Registered Number 2554213

Prudential Annuities Limited

Annual Report and Financial Statements
For the year ended 31 December 2008

Prudential Annuities Limited

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

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Prudential Annuities Limited

Directors

N E T Prettejohn (Chairman)
D J Belsham
T V Boardman
A M Crossley
I A Haasz
F A O'Dwyer

Secretary

Prudential Group Secretarial Services Limited

Auditors

KPMG Audit Plc, London

Prudential Annuities Limited

Directors' report for the year ended 31 December 2008

Principal activity

The principal activity of Prudential Annuities Limited (the Company) is the writing of pension annuity long term insurance business.

The Company ceased to accept annuity business reassured from group companies during 2004. This represented the majority of the Company's new business. The amount of new business in 2008 was negligible and in future years is expected to be negligible.

Business review

The results of the Company for the year as set out on pages 6 and 7, show a loss on ordinary activities before tax of £243m (2007: profit £117m).

The losses during 2008 have mainly arisen from the strengthening of the assumption for asset default. This has been partially offset by the profits from the in-force business arising primarily from the rebalancing of the assets portfolio in 2008.

The Shareholders' capital of the Company totalled £1,549m (2007: £1,722m).

The assets and liabilities of the Company have reduced during 2008 as a result of an increase in the yield on the underlying assets and the payment of annuity claims.

The Company's conventional annuities include level, fixed increase and retail price index (RPI) annuities. The fixed increase annuities incorporate automatic increases in annuity payments by fixed amounts over the policyholder's life. The RPI annuities that the Company offers provide for a regular annuity payment which changes periodically based on the change in the UK RPI.

The Company remained in a satisfactory financial position at 31 December 2008.

The Company does not report against Key Performance Indicators in its Business Review. This is because the Company is part of the wider Prudential Group and the Group's business is managed on a divisional basis such as UK Insurance Operations. Key Performance Indicators exist for the management of the divisions, of which this Company's business forms a part. The divisional Key Performance Indicators can be found in the Annual Report of Prudential plc.

Corporate responsibility

The Company is a wholly owned subsidiary within Prudential plc and corporate responsibility (CR) is a philosophy that is firmly embedded in Prudential's operations around the world and has become a fundamental and integral part of how the Company does business. Strong commitment to CR reflects the recognition that stakeholders — including customers, employees, shareholders and communities — increasingly favour companies that embrace and exhibit sound values around trust, ethics and environmental responsibility. As the Company strives to meet this need, it is helped by the fact that these values have been fundamental to Prudential throughout the past 160 years, underpinning the long-established brand values of reliability and stability. At the same time, it is recognised that performance in key areas of CR such as corporate governance, environmental management and employment practices can have a significant and positive impact on financial performance.

Corporate responsibility (continued)

The Group, of which the Company is a part, has developed a Group Governance Framework which is underpinned by a Group Governance Manual and associated processes. This encompasses all key policies and procedures for example the Group Code of Business Conduct, the CR policy and Health and Safety Policy. The Company remains committed to providing a high level of customer service, communicating openly with customers, providing clear information and to monitoring levels of satisfaction.

There is a Responsibility Committee is a specialist Group-wide committee and has responsibility for reviewing Prudential's business conduct and social and environmental policy, and ensures consistency of approach across the Group's international businesses. The CR team develops Prudential's CR strategy and works closely with individual business units to provide advice. The team also assists with the development and adaptation of Group-wide initiatives so that they not only fit with overall Group principles but are also adapted to meet local needs.

Results and dividends

The state of affairs of the Company at 31 December 2008 is shown in the balance sheet on pages 8 and 9. The profit and loss account appears on pages 6 and 7. No dividend for 2008 is proposed (2007: £Nil).

Post balance sheet events

There have been no significant events affecting the Company since the balance sheet date.

Payment policy

The Company does not have any trade creditors and therefore codes or standards on payment practice and disclosure of trade creditor days are not applicable.

Share Capital

The authorised share capital of the Company is £800,000,000 (2007: £800,000,000). There were no changes to the issued share capital in the year.

Directors

The present directors are shown on page 2.

