

# **Prudential Pensions Limited**

**Incorporated in England and Wales Registered No. 992726**  
**Registered Office: Laurence Pountney Hill, London EC4R 0HH**

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

**31 December 2006**

**(Appendices 9.1, 9.3, 9.4, 9.6)**

# Prudential Pensions Limited

31 December 2006

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

Global business

Financial year ended **31 December 2006**

Solo solvency calculation

	Company registration number	GL/ UK/ CM	day month year			Units	
	<b>R2</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
				<b>As at end of this financial year</b>		<b>As at end of the previous year</b>	
				<b>1</b>		<b>2</b>	

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	9083	34912
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	10552	59614
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	19635	94526

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	2139	20516
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	17496	74010

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	6346	61547
Resilience capital requirement	<b>32</b>	809	
Base capital resources requirement	<b>33</b>	2139	2030
Individual minimum capital requirement	<b>34</b>	7155	61547
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	7155	61547
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	16058	63752
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	14269	48366

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		
Enhanced capital requirement	<b>40</b>	7155	61547

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	7155	61547
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	12481	32979

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	<b>51</b>	20518	32723
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**Covering Sheet to Form 2**

**Form 2**

Name of insurer      **Prudential Pensions Limited**

Global business

Financial year ended      **31 December 2006**

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

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

\_\_\_\_\_ P Burgess      **Director**

**London, 20th March 2007**

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

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day month year			Units	
	<b>R3</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>		<b>4</b>	

**Core tier one capital**

Permanent share capital	<b>11</b>		6000	6000	6000
Profit and loss account and other reserves	<b>12</b>		(2474)	(2474)	48289
Share premium account	<b>13</b>				
Positive valuation differences	<b>14</b>		16109	16109	237
Fund for future appropriations	<b>15</b>				
Core tier one capital in related undertakings	<b>16</b>				
Core tier one capital (sum of 11 to 16)	<b>19</b>		19635	19635	54526

**Tier one waivers**

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

**Other tier one capital**

Perpetual non-cumulative preference shares as restricted	<b>25</b>				40000
Perpetual non-cumulative preference shares in related undertakings	<b>26</b>				
Innovative tier one capital as restricted	<b>27</b>				
Innovative tier one capital in related undertakings	<b>28</b>				

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		19635	19635	94526
Investments in own shares	<b>32</b>				
Intangible assets	<b>33</b>				
Amounts deducted from technical provisions for discounting	<b>34</b>				
Other negative valuation differences	<b>35</b>				
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>				
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		19635	19635	94526

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

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day	month	year	Units
<b>R3</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Tier two capital**

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

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

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

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

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	<b>R3</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year		
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>		

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	<b>71</b>					
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		19635	19635	94526	
Inadmissible assets other than intangibles and own shares	<b>73</b>					
Assets in excess of market risk and counterparty limits	<b>74</b>					
Deductions for related ancillary services undertakings	<b>75</b>					
Deductions for regulated non-insurance related undertakings	<b>76</b>					
Deductions of ineligible surplus capital	<b>77</b>					
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		19635	19635	94526	

**Available capital resources for GENPRU/INSRU tests**

Available capital resources for guarantee fund requirement	<b>81</b>		19635	19635	94526	
Available capital resources for 50% MCR requirement	<b>82</b>		19635	19635	94526	
Available capital resources for 75% MCR requirement	<b>83</b>		19635	19635	94526	

**Financial engineering adjustments**

Implicit items	<b>91</b>					
Financial reinsurance - ceded	<b>92</b>					
Financial reinsurance - accepted	<b>93</b>					
Outstanding contingent loans	<b>94</b>		20518	20518	32723	
Any other charges on future profits	<b>95</b>					
<b>Sum of financial engineering adjustments (91+92-93+94+95)</b>	<b>96</b>		20518	20518	32723	

**Analysis of admissible assets**Name of insurer **Prudential Pensions 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	
	<b>R13</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
						<b>1</b>	<b>2</b>	
Land and buildings				<b>11</b>				

**Investments in group undertakings and participating interests**

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

**Other financial investments**

Equity shares	<b>41</b>		
Other shares and other variable yield participations	<b>42</b>		
Holdings in collective investment schemes	<b>43</b>		
Rights under derivative contracts	<b>44</b>		
Fixed interest securities	Approved	<b>45</b>	40232
	Other	<b>46</b>	
Variable interest securities	Approved	<b>47</b>	
	Other	<b>48</b>	
Participation in investment pools	<b>49</b>		
Loans secured by mortgages	<b>50</b>		
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>		
Loans secured by policies of insurance issued by the company	<b>52</b>		
Other loans	<b>53</b>		
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	7364
	More than one month withdrawal	<b>55</b>	23555
Other financial investments	<b>56</b>		
Deposits with ceding undertakings	<b>57</b>		
Assets held to match linked liabilities	Index linked	<b>58</b>	
	Property linked	<b>59</b>	



**Analysis of admissible assets**Name of insurer **Prudential Pensions 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	992726	GL	31	12	2006	£000	1
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					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	2995
	due in more than 12 months	79	20

**Other assets**

Tangible assets	80	
Deposits not subject to time restriction on withdrawal with approved institutions	81	184
Cash in hand	82	
Other assets (particulars to be specified by way of supplementary note)	83	
Accrued interest and rent	84	9
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	10552	63962
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**Analysis of admissible assets**Name of insurer **Prudential Pensions 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	
	<b>R13</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
						<b>1</b>	<b>2</b>	

**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)	<b>91</b>	10552	63962
Assets in excess of market and counterparty limits	<b>92</b>		
Capital resources requirement deduction of regulated related undertakings	<b>93</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>94</b>		
Inadmissible assets of regulated related insurance undertakings	<b>95</b>		
Book value of related ancillary services undertakings	<b>96</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>97</b>		
Deferred acquisition costs excluded from line 89	<b>98</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>99</b>		
Other asset adjustments (may be negative)	<b>100</b>		
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)	<b>101</b>	10552	63962
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>102</b>		

**Analysis of admissible assets**Name of insurer **Prudential Pensions 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	
	<b>R13</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
						<b>1</b>	<b>2</b>	
Land and buildings				<b>11</b>				

**Investments in group undertakings and participating interests**

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

**Other financial investments**

Equity shares	<b>41</b>			
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>			
Rights under derivative contracts	<b>44</b>			
Fixed interest securities	Approved	<b>45</b>	1945	636844
	Other	<b>46</b>		809736
Variable interest securities	Approved	<b>47</b>		
	Other	<b>48</b>		
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>			
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>			
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	10636	645
	More than one month withdrawal	<b>55</b>		
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>		37816
	Property linked	<b>59</b>	7204192	6275689

