



# **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 2007**



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



# PRUDENTIAL ANNUITIES LIMITED

Year ended 31 December 2007

## Contents

	Page	
<b>Appendix 9.1</b>		
Form 2	Long term insurance business: Statement of solvency	3
	Covering sheet to Form 2	4
Form 3	Components of capital resources	5
Form 13	Analysis of admissible assets	8
Form 14	Long term insurance business liabilities and margins	14
Form 15	Liabilities (other than long term insurance business)	15
Form 16	Profit and loss account (non-technical account)	16
Form 17	Analysis of derivative contracts	17
<b>Appendix 9.3</b>		
Form 40	Long term insurance business: Revenue account	19
Form 41	Long term insurance business: Analysis of premiums	20
Form 42	Long term insurance business: Analysis of claims	21
Form 43	Long term insurance business: Analysis of expenses	22
<b>Appendix 9.4</b>		
Form 46	Long term insurance business: Summary of new business	23
Form 47	Long term insurance business: Analysis of new business	24
Form 48	Long term insurance business: Non-linked assets	26
Form 49	Long term insurance business: Fixed and variable interest assets	27
Form 50	Long term insurance business: Summary of mathematical reserves	28
Form 51	Long term insurance business: Valuation summary of non-linked contracts (other than accumulating with-profits contracts)	29
Form 54	Long term insurance business: Valuation summary of index linked contracts	31
Form 56	Long term insurance business: Index linked business	33
Form 57	Long term insurance business: Analysis of valuation interest rates	34
Form 58	Long term insurance business: Distribution of surplus	35
Form 60	Long term insurance capital requirement	36
	Long term insurance valuation report – Rule 9.4 and 9.31(a)	37
<b>Appendix 9.6</b>		
	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 business**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2007**

Solo solvency calculation

	Company registration number	GL/UK/CM	day	month	year	Units	
	<b>R2</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</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>	33065	48500
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	1103810	1065378
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	1136875	1113878

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	178399	188128
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	958476	925750

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	535197	564383
Resilience capital requirement	<b>32</b>		
Base capital resources requirement	<b>33</b>	2231	2139
Individual minimum capital requirement	<b>34</b>	535197	564383
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	535197	564383
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	869277	831686
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	735477	690590

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		
Enhanced capital requirement	<b>40</b>	535197	564383

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	535197	564383
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	601678	549495

**Contingent liabilities**

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

**Form 2**

Name of insurer      **Prudential Annuities Limited**

Global business

Financial year ended      **31 December 2007**

\_\_\_\_\_ **A M Crossley**      **Director**

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

\_\_\_\_\_ **G P J Shaughnessy**      **Director**

**Date**

**London 27 March 2008**

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

Global business

Financial year ended **31 December 2007**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	<b>R3</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year		
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>		

**Core tier one capital**

Permanent share capital	<b>11</b>		550000	550000	550000
Profit and loss account and other reserves	<b>12</b>		1172869	1172869	1074713
Share premium account	<b>13</b>				
Positive valuation differences	<b>14</b>				
Fund for future appropriations	<b>15</b>				
Core tier one capital in related undertakings	<b>16</b>				
Core tier one capital (sum of 11 to 16)	<b>19</b>		1722869	1722869	1624713

**Tier one waivers**

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

**Other tier one capital**

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

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		1722869	1722869	1624713
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>		584944	584944	509335
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>		584944	584944	509335
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		1137925	1137925	1115378

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

Global business

Financial year ended **31 December 2007**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Tier two capital**

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

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

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



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

Global business

Financial year ended **31 December 2007**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	2554213	GL	31	12	2007	£000
		General insurance business			Total as at the end of this financial year	Total as at the end of the previous year
		1			3	4

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	71				
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		1137925	1137925	1115378
Inadmissible assets other than intangibles and own shares	73		1050	1050	1500
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				
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		1136875	1136875	1113878

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

Available capital resources for guarantee fund requirement	81		1136875	1136875	1113878
Available capital resources for 50% MCR requirement	82		1136875	1136875	1113878
Available capital resources for 75% MCR requirement	83		1136875	1136875	1113878

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

Global business

Financial year ended **31 December 2007**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
	<b>R13</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</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>	6391	3093	
Fixed interest securities	Approved	<b>45</b>	902972	849822
	Other	<b>46</b>	96897	103760
Variable interest securities	Approved	<b>47</b>	4874	4627
	Other	<b>48</b>	80037	79607
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>	22700	25431
	More than one month withdrawal	<b>55</b>		
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>		
	Property linked	<b>59</b>		

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

Global business

Financial year ended **31 December 2007**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>		
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	24	837
	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>	2235	7653
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>	14784	11969
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 admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	1130914	1086799
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**Analysis of admissible assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2007**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	2007	£000	1
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					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 of its external financial reporting**