Mr G P J Shaughnessy resigned as a director on 25 September 2008. There were no other changes during the year. Mr F A O'Dwyer was appointed as director on 16 January 2009.

Financial risk management objectives, policies and exposure

The Company is a wholly owned subsidiary of the Group, Prudential plc and as such forms a part of the overall risk management process of the Group. A significant part of the Group's business involves the managed acceptance of risk. The Group has a Risk Governance Framework requiring all businesses and functions within the Group i.e. including the Company, to establish processes for identifying, evaluating and managing key risks. The system of internal control is an essential and integral part of the risk management process. As part of the annual preparation of its business plan, all of the Group's businesses and functions are required to carry out a review of risks including an assessment of the impact and likelihood of key risks and effectiveness of the controls in place to manage them. The assessment is reviewed regularly throughout the year and all businesses and functions within the Group are required to confirm annually that they have undertaken risk management. Actual performance is regularly monitored against the business plans. Detailed procedures are laid down in financial and actuarial procedure manuals. The insurance operations of the Group, such as the Company, also prepare a financial condition report.

Prudential Annuities Limited

Directors' report for the year ended 31 December 2008 (continued)

Financial risk management objectives, policies and exposure (continued)

The Company's objectives and policy in relation to the management of financial risk resulting from its financial assets and liabilities are to minimise any risk. The Company's exposure to financial risk through its financial assets and liabilities is provided in detail in note 7 of the notes to the financial statements.

Disclosure of information to auditors

The directors who held the office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Auditors

In accordance with section 487(2) of the Companies Act 2006, KPMG Audit Plc will be deemed to be re-appointed auditors of the Company for the current financial year.

Directors' and officers' protection

Prudential plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the Prudential Group. In addition, the Articles of Association of the Company permit for the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office. Prudential plc also provides protections for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of Prudential plc (being Mr Prettejohn) including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities were in force during 2008 and remain in force.

On behalf of the board of directors.

Prudential Group Secretarial Services Limited
Company Secretary
27 March 2009

Prudential Annuities Limited

Profit and Loss Account for the year ended 31 December 2008

Long Term Business - Technical Account	Note	2008 £m	2007 £m
Earned premiums, net of reinsurance			
Gross premiums written	1(a)	**(3)**	2
		(3)	2
Investment income	2	**800**	839
Unrealised losses on investments		**(1,254)**	(659)
		(454)	180
Claims incurred, net of reinsurance			
Claims paid		**(913)**	(894)
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance	10	**929**	795
Technical provision for linked liabilities, net of reinsurance	10	**156**	5
		1,085	800
Net operating expenses			
Acquisition costs		**-**	(1)
Administrative expenses		**(13)**	(14)
Investment expenses and charges		**(15)**	(10)
		(28)	(25)
Tax attributable to the long term business		**89**	(4)
Balance on the technical account – long term business		**(224)**	59

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 10 to 32 form an integral part of these financial statements.

Prudential Annuities Limited

Profit and Loss Account for the year ended 31 December 2008 (continued)

Non-Technical Account	Note	**2008 £m**	2007 £m
Balance on the long term business technical account		**(224)**	59
Tax attributable to the balance on the long term business technical account		**(89)**	4
Investment income	2	**53**	47
Unrealised gains on investments		**18**	8
Investment expenses and charges		**(1)**	(1)
(Loss) / profit on ordinary activities before tax		**(243)**	117
Tax on (loss) / profit on ordinary activities	4	**70**	(20)
Retained (loss) / profit for the financial year transferred to reserves	10	**(173)**	97

Statement of total recognised gains and losses

Year ended 31 December 2008

	2008 £m	2007 £m
Retained (loss) / profit for the financial year	**(173)**	97
Total gains and losses recognised since the last annual report	**(173)**	97

Reconciliation of movement in Shareholders' Funds

Year ended 31 December 2008

	2008 £m	2007 £m
Shareholders' capital and reserves at beginning of year	**1,722**	1,625
Retained (loss) / profit for the financial year	**(173)**	97
Shareholders' capital and reserves at end of year	**1,549**	1,722

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 10 to 32 form an integral part of these financial statements.