**Analysis of admissible assets**Name of insurer **Prudential Pensions 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	
<b>R13</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>		
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	2157	3714
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	4638	35550
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	451	24261
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	7224019	7824255
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**Analysis of admissible assets**Name of insurer **Prudential Pensions 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	
	<b>R13</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
						<b>1</b>	<b>2</b>	

**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)	<b>91</b>	7224019	7824255
Assets in excess of market and counterparty limits	<b>92</b>		
Capital resources requirement deduction of regulated related undertakings	<b>93</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>94</b>		
Inadmissible assets of regulated related insurance undertakings	<b>95</b>		
Book value of related ancillary services undertakings	<b>96</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>97</b>		
Deferred acquisition costs excluded from line 89	<b>98</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>99</b>	104115	107671
Other asset adjustments (may be negative)	<b>100</b>		
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)	<b>101</b>	7328134	7931926
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>102</b>		

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

Global business

Financial year ended **31 December 2006**Total business/Sub fund **10 Ordinary Long Term**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	<b>11</b>	7175801	7762539	
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>			
Balance of surplus/(valuation deficit)	<b>13</b>	9083	34912	
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	7184884	7797451	
Claims outstanding	Gross	<b>15</b>	366	366
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	366	366
Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers	<b>23</b>			
Creditors	Direct insurance business	<b>31</b>	792	7188
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>		
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions	<b>36</b>			
Creditors	Taxation	<b>37</b>	95	1156
	Other	<b>38</b>	37882	18094
Accruals and deferred income	<b>39</b>			
Provision for "reasonably foreseeable adverse variations"	<b>41</b>			
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	39135	26804	
Excess of the value of net admissible assets	<b>51</b>			
Total liabilities and margins	<b>59</b>	7224019	7824255	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	2497	2068
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	7204192	6275689

Total liabilities (11+12+49)	<b>71</b>	7214936	7789343
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>	104115	107671
Other adjustments to liabilities (may be negative)	<b>74</b>	16109	237
Capital and reserves and fund for future appropriations	<b>75</b>	(7026)	34675
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75)	<b>76</b>	7328134	7931926

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

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	<b>R15</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
						<b>As at end of this financial year 1</b>	<b>As at end of the previous year 2</b>

**Technical provisions (gross amount)**

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

**Provisions and creditors**

Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers		<b>31</b>		
Creditors	Direct insurance business	<b>41</b>		
	Reinsurance accepted	<b>42</b>		
	Reinsurance ceded	<b>43</b>		
Debenture loans	Secured	<b>44</b>		
	Unsecured	<b>45</b>		
Amounts owed to credit institutions		<b>46</b>		
Creditors	Taxation	<b>47</b>		4348
	Declared dividend	<b>48</b>		
	Other	<b>49</b>		
Accruals and deferred income		<b>51</b>		
Total (19 to 51)		<b>59</b>		4348
Provision for "reasonably foreseeable adverse variations"		<b>61</b>		
Cumulative preference share capital		<b>62</b>		
Subordinated loan capital		<b>63</b>		
Total (59 to 63)		<b>69</b>		4348

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance		<b>71</b>		
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Reinsurers' share of DAC		<b>81</b>		
Amounts deducted from technical provisions for discounting		<b>82</b>		
Other adjustments (may be negative)		<b>83</b>		
Capital and reserves		<b>84</b>	10552	59614
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69+81-82+83+84)		<b>85</b>	10552	63962

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

Global business

Financial year ended **31 December 2006**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		<b>R16</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
				This financial year			Previous year	
				1			2	
Transfer (to)/from the general insurance business technical account	From Form 20		<b>11</b>					
	Equalisation provisions		<b>12</b>					
Transfer from the long term insurance business revenue account			<b>13</b>					
Investment income	Income		<b>14</b>			1340		2207
	Value re-adjustments on investments		<b>15</b>					
	Gains on the realisation of investments		<b>16</b>					
Investment charges	Investment management charges, including interest		<b>17</b>					
	Value re-adjustments on investments		<b>18</b>					
	Loss on the realisation of investments		<b>19</b>					
Allocated investment return transferred to the general insurance business technical account			<b>20</b>					
Other income and charges (particulars to be specified by way of supplementary note)			<b>21</b>					
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			<b>29</b>			1340		2207
Tax on profit or loss on ordinary activities			<b>31</b>			402		662
Profit or loss on ordinary activities after tax (29-31)			<b>39</b>			938		1545
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			<b>41</b>					
Tax on extraordinary profit or loss			<b>42</b>					
Other taxes not shown under the preceding items			<b>43</b>					
Profit or loss for the financial year (39+41-(42+43))			<b>49</b>			938		1545
Dividends (paid or declared)			<b>51</b>			10000		
Profit or loss retained for the financial year (49-51)			<b>59</b>			(9062)		1545



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

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **10 Ordinary Long Term**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	(604815)	2181333
Investment income receivable before deduction of tax	12	304234	259777
Increase (decrease) in the value of non-linked assets brought into account	13	149	12944
Increase (decrease) in the value of linked assets	14	351773	645775
Other income	15		32000
<b>Total income</b>	<b>19</b>	<b>51341</b>	<b>3131829</b>

**Expenditure**

Claims incurred	21	644096	533608
Expenses payable	22	13761	20014
Interest payable before the deduction of tax	23		667
Taxation	24	(7949)	2310
Other expenditure	25	14000	
Transfer to (from) non technical account	26		
<b>Total expenditure</b>	<b>29</b>	<b>663908</b>	<b>556599</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(612567)	2575230
Fund brought forward	49	7797451	5222221
Fund carried forward (39+49)	59	7184884	7797451

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

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **10 Ordinary 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**

Regular premiums	11		807		807	1244
Single premiums	12		(605622)		(605622)	2180089

**Reinsurance - external**

Regular premiums	13					
Single premiums	14					

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17		807		807	1244
Single premiums	18		(605622)		(605622)	2180089

**Total**

Gross	19		(604815)		(604815)	2181333
Reinsurance	20					
Net	21		(604815)		(604815)	2181333

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

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **10 Ordinary 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**

Death or disability lump sums	11		1724		1724	1152
Disability periodic payments	12					
Surrender or partial surrender	13		640693		640693	532177
Annuity payments	14		9807		9807	7953
Lump sums on maturity	15					
<b>Total</b>	<b>16</b>		<b>652224</b>		<b>652224</b>	<b>541282</b>

**Reinsurance - external**

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

**Reinsurance - intra-group**

Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33					
Annuity payments	34		8128		8128	7674
Lump sums on maturity	35					
<b>Total</b>	<b>36</b>		<b>8128</b>		<b>8128</b>	<b>7674</b>