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	<b>91</b>	1130914	1086799
Admissible assets in excess of market and counterparty limits	<b>92</b>		
Inadmissible assets directly held	<b>93</b>		
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related insurance undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>		
Deferred acquisition costs excluded from line 89	<b>99</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>		
Other asset adjustments (may be negative)	<b>101</b>	43	(1430)
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 101)	<b>102</b>	1130957	1085369
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		

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

Global business

Financial year ended **31 December 2007**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	2007	£000	10
						As at end of this financial year	As at end of the previous year	
						1	2	
Land and buildings				11			479349	380339

**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	44200	
Rights under derivative contracts		44	65375	144765
Fixed interest securities	Approved	45	2603233	2719828
	Other	46	7663387	8305214
Variable interest securities	Approved	47		
	Other	48	78865	84605
Participation in investment pools		49		
Loans secured by mortgages		50	149214	210417
Loans to public or local authorities and nationalised industries or undertakings		51	480	509
Loans secured by policies of insurance issued by the company		52		
Other loans		53	52792	57764
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	264429	323821
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	2064399	2093636
	Property linked	59		

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

Global business

Financial year ended **31 December 2007**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</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>	84	15
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>	33	37
	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>	13747	15051
	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>	20402	86354
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>	214126	205338
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>	23586	18804

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	13737709	14646505
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**Analysis of admissible assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2007**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	2007	£000	10
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					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 of its external financial reporting**

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	<b>91</b>	13737709	14646505
Admissible assets in excess of market and counterparty limits	<b>92</b>		
Inadmissible assets directly held	<b>93</b>	1050	
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related insurance undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>	(17594)	(34277)
Deferred acquisition costs excluded from line 89	<b>99</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>	6078	6380
Other asset adjustments (may be negative)	<b>101</b>	547	4926
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 101)	<b>102</b>	13727790	14623534
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>	111	103

**Long term insurance business liabilities and margins**

Name of insurer **Prudential Annuities Limited**  
 Global business  
 Financial year ended **31 December 2007**  
 Total business/Sub fund **21 Ordinary Branch Long Term**  
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	<b>11</b>	13379931	14109587	
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>	34115	50000	
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	13414046	14159587	
Claims outstanding	Gross	<b>15</b>	8190	23146
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	8190	23146
Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers	<b>23</b>			
Creditors	Direct insurance business	<b>31</b>		
	Reinsurance accepted	<b>32</b>	173	257
	Reinsurance ceded	<b>33</b>		
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions	<b>36</b>	261929		
Creditors	Taxation	<b>37</b>	3928	6409
	Other	<b>38</b>	50493	456481
Accruals and deferred income	<b>39</b>		2125	
Provision for "reasonably foreseeable adverse variations"	<b>41</b>			
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	324713	488418	
Excess of the value of net admissible assets	<b>51</b>			
Total liabilities and margins	<b>59</b>	13738759	14648005	

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

Total liabilities (11+12+49)	<b>71</b>	13704644	14598005
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>	6078	6380
Other adjustments to liabilities (may be negative)	<b>74</b>	(601991)	(541567)
Capital and reserves and fund for future appropriations	<b>75</b>		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75)	<b>76</b>	13108731	14062818



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

Global business

Financial year ended **31 December 2007**

	Company registration number	GL/ UK/ CM	day	month	year	Units
<b>R15</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>
			As at end of this financial year 1			As at end of the previous year 2

**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>	200	700
	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>	13385	
Creditors	Taxation	<b>47</b>	13468	
	Foreseeable dividend	<b>48</b>		
	Other	<b>49</b>	51	20721
Accruals and deferred income		<b>51</b>		
Total (19 to 51)		<b>59</b>	27104	21421
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>	27104	21421

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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Amounts deducted from technical provisions for discounting	<b>82</b>		
Other adjustments (may be negative)	<b>83</b>	43	<b>(46)</b>
Capital and reserves	<b>84</b>	1722869	1624713
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)	<b>85</b>	1750016	1646088

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

Global business

Financial year ended **31 December 2007**

		Company registration number	GL/ UK/ CM	day	month	year	Units
		R16	GL	31	12	2007	£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
Investment income	Income		14			55149	51412
	Value re-adjustments on investments		15			7772	
	Gains on the realisation of investments		16				10559
Investment charges	Investment management charges, including interest		17			635	627
	Value re-adjustments on investments		18				54863
	Loss on the realisation of investments		19			8240	
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			(310)	(250)
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29			53736	11067
Tax on profit or loss on ordinary activities			31			15304	3925
Profit or loss on ordinary activities after tax (29-31)			39			38432	7142
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			38432	7142
Dividends (paid or foreseeable)			51				
Profit or loss retained for the financial year (49-51)			59			38432	7142

