



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 2006



Appendices (1, 3, 4, 6)

PRUDENTIAL ANNUITIES LIMITED

Year ended 31 December 2006

Contents

	Page
Appendix 9.1	
Form 2	3
Long term insurance business: Statement of solvency	
Covering sheet to Form 2	4
Form 3	5
Components of capital resources	
Form 13	8
Analysis of admissible assets	
Form 14	14
Long term insurance business liabilities and margins	
Form 15	15
Liabilities (other than long term insurance business)	
Form 16	16
Profit and loss account (non-technical account)	
Form 17	17
Analysis of derivative contracts	
Appendix 9.3	
Form 40	19
Long term insurance business: Revenue account	
Form 41	20
Long term insurance business: Analysis of premiums	
Form 42	21
Long term insurance business: Analysis of claims	
Form 43	22
Long term insurance business: Analysis of expenses	
Appendix 9.4	
Form 46	23
Long term insurance business: Summary of new business	
Form 47	24
Long term insurance business: Analysis of new business	
Form 48	26
Long term insurance business: Non-linked assets	
Form 49	27
Long term insurance business: Fixed and variable interest assets	
Form 50	28
Long term insurance business: Summary of mathematical reserves	
Form 51	29
Long term insurance business: Valuation summary of non-linked contracts (other than accumulating with-profits contracts)	
Form 54	31
Long term insurance business: Valuation summary of index linked contracts	
Form 56	33
Long term insurance business: Index linked business	
Form 57	34
Long term insurance business: Analysis of valuation interest rates	
Form 58	35
Long term insurance business: Distribution of surplus	
Form 60	36
Long term insurance capital requirement	
Long term insurance valuation report – Rule 9.4 and 9.31(a)	37
Appendix 9.6	
Notes to the Return	50
Directors' Certificate – Rule 9.34	56
Auditors' Report – Rule 9.35	57
Additional information on Derivative Contracts – Rule 9.29	60
Additional information on Controllers – Rule 9.30	63

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

Global business

Financial year ended **31 December 2006**

Solo solvency calculation

	Company registration number	GL/ UK/ CM	day month year			Units	
	R2	2554213	GL	31	12	2006	£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	48500	48100
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	1065378	1058236
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	1113878	1106336

Guarantee fund

Guarantee fund requirement	21	188128	197518
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	925750	908818

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	564383	592555
Resilience capital requirement	32		
Base capital resources requirement	33	2139	2030
Individual minimum capital requirement	34	564383	592555
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	564383	592555
Excess (deficiency) of available capital resources to cover 50% of MCR	37	831686	810058
Excess (deficiency) of available capital resources to cover 75% of MCR	38	690590	661920

Enhanced capital requirement

With-profits insurance capital component	39		
Enhanced capital requirement	40	564383	592555

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	564383	592555
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	549495	513781

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 2006**

N E T Prettejohn **Chief Executive**

D J Belsham **Director**

T V Boardman **Director**

Date

London 22 March 2007

Components of capital resourcesName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/UK/CM	day	month	year	Units	
	R3	2554213	GL	31	12	2006	£000
		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	
		1	2	3		4	

Core tier one capital

Permanent share capital	11		550000	550000	550000
Profit and loss account and other reserves	12		1074713	1074713	1040051
Share premium account	13				
Positive valuation differences	14				
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		1624713	1624713	1590051

Tier one waivers

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

Other tier one capital

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

Total tier one capital before deductions (19+24+25+26+27+28)	31		1624713	1624713	1590051
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35		509335	509335	481815
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37		509335	509335	481815
Total tier one capital after deductions (31-37)	39		1115378	1115378	1108236

Components of capital resourcesName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	2554213	GL	31	12	2006	£000
		General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3	Total as at the end of the previous year 4	

Tier two capital

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

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

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

Components of capital resourcesName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day month year			Units	
	R3	2554213	GL	31	12	2006	£000
		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	
		1	2	3		4	

Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71				
Total capital resources before deductions (39+69+71)	72		1115378	1115378	1108236
Inadmissible assets other than intangibles and own shares	73		1500	1500	1900
Assets in excess of market risk and counterparty limits	74				
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76				
Deductions of ineligible surplus capital	77				
Total capital resources after deductions (72-73-74-75-76-77)	79		1113878	1113878	1106336

Available capital resources for GENPRU/INSRU tests

Available capital resources for guarantee fund requirement	81		1113878	1113878	1106336
Available capital resources for 50% MCR requirement	82		1113878	1113878	1106336
Available capital resources for 75% MCR requirement	83		1113878	1113878	1106336

Financial engineering adjustments

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

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

Global business

Financial year ended **31 December 2006**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	GL	31	12	2006	£000	1
						As at end of this financial year	As at end of the previous year	
						1	2	
Land and buildings			11					

Investments in group undertakings and participating interests

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

Other financial investments

Equity shares	41			
Other shares and other variable yield participations	42			
Holdings in collective investment schemes	43			
Rights under derivative contracts	44	3093	443	
Fixed interest securities	Approved	45	849822	678842
	Other	46	103760	115593
Variable interest securities	Approved	47	4627	7052
	Other	48	79607	120578
Participation in investment pools	49			
Loans secured by mortgages	50			
Loans to public or local authorities and nationalised industries or undertakings	51			
Loans secured by policies of insurance issued by the company	52			
Other loans	53			
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	25431	30370
	More than one month withdrawal	55		
Other financial investments	56			
Deposits with ceding undertakings	57			
Assets held to match linked liabilities	Index linked	58		
	Property linked	59		

