% and 0.35% to allow for potential defaults within the non-linked and index linked asset portfolios respectively. These default adjustments include margins for prudence.

### (4) Non-linked

Product code number	Product description	31 December 2005	31 December 2004
400	<b>Annuity non-profit (CPA) – individual annuities in payment</b>		
	<b>Annuity non-profit (CPA) – individual annuities in payment (reassurance accepted from PAC, P(AN)L &amp; PPL)</b>		
	Mortality table	Modified 93% PMA92 / 84% PFA92 (C=2004)	Modified 96% PMA92 / 92% PFA92 (C=2004)
	Expectation of life age 65	21.6 (M), 25.0 (F)	21.2 (M), 24.0 (F)
	Expectation of life age 75	13.0 (M), 16.3 (F)	12.7 (M), 15.4 (F)
405	<b>Annuity non-profit (CPA impaired life) – individual annuities in payment</b>		
	<b>Annuity non-profit (CPA impaired life) - individual annuities in payment (reassurance accepted from PAC, P(AN)L &amp; PPL)</b>		
	Mortality table	Modified 93% PMA92 / 84% PFA92 (C=2004)	Modified 96% PMA92 / 92% PFA92 (C=2004)
	Expectation of life age 65	21.6 (M), 25.0 (F)	21.2 (M), 24.0 (F)
	Expectation of life age 75	13.0 (M), 16.3 (F)	12.7 (M), 15.4 (F)
400	<b>Annuity non-profit (CPA) – group annuities in payment</b>		
	Mortality table	Modified 100% PMA92 / 105% PFA92 (C=2004)	Modified 111% PMA92 / 105% PFA92 (C=2004)
	Expectation of life age 65	21.0 (M), 22.9 (F)	19.9 (M), 22.8 (F)
	Expectation of life age 75	12.5 (M), 14.5 (F)	11.6 (M), 14.4 (F)

Valuation Report as at 31 December 2005 (continued)

Product code number	Product description	31 December 2005	31 December 2004
390	<b>Deferred annuity non-profit – group deferred annuities (GPDA)</b> <b>Deferred annuity non-profit - group deferred annuities (reassurance accepted from PAC) (GPDA)</b>		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: 80.0% PMA92 / 87.3% PFA92 (C=2004)	In deferment: AM92 /AF92 – 4 years In payment: 88.8% PMA92 / 87.3% PFA92 (C=2004)
	Current age 45, expectation of life age 65 <sup>(1)</sup>	21.6 (M), 24.1 (F)	20.7 (M), 24.1 (F)
	Current age 55, expectation of life age 65 <sup>(1)</sup>	20.9 (M), 23.3 (F)	20.0 (M), 23.3 (F)
390	<b>Deferred annuity non-profit – group deferred annuities (DAPA)</b> <b>Deferred annuity non-profit - group deferred annuities (reassurance accepted from PAC) (DAPA)</b>		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 100% PMA92 / 105% PFA92 (C=2004)	In deferment: AM92 /AF92 – 4 years In payment: Modified 111% PMA92 / 105% PFA92 (C=2004)
	Current age 45, expectation of life age 65	23.5 (M), 24.5 (F)	22.4 (M), 24.4 (F)
	Current age 55, expectation of life age 65	22.2 (M), 23.7 (F)	21.2 (M), 23.6 (F)