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

Global business

Financial year ended **31 December 2007**Category of assets **Total other than long term insurance business assets**

		Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
		<b>R17</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>	<b>1</b>
<b>Derivative contracts</b>			As at the end of this financial year			As at the end of the previous year			
			Assets <b>1</b>	Liabilities <b>2</b>	Assets <b>3</b>	Liabilities <b>4</b>			
Futures contracts	Fixed-interest securities	<b>11</b>							
	Equity shares	<b>12</b>							
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>							
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>							
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							
	Land	<b>33</b>							
	Currencies	<b>34</b>							
	Other	<b>35</b>		6391			3093		
Adjustment for variation margin		<b>41</b>							
Total (11 to 41)		<b>49</b>		6391			3093		

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

Global business

Financial year ended **31 December 2007**Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
		<b>R17</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>	<b>10</b>
<b>Derivative contracts</b>			As at the end of this financial year			As at the end of the previous year			
			Assets <b>1</b>	Liabilities <b>2</b>	Assets <b>3</b>	Liabilities <b>4</b>			
Futures contracts	Fixed-interest securities	<b>11</b>							
	Equity shares	<b>12</b>							
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>							
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>							
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							
	Land	<b>33</b>							
	Currencies	<b>34</b>	12666	7538	57680	4630			
	Other	<b>35</b>	52709	39309	87085	39025			
Adjustment for variation margin		<b>41</b>							
Total (11 to 41)		<b>49</b>	65375	46847	144765	43655			

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

Name of insurer **Prudential Annuities Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2007**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	1503	4272
Investment income receivable before deduction of tax	12	758017	783384
Increase (decrease) in the value of non-linked assets brought into account	13	(593384)	(537763)
Increase (decrease) in the value of linked assets	14		
Other income	15		416
<b>Total income</b>	<b>19</b>	<b>166136</b>	<b>250309</b>

**Expenditure**

Claims incurred	21	893111	919805
Expenses payable	22	25526	28806
Interest payable before the deduction of tax	23	446	
Taxation	24	(7406)	1151
Other expenditure	25		
Transfer to (from) non technical account	26		4836
<b>Total expenditure</b>	<b>29</b>	<b>911677</b>	<b>954598</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(745541)	(704289)
Fund brought forward	49	14159587	14863876
Fund carried forward (39+49)	59	13414046	14159587

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

Name of insurer **Prudential Annuities Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2007**  
 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		1503	1503	4272

**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		1503	1503	4272

**Total**

Gross	19		1503	1503	4272
Reinsurance	20				
Net	21		1503	1503	4272

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

Name of insurer **Prudential Annuities Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2007**  
 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		590		590	437
Disability periodic payments	12					
Surrender or partial surrender	13		6047		6047	5053
Annuity payments	14		881068		881068	903641
Lump sums on maturity	15		5668		5668	10952
<b>Total</b>	<b>16</b>		<b>893374</b>		<b>893374</b>	<b>920083</b>

**Reinsurance - external**

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24		262		262	278
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>		<b>262</b>		<b>262</b>	<b>278</b>

**Reinsurance - intra-group**

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

**Net of reinsurance**

Death or disability lump sums	41		590		590	437
Disability periodic payments	42					
Surrender or partial surrender	43		6047		6047	5053
Annuity payments	44		880805		880805	903363
Lump sums on maturity	45		5668		5668	10952
<b>Total</b>	<b>46</b>		<b>893111</b>		<b>893111</b>	<b>919805</b>

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

Name of insurer **Prudential Annuities Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2007**  
 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		705	705	728
Management - maintenance	14		21601	21601	23023
Management - other	15		3220	3220	5055
<b>Total</b>	<b>16</b>		<b>25526</b>	<b>25526</b>	<b>28806</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		705	705	728
Management - maintenance	44		21601	21601	23023
Management - other	45		3220	3220	5055
<b>Total</b>	<b>46</b>		<b>25526</b>	<b>25526</b>	<b>28806</b>



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

Name of insurer **Prudential Annuities Limited**  
 Total business  
 Financial year ended **31 December 2007**  
 Units **£000**

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

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

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

**Amount of new regular  
premiums**

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

**Amount of new single  
premiums**

Direct insurance business	25		1416		1416	2540
External reinsurance	26					
Intra-group reinsurance	27		87		87	1732
<b>Total</b>	<b>28</b>		<b>1503</b>		<b>1503</b>	<b>4272</b>

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

Name of insurer

**Prudential Annuities Limited**

Total business

Financial year ended

**31 December 2007**

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) - individual annuities in payment				574
401	Annuity non-profit (bulk transfer) - group annuities in payment				239
906	Index linked annuity (bulk transfer) - group annuities in payment				603

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

Name of insurer

**Prudential Annuities Limited**

Total business

Financial year ended

**31 December 2007**

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
401	Annuity non-profit (bulk transfer) - group annuities in payment (reassurance accepted from PAC)				87