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

Global business

Financial year ended **31 December 2006**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	GL	31	12	2006	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	

Reinsurers' share of technical provisions

Provision for unearned premiums	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

Debtors and salvage

Direct insurance business	Policyholders	71	
	Intermediaries	72	
Salvage and subrogation recoveries		73	
Reinsurance	Accepted	74	
	Ceded	75	
Dependants	due in 12 months or less	76	
	due in more than 12 months	77	
Other	due in 12 months or less	78	837
	due in more than 12 months	79	

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	7653	97437
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	11969	10769
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	89	1086799	1061084
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Analysis of admissible assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2006**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	GL	31	12	2006	£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	1086799	1061084
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		
Other asset adjustments (may be negative)	100	(1430)	(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	1085369	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 assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2006**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	2006	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	
Land and buildings			11		380339	348389	

Investments in group undertakings and participating interests

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

Other financial investments

Equity shares	41			
Other shares and other variable yield participations	42	8	8	
Holdings in collective investment schemes	43			
Rights under derivative contracts	44	144765	142843	
Fixed interest securities	Approved	45	2719828	2970027
	Other	46	8305214	8773032
Variable interest securities	Approved	47		
	Other	48	84605	38406
Participation in investment pools	49			
Loans secured by mortgages	50	210417	238709	
Loans to public or local authorities and nationalised industries or undertakings	51	509	545	
Loans secured by policies of insurance issued by the company	52			
Other loans	53	57764	60418	
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	323821	303444
	More than one month withdrawal	55		
Other financial investments	56			
Deposits with ceding undertakings	57			
Assets held to match linked liabilities	Index linked	58	2093636	2165034
	Property linked	59		

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

Global business

Financial year ended **31 December 2006**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	2006	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	

Reinsurers' share of technical provisions

Provision for unearned premiums	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

Debtors and salvage

Direct insurance business	Policyholders	71	15	160
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74	37	15
	Ceded	75		
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	15051	6742
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	86354	
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	205338	205231
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	18804	22855

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	89	14646505	15275858
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Analysis of admissible assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2006**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	2006	£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	14646505	15275858
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	(34277)	
Deferred acquisition costs excluded from line 89	98		
Reinsurers' share of technical provisions excluded from line 89	99	6380	6644
Other asset adjustments (may be negative)	100	4926	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	14623534	15343649
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102	103	

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

Global business

Financial year ended **31 December 2006**Total business/Sub fund **21 LT Fund**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	11	14109587	14813876	
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12			
Balance of surplus/(valuation deficit)	13	50000	50000	
Long term insurance business fund carried forward (11 to 13)	14	14159587	14863876	
Claims outstanding	Gross	15	23146	16561
	Reinsurers' share	16		
	Net (15-16)	17	23146	16561
Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers	23			
Creditors	Direct insurance business	31		
	Reinsurance accepted	32	257	431
	Reinsurance ceded	33		
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions	36		35186	
Creditors	Taxation	37	6409	45417
	Other	38	456481	314161
Accruals and deferred income	39	2125	2126	
Provision for "reasonably foreseeable adverse variations"	41			
Total other insurance and non-insurance liabilities (17 to 41)	49	488418	413882	
Excess of the value of net admissible assets	51			
Total liabilities and margins	59	14648005	15277758	

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

Total liabilities (11+12+49)	71	14598005	15227758
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73	6380	6644
Other adjustments to liabilities (may be negative)	74	(541567)	(519151)
Capital and reserves and fund for future appropriations	75		
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)	76	14062818	14715251

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

Global business

Financial year ended **31 December 2006**

Company registration number	GL/UK/CM	day	month	year	Units	
R15	2554213	GL	31	12	2006	£000
					As at end of this financial year	As at end of the previous year
					1	2

Technical provisions (gross amount)

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

Provisions and creditors

Provisions	Taxation	21	700	
	Other risks and charges	22		
Deposits received from reinsurers		31		
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions		46		
Creditors	Taxation	47		1003
	Declared dividend	48		
	Other	49	20721	1845
Accruals and deferred income		51		
Total (19 to 51)		59	21421	2848
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69	21421	2848

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71		
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Reinsurers' share of DAC	81		
Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83	(46)	(42)
Capital and reserves	84	1624713	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)	85	1646088	1592857

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

Global business

Financial year ended **31 December 2006**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R16	2554213	GL	31	12	2006	£000
				This financial year			Previous year	
				1			2	
Transfer (to)/from the general insurance business technical account	From Form 20		11					
	Equalisation provisions		12					
Transfer from the long term insurance business revenue account			13			4836	96864	
Investment income	Income		14			51412	43363	
	Value re-adjustments on investments		15				9404	
	Gains on the realisation of investments		16			10559	39847	
Investment charges	Investment management charges, including interest		17			627	531	
	Value re-adjustments on investments		18			54863		
	Loss on the realisation of investments		19					
Allocated investment return transferred to the general insurance business technical account			20					
Other income and charges (particulars to be specified by way of supplementary note)			21			(250)	(283)	
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29			11067	188664	
Tax on profit or loss on ordinary activities			31			3925	28801	
Profit or loss on ordinary activities after tax (29-31)			39			7142	159863	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			41					
Tax on extraordinary profit or loss			42					
Other taxes not shown under the preceding items			43					
Profit or loss for the financial year (39+41-(42+43))			49			7142	159863	
Dividends (paid or declared)			51					
Profit or loss retained for the financial year (49-51)			59			7142	159863	