## Valuation Report as at 31 December 2005 (continued)

### Index linked

Product code number	Product description	31 December 2005	31 December 2004
905	<b>Index linked annuity - individual annuities in payment</b>		
	<b>Index linked annuity - individual annuities in payment (reassurance accepted from PAC, P(AN)L &amp; PPL)</b>		
	Mortality table	Modified 93% PMA92 / 84% PFA92 (C=2004)	Modified 96% PMA92 / 92% PFA92 (C=2004)
	Expectation of life age 65	21.6 (M), 25.0 (F)	21.2 (M), 24.0 (F)
	Expectation of life age 75	13.0 (M), 16.3 (F)	12.7 (M), 15.4 (F)
905	<b>Index linked annuity - group annuities in payment</b>		
	<b>Index linked annuity - group annuities in payment - valued as fixed</b>		
	Mortality table	Modified 100% PMA92 / 105% PFA92 (C=2004)	Modified 111% PMA92 / 105% PFA92 (C=2004)
	Expectation of life age 65	21.0 (M), 22.9 (F)	19.9 (M), 22.8 (F)
	Expectation of life age 75	12.5 (M), 14.5 (F)	11.6 (M), 14.4 (F)
905	<b>Index linked annuity - group deferred annuities</b>		
	<b>Index linked annuity - group deferred annuities – valued as fixed</b>		
	<b>Index linked annuity – group deferred annuities (reassurance accepted from PAC)</b>		
	Mortality table	In deferment: AM92 / AF92 – 4 years In payment: Modified 100% PMA92 / 105% PFA92 (C=2004)	In deferment: AM92 / AF92 – 4 years In payment: Modified 111% PMA92 / 105% PFA92 (C=2004)
	Current age 45, expectation of life age 65	23.5 (M), 24.5 (F)	22.4 (M), 24.4 (F)
	Current age 55, expectation of life age 65	22.2 (M), 23.7 (F)	21.2 (M), 23.6 (F)

<sup>(1)</sup> Includes allowance for 0.35% deduction from valuation rate of interest in deferment to allow for expected mortality improvements prior to vesting, as described below.

## Valuation Report as at 31 December 2005 (continued)

### Mortality bases used at 31 December 2004 and 31 December 2005:

Annuities are generally valued using a percentage of the 92 series (year of birth) tables for annuitants and pensioners. In order to allow for mortality improvement, the CMIR 17 mortality improvement factors are applied up to and including 2004. Future improvement factors are applied from 2005, and for males are in line with 100% of the CMI medium cohort projections, subject to future improvement factors not being less than 1.25% p.a. For females, future improvement factors are in line with 75% of the CMI medium cohort projections, subject to future improvement factors not being less than 0.75% p.a. For impaired lives, an adjustment is made to the annuitant's age to allow for impairment.

Some of the group deferred annuity business has been valued using percentages of single entry tables with calendar year 2004. The percentages have been chosen so that the rates used are equivalent to the double entry tables with future improvement factors as described above. For these contracts, a further deduction of 0.35% from the valuation rate of interest has been made during the deferred period, to allow for expected mortality improvements prior to vesting.

(5) Not applicable

(6) The renewal expenses per annum used are as follows:

#### Non-linked

Product code number	Product description	31 December 2005	31 December 2004
400	Annuity non-profit (CPA) – individual annuities in payment Annuity non-profit (CPA) – group annuities in payment Annuity non-profit (CPA) – individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)	£20 p.a. (equivalent to 1.7% of annuity amount)	2% of annuity amount
405	Annuity non-profit (CPA impaired life) – individual annuities in payment Annuity non-profit (CPA impaired life) – individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)	£20 p.a. (equivalent to 1.7% of annuity amount)	2% of annuity amount

## Valuation Report as at 31 December 2005 (continued)

Product code number	Product description	31 December 2005	31 December 2004
390	<p>Deferred annuity non-profit – group deferred annuities (GPDA)</p> <p>Deferred annuity non-profit – group deferred annuities (DAPA)</p> <p>Deferred annuity non-profit – group deferred annuities (reassurance accepted from PAC) (GPDA)</p> <p>Deferred annuity non-profit – group deferred annuities (reassurance accepted from PAC) (DAPA)</p>	£20 p.a. (equivalent to 1.7% of annuity amount)	4% of annuity amount

### Index-linked

Product code number	Product description	31 December 2005	31 December 2004
905	<p>Index linked annuity – individual annuities in payment</p> <p>Index linked annuity – group annuities in payment</p> <p>Index linked annuity – group annuities in payment – valued as fixed</p> <p>Index linked annuity – individual annuities in payment (reassurance accepted from PAC, P(AN)L &amp; PPL)</p>	£20 p.a. (equivalent to 1.7% of annuity amount)	2% of annuity amount
905	<p>Index linked annuity – group deferred annuities</p> <p>Index linked annuity – group deferred annuities – valued as fixed</p> <p>Index linked annuity – group deferred annuities (reassurance accepted from PAC)</p>	£20 p.a. (equivalent to 1.7% of annuity amount)	4% of annuity amount