Prudential Annuities Limited

Balance sheet as at 31 December 2008

ASSETS	Note	2008 £m	2007 £m
Investments			
Land and buildings		**580**	480
Other financial investments		**10,860**	12,032
	7	**11,440**	12,512
Assets held to cover linked liabilities	9	**1,870**	2,026
Reinsurers' share of technical provisions			
Long term business provision	10	**4**	4
Technical provision for linked liabilities	10	**2**	2
		6	6
Debtors			
Tax recoverable		**12**	3
Other debtors		**106**	24
		118	27
Other assets			
Cash at bank and in hand	14	**183**	56
Prepayments and accrued income			
Accrued interest and rent		**233**	231
Total assets	1(b)	**13,850**	14,858

The accounting policies and notes on pages 10 to 32 form an integral part of these financial statements.

Prudential Annuities Limited

Balance sheet as at 31 December 2008 (continued)

LIABILITIES	Note	2008 £m	2007 £m
Capital and reserves			
Called up share capital	15	**550**	550
Profit and loss account	10	**999**	1,172
Total shareholders' funds		**1,549**	1,722
Technical provisions			
Long term business provision	10	**9,599**	10,528
Claims outstanding	10	**7**	8
Technical provisions for linked liabilities	10	**1,872**	2,028
Provision for other risks and charges			
Deferred tax	12	**197**	227
Creditors			
Derivative liabilities	7	**280**	47
Amounts owed to credit institutions		**314**	275
Creditors arising out of reinsurance operations		**6**	-
Other creditors including taxation and social security	13	**26**	23
		626	345
Total liabilities		**13,850**	14,858

The financial statements on pages 6 to 32 were approved by the board of directors on 27 March 2009.

A M Crossley
Director

The accounting policies and notes on pages 10 to 32 form an integral part of these financial statements.

Prudential Annuities Limited

Accounting Policies

(a) Change in accounting policies

The Company has implemented the following accounting standard and amendment in preparing its results for the year ended 31 December 2008. These standards closely reflect the requirements of International Financial Reporting Standards (IFRS) and form part of the continuing implementation of IFRS in the UK.

<u>Amendments to FRS 26 (IAS 39) and FRS 29 (IFRS 7): Reclassification of Financial Assets</u>

In October 2008, the Accounting Standard Board (ASB) approved the “Amendments to FRS 26 (IAS 39) and FRS 29 (IFRS 7): Reclassification of Financial Assets” that permit the reclassification of certain “held for trading” and “available-for-sale” financial assets into the “loans and receivables” category carried at amortised cost if specific conditions are met and additional disclosures are made regarding any assets so reclassified. The adoption of these amendments to FRS 26 and FRS 29 did not have an impact on the balance sheet or profit and loss account of the Company as the Company has not made any such reclassification of financial assets as permitted by the amendments.

(b) Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, which cover the disclosures applicable to insurance companies.

The financial statements have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005.

The Company has not presented a capital position statement with supporting disclosures under FRS 27 on the basis that the Company is more than 90 per cent owned within a group and the Company is included in the publicly available Prudential group financial statements which provide information on a group basis complying with this requirement. The process for setting assumptions and determining liabilities, as required to be disclosed by FRS 27, is described in note 11 of the financial statements (together with key assumptions).

(c) Long term business

Under FRS 26, the measurement basis of assets and liabilities of long term business contracts is dependent upon the classification of the contracts as either insurance contracts, if the level of insurance risk is significant, or investment contracts if the risk is insignificant. The Company’s contracts are all classed as insurance contracts.

Annuity considerations are accounted for when due. Annuities are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid. Death claims and all other claims are accounted for when notified. Index linked business has been disclosed as linked for the purposes of these financial statements.

Investment income and realised and unrealised investment gains attributable to long term business are credited to the long term business technical account.

The costs of acquiring new business, principally commission and certain costs associated with policy issue and underwriting which are not matched by policy charges, are written off in the year they are incurred.

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Accounting Policies (continued)

(d) Investments

(i) *Land and buildings*
Land and buildings are valued annually by professional external valuers on a Market Value basis, as defined in the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors, in particular Practice Statement 3.2. No depreciation is provided on land and buildings, held for investment purposes, in accordance with Statement of Standard Accounting Practice 19, Accounting for Investment Properties.