**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 2007**  
 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	479349	523550	28486	5.44	
Approved fixed interest securities	12	2651053	2651053	138144	4.82	
Other fixed interest securities	13	7824803	7824803	487096	6.01	
Variable interest securities	14	79922	79922	3201	4.25	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	638183	593982	36094	5.66	
<b>Total</b>	<b>19</b>	<b>11673310</b>	<b>11673310</b>	<b>693021</b>	<b>5.68</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 : 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 2007**  
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
<b>UK Government approved fixed interest securities</b>	<b>11</b>	444537	13.41	4.48	4.48

<b>Other approved fixed interest securities</b>	<b>21</b>	2206516	9.80	4.89	4.84
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**Other fixed interest securities**

AAA/Aaa	<b>31</b>	689997	9.37	5.52	5.38
AA/Aa	<b>32</b>	1545660	10.92	5.80	5.56
A/A	<b>33</b>	2521064	10.76	6.15	5.75
BBB/Baa	<b>34</b>	1181665	8.66	6.04	5.35
BB/Ba	<b>35</b>	5742	5.16	7.66	4.71
B/B	<b>36</b>	3026	7.26	13.01	5.90
CCC/Caa	<b>37</b>	11306	6.65	10.79	5.90
Other (including unrated)	<b>38</b>	1866343	9.40	6.11	5.68
<b>Total other fixed interest securities</b>	<b>39</b>	7824803	10.02	6.01	5.60

<b>Approved variable interest securities</b>	<b>41</b>				
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<b>Other variable interest securities</b>	<b>51</b>	79922	21.09	4.25	3.89
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<b>Total (11+21+39+41+51)</b>	<b>61</b>	10555778	10.20	5.70	5.38
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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 2007**  
 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		11265353	11265353	11962910
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16		2066392	2066392	2095652
Form 54 - non-linked	17		54392	54392	57598
<b>Total</b>	<b>18</b>		<b>13386137</b>	<b>13386137</b>	<b>14116160</b>

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22		4213	4213	4557
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26		1993	1993	2016
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>		<b>6206</b>	<b>6206</b>	<b>6573</b>

**Reinsurance - intra-group**

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

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42		11261140	11261140	11958353
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46		2064399	2064399	2093636
Form 54 - non-linked	47		54392	54392	57598
<b>Total</b>	<b>48</b>		<b>13379931</b>	<b>13379931</b>	<b>14109587</b>

**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 2007**  
 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 - group deferred annuities (DAPA)	14967	36067					424348
390	Deferred annuity non-profit - group deferred annuities (GPDA)	536	1363					22117
390	Deferred annuity non-profit - group deferred annuities (reassurance accepted from PAC) (DAPA)	315	1097					11678
390	Deferred annuity non-profit - group deferred annuities (reassurance accepted from PAC) (GPDA)	42593	9577					95478
400	Annuity non-profit (CPA) - group annuities in payment	23371	36631					520098
400	Annuity non-profit (CPA) - individual annuities in payment	44266	167289					2314661
400	Annuity non-profit (CPA) - individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)	498521	592185					7196141
405	Annuity non-profit (CPA impaired life) - individual annuities in payment	2	7					102
405	Annuity non-profit (CPA impaired life) - individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)	266	628					7807
440	Additional reserves non-profit OB - miscellaneous							291280
440	Additional reserves non-profit OB - mismatching							141843
440	Additional reserves non-profit OB - policy related expenses							239800





**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 2007**  
 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(CPA) - group annuities in payment	12809	30967		485645	485645		485645
905	Index linked annuity(CPA) - group annuities in payment - valued as fixed	16164	18082		305723	305723		305723
905	Index linked annuity(CPA) - individual annuities in payment	6236	22747		417185	417185		417185
905	Index linked annuity(CPA) - individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)	6595	28368		424851	424851		424851
907	Index linked deferred annuity - group deferred annuities	14781	15923		156946	156946		156946
907	Index linked deferred annuity - group deferred annuities - valued as fixed	6597	12604		222868	222868		222868
907	Index linked deferred annuity - group deferred annuities (reassurance accepted from PAC)	348	501		7455	7455		7455
915	Additional reserves index linked - miscellaneous						20644	20644
915	Additional reserves index linked - mismatching						33748	33748
915	Additional reserves index linked - Policy related expenses				45719	45719		45719





**Long-term insurance business: analysis of valuation interest rate**Name of insurer **Prudential Annuities Limited**Total business **21 Ordinary Branch Long Term**Financial year ended **31 December 2007**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	10588218		5.31	5.44
Form 51: Additional reserves - policy related expenses	239800		1.79	1.84
Form 51: Additional reserves	433123			5.44
Form 54: Additional reserves	54392			1.84
<b>Total</b>	11315533			