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

Global business

Financial year ended **31 December 2006**Category of assets **Total other than long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		R17	2554213	GL	31	12	2006	£000	1
			As at the end of this financial year			As at the end of the previous year			
			Assets 1	Liabilities 2	Assets 3	Liabilities 4			
Derivative contracts									
Futures contracts	Fixed-interest securities	11							
	Equity shares	12							
	Land	13							
	Currencies	14							
	Other	15							
Options	Fixed-interest securities	21							
	Equity shares	22							
	Land	23							
	Currencies	24							
	Other	25							
Contracts for differences	Fixed-interest securities	31							
	Equity shares	32							
	Land	33							
	Currencies	34				443	1209		
	Other	35		3093					
Adjustment for variation margin		41							
Total (11 to 41)		49		3093		443	1209		

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

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		R17	2554213	GL	31	12	2006	£000	10
		As at the end of this financial year				As at the end of the previous year			
		Assets		Liabilities		Assets		Liabilities	
		1		2		3		4	
Derivative contracts									
Futures contracts	Fixed-interest securities	11							
	Equity shares	12							
	Land	13							
	Currencies	14							
	Other	15							
Options	Fixed-interest securities	21							
	Equity shares	22							
	Land	23							
	Currencies	24							
	Other	25							
Contracts for differences	Fixed-interest securities	31							
	Equity shares	32							
	Land	33							
	Currencies	34		57680	4630		17967		11613
	Other	35		87085	39025		124876		63923
Adjustment for variation margin		41							
Total (11 to 41)		49		144765	43655		142843		75536

Long-term insurance business : Revenue account

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **21 LT Fund**
 Financial year ended **31 December 2006**
 Units **£000**

Financial year	Previous year
1	2

Income

Earned premiums	11	4272	59638
Investment income receivable before deduction of tax	12	783384	806066
Increase (decrease) in the value of non-linked assets brought into account	13	(537763)	876851
Increase (decrease) in the value of linked assets	14		
Other income	15	416	
Total income	19	250309	1742555

Expenditure

Claims incurred	21	919805	911540
Expenses payable	22	28806	23907
Interest payable before the deduction of tax	23		
Taxation	24	1151	38174
Other expenditure	25		
Transfer to (from) non technical account	26	4836	96864
Total expenditure	29	954598	1070485

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(704289)	672070
Fund brought forward	49	14863876	14191806
Fund carried forward (39+49)	59	14159587	14863876

Long-term insurance business : Analysis of premiums

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **21 LT Fund**
 Financial year ended **31 December 2006**
 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		4272		4272	59638

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		4272		4272	59638

Total

Gross	19		4272		4272	59638
Reinsurance	20					
Net	21		4272		4272	59638

Long-term insurance business : Analysis of claims

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **21 LT Fund**
 Financial year ended **31 December 2006**
 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		437		437	566
Disability periodic payments	12					
Surrender or partial surrender	13		5053		5053	4307
Annuity payments	14		903641		903641	903182
Lump sums on maturity	15		10952		10952	3812
Total	16		920083		920083	911867

Reinsurance - external

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24		278		278	327
Lump sums on maturity	25					
Total	26		278		278	327

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					
Total	36					

Net of reinsurance

Death or disability lump sums	41		437		437	566
Disability periodic payments	42					
Surrender or partial surrender	43		5053		5053	4307
Annuity payments	44		903363		903363	902855
Lump sums on maturity	45		10952		10952	3812
Total	46		919805		919805	911540

Long-term insurance business : Analysis of expenses

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **21 LT Fund**
 Financial year ended **31 December 2006**
 Units **£000**

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

Gross

Commission - acquisition	11				(1)
Commission - other	12				
Management - acquisition	13		728	728	1081
Management - maintenance	14		23023	23023	19186
Management - other	15		5055	5055	3641
Total	16		28806	28806	23907

Reinsurance - external

Commission - acquisition	21				
Commission - other	22				
Management - acquisition	23				
Management - maintenance	24				
Management - other	25				
Total	26				

Reinsurance - intra-group

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34				
Management - other	35				
Total	36				

Net of reinsurance

Commission - acquisition	41				(1)
Commission - other	42				
Management - acquisition	43		728	728	1081
Management - maintenance	44		23023	23023	19186
Management - other	45		5055	5055	3641
Total	46		28806	28806	23907

Long-term insurance business : Summary of new business

Name of insurer **Prudential Annuities Limited**
 Total business
 Financial year ended **31 December 2006**
 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				
Total	13				

**Amount of new regular
premiums**

Direct insurance business	21				
External reinsurance	22				
Intra-group reinsurance	23				
Total	24				

**Amount of new single
premiums**

Direct insurance business	25		2540		2540	59638
External reinsurance	26					
Intra-group reinsurance	27		1732		1732	
Total	28		4272		4272	59638