## Valuation Report as at 31 December 2005 (continued)

The inflation rates assumed for future expenses are as follows:

<b>Product code number</b>		<b>31 December 2005</b>	<b>31 December 2004</b>
All	All products	3.5%	3.5%

Investment management expenses are allowed for by making a deduction from the valuation rate of interest. The deduction used is as follows:

<b>Product code number</b>		<b>31 December 2005</b>	<b>31 December 2004</b>
All	All products	0.10%	0.10%

The valuation rates of interest in 4(2) (and the asset yields in Form 48 and Form 57) are shown before the deduction for investment management expenses.

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

In addition an expense contingency reserve is also held. This is included in the overall general contingency reserve described in Section 8.

(7) Not applicable

(8) Not applicable

(9) Derivative contracts held as at 31 December 2005 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) A contract to swap fixed Euros for fixed UK Sterling

viii) Contracts to swap future income increasing at a fixed rate each year for income varying in line with changes in RPI/LPI

## **Valuation Report as at 31 December 2005 (continued)**

ix) A contract to swap future floating UK LIBOR for UK inflation linked cashflows

The effect of the contracts under i), 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) is to convert cashflows from Euro denominated bonds into UK Sterling cashflows.

The effect of the contracts under viii) is to convert fixed UK Sterling cashflows into RPI linked UK Sterling cashflows.

The effect of the contract under ix) is to convert future UK LIBOR cashflows into inflation linked UK Sterling cashflows.

The cashflows involved in these arrangements were included in the aggregate cashflows from the portfolio in order to derive the aggregate yield on the portfolio. This is in accordance with the section 148 waiver.

No options are held and hence no out-of-the money derivatives have been used to back liabilities.

The yields shown in Form 48 column 4 were determined in accordance with the requirements of PRU 4.2 and hence differ from the yields calculated in accordance with the section 148 waiver.

### **5. Options and guarantees**

- (1) Not applicable
- (2) Not applicable
- (3) Not applicable
- (4) Not applicable



## Valuation Report as at 31 December 2005 (continued)

### 6. Expense reserves

- (1) The aggregate amount arising during the twelve months after the valuation date from implicit and explicit expense reserves made in the valuation to meet expenses are:

	£m
Per policy expenses	13.6
Investment management expenses	14.8
Total	28.4

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

In addition an expense contingency reserve is also held. This is included in the overall general contingency reserve described in Section 8.

- (2) Not applicable
- (3) The maintenance expenses shown at line 14 of Form 43 are £19.2m. The maintenance expenses shown in (1) above include margins for prudence.
- (4) With the exception of a small volume of increments to existing policies, the Company does not expect to write any new business in the twelve months following the valuation rate. Therefore no new business expense overrun reserve is required.
- (5) Although the Company is effectively closed to new business, the expense reserves in (1) above are calculated on the implicit assumption that the Company will continue to write new business (on the basis that new business, that would have been written by the Company in previous years, continues to be written elsewhere in the Prudential Group).

In the first instance, expense reserves are calculated on the assumption that Prudential's UK insurance operations will continue to write new business indefinitely and hence that there will be no loss of economies of scale. In this scenario, the amount of the expense loading over the remaining lifetime of the contracts in force at the valuation date is £236.2m.

## Valuation Report as at 31 December 2005 (continued)

In order to allow for the possibility that the firm will cease to transact new business twelve months after the valuation date, the expense loading is recalculated on the assumption that, over a two year period, unit costs would be reduced by 25% and that loss of economies of scale would result in overall expenses being cut more slowly than the rate at which policies run off. If this revised calculation results in a higher reserve than described in the paragraph above, then the difference is held as an additional reserve. In addition, the costs associated with closing to new business, such as redundancy costs or the costs of terminating management agreements, are estimated. To the extent that these costs exceed the projected surplus on prudent assumptions from existing business a further additional reserve is held.