**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 2007**  
 Units **£000**

Financial year 1	Previous year 2
---------------------	--------------------

**Valuation result**

Fund carried forward	11	13414046	14159587
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		4836
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	13414046	14164423
Mathematical reserves	21	13379931	14109587
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	34115	54836

**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	(15885)	4836
Total	39	34115	54836

**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
Total distributed surplus (46+47)	48		4836
Surplus carried forward	49	34115	50000
Total (48+49)	59	34115	54836

**Percentage of distributed surplus allocated to policyholders**

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

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

Global business

Financial year ended **31 December 2007**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%	11265354	11261140	1.00	112611	119584
Classes III, VII and VIII (investment risk)	33	1%	2120784	2118791	1.00	21188	21512
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%					
<b>Total</b>	<b>39</b>					133799	141096

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	11265354	11261140	1.00	337834	358751
Classes III, VII and VIII (investment risk)	43	3%	2120784	2118791	1.00	63564	64537
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%					
<b>Total</b>	<b>49</b>		13386138	13379931		401398	423288

<b>Long term insurance capital requirement</b>	<b>51</b>					535197	564383
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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 2007**

##### **1. Introduction**

- (1) The investigation relates to 31 December 2007.
- (2) The previous investigation related to 31 December 2006.
- (3) No interim valuations have been carried out for the purposes of rule 9.4 since 31 December 2006.

##### **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 2007 (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 2007 (continued)

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

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) The FSA, on the application of the firm, made a direction under Section 148 of the Financial Services and Markets Act 2000. The effect of the direction is to modify the provisions of INSPRU 3.1.35R and IPRU (INS) Appendix 9.3 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

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2007</b> %	<b>31 December 2006</b> %
All	All products	5.31	4.66

## Valuation Report as at 31 December 2007 (continued)

### Index-linked

Product code number	Product description	31 December 2007 %	31 December 2006 %
All	All products (excluding index linked annuities – valued as fixed)	1.79	1.62
All	Index linked annuity – group annuities in payment – valued as fixed Index linked annuity – group deferred annuities – valued as fixed	5.31	4.66

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 long-term 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 long-term 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 2007 (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

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 specified in 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 increases in rental income. As an allowance for the risk of falls in value the disposal value is taken as 75% of the current market value. A further deduction is made to allow for the risk of default of rent. This deduction is calculated in the same way as for corporate bonds (having regard to the credit quality of the relevant tenants), as described above.

Aggregate yields on the backing assets have been adjusted by 0.29% and 0.23% to allow for the long-term expected level of defaults within the non-linked and index linked asset portfolios respectively. These default adjustments include margins for prudence.

Whilst the default rates above are considered to be appropriate long-term valuation assumptions, an additional credit contingency reserve has been held at 31 December 2007 in light of the prevailing economic conditions. This additional reserve amounts to £183m and has been established as a prudent provision against the possibility of future short-term credit losses and downgrades in the asset portfolio. It has been calculated as the impact on mathematical reserves of the Company's entire portfolio of credit-risky assets being downgraded by one rating category.

**Valuation Report as at 31 December 2007 (continued)**

**(4) Non-linked**

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
400	<b>Annuity non-profit (CPA) – individual annuities in payment</b> <b>Annuity non-profit (CPA) – individual annuities in payment (reassurance accepted from PAC, P(AN)L &amp; PPL)</b>		
405	<b>Annuity non-profit (CPA impaired life) – individual annuities in payment</b> <b>Annuity non-profit (CPA impaired life) - individual annuities in payment (reassurance accepted from PAC, P(AN)L &amp; PPL)</b>		
	Mortality table	Modified 106% PNMA00 / 84% PNFA00	Modified 106% PNMA00 / 84% PNFA00
	Expectation of life age 65	23.1 (M), 25.6 (F)	21.8 (M), 25.1 (F)
	Expectation of life age 75	13.8 (M), 16.4 (F)	13.2 (M), 16.1 (F)
400	<b>Annuity non-profit (CPA) – group annuities in payment</b>		
	Mortality table	Modified 112% PNMA00 / 107% PNFA00	Modified 112% PNMA00 / 107% PNFA00
	Expectation of life age 65	22.6 (M), 23.6 (F)	21.4 (M), 23.1 (F)
	Expectation of life age 75	13.4 (M), 14.6 (F)	12.8 (M), 14.4 (F)
390	<b>Deferred annuity non-profit – group deferred annuities (GPDA)</b> <b>Deferred annuity non-profit - group deferred annuities (reassurance accepted from PAC) (GPDA)</b>		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 126% PNMA00 / 117% PNFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 126% PNMA00 / 117% PNFA00
	Current age 45, expectation of life age 65	25.4 (M), 24.8 (F)	22.7 (M), 23.7 (F)
	Current age 55, expectation of life age 65	23.5 (M), 23.8 (F)	21.5 (M), 23.1 (F)
390	<b>Deferred annuity non-profit – group deferred annuities (DAPA)</b> <b>Deferred annuity non-profit - group deferred annuities (reassurance accepted from PAC) (DAPA)</b>		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 112% PNMA00 / 107% PNFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 112% PNMA00 / 107% PNFA00
	Current age 45, expectation of life age 65	26.5 (M), 25.6 (F)	23.7 (M), 24.4 (F)
	Current age 55, expectation of life age 65	24.5 (M), 24.6 (F)	22.6 (M), 23.8 (F)