Long-term insurance business : Analysis of new business

Name of insurer

Prudential Annuities Limited

Total business

Financial year ended

31 December 2006

Units

£000

UK Pension / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
390	Deferred annuity non-profit - Group deferred annuities				284
400	Annuity non-profit (CPA) - Group annuities in payment				178
400	Annuity non-profit (CPA) - Individual annuities in payment				1420
905	Index linked annuity - Group annuities in payment				564
905	Index linked annuity - Group deferred annuities				29
905	Index linked annuity - Individual annuities in payment				65

Long-term insurance business : Analysis of new business

Name of insurer

Prudential Annuities Limited

Total business

Financial year ended

31 December 2006

Units

£000

UK Pension / Reinsurance accepted intra-group

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
390	Deferred annuity non-profit - Deferred annuities (reassurance accepted from PAC)				164
400	Annuity non-profit (CPA) - Group annuities in payment (reassurance accepted from PAC)				852
905	Index linked annuity - Deferred annuities (reassurance accepted from PAC)				48
905	Index linked annuity - Group annuities in payment (reassurance accepted from PAC)				668

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 2006**
 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	380339	380339	18794	4.94	
Approved fixed interest securities	12	2762537	2762537	144997	4.81	
Other fixed interest securities	13	8465117	8465117	500365	5.53	
Variable interest securities	14	85534	85534	2836	3.39	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	859342	859342	39661	4.62	
Total	19	12552869	12552869	706653	5.28	

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 2006**
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
UK Government approved fixed interest securities	11	673751	12.10	4.58	4.58

Other approved fixed interest securities	21	2088786	11.18	4.88	4.79
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Other fixed interest securities

AAA/Aaa	31	688088	10.93	5.13	4.90
AA/Aa	32	1477660	11.98	5.16	4.80
A/A	33	2847799	11.26	5.53	4.95
BBB/Baa	34	1320861	9.88	5.75	4.61
BB/Ba	35	40426	9.45	7.93	4.26
B/B	36				
CCC/Caa	37	23893	8.61	9.59	2.08
Other (including unrated)	38	2066390	10.14	5.69	5.02
Total other fixed interest securities	39	8465117	10.85	5.53	4.87

Approved variable interest securities	41				
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Other variable interest securities	51	85534	22.16	3.39	2.92
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Total (11+21+39+41+51)	61	11313188	11.07	5.34	4.82
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Long-term insurance business : Summary of mathematical reserves

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **21 Ordinary Branch Long Term**
 Financial year ended **31 December 2006**
 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		11962910	11962910	12593376
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16		2095652	2095652	2167088
Form 54 - non-linked	17		57598	57598	60246
Total	18		14116160	14116160	14820710

Reinsurance - external

Form 51 - with-profits	21				
Form 51 - non-profit	22		4557	4557	4780
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26		2016	2016	2054
Form 54 - non-linked	27				
Total	28		6573	6573	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				
Total	38				

Net of reinsurance

Form 51 - with-profits	41				
Form 51 - non-profit	42		11958353	11958353	12588596
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46		2093636	2093636	2165034
Form 54 - non-linked	47		57598	57598	60246
Total	48		14109587	14109587	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 **21 Ordinary Branch Long Term**
 Financial year ended **31 December 2006**
 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)		1021					11692
390	Deferred annuity non-profit - Deferred annuities (reassurance accepted from PAC) (GPDA)		11450					114693
390	Deferred annuity non-profit - Group deferred annuities (DAPA)	15494	37281					476396
390	Deferred annuity non-profit - Group deferred annuities (GPDA)	586	1490					24289
400	Annuity non-profit (CPA) - Group annuities in payment	24462	33491					502060
400	Annuity non-profit (CPA) - Individual annuities in payment	44446	165018					2493804
400	Annuity non-profit (CPA) - Individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)		592871					7824525
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment	2	7					111
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)		609					8487
440	Additional reserves non-profit OB - Miscellaneous							118261
440	Additional reserves non-profit OB - Mismatching							116005
440	Additional reserves non-profit OB - Policy related expenses							272587

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 **21 Ordinary Branch Long Term**
 Financial year ended **31 December 2006**
 Units **£000**
 UK Pension / Reinsurance ceded external

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
400	Annuity non-profit (CPA)		172					4557

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

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **21 Ordinary Branch Long Term**
 Financial year ended **31 December 2006**
 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	13690	30432		482478	482478		482478
905	Index linked annuity - Group annuities in payment - valued as fixed	16579	18740		298587	298587		298587
905	Index linked annuity - Group deferred annuities	15405	16037		158916	158916		158916
905	Index linked annuity - Group deferred annuities - valued as fixed	6837	13070		254197	254197		254197
905	Index linked annuity - Group deferred annuities (reassurance accepted from PAC)		486		7577	7577		7577
905	Index linked annuity - Individual annuities in payment	6110	22069		419068	419068		419068
905	Index linked annuity - Individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)		27623		428436	428436		428436
915	Additional reserves index linked - Miscellaneous						21119	21119
915	Additional reserves index linked - Mismatching						36479	36479
915	Additional reserves index linked - Policy related expenses				46393	46393		46393

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

Name of insurer **Prudential Annuities Limited**
Total business / subfund **21 Ordinary Branch Long Term**
Financial year ended **31 December 2006**
Units **£000**
UK Pension / Reinsurance ceded external

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
905	Index linked annuity		112		2016	2016		2016