**Net of reinsurance**

Death or disability lump sums	41		1724		1724	1152
Disability periodic payments	42					
Surrender or partial surrender	43		640693		640693	532177
Annuity payments	44		1679		1679	279
Lump sums on maturity	45					
<b>Total</b>	<b>46</b>		<b>644096</b>		<b>644096</b>	<b>533608</b>

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

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **10 Ordinary 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**

Commission - acquisition	11				
Commission - other	12				
Management - acquisition	13		2197	2197	4984
Management - maintenance	14		11075	11075	13323
Management - other	15		489	489	1707
<b>Total</b>	<b>16</b>		<b>13761</b>	<b>13761</b>	<b>20014</b>

**Reinsurance - external**

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

**Reinsurance - intra-group**

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

**Net of reinsurance**

Commission - acquisition	41				
Commission - other	42				
Management - acquisition	43		2197	2197	4984
Management - maintenance	44		11075	11075	13323
Management - other	45		489	489	1707
<b>Total</b>	<b>46</b>		<b>13761</b>	<b>13761</b>	<b>20014</b>

**Long-term insurance business : Linked funds balance sheet**

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

Financial year 1	Previous year 2
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**Internal linked funds (excluding cross investment)**

Directly held assets (excluding collective investment schemes)	11	6934700	6273891
Directly held assets in collective investment schemes of connected companies	12		
Directly held assets in other collective investment schemes	13	269492	1798
<b>Total assets (excluding cross investment) (11+12+ 13)</b>	<b>14</b>	<b>7204192</b>	<b>6275689</b>
Provision for tax on unrealised capital gains	15		
Secured and unsecured loans	16		
Other liabilities	17	34159	14405
<b>Total net assets (14-15-16-17)</b>	<b>18</b>	<b>7170033</b>	<b>6261284</b>

**Directly held linked assets**

Value of directly held linked assets	21		
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**Total**

Value of directly held linked assets and units held (18+21)	31	7170033	6261284
Surplus units	32		
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>7170033</b>	<b>6261284</b>

**Long-term insurance business : Revenue account for internal linked funds**

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

Financial year	Previous year
1	2

**Income**

Value of total creation of units	11	835140	684959
Investment income attributable to the funds before deduction of tax	12	263477	232148
Increase (decrease) in the value of investments in the financial year	13	426251	645775
Other income	14		
<b>Total income</b>	<b>19</b>	<b>1524868</b>	<b>1562882</b>

**Expenditure**

Value of total cancellation of units	21	593882	498008
Charges for management	22	19335	19749
Charges in respect of tax on investment income	23	2418	1154
Taxation on realised capital gains	24		
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25		
Other expenditure	26	484	649
<b>Total expenditure</b>	<b>29</b>	<b>616119</b>	<b>519560</b>

Increase (decrease) in funds in financial year (19-29)	39	908749	1043322
Internal linked fund brought forward	49	6261284	5217962
Internal linked funds carried forward (39+49)	59	7170033	6261284

**Long-term insurance business : Summary of new business**Name of insurer **Prudential Pensions 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		120		120	
<b>Total</b>	<b>13</b>		120		120	

**Amount of new regular  
premiums**

Direct insurance business	21					1
External reinsurance	22					
Intra-group reinsurance	23					
<b>Total</b>	<b>24</b>					1

**Amount of new single  
premiums**

Direct insurance business	25		503924		503924	550493
External reinsurance	26		6219		6219	1505701
Intra-group reinsurance	27		321663		321663	123895
<b>Total</b>	<b>28</b>		831806		831806	2180089

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

Name of insurer

**Prudential Pensions 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
400	Annuity non-profit (CPA)			120	2057
735	Group money purchase pensions property linked				501867



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

Name of insurer **Prudential Pensions Limited**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Reinsurance accepted external

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
735	Group money purchase pensions property linked				6219

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

Name of insurer **Prudential Pensions Limited**  
 Total business  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Reinsurance accepted intra-group

Product code number <b>1</b>	Product description <b>2</b>	Regular premium business		Single premium business	
		Number of policyholders / scheme members <b>3</b>	Amount of premiums <b>4</b>	Number of policyholders / scheme members <b>5</b>	Amount of premiums <b>6</b>
735	Group money purchase pensions property linked				321663

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

Name of insurer **Prudential Pensions 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					
Approved fixed interest securities	12	1953	1953	126	4.79%	
Other fixed interest securities	13					
Variable interest securities	14					
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	17874	17874	703	3.93%	
<b>Total</b>	<b>19</b>	<b>19827</b>	<b>19827</b>	<b>829</b>	<b>4.02%</b>	

**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					
<b>Total</b>	<b>29</b>					

**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 : Summary of mathematical reserves

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **10 Ordinary 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		102813	102813	1567173
Form 52	13				
Form 53 - linked	14		7175492	7175492	6261638
Form 53 - non-linked	15		5768	5768	7343
Form 54 - linked	16				37628
Form 54 - non-linked	17				188
<b>Total</b>	<b>18</b>		<b>7284073</b>	<b>7284073</b>	<b>7873970</b>

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22				
Form 52	23				
Form 53 - linked	24		5459	5459	354
Form 53 - non-linked	25				
Form 54 - linked	26				
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>		<b>5459</b>	<b>5459</b>	<b>354</b>

**Reinsurance - intra-group**

Form 51 - with-profits	31				
Form 51 - non-profit	32		102813	102813	111077
Form 52	33				
Form 53 - linked	34				
Form 53 - non-linked	35				
Form 54 - linked	36				
Form 54 - non-linked	37				
<b>Total</b>	<b>38</b>		<b>102813</b>	<b>102813</b>	<b>111077</b>

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42				1456096
Form 52	43				
Form 53 - linked	44		7170033	7170033	6261284
Form 53 - non-linked	45		5768	5768	7343
Form 54 - linked	46				37628
Form 54 - non-linked	47				188
<b>Total</b>	<b>48</b>		<b>7175801</b>	<b>7175801</b>	<b>7762539</b>

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

Name of insurer **Prudential Pensions Limited**  
Total business / subfund **10 Ordinary 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
400	Annuity non-profit (CPA) - Direct business	7285	8027					102794
405	Annuity non-profit (CPA impaired life)	1	1					19

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

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **10 Ordinary Long Term**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Reinsurance ceded intra-group

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
400	Annuity non-profit (CPA)		8027					102794
405	Annuity non-profit (CPA impaired life)		1					19