## Valuation Report as at 31 December 2007 (continued)

### Index linked

Product code number	Product description	31 December 2007	31 December 2006
905	<b>Index linked annuity (CPA) - individual annuities in payment</b> <b>Index linked annuity (CPA) - individual annuities in payment (reassurance accepted from PAC, P(AN)L &amp; PPL)</b>		
	Mortality table	Modified 106% PNMA00 / 84% PNFA00	Modified 106% PNMA00 / 84% PNFA00
	Expectation of life age 65	23.1 (M), 25.6 (F)	21.8 (M), 25.1 (F)
	Expectation of life age 75	13.8 (M), 16.4 (F)	13.2 (M), 16.1 (F)
905	<b>Index linked annuity (CPA) - group annuities in payment</b> <b>Index linked annuity (CPA) - group annuities in payment - valued as fixed</b>		
	Mortality table	Modified 112% PNMA00 / 107% PNFA00	Modified 112% PNMA00 / 107% PNFA00
	Expectation of life age 65	22.6 (M), 23.6 (F)	21.4 (M), 23.1 (F)
	Expectation of life age 75	13.4 (M), 14.6 (F)	12.8 (M), 14.4 (F)
907	<b>Index linked deferred annuity - group deferred annuities</b> <b>Index linked deferred annuity - group deferred annuities – valued as fixed</b> <b>Index linked deferred annuity – group deferred annuities (reassurance accepted from PAC)</b>		
	Mortality table	In deferment: AM92 /AF92 – 4 years  In payment: Modified 112% PNMA00 / 107% PNFA00	In deferment: AM92 /AF92 – 4 years  In payment: Modified 112% PNMA00 / 107% PNFA00
	Current age 45, expectation of life age 65	26.5 (M), 25.6 (F)	23.7 (M), 24.4 (F)
	Current age 55, expectation of life age 65	24.5 (M), 24.6 (F)	22.6 (M), 23.8 (F)

## **Valuation Report as at 31 December 2007 (continued)**

### **Mortality bases used at 31 December 2007**

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 future improvement factors are in line with 100% of the CMI medium cohort projections, subject to future improvement factors not being less than 2.25% p.a. until age 90, tapering linearly to zero at age 120. 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 1.25% p.a. until age 90, tapering linearly to zero at age 120. 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 0.65% 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 2006**

Annuities were 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 were applied from 2001. For males these 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 based on the 92 series tables for annuitants and pensioners, with calendar year 2004 (improvements in line with CMIR17 until 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 2007 (continued)

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

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
All	All products	£22.11 p.a.	£22.33 p.a.

The inflation rates assumed for future expenses are as follows:

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
All	All products	3.75% 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:

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
All	All products	0.06% 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 2007 comprised:

- i) Contracts to swap fixed US Dollars for fixed UK Sterling;
- ii) Contracts to swap fixed Euros for fixed UK Sterling;
- iii) Contracts to swap floating UK Sterling LIBOR for fixed UK Sterling;

## Valuation Report as at 31 December 2007 (continued)

- iv) Contracts to swap fixed UK Sterling for floating UK Sterling LIBOR;
- v) Contract to swap floating UK Sterling LIBOR for fixed UK Sterling;
- vi) Contract to swap inflation linked RPI UK Sterling for fixed UK Sterling;
- vii) Contract to swap inflation linked UK Sterling property income for fixed UK Sterling
- viii) Contracts to swap fixed UK Sterling for inflation linked UK Sterling RPI/LPI

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

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

The effect of the contracts under iii) is to convert cashflows from UK Sterling floating rate LIBOR assets into fixed UK Sterling cashflows.

The effect of the contracts under iv) combined with the contract under v) is to lengthen the duration of fixed portfolio.

The effect of the contract under vi) is to convert cashflows from inflation linked RPI bonds into fixed UK Sterling cashflows.

The effect of the contract under vii) is to convert cashflows from RPI inflation linked property rental payments into fixed UK Sterling cashflows.

The effect of the contract under viii) is to convert fixed UK Sterling assets into UK Sterling RPI inflation linked 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 2007 (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	15.2
Investment management expenses	7.9
Total	23.1

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 £21.6m. 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 2007 (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 £250.5m.