On a historical cost basis buildings are depreciated over 40 years. Leasehold buildings are depreciated over the 40 years or if the lease is less than 40 years over the length of the lease.

(ii) *Other financial investments valuation*
Listed investments are shown at fair value. Unlisted investments are valued on quotations provided by external fund managers, brokers, independent pricing services or values as determined by the directors.

(iii) *Realised gains and losses on investments*
Realised gains and losses on investments represent the difference between net proceeds on disposal and the purchase price.

(iv) *Unrealised gains and losses on investments*
Unrealised gains and losses on investments represent the difference between the change in the value of investments held at the balance sheet date and the reversal of unrealised investment gains and losses recognised in earlier accounting periods in respect of investment disposals.

An impact arising from FRS 26 is in relation to recognition and measurement of financial instruments (other than long term business contracts classified as financial instrument as described above). Upon initial recognition, financial investments are measured at fair value. Subsequently, the Company is permitted, subject to specific criteria, to designate its investments as either financial investments at fair value through profit and loss, financial investments held on an available-for-sale basis, financial investments held to maturity, or loans and receivables. The Company holds financial investments on the following bases:

(v) *Financial investments at fair value through profit and loss*
This comprises assets designated by management as fair value through profit and loss on inception. These investments, including all derivatives, are valued at fair value with all changes thereon being recognised in the profit and loss account.

The Company uses bid prices to value its quoted financial investments. Actively traded investments without quoted prices are valued using external broker bid prices. If there is no active established market for an investment, the Company applies an appropriate valuation technique such as discounted cash flow technique.

(vi) *Loans and receivables*
This comprises investments that have fixed or determinable payments and are not designated as fair value through profit and loss or available-for-sale. These investments include loans secured by mortgages, deposits and other unsecured loans and receivables. These investments are carried at amortised cost using the effective interest method and subject to impairment reviews. The Company measures the amount of the impairment loss by comparing the amortised cost with the present value of its estimated future cash flows discounted at the original effective interest rate.

Accounting Policies (continued)

(e) Long term business provision

The long term business provision is determined by the Company's directors based on advice from the Company's Actuarial Function Holder, who determined the provision using recognised actuarial methods, with due regard to the actuarial principles laid down in Directive 2002/83/EC. It is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Financial Services and Markets Act 2000. The valuation is then modified to remove certain resilience, contingency and other reserves required by the Prudential Sourcebook for Insurers and the General Prudential Sourcebook issued by the Financial Services Authority.

The technical provisions are the discounted value of future claim payments, adjusted for investment expenses and future administration costs. Claim payments allow for the effects of mortality in line with the bases set out in Note 11. These bases have been derived from an analysis of recent population and internal mortality experience and include an allowance for improvements in mortality in the future.

The interest rates used for discounting claim payments are derived from the yield on the assets held and make allowance for potential defaults on those assets. Long term rates of default appropriate to the assets held have been set based on an investigation into historic rates of default by credit rating, term to redemption and security. An additional short term default provision is held to reflect market conditions at the valuation date, particularly credit spreads over swaps on corporate bonds (See Note 11).

(f) Cash flow statement

The Company has availed itself of the exemption from preparing a cash flow statement allowed under section 5(a) of FRS 1, "Cash Flow Statements", on the grounds that it is a wholly owned subsidiary of Prudential plc which publishes a consolidated cash flow statement incorporating the cash flows of the Company.

(g) Taxation

Tax is charged on all taxable profits arising in the accounting period.

Except where otherwise required by accounting standards, full provision for deferred tax without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

(h) Foreign Currencies

Foreign currency revenue transactions are translated at the rate applied at the time of execution. Monetary foreign currency assets and liabilities are translated at year end exchange rates. Exchange differences are included in the profit and loss account.

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Notes to the financial statements for the year ended 31 December 2008

1. Segmental analysis

(a) Gross premiums written	2008 £m	2007 £m
Pension annuities:		
- Non-participating	**(3)**	1
- Linked	**-**	1
	(3)	2
Comprising:		
External direct premiums:		
- Immediate annuities	**-**	2
- Deferred annuities	**(1)**	-
	(1)	2
Reinsurance from a related party:		
- Immediate annuities	**(2)**	-
Total	**(3)**	2

All premiums are single premium business written in the United Kingdom. Group pension scheme buyouts included in external premiums are £1m of refunds (2007: £1m).