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

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **10 Ordinary 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
725	Individual pensions property linked	4453	66831	807	66831	66831	81	66912
735	Group money purchase pensions property linked		7108660		7108660	7108660	2221	7110881
800	Additional reserves property linked						3466	3466

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

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **10 Ordinary Long Term**  
 Financial year ended **31 December 2006**  
 Units **£000**  
 UK Pension / Reinsurance ceded external

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
735	Group money purchase pensions property linked		5459		5459	5459		5459



## Long-term insurance business : Unit prices for internal linked funds

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

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
All Stocks Corporate Bond	24 - group managed fund - other managed fund	1010968	GILP	0.30%	15.7509	15.9266	1.12
Corporate Bond	24 - group managed fund - other managed fund	535599	GILP	0.30%	19.5902	19.6088	0.10
Discretionary	22 - group managed fund - balanced managed fund	992532	GILP	0.40%	627.9061	694.5071	10.61
Equity	21 - group managed fund - stock market managed	376587	GILP	0.40%	755.5614	862.5525	14.16
Equity Passive	24 - group managed fund - other managed fund	284741	GILP	0.10%	13.8206	16.1106	16.57
Fixed Interest	24 - group managed fund - other managed fund	159106	GILP	0.25%	313.0417	315.7272	0.86
Global Equity Passive	26 - group managed fund - overseas equity	197795	GILP	0.10%	12.3790	14.1498	14.31
Index Linked	24 - group managed fund - other managed fund	157821	GILP	0.25%	227.5036	233.3496	2.57
Index Linked Passive	24 - group managed fund - other managed fund	141117	GILP	0.10%	18.1665	18.6357	2.58
Long Term GILT	24 - group managed fund - other managed fund	483163	GILP	0.10%	27.9819	27.9664	(0.06)
Property	27 - group managed fund - property	674554	GILP	0.30%	483.9932	560.3323	15.77
UK Specialist Equity	21 - group managed fund - stock market managed	268643	GILP	0.50%	20.5521	24.4778	19.10
BGI Global Equity Index (60:40) - 5051	26 - group managed fund - overseas equity	100293	MPP3	0.86%		4.1706	
BGI UK Equity Index - 5049	24 - group managed fund - other managed fund	140776	MPP3	0.61%		5.4744	

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

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **10 Ordinary Long Term**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	7184884	7797451
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	7184884	7797451
Mathematical reserves	21	7175801	7762539
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	9083	34912

**Composition of surplus**

Balance brought forward	31	34912	
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	(25829)	34912
Total	39	9083	34912

**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		
Total distributed surplus (46+47)	48		
Surplus carried forward	49	9083	34912
Total (48+49)	59	9083	34912

**Percentage of distributed surplus allocated to policyholders**

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

**Long-term insurance capital requirement**Name of insurer **Prudential Pensions 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%				
<b>Total</b>	<b>16</b>					

**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%	102813		0.85	874	14939
Classes III, VII and VIII (investment risk)	33	1%	5981	5981	1.00	60	79
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%					
Classes III, VII and VIII (other)	35	25%				2611	1473
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	<b>39</b>					3545	16492

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	102813		0.85	2622	44817
Classes III, VII and VIII (investment risk)	43	3%	5981	5981	1.00	179	238
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%					
Classes III, VII and VIII (other)	45	0%	7175278	7169819			
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	<b>49</b>		7284073	7175801		2801	45055

<b>Long term insurance capital requirement</b>	<b>51</b>					6346	61547
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# VALUATION REPORT ON PRUDENTIAL PENSIONS LIMITED

## 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

During 2005, PPL acquired, via a reinsurance treaty, a portfolio of in-force pension annuities originally written by Phoenix Life and Pensions Limited (PLP). At 4 July 2006 this business was transferred out of Phoenix Life and Pensions Limited and into PRIL and the reinsurance recaptured subsequently.

### 3. Discretionary charges and benefits

- (1) Not applicable.
- (2) Not applicable.
- (3) Not applicable.
- (4) There have been no changes to service charges on linked policies.
- (5) There have been no changes to benefit charges on linked policies.
- (6) Not applicable.
- (7)
- (a) The creation price is the cash cost of purchasing an identical portfolio of assets to that in the unit fund including all the costs that would be incurred in purchasing such assets, divided by the number of units in existence.

The cancellation price is the cash amount for which the assets of the unit fund can be sold net of all costs that would be incurred in disposing of the assets, divided by the number of units in existence.

Specific points for each of the groups of internal linked funds are as follows:

#### GILP Funds

The business is currently administered on a daily dealing platform.

#### Daily Platform

The "Single Swinging Pricing" approach is used. If the net cashflow on the day is positive, all transactions are at the offer price. If the net cashflow on the day is negative, all transactions are at the cancellation (bid/bid) price.

Unit prices are calculated daily and transactions in these funds are carried out at the next available price (i.e. on a forward pricing basis). The valuation point of each fund is 9.00 p.m.

## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

#### Series I, II, III & IV Funds

Series I, II, III & IV funds are mainly invested in the GILP Funds. Some funds invest in external fund managers, namely Barclays Global Investment, Baillie Gifford, HSBC, UBS, Newton and Northern Trust. Some of the GILP fund units are bought and sold at the creation price. Creation and cancellation prices are determined daily by reference to the appropriate GILP price.

A smoothed equity approach is taken to unit pricing. This is different to the approach adopted for GILP funds. Units are allocated to policyholders at the offer price and de-allocated at the bid price. When the trend in the number of units in a unit fund is believed to be upward, the bid price is the creation price. If the trend in the number of units is believed to be downward the bid price is the cancellation price. Where the trend is unclear or changing the bid price may be between the creation price and the cancellation price. The offer price is then set equal to the bid price plus the initial charge plus a rounding adjustment, not exceeding 0.1p (there is no initial charge for Series II, Series III and Series IV funds).

#### Pru-Link Funds

The Pru-Link Managed Fund is wholly invested in units of the Series I Discretionary Fund. The Pru-Link Cash Fund is wholly invested in units of the Series I Cash Fund. The creation and cancellation prices are determined once a week by reference to the appropriate Series I price. Transactions are carried out at the next available price (i.e. on a forward pricing basis).

Pru-Link Funds buy and sell Series I units at the current Series I bid price. No further adjustments are made for buying or selling expenses.

A smoothed equity approach is taken to unit pricing. This is different to the approach adopted for GILP funds. Units are allocated to policyholders at the offer price and deallocated at the bid price. When the trend in the number of units in each series is believed to be upward, the bid price is the creation price. If the trend in the number of units is believed to be downward the bid price is the cancellation price. Where the trend is unclear or changing the bid price may be between the creation price and the cancellation price. The offer price is then set equal to the bid price plus the initial charge plus a rounding adjustment not exceeding 0.1p. (The initial charge was removed on 1 April 2001).