At the valuation date, an additional reserve of £13.3m is held for the impact of closing to new business.

### 7. Mismatching reserves

- (1) All the mathematical reserves are payable in sterling and the assets which match the liabilities are sterling assets. There are some US Dollar and Euro denominated assets which, in conjunction with specific swap derivative contracts, effectively produce income in UK Sterling. See 4(9) for details.
- (2) Not applicable
- (3) Not applicable
- (4) The most onerous scenario under PRU 4.2.16R was:
  - (i) a fall in property values of 20% plus a fall in rental income of 10%, and;
  - (ii) a fall in yield on all fixed interest securities of 0.82%, which is the percentage point fall equal to 20% of the long-term gilt yield at the valuation date.

In addition to the requirements specified in PRU 4.2.16R, this test also included an immediate fall of 25% in the real yield on index-linked bonds.

- (5) There were no significant territories at the valuation date.
- (6) In respect of the scenario described under (4) above;
  - (a) No resilience capital requirement was necessary.
  - (b) The increase in the aggregate amount of the long-term insurance liabilities was £1,214m.
  - (c) The increase in the aggregate amount of assets backing these liabilities was £1,265m.

## **Valuation Report as at 31 December 2005 (continued)**

- (7) A reserve of £160.2m was held arising from the test on assets in PRU 7.2.34R(2).

This reserve was set at a level which was sufficient to ensure that it covered the results of projecting:

- (i) the risk adjusted cashflows of the assets backing the liabilities, and;
- (ii) the future liability payments on the valuation assumptions.

In any year where asset income exceeds liability outgo, the excess is assumed to be invested in a cash asset, and this cash asset is assumed to accumulate at 97.5% of the maximum reinvestment rate specified in PRU 4.2.45R. In any year when asset income is insufficient to meet liabilities, the cash reserve is used to meet the shortfall. In the event that the cash reserve is reduced to zero, then the shortfall is assumed to be borrowed at a rate 2% higher than 97.5% of the maximum reinvestment rate.

### **8. Other special reserves**

The additional reserves include £11.9m to cover potential additional liabilities in respect of systems and administration errors. The methods used to calculate the reserves vary depending on the nature of the specific issue.

The additional reserves also include £209m as an allowance for general contingencies.

### **9. Reinsurance**

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

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

### **10. Reversionary (or annual) bonus**

- (1) Not applicable
- (2) Not applicable
- (3) Not applicable
- (4) Not applicable

## Supplementary notes to the returns (continued)

### PRUDENTIAL ANNUITIES LIMITED

#### Returns for the year ended 31 December 2005

##### Supplementary notes to the returns

###### Form 2

###### \*0201\* Waivers under Section 148, Financial Services and Markets Act 2000

- (a) The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in June 2005. The effect of the direction is to modify the provisions of PRU 4.2.35R and IPRU (INS) Appendix 9.4 so that a more appropriate rate of interest will be used for assets taken in combination. (FSA reference 484700)
- (b) The FSA, on the application of the Company, made a direction under section 148 of the Financial Services and Markets Act 2000 in December 2004 for the period 31 December 2004 to 30 September 2005. The effect of the direction is to allow the firm to not apply paragraphs (2) and (3) of PRU 4.3.36R to the stock lending transactions entered into between the firm and Euroclear Bank SA/NV, which are made pursuant to the Euroclear Bank Securities Lending and Borrowing Program. (FSA reference 359416)
- (c) The FSA, on the application of the Company, made a direction under section 148 of the Financial Services and Markets Act 2000 in July 2005 for the period 13 July 2005 to 31 March 2006. The effect of the direction is to modify rules PRU 4.3.38R, PRU 4.3.40R and PRU 4.3.41R on what is considered adequate and sufficiently immediate for cash collateral and the conditions for a letter of credit. (FSA reference 487340)