Long-term insurance business : Index linked business

Name of insurer **Prudential Annuities Limited**
 Total business
 Financial year ended **31 December 2006**
 Units **£000**

Type of assets and liabilities	Name of index link 1	Value of assets or liabilities 2	Gross derivative value 3
Land & buildings	RPI	5311	
Rights under derivative contracts	RPI	37760	
Government and public body non-linked bonds	RPI	84268	
Corporate non-linked bonds	RPI	391651	
Government and public body index linked bonds	RPI	249250	
Corporate index linked bonds	RPI	1266947	
Loans secured by mortgages	RPI	2938	
Public or local authority and nationalised industry loans	RPI	7	
Other loans	RPI	807	
Deposits with approved credit institutions	RPI	5887	
Other debtors	RPI	561	
Cash at bank or in hand	RPI	26053	
Accrued interest and rent	RPI	22196	
Total assets		2093636	
Total liabilities			
Net total assets		2093636	

Long-term insurance business: analysis of valuation interest rateName of insurer **Prudential Annuities Limited**Total business **21 Ordinary Branch Long Term**Financial year ended **31 December 2006**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	11451500		4.66	4.78
Form 51: Additional reserves - policy related expenses	272587		1.62	1.66
Form 51: Additional reserves	234266			4.78
Form 54: Additional reserves	57598			1.66
Total	12015951			

Long-term insurance business : Distribution of surplus

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **21 Ordinary Branch Long Term**
 Financial year ended **31 December 2006**
 Units **£000**

Financial year	Previous year
1	2

Valuation result

Fund carried forward	11	14159587	14863876
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	4836	96864
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	14164423	14960740
Mathematical reserves	21	14109587	14813876
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	54836	146864

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	4836	96864
Total	39	54836	146864

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	4836	96864
Total distributed surplus (46+47)	48	4836	96864
Surplus carried forward	49	50000	50000
Total (48+49)	59	54836	146864

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 requirementName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2006**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

Life protection reinsurance	11	0.0%				
Classes I (other), II and IX	12	0.1%				
Classes I (other), II and IX	13	0.15%				
Classes I (other), II and IX	14	0.3%				
Classes III, VII and VIII	15	0.3%				
Total	16					

Insurance health risk and life protection reinsurance capital component

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					
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Insurance expense risk capital component

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	11962910	11958353	1.00	119584	125886
Classes III, VII and VIII (investment risk)	33	1%	2153250	2151234	1.00	21512	22253
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%					
Classes III, VII and VIII (other)	35	25%					
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%					
Total	39					141096	148139

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	11962910	11958353	1.00	358751	377658
Classes III, VII and VIII (investment risk)	43	3%	2153250	2151234	1.00	64537	66758
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%					
Classes III, VII and VIII (other)	45	0%					
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
Total	49		14116160	14109587		423288	444416

Long term insurance capital requirement	51					564383	592555
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PRUDENTIAL ANNUITIES LIMITED

Valuation report pursuant to the Interim Prudential Sourcebook (IPRU (INS)) rule 9.4, 9.31(a) and Appendix 9.4

Valuation Report as at 31 December 2006

1. Introduction

- (1) The investigation relates to 31 December 2006.
- (2) The previous investigation related to 31 December 2005.
- (3) No interim valuations have been carried out for the purposes of rule 9.4 since 31 December 2005.

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.

(e) With-profits subfunds

There are no with-profit subfunds.

3. Discretionary charges and benefits

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

Valuation Report as at 31 December 2006 (continued)

(6) Not applicable

(7) Not applicable

(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.

Valuation Report as at 31 December 2006 (continued)

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

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 INSPRU 3.1.35R 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 2006 %	31 December 2005 %
All	All products	4.66	4.30

Valuation Report as at 31 December 2006 (continued)

Index-linked

Product code number	Product description	31 December 2006 %	31 December 2005 %
905	All products (excluding index linked annuities – valued as fixed)	1.62	1.43
905	Index linked annuity – group annuities in payment – valued as fixed Index linked annuity – group deferred annuities – valued as fixed	4.66	4.30

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.

- (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:

Valuation Report as at 31 December 2006 (continued)

Default rates – basis points per annum:

Seniority	AAA	AA	A	BBB	BB	B and lower
First Mortgage Debenture / Senior Secured	6.6	8.5	13.8	28.5	107.2	216.6
Senior Unsecured	14.6	18.7	30.3	62.8	235.8	476.6
Subordinated Debt	21.2	27.2	44.0	91.3	343.0	693.3

Regard is also paid to the yield differential between corporate and government bonds, and prevailing economic circumstances.

The yields shown in Form 48 column 4 were determined in accordance with the requirements of INSPRU 3.1. The risk adjusted yields shown in Form 57 column 5 were calculated using the method of the section 148 waiver, after allowance for defaults.

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 increase 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.