(b) Assets attributable to the long term business fund

Of the total assets shown on page 8, £13,122m (2007: £13,743m) is attributable to the long term business fund.

2. Investment income

	Long term business technical account		Non technical account	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Income from equity securities	**22**	21	-	1
Income from land and buildings	**44**	24	-	-
Income from debt securities	**685**	695	**50**	53
Income from mortgage loans and other loans	**10**	4	-	-
Income from deposits with credit institutions	**4**	4	**1**	1
Income from other investments	**7**	2	-	-
Gains/(losses) on the realisation of investments other than derivatives	**6**	25	**2**	(8)
Gains on the realisation of derivatives	**18**	56	-	-
Realised gains on assets not at FVTPL	**-**	8	-	-
Exchange gains	**4**	-	-	-
	800	839	**53**	47

Notes to the financial statements for the year ended 31 December 2008 (continued)

3. Staff costs

The Company has no employees (2007: Nil). Included within net operating expenses are amounts paid in return for management services provided to the Company by other group companies.

4. Tax on profit on ordinary activities

(a) Analysis of charge in the period

	2008 £m	2007 £m
Current Tax		
UK Corporation tax on (losses) / profits of the period	**(40)**	7
Adjustments in respect of previous periods	**-**	2
	(40)	9
Deferred Tax		
Origination and reversal of timing differences	**(30)**	11
Tax on (losses) / profits on ordinary activities	**(70)**	20

(b) Factors affecting tax charge for the period

	2008 £m	2007 £m
(Loss) / profit on ordinary activities before tax	**(243)**	117
(Loss) / profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 28.5% (2007: 30%)	**(69)**	35
Effects of		
Adjustments in respect of previous periods	**-**	2
Timing differences		
- Transfer from / (to) the non-technical account in excess of the statutory surplus	**29**	(28)
Current tax (credit) / charge for the period	**(40)**	9

The rate of corporation tax in the UK fell to 28% with effect from 1 April 2008. The effective rate applying for the year to 31 December 2008 is therefore 28.5%.

Notes to the financial statements for the year ended 31 December 2008 (continued)

5. Auditors' remuneration

Fees payable to KPMG for the audit of the Company's accounts were £46,832, (2007: £51,387). Fees payable to KPMG for other services pursuant to legislation, including the audit of the regulatory return were £19,131 (2007: £19,293).

6. Directors' emoluments

During the year, the directors received the following emoluments in respect of work on behalf of the Company.

	2008 £	2007 £
Aggregate emoluments and non-pension benefits	**215,769**	292,239

Six (2007: six) directors were entitled to shares under the Prudential's main long term incentive scheme. Four directors are entitled to retirement benefits under defined benefit schemes and two directors participate in the defined contribution scheme.

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director included in the above figure was £84,666. During the year the highest paid director did not receive shares under a long term incentive scheme.

7. Investments

	Cost		**Current Value**	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Freehold land and buildings	**332**	345	**315**	383
Leasehold land and buildings	**293**	81	**265**	97
Equity securities	**328**	330	**275**	348
Debt securities and other fixed income securities	**10,358**	10,668	**10,158**	11,172
Derivative assets	**-**	(6)	**133**	71
Loans secured by mortgages	**127**	134	**127**	134
Other loans	**13**	15	**13**	15
Deposits with credit institutions	**154**	292	**154**	292
	11,605	11,859	**11,440**	12,512

The change in current value of investments included in the profit and loss account was a loss of £1,055m (2007: loss of £656m) analysed between a loss of £1,073m (2007: loss of £664m) included in the Long term business technical account and a gain of £18m (2007: gain of £8m) included in the Non-technical account. The change in current value of £1,073m (2007: loss of £664m) included a loss of £105m (2007: loss of £49m) in respect of land and buildings, a loss of £158m (2007: loss of £84m) in respect of derivatives, a loss of £71m (2007: loss of £55m) in respect of equity securities and a loss of £739m (2007: loss of £476m) in respect of debt securities.