###### Form 3

###### \*0301\* Reconciliation of net admissible assets to total capital resources

	2005 £'000s
Line 89 on Form 13 (OLTB)	1,061,084
Line 89 on Form 13 (LTB)	15,275,858
Line 11 on Form 14	(14,813,876)
Line 49 on Form 14	(413,882)
Line 69 on Form 15	(2,848)
Line 79 on Form 3	<u>1,106,336</u>

## Supplementary notes to the returns (continued)

### \*0310\* Valuation differences

	2005 <u>£'000s</u>
<i>Positive valuation differences where liabilities are lower than in the shareholder accounts</i>	
Deferred tax held on additional reserves and valuation differences	206,455
<i>Negative valuation differences where liabilities are higher than in the shareholder accounts</i>	
Additional reserves held in long term fund	(688,270)
Line 35 on Form 3	<u>(481,815)</u>

### Form 13

Notes 1301 to 1307 apply to the other than long term business fund.

\*1301\* The Company held £78m in unlisted securities.

\*1302\* The Company held £32m 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 has been set in accordance with the counterparty limits detailed in the Integrated Prudential Sourcebook. Therefore exposures to non-approved counterparties have been restricted to a maximum of 5% of the long term business amount. No counterparty exposure during the year exceeded these limits.

\*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.

\*1307\* No “secure obligations” were held at the year end.

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

\*1308\* The Company held £1,160m in unlisted securities.

\*1309\* The Company held £1,461m in hybrid securities.

\*1310\* Amounts due to or from the Company have been set off to the extent permitted by generally accepted accounting principles.

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

\*1311\* The maximum permitted exposure to any one counterparty has been set in accordance with the counterparty limits detailed in the Prudential Sourcebook. Therefore exposures to non-approved counterparties have been restricted to a maximum of 5% of the long term 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 “secure obligations” were held at the year end.

\*1318\* Other asset adjustments

	2005 £'000s
<i>Total other than long term business assets</i>	
Amounts due from long term fund, notionally settled and shown as cash at bank on Form 13, which consolidates out in the financial statements.	(96,583)
Miscellaneous liabilities netted off against assets in the financial statements	(42)
Line 100 on Form 13	<u>(96,625)</u>
	2005 £'000s
<i>Total long term business assets</i>	
Cash at bank used to notionally settle balances owed to the other than long term fund	61,397
Miscellaneous liabilities netted off against assets in the financial statements	(250)
Line 100 on Form 13	<u>61,147</u>

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.

## Supplementary notes to the returns (continued)

- \*1402\* (a) There were no charges attributable to the long term business assets.
- (b) Increases in the values of assets of the long term fund do 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.

### \*1405\* Details of other adjustments to liabilities

	2005 £'000s
Additional reserves held in long term fund	(688,270)
Deferred tax provision on additional reserves	206,455
Amounts owed to credit institutions – notional settlements of interfund	(35,186)
Items netted off liabilities in financial statements	(2,150)
Line 74 on Form 14	<u>(519,151)</u>

### 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.
- \*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 £1,000k. 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.

## Supplementary notes to the returns (continued)

\*1507\* Details of other adjustment in liabilities

	<u>2005</u> <u>£'000s</u>
Intragroup balances less than 100k	(42)

### 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

\*4008\* Management services are provided to the Company for day to day administration from The Prudential Assurance Company Ltd, M&G Investment Management Ltd, Prudential Property Investment Managers Ltd, PPM America Inc., Prudential UK Services Limited and Prudential Services Ltd, all being group companies.

\*4009\* The Company has a reinsurance agreement with a related company, The Prudential Assurance Company Limited, in respect of non-participating approved annuity contracts. There are no premiums included in earned premiums for the year 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 £619m arising from claims under this reinsurance agreement.

The liabilities included in the return, relating to this business amount to £9,060m at the year end.

### Form 47

\*4702\* For group annuity business arising from the buyout of former occupational pension schemes, we have details of new member numbers but do not have details of how many of these have fixed and linked benefits. We have therefore assumed that all members of these schemes have both fixed and linked benefits.

### Form 48

\*4802\* There are 5 assets where the payment of interest is in default. The expected income from these assets has been reduced to nil.