Valuation Report as at 31 December 2006 (continued)

(4) Non-linked

Product code number	Product description	31 December 2006	31 December 2005
400	Annuity non-profit (CPA) – individual annuities in payment Annuity non-profit (CPA) – individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)		
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)		
	Mortality table	Modified 106% PNMA00 / 84% PNFA00	Modified 93% PMA92 / 84% PFA92 (C=2004)
	Expectation of life age 65	21.8 (M), 25.1 (F)	21.6 (M), 25.0 (F)
	Expectation of life age 75	13.2 (M), 16.1 (F)	13.0 (M), 16.3 (F)
400	Annuity non-profit (CPA) – group annuities in payment		
	Mortality table	Modified 112% PNMA00 / 107% PNFA00	Modified 100% PMA92 / 105% PFA92 (C=2004)
	Expectation of life age 65	21.4 (M), 23.1 (F)	21.0 (M), 22.9 (F)
	Expectation of life age 75	12.8 (M), 14.4 (F)	12.5 (M), 14.5 (F)
390	Deferred annuity non-profit – group deferred annuities (GPDA) Deferred annuity non-profit - group deferred annuities (reassurance accepted from PAC) (GPDA)		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 126% PNMA00 / 117% PNFA00	In deferment: AM92 /AF92 – 4 years In payment: 80.0% PMA92 / 87.3% PFA92 (C=2004)
	Current age 45, expectation of life age 65	22.7 (M), 23.7 (F)	21.6 (M) ⁽¹⁾ , 24.1 (F) ⁽¹⁾
	Current age 55, expectation of life age 65	21.5 (M), 23.1 (F)	20.9 (M) ⁽¹⁾ , 23.3 (F) ⁽¹⁾
390	Deferred annuity non-profit – group deferred annuities (DAPA) Deferred annuity non-profit - group deferred annuities (reassurance accepted from PAC) (DAPA)		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 112% PNMA00 / 107% PNFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 100% PMA92 / 105% PFA92 (C=2004)
	Current age 45, expectation of life age 65	23.7 (M), 24.4 (F)	23.5 (M), 24.5 (F)
	Current age 55, expectation of life age 65	22.6 (M), 23.8 (F)	22.2 (M), 23.7 (F)

Valuation Report as at 31 December 2006 (continued)

Index linked

Product code number	Product description	31 December 2006	31 December 2005
905	Index linked annuity - individual annuities in payment Index linked annuity - individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)		
	Mortality table	Modified 106% PNMA00 / 84% PNFA00	Modified 93% PMA92 / 84% PFA92 (C=2004)
	Expectation of life age 65	21.8 (M), 25.1 (F)	21.6 (M), 25.0 (F)
	Expectation of life age 75	13.2 (M), 16.1 (F)	13.0 (M), 16.3 (F)
905	Index linked annuity - group annuities in payment Index linked annuity - group annuities in payment - valued as fixed		
	Mortality table	Modified 112% PNMA00 / 107% PNFA00	Modified 100% PMA92 / 105% PFA92 (C=2004)
	Expectation of life age 65	21.4 (M), 23.1 (F)	21.0 (M), 22.9 (F)
	Expectation of life age 75	12.8 (M), 14.4 (F)	12.5 (M), 14.5 (F)
905	Index linked annuity - group deferred annuities Index linked annuity - group deferred annuities – valued as fixed Index linked annuity – group deferred annuities (reassurance accepted from PAC)		
	Mortality table	In deferment: AM92 / AF92 – 4 years In payment: Modified 112% PNMA00 / 107% PNFA00	In deferment: AM92 / AF92 – 4 years In payment: Modified 100% PMA92 / 105% PFA92 (C=2004)
	Current age 45, expectation of life age 65	23.7 (M), 24.4 (F)	23.5 (M), 24.5 (F)
	Current age 55, expectation of life age 65	22.6 (M), 23.8 (F)	22.2 (M), 23.7 (F)

⁽¹⁾ 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 2006 (continued)

Mortality bases used at 31 December 2006

Annuities are generally valued using a percentage of the 00 series tables for annuitants and pensioners (normal retirements). In order to allow for mortality improvement, improvement factors are applied from 2001. For males these 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.

In practice, some of the group deferred annuity business has been valued using percentages of single entry tables based on the 92 series tables for annuitants and pensioners, with calendar year 2004 (improvements in line with CMIR17 until 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.

Mortality bases used at 31 December 2005

Annuities were generally valued using a percentage of the 92 series tables for annuitants and pensioners. In order to allow for mortality improvement, the CMIR 17 mortality improvement factors were applied up to and including 2004. Future improvement factors were applied from 2005, and for males were 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 were 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 was made to the annuitant's age to allow for impairment.

Some of the group deferred annuity business was valued using percentages of single entry tables with calendar year 2004. The percentages were chosen so that the rates used were 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 was made during the deferred period, to allow for expected mortality improvements prior to vesting.

(5) Not applicable

Valuation Report as at 31 December 2006 (continued)

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

Product code number	Product description	31 December 2006	31 December 2005
All	All products	£22.33 p.a.	£20 p.a.

The inflation rates assumed for future expenses are as follows:

Product code number	Product description	31 December 2006	31 December 2005
All	All products	3.5% p.a.	3.5% p.a.

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

Product code number	Product description	31 December 2006	31 December 2005
All	All products	0.10% p.a.	0.10% p.a.

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 of £17.7m is also held.

(7) Not applicable

(8) Not applicable

(9) No lapses have been allowed for in the valuation.

(10) There are no material basis assumptions not stated elsewhere.

(11) Derivative contracts held as at 31 December 2006 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

Valuation Report as at 31 December 2006 (continued)

- 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
- ix) A contract to swap future floating UK LIBOR for UK RPI linked cashflows
- x) Contracts to swap RPI for fixed UK Sterling

The effect of the contracts under i), ii), iv), v) and vi) is to convert cashflows from US Dollar denominated bonds into fixed UK Sterling cashflows.