Notes to the financial statements for the year ended 31 December 2008 (continued)

7. Investments (continued)

Amounts included above ascribed to listed investments:

	Current Value 2008 £m	2007 £m
Equity securities	**243**	304
Debt securities and other fixed income securities	**8,990**	9,947
	9,233	10,251

All Leasehold land and Buildings are classed as long lease as their term is greater than 50 years.

If the revalued land and buildings were stated on the historical cost basis, the amounts would be:

	Freehold and leasehold land and buildings 2008 £m	2007 £m
At cost	**625**	427
Aggregated depreciation	**(38)**	(30)
Net book value based on historical cost	**587**	397

(a) Financial instruments

(i) Designation and fair values

All financial assets of the Company are designated as either fair value through profit and loss or loans and receivables. Financial liabilities are designated as either fair value through profit and loss or amortised cost.

2008	**Fair value through profit and loss**	**Loans and receivables / Amortised cost**	**Total carrying value**	**Fair value**
		2008 £m		
Financial Assets:				
Freehold land and buildings	**315**	**-**	**315**	**315**
Leasehold land and buildings	**265**	**-**	**265**	**265**
Deposits with credit institutions	**-**	**154**	**154**	**154**
Equity securities	**275**	**-**	**275**	**275**
Debt securities	**10,158**	**-**	**10,158**	**10,158**
Loans:				
Loans secured by mortgages	**-**	**127**	**127**	**123**
Other loans	**-**	**13**	**13**	**11**
Derivatives assets	**133**	**-**	**133**	**133**
Accrued investment income	**-**	**233**	**233**	**233**
Other Debtors	**-**	**106**	**106**	**106**
Cash at bank and in hand	**-**	**183**	**183**	**183**
	11,146	**816**	**11,962**	**11,956**

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Notes to the financial statements for the year ended 31 December 2008 (continued)

7. Investments (continued)

(a) Financial instruments (continued)

(i) Designation and fair values (continued)

2008	**Fair value through profit and loss**	**Loans and receivables / Amortised cost**	**Total carrying value**	**Fair value**
		2008 £m		
Financial Liabilities:				
Derivative liabilities	**280**	**-**	**280**	**280**
Creditors arising out of reinsurance operations	**-**	**6**	**6**	**6**
Other creditors	**-**	**321**	**321**	**321**
	280	**327**	**607**	**607**

2007	Fair value through profit and loss	Loans and receivables / Amortised cost	Total carrying value	Fair value
		2007 £m		
Financial Assets:				
Freehold land and buildings	383	-	383	383
Leasehold land and buildings	97	-	97	97
Deposits with credit institutions	-	292	292	292
Equity securities	348	-	348	348
Debt securities	11,172	-	11,172	11,172
Loans :				
Loans secured by mortgages	-	134	134	150
Other loans	-	15	15	15
Derivatives assets	71	-	71	71
Accrued investment income	-	231	231	231
Other Debtors	-	24	24	24
Cash at bank and in hand	-	56	56	56
	12,071	752	12,823	12,839
Financial Liabilities:				
Derivative liabilities	47	-	47	47
Other creditors	-	281	281	281
	47	281	328	328

As at 31 December 2008, £77m (2007: £110m) of convertible bonds were included in debt securities. There were no convertible bonds included in borrowings (2007: £Nil).

For financial liabilities designated as fair value through profit and loss there was no impact on profit from movements in credit risk during 2008 and 2007.

Notes to the financial statements for the year ended 31 December 2008 (continued)

7. Investments (continued)

(a) Financial instruments (continued)

(ii) Determination of fair values

The fair values of the financial values of the financial assets and liabilities as shown in the table on the previous page have been determined on the following basis.

The fair values of the financial instruments for which fair valuation is required under UK GAAP and which are in an active market are determined by the use of current market bid prices for quoted investments, or by using quotations from independent third parties, such as brokers and pricing services. If the market for a financial asset is not active, fair value is established using valuation techniques. These include financial investments which are not quoted on active markets and financial investments for which markets are no longer active as a result of market conditions e.g. market illiquidity.