- (b) Unit pricing bases are determined at fund level, so all policies invested in the same fund have the same basis applied.
- (c) Not applicable.
- (8) Not applicable as the Company writes pension business only.
- (9) Not applicable as the Company writes pension business only.
- (10) Not applicable.

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

At 31 December 2006 the total gross mathematical reserves amounted to £7,284m. The lesser of £10m and 1% of the total gross mathematical reserves was therefore equal to £10.0m.

## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

(1) Non-linked and index-linked annuities in payment

The mathematical reserve for annuities in payment is the present value of the annuities and expenses allowing for inflation, less the present value of future premiums where applicable.

Unit-linked deferred annuities and group pensions

The mathematical reserves for linked business consist of the unit liability together with a non-unit liability. A discounted cashflow method of valuation is used to determine the non-unit liability allowing for the value of future attributable expenses and renewal commission less the value of future management charges. An additional reserve for non-attributable expenses is calculated at a homogenous risk group level as described in section 6.(6).

No allowance has been made for increasing fund management charges. However, the Company reserves the right to do so after the appropriate period of notice and to a level consistent with industry practice.

No reserve for tax on unrealised capital gains is required, as only pension business is written.

No reserve for investment performance guarantees is held, because the only investment performance guarantee is that the unit price of the Pru-Link Cash Fund will not go down. Units of this fund are ultimately invested in units of the GILP Cash Fund where the practice is to invest only in short term assets.

The unit liability has been obtained by valuing the units allocated to policyholders at the valuation unit price. This price is based on the expense free bid price of the assets and includes investment income received.

(2) The interest rates used are as follows:

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2006</b>	<b>31 December 2005</b>
400	Annuity non-profit (CPA) – individual annuities in payment (reassurance ceded to Prudential Annuities Limited)	4.66	4.30
400	Annuity non-profit (CPA) – individual annuities in payment (reassurance ceded to Prudential Retirement Income Limited)	4.73	4.29
725	Individual pensions property linked	4.00	3.75
735	Group money purchase pensions property linked	4.00	3.75

(3) Not applicable.

**PRUDENTIAL PENSIONS LIMITED**

**Appendix 9.4 (continued)**

(4)

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2006 %</b>	<b>31 December 2005 %</b>
400	Annuity non-profit (CPA) – individual annuities in payment (reassurance ceded to Prudential Annuities Limited)		
	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) – individual annuities in payment (reassurance ceded to Prudential Retirement Income Limited)		
	Mortality table	Modified 99% PNMA00/ 85% PNFA00	Modified 89% PMA92 / 84% PFA92 (C=2004)
	Expectation of life age 65	22.4 (M), 25.0 (F)	22.1 (M), 24.9 (F)
	Expectation of life age 75	13.7 (M), 16.0 (F)	13.4 (M), 16.2 (F)

**Mortality bases used at 31 December 2006**

Annuities are generally valued using a percentage of the 00 series (year of birth) 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.

**Mortality bases used at 31 December 2005**

Annuities were generally valued using a percentage of the 92 series (year of birth) tables for annuitants and pensioners. In order to allow for mortality improvement, the CMIR17 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.

(5) Not applicable.

**PRUDENTIAL PENSIONS LIMITED**

**Appendix 9.4 (continued)**

(6) The renewal expenses per annum used are described in the tables below:

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2006 %</b>	<b>31 December 2005 %</b>
400	Annuity non-profit (CPA) – individual annuities in payment (reassurance ceded to Prudential Annuities Limited)	£22.33 (equivalent to 2.41% of annuity amount)	1.7% (equivalent to £20.00 p.a.) of annuity amount
400	Annuity non-profit (CPA) – individual annuities in payment (reassurance ceded to Prudential Retirement Income Limited)	£23.25 (equivalent to 2.51% of annuity amount)	2.3% (equivalent to £24.00 p.a.) of annuity amount
725	Individual pensions property linked	£18.37 p.a. per policy for premium-paying policies; £12.24 p.a. per policy for other policies; £71.26 per claim	£30.00 p.a. per policy for premium-paying policies; £20.00 p.a. per policy for other policies; £62.00 per claim
735	Group money purchase pensions property linked	GILP: £2,902,123 p.a. including £813 p.a. per scheme (of which £655,551 p.a. is covered by charges for additional administration services)  PIA: £52,932 p.a. including £111 p.a. per scheme  Reassurance from PACL: £328,966 p.a.	GILP: £3,853,505 p.a. including £950 p.a. per scheme (of which £640,000 p.a. is covered by charges for additional administration services)  PIA: £61,841 p.a. including £130 p.a. per scheme  Reassurance from PACL: £697,282 p.a.



## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

- (7) The unit growth rates (before management charges) and the inflation rates assumed for future expenses and the future increases in policy charges are as follows:

<b>Product code number</b>	<b>Parameter</b>	<b>31 December 2006 %</b>	<b>31 December 2005 %</b>
725 and 735	Unit fund growth rate	5.25%	5.00%
All products	Expense inflation rate	3.75%	3.50%
725 and 735	Policy charge inflation rate	Nil	Nil

- (8) Not applicable.
- (9) Not applicable.
- (10) There were no other material assumptions not stated elsewhere.
- (11) No derivatives were held outside of the internal linked funds.

Since the movement in linked assets would be offset by a corresponding change in the linked liability, no allowance is made for derivative contracts that were held inside of the internal linked funds.

Derivatives used in the internal linked funds were entered into only if they would have been reasonably likely to be exercised.

- (12) The effect of the changes to INSPRU valuation rules effective 31 December 2006 has been to reduce mathematical reserves by £0.3m. This is all due to the allowance for attributable expenses on valuation of unit-linked business.

### 5. Options and guarantees

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

## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

#### 6. Expense reserves

(1)

Homogeneous risk group	Implicit allowances	Explicit allowances (investment)	Explicit allowances (other)	Non – attributable expenses	Total
GILP	-	£2,907,536	£4,462,124	£615,602	£7,985,262
PIA	-	£3,401	£52,932	£11,228	£67,562
Prulink SP	-	£2,441	£919	£195	£3,554
Prulink RP	-	£66,031	£61,896	£13,129	£141,057
Total	-	£2,979,409	£4,577,871	£640,154	£8,197,434

(2) Not applicable.

(3) This excludes the annual management charge rebate of £2,696,288 to Prudential Assurance Company Limited (PACL) arising from the associated linked funds and an expense of £1,813,933 with respect to the reinsurance from PACL, all of which are included in line 14 of Form 43.