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

The effect of the contracts under vii) 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 RPI linked UK Sterling cashflows.

The effect of the contract under x) is to convert RPI linked cashflows into UK Sterling fixed 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 INSPRU 3.1 and hence differ from the yields calculated in accordance with the section 148 waiver.

- (12) There were no changes in valuation methodology arising from changes in INSPRU valuation rules effective from 31 December 2006.

Valuation Report as at 31 December 2006 (continued)

5. Options and guarantees

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

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	16.5
Investment management expenses	14.1
Total	30.6

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 of £17.7m is also held.

- (2) Not applicable
- (3) The maintenance expenses shown at line 14 of Form 43 are £23.0m. 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 date. 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).

Valuation Report as at 31 December 2006 (continued)

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 £280.2m.

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 £21.1m is held for the impact of closing to new business.

(6) No expenses have been treated as non-attributable.

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(11) for details.

(2) Not applicable

(3) Not applicable

(4) The most onerous scenario under INSPRU 3.1.16R 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 0.92%, 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 INSPRU 3.1.16R, 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;

Valuation Report as at 31 December 2006 (continued)

- (a) No resilience capital requirement was necessary.
 - (b) The increase in the aggregate amount of the long-term insurance liabilities was £1,240m.
 - (c) The increase in the aggregate amount of assets backing these liabilities was £1,303m.
- (7) A reserve of £152.5m was held arising from the test on assets in INSPRU 1.1.34R(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 INSPRU 3.1.45R. 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 £136.6m 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

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2006

Supplementary notes to the returns

Form 2

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

The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in May 2005 for the period 1 June 2005 to 31 October 2007. The effect of the direction is to modify the provisions of PRU 4.2.35R (INSPRU 3.1.35R with effect from 31 December 2006) 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)

Form 3

0301 Reconciliation of net admissible assets to total capital resources

	2006 £'000s
Line 89 on Form 13 (OLTB)	1,086,799
Line 89 on Form 13 (LTB)	14,646,505
Line 11 on Form 14	(14,109,587)
Line 49 on Form 14	(488,418)
Line 69 on Form 15	(21,421)
Line 79 on Form 3	<u>1,113,878</u>

Supplementary notes to the returns (continued)

0310 Valuation differences

	2006 £'000s
<i>Positive valuation differences where liabilities are lower than in the shareholder accounts</i>	
Deferred tax held on additional reserves and valuation differences	215,755
<i>Positive valuation differences where assets are higher than in the shareholder accounts</i>	
FSA valuation difference on investments	34,277
<i>Negative valuation differences where liabilities are higher than in the shareholder accounts</i>	
Additional reserves held in long term fund	(759,367)
Line 35 on Form 3	<u>(509,335)</u>

Form 13

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

1301 The Company held £77m in unlisted securities.

1302 The Company held £33m 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 General 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 £1,106m in unlisted securities.

1309 The Company held £1,887m 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 General 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

	2006 £'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.	(1,384)
Miscellaneous liabilities netted off against assets in the financial statements	(46)
Line 100 on Form 13	<u>(1,430)</u>

	2006 £'000s
<i>Total long term business assets</i>	
Cash at bank used to notionally settle balances owed to the other than long term fund	4,836
Miscellaneous liabilities netted off against assets in the financial statements	(30)
Miscellaneous derivative gross up	120
Line 100 on Form 13	<u>4,926</u>

1321 Other differences in valuation of assets

	2006 £'000s
<i>Total long term business assets</i>	
Assets valued on a different basis than that in the financial statements	(34,277)
Line 97 on Form 13	<u>(34,277)</u>

Supplementary notes to the returns (continued)

Form 14

1401 The long term fund held a number of interest rate, foreign currency swaps and foreign currency futures, during the year. The swaps involved the exchange of cash flows and not the underlying principal amount. No provision for adverse change is required, as all derivatives that impose an obligation on the fund are strictly covered.

- *1402* (a) There were no charges attributable to the long term business assets.
- (b) 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

	2006 £'000s
Additional reserves held in long term fund	(759,367)
Deferred tax held on additional reserves and valuation differences	215,755
Amounts owed to credit institutions – notional settlements of interfund	3,452
Inadmissible deferred tax assets netted off deferred tax liability in financial statements	(1,500)
Miscellaneous adjustments to liabilities	93
Line 74 on Form 14	<u>(541,567)</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.

Supplementary notes to the returns (continued)

- *1502* (a) There were no charges attributable to the other than long term business assets.
- (b) The total potential liability to taxation on capital gains which might arise if the company disposed of its assets was £700k. 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.
- *1507* Details of other adjustment in liabilities

	2006
	<u>£'000s</u>
Intragroup balances less than 100k netted off against assets in the financial statements	(46)

Form 16

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

Form 40

- *4002* Other income represents a court settlement received in respect to the professional negligence case against the brokers of WorldCom.
- *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, Prudential Distribution 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. Included in earned premiums for the year is an amount of £2m 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 £624m arising from claims under this reinsurance agreement.

The liabilities included in the return, relating to this business amount to £8,395m at the year end.