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 £17.3m 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 0.91%, 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;

(a) No resilience capital requirement was necessary.

## Valuation Report as at 31 December 2007 (continued)

- (b) The increase in the aggregate amount of the long-term insurance liabilities was £1,072m.
  - (c) The increase in the aggregate amount of assets backing these liabilities was £1,073m.
- (7) A reserve of £175.6m 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 the credit contingency reserve mentioned in section 4 above and an allowance of £128.9m for general contingencies.

### 9. Reinsurance

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

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

### 10. Reversionary (or annual) bonus

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

## Supplementary notes to the returns (continued)

### PRUDENTIAL ANNUITIES LIMITED

#### Returns for the year ended 31 December 2007

##### 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 November 2007 to 31 October 2012. The effect of the direction is to modify the provisions of INSPRU 3.1.35R and IPRU (INS) Appendix 9.3 so that a more appropriate rate of interest is used for assets taken in combination. (FSA reference 771848)

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. 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. This direction ended on 31 October 2007. (FSA Reference 484700)

###### Form 3

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

	2007 £'000s
Line 89 on Form 13 (OLTB)	1,130,914
Line 89 on Form 13 (LTB)	13,737,709
Line 11 on Form 14	(13,379,931)
Line 49 on Form 14	(324,713)
Line 69 on Form 15	(27,104)
Line 79 on Form 3	<u>1,136,875</u>

## Supplementary notes to the returns (continued)

### Form 3 (Continued)

#### \*0310\* Valuation differences

	2007 £'000s
<i>Positive valuation differences where liabilities are lower than in the shareholder accounts</i>	
Deferred tax held on additional reserves and valuation differences	227,301
<i>Positive valuation differences where assets are higher than in the shareholder accounts</i>	
FSA valuation difference on investments	17,594
<i>Negative valuation differences where liabilities are higher than in the shareholder accounts</i>	
Additional reserves held in long term fund	(829,839)
Line 35 on Form 3	<u>(584,944)</u>

#### \*0313\* Reconciliation of profit and loss account and other reserves

	2007 £'000s
Profit and loss account and other reserves c/fwd (Form 3 Line 12 – Column 3)	1,172,869
Profit and loss account and other reserves b/fwd (Form 3 Line 12 – Column 4)	1,074,713
Movement	98,156
Movement in additional reserves held for FSA	(70,471)
Movement in valuation difference	(16,684)
Movement in deferred tax	11,546
Movement in unallocated surplus	15,885
Profit and loss account retained for the financial year (Form 16 Line 59)	<u>38,432</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 £30m 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 various Prudential Sourcebooks. Therefore exposures to non-approved counterparties have been restricted to a maximum of 5% of the business amount. No counterparty exposure during the year exceeded these limits.

## Supplementary notes to the returns (continued)

### Form 13 (continued)

\*1306\* No counterparty exposure at the year end exceeded 5% of the business amount.

\*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 £1,006m in unlisted securities.

\*1309\* The Company held £1,812m in hybrid securities.

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

\*1311\* The maximum permitted exposure to any one counterparty has been set in accordance with the counterparty limits detailed in the various Prudential Sourcebooks. 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\* PAL has six exposures at 31.12.07 that are ‘secured obligations’:

Counterparty	Exposure (£'000)
Abbey National Treasury services Plc	3,032
Credit Suisse International	18,300
Barclays Bank Plc	4,500
Lehman Brothers International	1,306
Merrill Lynch International Bank	3,265
Royal Bank of Scotland Plc	1,200

\*1318\* Other asset adjustments

	2007 £'000s
<i><u>Total other than long term business assets</u></i>	
Cash at bank used to notionally settle balances owed from the other than long term fund	94
Miscellaneous liabilities netted off against assets in the financial statements	(51)
Line 101 on Form 13	<u>43</u>
	2007 £'000s
<i><u>Total long term business assets</u></i>	
Miscellaneous derivative gross up	547
Line 101 on Form 13	<u>547</u>

## Supplementary notes to the returns (continued)

### Form 13 (continued)

\*1321\* Other differences in valuation of assets

	2007 £'000s
<i>Total long term business assets</i>	
Assets valued on a different basis than that in the financial statements	(17,594)
Line 98 on Form 13	<u>(17,594)</u>

### 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

	2007 £'000s
Additional reserves held in long term fund	(829,839)
Deferred tax held on additional reserves and valuation differences	227,301
Miscellaneous adjustments to liabilities	547
Line 74 on Form 14	<u>(601,991)</u>

## Supplementary notes to the returns (continued)

### Form 15

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

\*1502\* (a) There were no charges attributable to the other than long term business assets.

(b) The total potential liability to taxation on capital gains which might arise if the company disposed of its assets was £200k. Full provision has been made at the year end.