(4) For new business expected to be written in the twelve months following the valuation date, the income and outgo are projected on a prudent basis over the entire lifetime of the business and discounted to the valuation date. A reserve is held if the present value of the outgo exceeds the present value of income to the extent that the excess exceeds the projected surplus on prudent assumptions from existing business. No reserve is held at 31 December 2006.

(5) 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 expense loadings for the remaining lifetime of the contracts in force at the valuation date are included in the reserves reported in Forms 50.

In order to allow for the possibility that the firm will cease to write 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 thereafter 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 £400,000 is held for the impact of closing to new business.

(6) The additional reserve for non-attributable expenses at a homogenous risk group level is calculated as the present value of all futures expenses less charges, subject to a maximum of the non-attributable expenses for policies in that risk group. All future charges and expenses are projected allowing for lapses on a prudent basis. Any future valuation strain is removed at the

## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

homogenous risk group level. The additional reserves for non-attributable expenses at 31 December 2006 were as follows:

Homogeneous Risk Group	Homogeneous Risk Group Reserve (£000)
GILP	-
PIA	246
Prulink SP	-
Prulink RP/PUP	-
<b>TOTAL</b>	<b>246</b>

### 7. Mismatching reserves

- (1) and (2) All assets and liabilities are denominated in GBP. There is no currency mismatching.
- (3) There is no reserve for currency mismatching.
- (4) In accordance with INSPRU 3.1.16R, for the purposes of calculating the resilience capital requirement in INSPRU 3.1.10R the most onerous scenario is as follows (prior year in brackets):

Asset class	Scenario
<b>Equities:</b>	
Market values – UK and overseas (excl. US and euro zone)	-10% (-10%)
Market values – US	-15% (-13%)
Market values – euro zone	-25% (-14%)
Earnings	-10% (-10%)
Dividends	0% (0%)
<b>Property:</b>	
Market values	-20% (-20%)
Rental income	-10% (-10%)
<b>Fixed interest:</b>	
Yields – UK and overseas (excl. US and euro zone)	+93 bps (+83 bps)
Yields – US	+99 bps (+83 bps)
Yields – euro zone	+82 bps (+70 bps)
<b>Index-linked real yields</b>	<b>+25% (+25%)</b>

- (5) Not applicable.
- (6) A Resilience Capital Requirement of £809,000 was held.

There was an increase of £649,154 in the aggregate amount of the long term liabilities.

The assets allocated to match such liabilities decreased in value by £113,082 from the amount of the assets shown in Form 13.

- (7) There is no reserve held under INSPRU 1.1.34R (2).

## **PRUDENTIAL PENSIONS LIMITED**

### **Appendix 9.4 (continued)**

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

Not applicable.

#### **9. Reinsurance**

- (1) No premiums were paid in 2006 in respect of reinsurance business ceded on a facultative basis to reinsurers not authorised to carry on business in the United Kingdom.
- (2) The reinsurance treaties shown in the table below meet the FSA criteria for being reported in this section and were in force as at 31 December 2006.

## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

Reinsurance treaties:

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Prudential Annuities Limited *	Immediate annuities which are wholly reassured on original terms. The reinsurer is a member of the Prudential group of companies and the business is covered by a pari passu charge on assets	Nil	Closed	92,833	Nil
Barclays Global Investors Pensions Management Ltd	Reinsurance of unit-linked pension liabilities of the Company arising in relation to reinsurance of certain unit-linked pensions contracts issued by a member of the Prudential Group. The business is covered by a pari passu charge on assets.	85,902	Open	5,034	Nil

- (g) There were no deposit back arrangements under the above treaties.
- (i) There are no “undischarged obligations of the insurer”. Premiums are only payable if the gross business remains in force.
- (l) The above reinsurers are authorised to carry on insurance business in the United Kingdom.
- (m) An asterisk denotes companies connected to the cedant (\*)
- (n) In general the treaties are exposed to the credit risk of the reinsurers, against which a reserve is held.
- (o) The net liability includes no allowance for the refund of any reinsurance commission.

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

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

## PRUDENTIAL PENSIONS LIMITED

### Returns for the year ended 31 December 2006

#### Notes to the Return

##### Form 2

\*0201\* Waivers issued disapplying or modifying any of the provisions of the Accounts and Statement Rules in respect of long term insurance business

(FSA Ref: 520101) The FSA, on application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in September 2005, for the period 9 September 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 is used for assets taken in combination. The direction was revoked in August 2006.

(FSA Ref: 573447) The Financial Services Authority, on application of the firm, made a direction in February 2006 under section 148 of the Act, for the period 10 February 2006 to 31 December 2006. The effect of the direction was to modify rule IPRU(INS) 3.7 so that the firm could continue to retain a holding of Planestation Group PLC shares or warrants which are in default as assets within the Specialist UK Equity Fund.

(FSA Ref: 67652I) The Financial Services Authority, on application of the firm, made a direction in December 2006 under section 148 of the Act, for the period 29 December 2006 to 30 September 2007. The effect of the direction was to modify rule IPRU(INS) 3.7 so that the firm could continue to retain a holding of Planestation Group PLC shares or warrants which are in default as assets within the Specialist UK Equity Fund.

##### Form 3

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

	£'000
Form 13 Line 89 (Long term) Grand total of admissible assets	7,224,019
Form 14 Line 11 Mathematical reserves after distribution of surplus	(7,175,801)
Form 14 Line 49 Total other insurance and non-insurance liabilities	(39,135)
Form 13 Line 89 (Other than long term) Grand total of admissible assets	10,552
Form 15 Line 69 Total	-
	<hr/>
	19,635
Form 3 Line 79 Capital resources after deductions	19,635
Difference	<hr/> <hr/> 0

\*0308\* There is one contingent loan at the year end repayable to a related group undertaking, Prudential Finance (UK) Limited. The loan and interest on the loan is repayable out of the surplus emerging on its business and is contingent on surpluses arising, but can be repaid by the Company at any time. The loan has no repayment obligation during the first year.

The loan is repayable to the extent of a specified percentage of surplus of the Company (determined by reference to line 34 of Form 58), a repayment obligation crystallising on the last day of the Company's financial year and being discharged by application of funds on a date nominated by the Company (being prior to the last working day for submission of its regulatory returns for such financial year).

In accordance with its terms, the loan may be prepaid upon prior notice, and the repayment obligation discharged in whole or part.