Supplementary notes to the returns (continued)

Form 48

- *4802* There are 2 assets where the payment of interest is in default. The expected income from these assets has been reduced to nil.
- *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 combined is 60,500.
- *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 combined is 60,500.

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	4.78%	5.28%
Form 51: Additional reserves non-profit OB – policy related expenses	1.66%	2.01%

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2006

Directors' Certificate pursuant to the Interim Prudential Sourcebook (IPRU (INS)) rule 9.34

We certify:

1. (a) that the return has been properly prepared in accordance with the requirements in IPRU (INS), GENPRU and INSPRU as modified by waiver dated 1 June 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), GENPRU, INSPRU 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, and 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.

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N E T Prettejohn
Chief Executive

.....

D J Belsham
Director

.....

T V Boardman
Director

22 March 2007

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2005

Report of the auditor to the Directors pursuant to the Interim Prudential Sourcebook for Insurers (IPRU (INS)) rule 9.35

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 IPRU (INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU, the Insurance 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 55 (‘the Forms’);
- the statement required by IPRU (INS) rule 9.29 on pages 60 to 62 (‘the Statement’); and
- the valuation report required by IPRU (INS) rule 9.31(a) (‘the valuation report’) on pages 37 to 49.

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 55;
- the statement required by IPRU (INS) rules 9.30 on page 63; or
- the certificate required by IPRU (INS) signed in accordance with rule 9.34 on page 56 (‘the certificate’).

This report is made solely to the Company’s directors, as a body, in accordance with the requirements of IPRU (INS) 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 IPRU (INS) 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 IPRU (INS) 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 waiver issued under section 148 of the Financial Services and Markets Act 2000 on 1 June 2005. 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 IPRU (INS) rule 9.31 are required to reflect appropriately the requirements of INSPRU 1.2.

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 IPRU (INS) rule 9.11.

In accordance with IPRU (INS) rule 9.35(1A), to the extent that any document, Form, Statement, analysis or report to be examined under IPRU (INS) rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to IPRU (INS) 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 IPRU (INS) rule 9.31 appropriately reflect the requirements of INSPRU 1.2.

KPMG Audit Plc
Registered Auditor
London

22 March 2007

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2006

Statement pursuant to the Interim Prudential Sourcebook for Insurers (IPRU (INS)) rule 9.29

(a) Investment guidelines

As requested by rule 9.29 of IPRU (INS), 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 IPRU (INS) (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 2006 no such contracts were used.

Statement pursuant to IPRU (INS) rule 9.29 (continued)

- (d) Effect on form 13 at 31 December 2006 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;	(£144,096k)
Form 13 line 58 (Derivatives);	(£39,036k)
Form 13 line 58 (Cash);	£38,226k
Form 13 line 54/55/81;	£104,400k

Other than long term funds

Form 13 line 44;	(£3,093k)
Form 13 line 54/55/81;	£3,093k

- (e) Effect on form 13 at 31 December 2006 of exercising all derivatives. Decreases are shown in brackets**

Long term funds

Form 13 line 44;	(£144,096k)
Form 13 line 58 (Derivatives);	(£39,036k)
Form 13 line 58 (Cash);	£38,226k
Form 13 line 54/55/81;	£104,400k

Other than long term funds

Form 13 line 44;	(£3,093k)
Form 13 line 54/55/81;	£3,093k

- (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;	(£178,216k)
Form 13 line 58 (Derivatives);	(£28,632k)
Form 13 line 58 (Cash);	£26,848k
Form 13 line 54/55/81;	£69,062k

Other than long term funds

Form 13 line 44;	(£444k)
Form 13 line 54/55/81;	(£766k)

Statement pursuant to IPRU (INS) rule 9.29 (continued)

Conditions noted in (e)

Long term funds

Form 13 line 44;	(£178,216k)
Form 13 line 58 (Derivatives);	(£28,632k)
Form 13 line 58 (Cash);	£26,848k
Form 13 line 54/55/81;	£69,062k

Other than long term funds

Form 13 line 44;	(£444k)
Form 13 line 54/55/81;	(£766k)

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 £1,784k.

Under foreseeable market conditions the Company's exposure would not increase beyond £1,895k. The maximum loss at any other time during the year was £1,895k.

(h) Derivatives not covered by Paragraph (2) of Rule 4.12 or the definition of a permitted derivative contract in IPRU (INS).

There were no derivative contracts held during 2006 that did not satisfy the rule 4.12 requirements of IPRU (INS).

(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 2006

Statement pursuant to the Interim Prudential Sourcebook for Insurers (IPRU (INS)) rule 9.30

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 2006, 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 2006:
 - (i) the percentage of shares he held at that time in the Company, or in another company of which the Company was a subsidiary undertaking; and
 - (ii) the percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the Company, or another company of which it was a subsidiary undertaking;

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

Persons who, to the knowledge of the Company, have been, at any time during the year ended 31 December 2006, a shareholder controller of the Company.	In the case of each person who was a shareholder controller of the Company at 31 December 2006:	
	The percentage of shares he held at that time in the Company, or in another company of which the Company was a subsidiary undertaking, either alone or (<i>shown separately</i>) with any associate or associates	The percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the Company, or another company of which it was a subsidiary undertaking, either alone or (<i>shown separately</i>) with any associate or associates
The Prudential Assurance Company Limited, being its immediate holding company	100%	100%
Prudential plc, being its ultimate holding company	100%	100%