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

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

\*1507\* Details of other adjustment in liabilities

	2007
	£'000s
Cash at bank used to notionally settle balances owed from the other than long term fund	94
Intragroup balances less than £100k netted off against assets in the financial statements	(51)
Line 83 on Form 15	43

### Form 16

\*1601\* Revenue account items are translated at rates ruling on the transaction date.

\*1603\* Balances in line 21 relate to management expenses.

### Form 40

\*4008\* Management services are provided to the Company for day to day administration from The Prudential Assurance Company Ltd, M&G Investment Management Ltd, Prudential Property Investment Managers Ltd, PPM America Inc., Prudential UK Services Limited and Prudential Services Ltd, 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. The reinsurance agreement was drawn up under normal commercial terms which reflect the level of business transacted with the Company.



## Supplementary notes to the returns (continued)

### Form 40 (continued)

#### \*4009\* (continued)

Included within claims incurred is an amount of £600m arising from claims under this reinsurance agreement.

The liabilities included in the return, relating to this business amount to £7,959m at the year end.

### Form 48

\*4802\* There is 1 asset where the payment of interest is in default. The expected income from this asset 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 62,800.

\*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 62,800.

### Form 57

The information required in respect of waiver 771848 (dated 17 December 2007) is as follows:

Product group	Risk adjusted yield on matching assets (Form 57 column 5)	Corresponding asset yield
Form 51: Immediate & deferred annuities	5.44%	5.74%
Form 51: Additional reserves non-profit OB – policy related expenses	1.84%	2.07%

**PRUDENTIAL ANNUITIES LIMITED**

**Returns for the year ended 31 December 2007**

**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 replaced by waiver dated 17 December 2007 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
  - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.
2. (a) that in our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
- (b) that the mathematical reserves, as shown in Form 14, constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;
- (c) that we have, in preparing the return, taken and paid due regard to advice in preparing the return from the actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.

.....

A M Crossley  
Director

.....

D J Belsham  
Director

.....

G P J Shaughnessy  
Director

27 March 2008

## **PRUDENTIAL ANNUITIES LIMITED**

### **Returns for the year ended 31 December 2007**

#### **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 replaced by waiver dated 17 December 2007. 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 (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 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

27 March 2008

## **PRUDENTIAL ANNUITIES LIMITED**

**Returns for the year ended 31 December 2007**

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

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

As requested by Rule 9.29 of the Interim Prudential Sourcebook for Insurers (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 3.2.5 of the Insurance Prudential Sourcebook (INSPRU)
  - 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 2007 no such contracts were used.

- (d) **Effect on form 13 at 31 December 2007 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;	(£65,375k)
Form 13 line 58 (Derivatives);	(£55,250k)
Form 13 line 58 (Cash);	£455,817k
Form 13 line 54/55/81;	£1,354,528k

**Other than long term funds**

Form 13 line 44;	(£6,391k)
Form 13 line 54/55/81;	£127,825k

- (e) **Effect on form 13 at 31 December 2007 of exercising all derivatives. Decreases are shown in brackets**

**Long term funds**

Form 13 line 44;	(£65,375k)
Form 13 line 58 (Derivatives);	(£55,250k)
Form 13 line 58 (Cash);	£455,817k
Form 13 line 54/55/81;	£1,354,528k

**Other than long term funds**

Form 13 line 44;	(£6,391k)
Form 13 line 54/55/81;	£127,825k

- (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;	(£37,272k)
Form 13 line 58 (Derivatives);	(£45,650k)
Form 13 line 58 (Cash);	£440,046k
Form 13 line 54/55/81;	£1,261,978k

**Other than long term funds**

Form 13 line 44;	(£3,093k)
Form 13 line 54/55/81;	£127,825k

## **Conditions noted in (e)**

### **Long term funds**

Form 13 line 44;	(£37,272k)
Form 13 line 58 (Derivatives);	(£45,650k)
Form 13 line 58 (Cash);	£440,046k
Form 13 line 54/55/81;	£1,261,978k

### **Other than long term funds**

Form 13 line 44;	(3,093k)
Form 13 line 54/55/81;	£127,825k

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 £35,000k 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 £28,491k.

### **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 £3,286k.

Under foreseeable market conditions the company's exposure would not increase beyond £3,431k. The maximum loss at any other time during the year was £3,653k.

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

There were no derivative contracts held during 2007 that did not satisfy the Rule 4.12 requirements of the Integrated Prudential Sourcebook.

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

No rights under derivative contracts have been granted.



## PRUDENTIAL ANNUITIES LIMITED

### Returns for the year ended 31 December 2007

#### 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 2007, 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 2007:
  - (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 2007, a shareholder controller of the Company.	In the case of each person who was a shareholder controller of the Company at 31 December 2007:	
	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%