## PRUDENTIAL PENSIONS LIMITED

### Notes to the Return (continued)

#### Form 3 (continued)

\*0310\* Valuation differences

	£'000
<i>Positive valuation differences where liabilities are lower than in the shareholder accounts</i>	
Contingent loan	20,518
	<u>20,518</u>
<i>Negative valuation differences where liabilities are higher than in the shareholder accounts</i>	
Additional reserves held in the long term fund	(5,529)
Deferred tax on additional reserves held in the long term fund	1,120
	<u>(4,409)</u>
Form 3 Line 14 Positive Valuation Differences	<u>16,109</u>

#### Form 13

Notes 1301 to 1319 apply to other than long term business fund.

\*1301\* Assets specified instruction 5

The Company held no unlisted investments, listed investments that are not readily realisable, or any other investments specified in instruction 5.

\*1304\* Statement on Set Off

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

\*1305\* Maximum Counterparty Limits

The Company's investment guidelines set maximum counterparty limits in order to maintain the admissibility of assets in accordance with Rule 4.14. The limits were not breached during the financial year.

\*1306\* Counterparty exposures at year end

There were counterparty exposures held at year end that were greater than 5% of the sum of the base capital resources requirements and long term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded. These include cash on deposit with; Alliance & Leicester £3m, Close Brother Ltd £3m, Anglo Irish £3m and a cash balance of £0.7m with HSBC Bank.

\*1319\* Total other than long term business assets analysis of derivatives

Form 17 has been submitted blank, as no such contracts were used.

Notes 1308 to 1321 apply to long term business fund.

\*1308\* Assets specified in instruction 5.

The Company held no unlisted investments, listed investments that are not readily realisable, or any other investments specified in instruction 5, except as referred to in note 0201.

## **PRUDENTIAL PENSIONS LIMITED**

### **Notes to the Return (continued)**

#### **Form 13 (continued)**

##### **\*1310\* Statement on Set Off**

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

##### **\*1311\* Maximum Counterparty Limits**

The Company's investment guidelines set maximum counterparty limits in order to maintain the admissibility of assets in accordance with Rule 4.14. The limits were not breached during the financial year.

##### **\*1312\* Counterparty exposures at year end**

There were counterparty exposures held at year end that were greater than 5% of the sum of the base capital resources requirements and long term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded. These include cash on deposit with; Deutche Postbank £3m, Bristol & West Plc £6m and a cash balance of £7m with HSBC Bank.

##### **\*1320\* Total long term business assets analysis of derivatives**

Form 17 has been submitted blank, as no such contracts were used.

#### **Form 14**

##### **\*1401\* Provision for adverse changes**

No derivatives were held outside of the internally linked funds at any time during the year and therefore no provision for adverse changes is required.



## PRUDENTIAL PENSIONS LIMITED

### Notes to the Return (continued)

#### Form 14 (continued)

##### \*1402\* Uncertain and Potential Liabilities

- a) There were no potential capital gains tax liabilities at the year end.
- b) There was one contingent loan, not in Form 14, at the year end repayable to a related group undertaking, Prudential Finance (UK) Limited. The loan and interest on the loan is repayable out of the surplus emerging on its business and is contingent on surpluses arising, but can be repaid by the Company at any time. The value of this loan is £20,518k.

The loan is repayable to the extent of a specified percentage of surplus of the Company (determined by reference to line 34 of Form 58), a repayment obligation crystallising on the last day of the Company's financial year and being discharged by application of funds on a date nominated by the Company (being prior to the last working day for submission of its regulatory returns for such financial year).

In accordance with their terms, the loans may be prepaid upon prior notice, and the repayment obligation discharged in whole or part. The loan has no repayment obligation during the first year.

- c) There were no guarantees, indemnities or other contractual commitments other than in the ordinary course of insurance business and in respect of related companies.
- d) Provision for claims outstanding: the Company has instigated a full review of its defined benefit payment processes and has set up a reasonable and prudent provision to cover the cost of performing the review and the cost of any contingent loss, if any, arising out of the review's findings. A provision of £366,000 is included on F14 line 15 (2005: £366,000).

##### \*1405\* Other adjustments to liabilities

Included in line 74 are:

	£'000
Positive valuation differences (see note 0310)	20,518
Negative valuation differences (see note 0310)	(4,409)
Form 14 Line 74	<u>16,109</u>

## **PRUDENTIAL PENSIONS LIMITED**

### **Notes to the Return (continued)**

#### **Form 15**

##### **\*1501\* Provision for adverse changes**

No derivatives were held by the other than long term fund at any time during the year and therefore no provision for adverse changes is required.

##### **\*1502\* Charges, potential tax liability, contingent liabilities, guarantees and fundamental uncertainties**

a) There were no charges attributable to the other than long term business assets.

b) There was no potential tax liability arising in the other than long term fund at the year end.

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

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

e) There were no fundamental uncertainties at the year-end.

#### **Form 16**

##### **\*1601\* Foreign Currencies**

Foreign currency assets and liabilities are translated at year-end exchange rates. Foreign currency revenue transactions are translated at rates ruling at the transaction dates, except for accrued revenue items that are translated at year-end exchange rates.

#### **Form 40**

##### **\*4002\* Other expenditure represents a repayment of a contingent loan repayable to a related group undertaking, Prudential Finance (UK) Limited. The loan and interest on the loan is repayable out of the surplus emerging on its business and is contingent on surpluses arising, but can be repaid by the Company at any time. The loan has no repayment obligation during the first year.**

The loan is repayable to the extent of a specified percentage of surplus of the Company (determined by reference to line 34 of Form 58), a repayment obligation crystallising on the last day of the Company's financial year and being discharged by application of funds on a date nominated by the Company (being prior to the last working day for submission of its regulatory returns for such financial year).

In accordance with their terms, the loans may be prepaid upon prior notice, and the repayment obligation discharged in whole or part.

##### **\*4008\* Provision of management services**

The Company was provided throughout the year with day to day management services by The Prudential Assurance Company Limited (the immediate holding Company), and Prudential Property Investment Managers Limited, Prudential UK Services Limited and M&G Investment Management Limited, all group companies. The Company was further assisted during the year with day to day management services by Mellon European Fund Services, a third party.

## PRUDENTIAL PENSIONS LIMITED

### Notes to the Return (continued)

#### Form 40 (continued)

\*4009\* The Company has a reinsurance agreement with a related Company, The Prudential Assurance Company Limited, in respect of linked premiums. Included in earned premiums for the year is an amount of £321m 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 £96m arising from claims under this reinsurance agreement and a claims recovery of £8m received from a related Company, Prudential Annuities Limited.

The Company has a reinsurance agreement with a related Company, Prudential Retirement Income Limited, in respect of annuities. No claims have been paid during the year under this reinsurance agreement. The reinsurance agreement was drawn up under normal commercial terms which reflect the level of business transacted with the Company.