## Supplementary notes to the returns (continued)

\*4803\* Where securities may be redeemed over a period at the option of the guarantor or issuer, and they are valued “above par” they have been classified on the assumption that they will be redeemed at the earliest possible date. Where they are valued “below par” they have been classified on the basis that they will be redeemed at the latest possible date.

### Form 49

\*4901\* Credit ratings used on Form 49 are the lowest of 3 external rating agencies, namely Fitch, S&P & Moody’s.

### Form 51

\*5105\* The amount of double counting of policies between Forms 51 and 54 is 62,200.

\*5106\* Annuities included in Forms 51 and 54 are categorised depending on the type of escalation of benefits once an annuity is in payment. Form 51 includes annuities that increase at a guaranteed fixed rate and Form 54 includes annuities where benefits are dependent on changes in RPI. Deferred annuities with revaluation in line with RPI in deferment and fixed increases in payment are included in Form 51.

### Form 54

\*5405\* The amount of double counting of policies between Forms 51 and 54 is 62,200.

### Form 57

The information required in respect of waiver 484700 (dated 1 June 2005) is as follows:

Product group	Risk adjusted yield on matching assets (Form 57 column 5)	Corresponding asset yield
Form 51: Immediate & deferred annuities	4.41%	4.91%
Form 54: Immediate & deferred annuities	1.47%	1.82%
Form 54: Immediate & deferred - valued as fixed	4.41%	4.91%

**PRUDENTIAL ANNUITIES LIMITED**

**Returns for the year ended 31 December 2005**

**Directors' Certificate required by rule 9.34 of the Accounts and Statements Rules**

We certify:

1. (a) that the return has been properly prepared in accordance with the requirements in IPRU(INS) and PRU as modified by waivers dated 31 December 2004, 1 June 2005 and 13 July 2005 issued under section 148 of the Financial Services and Markets Act 2000 which continue to have effect; and:
  - (b) we are satisfied that:
    - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements of SYSC and PRIN as well as the provisions of IPRU(INS) and PRU; and
    - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.
2. (a) that in our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
  - (b) that the mathematical reserves, as shown in Form 14, constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;
  - (c) that we have, in preparing the return, taken and paid due regard to advice in preparing the return from the actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.

.....

N E Prettejohn  
Chief Executive

.....

D J Belsham  
Director

.....

T V Boardman  
Director

22 March 2006

## **PRUDENTIAL ANNUITIES LIMITED**

### **Returns for the year ended 31 December 2005**

#### **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 and part IV of chapter 9 to the Interim Prudential Sourcebook for Insurers and PRU, the Integrated Prudential Sourcebook, (“the Rules”) made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- Forms 2, 3, 13 to 17, 40 to 43, 48, 49, 56, 58 and 60, (including the supplementary notes) on pages 3 to 56 (‘the Forms’);
- the statement required by rule 9.29 on pages 61 to 63 (‘the Statement’); and
- the valuation report required by rule 9.31(a) (“the valuation report”) on pages 36 to 50.

We are not required to examine and do not express an opinion on:

- Forms 46, 47, 50, 51, 54 and 57 (including the supplementary notes) on pages 23 to 56;
- the statement required by rules 9.30 on page 64; or
- the certificate signed in accordance with rule 9.34 on page 57 (‘the certificate’).

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, the Statement, the valuation report, the forms and statements not examined by us and the certificate) under the provisions of the Rules. The requirements of the Rules have been modified by waivers issued under section 148 of the Financial Services and Markets Act 2000 on 31 December 2004, 1 June 2005 and 13 July. Under rule 9.11 the Forms, the Statement, valuation report, the forms and statements not examined by us and the certificate 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.

The methods and assumptions determined by the Company and used to perform the actuarial investigation as set out in the valuation report, prepared in accordance with rule 9.31 are required to reflect appropriately the requirements of PRU 7.3.

It is our responsibility to form an independent opinion as to whether the Forms, the Statement and the valuation report meet these requirements, and to report our opinions to you. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information we require for our examination.