The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and if applicable enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. The source of pricing for the financial investments valued using valuation techniques could be from using quotations from independent third parties, such as brokers and pricing services or by using valuation techniques modelled internally by the Group. Priority is given to publicly available prices from independent sources, when available but overall, the source of pricing is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The loans and receivables have been shown net of provisions for impairment, where applicable. The fair value of loans has been estimated from discounted cash flows expected to be received. The rate of discount used was the market rate of interest.

The estimated fair value of derivative instruments reflects the estimated amount the Company would receive or pay in an arm's length transaction. The amount is determined using quotations from independent third parties or valued internally using standard market practices.

The fair value of borrowings is based on quoted market prices, where available.

The fair value of other financial liabilities of the Company is determined using discounted cash flows of the amounts expected to be paid.

(iii) Use of valuation techniques

The carrying value of financial investments (including derivative liabilities) on the balance sheet of the Company which are not quoted on active markets and for which fair value is determined using internal valuation techniques, or is provided by brokers or pricing services, where the specific securities have been valued using valuation techniques by these third party providers is £1,421m (2007: £1,395m), including derivative liabilities of £275m (2007: £47m).

7. Investments (continued)

(a) Financial instruments (continued)

(iii) Use of valuation techniques (continued)

Of the investments valued using valuation techniques, £1,557m (2007: £1,316m) related to debt securities. These debt securities include private debt securities such as private placements, project finance, asset securitisations and local authority securities. The securities are mainly long-dated and not regularly traded and are valued internally using market standard practices. The majority of the debt securities above are valued using matrix pricing, which is based on assessing credit quality of the underlying borrower to derive a suitable discount rate relative to government securities. Under matrix pricing, the debt securities are priced by taking the credit spreads on comparable quoted public debt securities and applied to the equivalent debt instruments factoring a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

In accordance with the Group's Risk Framework, which the Company follows, all internally generated calculations are subject to independent assessment by the Group's Fair Value Committees which comprise members who are independent of the fund managers involved in the day-to-day trading in these assets.

The investments other than debt securities valued using valuation techniques relate to equity securities. These investments are valued using valuation techniques which apply less of readily observable market factors and more non-observable factors than the matrix pricing technique as used for the majority of the debt securities.

The total amount of the change in fair value estimated using valuation techniques, including valuation techniques based on assumptions not wholly supported by observable market prices or rates, recognised in the profit and loss account in 2008 was a loss of £190m (2007: loss of £57m).

The 2007 comparatives shown above differ from the previously published information for the inclusion of the financial investments for which prices have been provided by independent third parties, such as pricing services and brokers, and for which the prices have been derived using valuation techniques by these providers. The previously published 2007 information included only the financial investments valued internally using valuation techniques.

(iv) Interest income and expense

The interest income on financial assets not at fair value through profit and loss was £18m for the year ended 31 December 2008 (2007: £18m).

There is no interest expense on financial liabilities not at fair value through profit and loss for the year ended 31 December 2008 (2007: £Nil).

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or, in the case of liabilities of insurance contracts, their carrying value will fluctuate because of changes in market prices.

Market risk comprises three types of risk, namely:

- Interest rate risk: due to changes in market interest rates,
- Currency risk: due to changes in foreign exchange rates, and
- Other price risk: due to fluctuations in market prices (other than those arising from interest rate risk or currency risk).

Notes to the financial statements for the year ended 31 December 2008 (continued)

7. Investments (continued)

(b) Market risk (continued)

The assets covering the Company's liabilities are principally debt securities and other investments that are held to match the expected duration and payment characteristics of the policyholder liabilities. These liabilities are valued for reporting purposes by applying discount rates that reflect the market rates of return attaching to the covering assets.

Except to the extent of any minor mismatch, the sensitivity of the results to market risk for liabilities and covering assets is broadly neutral on a net basis.

The main market risk sensitivity for the Company arises from the investment assets covering the capital of the Company. This capital comprises the net assets held within the long term fund of the Company that cover regulatory basis liabilities that are not recognised for reporting purposes, for example contingency reserves, and shareholder capital held outside the long term fund.