During the year, the Company redeemed £40m of perpetual non-cumulative preference shares to its immediate parent undertaking, The Prudential Assurance Company.

A contingent loan of £20.5m is in place with a related group undertaking, Prudential Finance (UK) Limited.

#### Form 44

\*4401\* Valuation of Linked Assets

Linked assets are valued at market value.

Investment properties, though, are independently valued each month on the basis of open market value in accordance with the RICS Appraisal and Valuation Manual. All the properties are currently valued by CB Richard Ellis Limited. Securities are valued at a bid-market price.

\*4402\* Derivative Contracts

The value of rights under derivative contracts held by each internal linked fund were as follows. The figures are gross of variation margin and net of variation margin:

	Gross Assets £'000	Gross Liabilities £'000	Net Assets £'000	Net Liabilities £'000
International Bond	6,371	(6,412)	6,371	(6,412)
All Stocks Corporate Bond	9,366	(9,384)	9,366	(9,384)
Corporate Bond	5,244	(5,253)	5,244	(5,253)
Fixed Interest	3,397	(3,403)	3,397	(3,403)
International	24,271	(23,984)	24,271	(23,984)
Index Linked	4,564	(4,583)	4,564	(4,583)
Equity Passive	57		51	
North America Passive	532	-	532	-

## **PRUDENTIAL PENSIONS LIMITED**

### **Notes to the Return (continued)**

#### **Form 45**

\*4502\* Other Expenditure

	<b>2006</b>	<b>2005</b>
	<b>£000's</b>	<b>£000's</b>
Other investment expenses	276	(50)
Safe custody fees	(517)	(415)
Transaction fees	(243)	(184)
Total	<u>(484)</u>	<u>(649)</u>

#### **Form 47**

\*4701\* For code 735 there are 43 schemes.

#### **Form 48**

\*4804\* Other assets

Included in Line 18 (Other assets) are:

	<b>£000's</b>
Assets producing income	15,273
Assets not producing income	2,601
	<u>17,874</u>

#### **Form 53**

\*5301\* For product code 735 there are 459 schemes.

\*5305\* Non-unit reserves

Certain expenses associated with managing a property portfolio have not been included in the renewal expense margins used in the calculation of the non-unit reserves. These expenses are deducted from the investment return credited to policyholders.

**PRUDENTIAL PENSIONS LIMITED**

**Financial 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 a waiver dated 9 September 2005, issued under section 148 of the Financial Services and Markets Act 2000; 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 except that the Company breached the permitted links rules by holding a non-readily realisable security from 23 July 2005 to 10 February 2006 when a waiver was granted allowing the Company to hold this security; 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 sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (including all liabilities arising from deposit back arrangements, but 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 every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.

.....  
N E T Prettejohn  
Chief Executive

.....  
D J Belsham  
Director

.....  
P Burgess  
Director

March 2007

## **Report of the auditor to the Directors pursuant to rule 9.35 of the Accounts and Statements Rules.**

### **PRUDENTIAL PENSIONS LIMITED**

Financial year ended 31 December 2006

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 16, 40 to 45, 48, 58 and 60, (including the supplementary notes) on pages 1 to 33 (‘the Forms’) and pages 44 to 50;
- the statement required by IPRU(INS) rule 9.29 on page 54 to 55 (‘the Statement’); and
- the valuation report required by rule IPRU(INS) 9.31(a) (‘the valuation report’).

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

- Forms 46, 47, 50 to 55 (including the supplementary notes) on pages 21 to 31 and page 50;
- the statement required by IPRU(INS) rule 9.30 on page 56; and
- the certificate required by IPRU(INS) rule 9.34 on page 51 (‘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. 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 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 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 and the valuation report, the forms and statement not examined by us and the certificate) under the provisions of the Rules. The requirements of the Rules have been modified by a waiver issued under section 148 of the Financial Services and Markets Act 2000 on 1 November 2005. Under IPRU(INS) rule 9.11 the Forms, the Statement, valuation report, the forms and statement 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, 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 (revised)” 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 rule IPRU(INS) 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 Statement 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

Date

## **PRUDENTIAL PENSIONS LIMITED**

### **Returns for the year ended 31 December 2006**

#### **Statement in accordance with Rule 9.29 of the Accounts and Statements Rules**

a. **Investment Guidelines**

During 2006, investment guidelines allowed the use of derivative contracts in the GILP (and hence MPP) internal linked funds. The derivatives and use thereof was restricted to that permitted by Appendix 3.2 of the Accounts and Statements Rules. The use of derivatives was not permitted in the non-linked funds.

Derivatives are limited to: exchange traded warrants; exchange traded index or stock futures; forward currency contracts; partly paid shares; and convertible bonds. Derivatives must be listed or with an approved counterparty and must be capable of being readily closed out at a price the basis of which is pre-determined. Exchange traded index and stock futures must be based on underlying assets which are themselves permitted links.

b. **Derivatives where exercise is unlikely**

Derivatives used in the internal linked funds were entered into only if they would have been reasonably likely to be exercised.

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

No such contracts were used by the Company.

d. **Effect on Form 13 of exercising derivatives where it would be prudent to assume options would be exercised**

The only derivatives on Form 13 relate to property linked assets and are included on line 59 of Form 13, which would not change in value.

The Company would not be exposed to any fluctuation in asset values.

e. **Effect on Form 13 of exercising all derivatives at year end**

The only change would be to line 59 of Form 13 which would not reduce by a significant amount and would be directly offset by a reduction in the long-term liabilities shown on Form 14.

The assets of the Company would not be impacted.

f. **Effect on Form 13 of exercising all derivatives at any time during year**

The assets of the Company would not be impacted. Movement in linked assets would be offset by a corresponding change in the linked liability.

The assets of the Company would not be impacted.



g. **Maximum loss**

The net assets of the Company would not be impacted. At the year end, linked assets would be reduced by a maximum of:

Existing market conditions      £3,584,137

Foreseeable market conditions   £3,763,344

The highest exposure throughout the year was £4,156,000

h. **Provisions for reasonably foreseeable variations arising from derivative contracts, rule PRU 4.3. 17R**

The only derivatives on Form 13, relate to property linked assets and are included on line 59 of Form 13, which would not change in value.

The Company would not be exposed to any fluctuation in asset values.

i. **Consideration received for granting rights under derivative contracts**

The investment guidelines did not allow the writing of options.

## PRUDENTIAL PENSIONS LIMITED

### Returns for the year ended 31 December 2006

#### Statement in accordance with rule 9.30 of the Accounts and Statements Rules

##### Additional information on shareholder controllers

We confirm that the following is a list of:

- (a) Persons who, to the knowledge of Prudential Pensions 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 2005, 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%