### **Basis of opinion**

We conducted our work in accordance with Practice Note 20 “The audit of insurers in the United Kingdom” and Bulletin 2004/5 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, the Statement, and the valuation report. The evidence included that previously 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, the Statement and the valuation report.

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, the Statement and the valuation report are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with rule 9.11.

In accordance with rule 9.35(1A), to the extent that any document, Form, Statement, analysis or report to be examined under rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the Company.

## **Opinion**

In our opinion:

- i) the Forms, the Statements and the valuation report fairly state the information provided on the basis required by the Rules as modified and have been properly prepared in accordance with the provisions of those Rules; and
- ii) the methods and assumptions determined by the Company and used to perform the actuarial investigation as set out in the valuation report prepared in accordance with rule 9.31 appropriately reflect the requirements of PRU 7.3.

KPMG Audit Plc  
Registered Auditor  
London

22 March 2006

## **PRUDENTIAL ANNUITIES LIMITED RULE 9.29 STATEMENT**

### **Returns for the year ended 31 December 2005**

#### **Statement required by Rule 9.29 of the Integrated Prudential Sourcebook**

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

As requested by Rule 9.29 of the Integrated Prudential Sourcebook, 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 Integrated Prudential Sourcebook (Volume One: Rules)
  - 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, currency and inflation-linked 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 2005 no such contracts were used.

**Statement required by Rule 9.29 of the Integrated Prudential Sourcebook (continued)**

- (d) Effect on form 13 at 31 December 2005 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;	(£142,843k)
Form 13 line 58 (Derivatives);	(£37,571k)
Form 13 line 58 (Cash);	£32,340k
Form 13 line 54/55/81;	£67,308k

**Other than long term funds**

Form 13 line 44;	(£443k)
Form 13 line 54/55/81;	(£766k)

- (e) Effect on form 13 at 31 December 2005 of exercising all derivatives. Decreases are shown in brackets**

**Long term funds**

Form 13 line 44;	(£142,843k)
Form 13 line 58 (Derivatives);	(£37,571k)
Form 13 line 58 (Cash);	£32,340k
Form 13 line 54/55/81;	£67,308k

**Other than long term funds**

Form 13 line 44;	(£443k)
Form 13 line 54/55/81;	(£766k)

- (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;	(£106,417k)
Form 13 line 58 (Derivatives);	(£19,819k)
Form 13 line 58 (Cash);	£13,233k
Form 13 line 54/55/81;	£41,561k

**Other than long term funds**

Form 13 line 44;	(£1,175k)
Form 13 line 54/55/81;	£690k

## Statement required by Rule 9.29 of the Integrated Prudential Sourcebook (continued)

### Conditions noted in (e)

#### Long term funds

Form 13 line 44;	(£106,417k)
Form 13 line 58 (Derivatives);	(£19,819k)
Form 13 line 58 (Cash);	£13,233k
Form 13 line 54/55/81;	£41,561k

#### Other than long term funds

Form 13 line 44;	(£1,175k)
Form 13 line 54/55/81;	£690k

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 £29,000k.

Under foreseeable market conditions the company's exposure would not increase beyond £29,000k 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 £29,000k.

#### 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 £431k.

Under foreseeable market conditions the company's exposure would not increase beyond £452k. The maximum loss at any other time during the year was £656k.

### (h) Derivatives not covered by Paragraph (2) of Rule 4.12 or the definition of a permitted derivative contract in the Integrated Prudential Sourcebook.

There were no derivative contracts held during 2005 that did not satisfy the Rule 4.12 requirements of the Integrated Prudential Sourcebook.

### (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 2005

#### Statement in accordance with Rule 9.30 of the Integrated Prudential Sourcebook

##### 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 2005, 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 2005:
- (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.

	In the case of each person who was a shareholder controller of the Company at 31 December 2005:	
	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
Persons who, to the knowledge of the Company, have been, at any time during the year ended 31 December 2005, a shareholder controller of the Company.		
The Prudential Assurance Company Limited, being its immediate holding Company	100%	100%
Prudential plc, being its ultimate holding Company	100%	100%