(i) Interest rate risk

The following table shows an analysis of the classes of financial assets and liabilities and their direct exposure to interest rate risk. Each applicable class of the Company's assets or liabilities are analysed between those exposed to fair value interest rate risk, cash flow interest rate risk and those with no direct interest rate risk exposure.

2008	**Fair value interest rate risk**	**Cash flow interest rate risk**	**Not directly exposed to interest rate risk**	**Total**
			2008 £m	
Financial Assets:				
Freehold land and buildings	**-**	**-**	**315**	**315**
Leasehold land and buildings	**-**	**-**	**265**	**265**
Deposits with credit institutions	**-**	**154**	**-**	**154**
Equity securities	**-**	**-**	**275**	**275**
Debt securities	**10,125**	**33**	**-**	**10,158**
Loans:				
Loans secured by mortgages	**127**	**-**	**-**	**127**
Other loans	**13**	**-**	**-**	**13**
Derivatives assets	**133**	**-**	**-**	**133**
Cash at bank and in hand	**-**	**-**	**183**	**183**
	10,398	**187**	**1,038**	**11,623**
Financial Liabilities:				
Derivative liabilities	**280**	**-**	**-**	**280**
	280	**-**	**-**	**280**

Notes to the financial statements for the year ended 31 December 2008 (continued)

7. Investments (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

2007	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
		2007 £m		
Financial Assets:				
Freehold land and buildings	-	-	383	383
Leasehold land and buildings	-	-	97	97
Deposits with credit institutions	-	292	-	292
Equity securities	-	-	348	348
Debt securities	11,139	33	-	11,172
Loans:				
Loans secured by mortgages	134	-	-	134
Other loans	15	-	-	15
Derivatives assets	71	-	-	71
Cash at bank and in hand	-	-	56	56
	11,359	325	884	12,568
Financial Liabilities:				
Derivative liabilities	47	-	-	47
	47	-	-	47

In relation to interest rate exposure, the following table sets out the earlier of contractual maturities and repricing dates for applicable classes of financial instruments.

2008	**Less than 1 year**	**1 to 5 years**	**5 to 10 years**	**10 to 15 years**	**15 to 20 years**	**Over 20 years**	**No stated maturity**	**Total carrying value**
				2008 £m				
Financial Assets								
Deposits with credit institutions	**154**	**-**	**-**	**-**	**-**	**-**	**-**	**154**
Debt securities	**220**	**895**	**1,567**	**2,093**	**2,034**	**3,085**	**264**	**10,158**
Loans:								
Loans secured by mortgages	**2**	**1**	**14**	**24**	**54**	**32**	**-**	**127**
Other loans	**1**	**-**	**-**	**-**	**12**	**-**	**-**	**13**
Derivatives assets	**-**	**-**	**-**	**3**	**35**	**95**	**-**	**133**
	377	**896**	**1,581**	**2,120**	**2,135**	**3,212**	**264**	**10,585**
Financial Liabilities								
Derivative liabilities	**-**	**40**	**74**	**36**	**130**	**-**	**-**	**280**
	-	**40**	**74**	**36**	**130**	**-**	**-**	**280**

Notes to the financial statements for the year ended 31 December 2008 (continued)

7. Investments (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

2007	Less than 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Over 20 years	No stated maturity	Total carrying value
				2007 £m				
Financial Assets								
Deposits with credit institutions	292	-	-	-	-	-	-	292
Debt securities	82	871	1,368	2,379	1,958	4,252	262	11,172
Loans:								
Loans secured by mortgages	2	3	1	40	55	33	-	134
Other loans	-	2	-	5	8	-	-	15
Derivatives assets	-	-	-	5	7	59	-	71
	376	876	1,369	2,429	2,028	4,344	262	11,684
Financial Liabilities								
Derivative liabilities	-	-	-	26	1	20	-	47
	-	-	-	26	1	20	-	47

In light of the recent market conditions, the Company had extended the range of the movements in interest rates that are reasonably possible to occur at 31 December 2008 in its interest rate sensitivity analysis. Consequently, in addition to the movement in interest rates of 1% as applied at 31 December 2007, for 2008, the Company has also estimated the sensitivity to movement in interest rates of 2%. The estimated sensitivity of the business to a movement in interest rates (including assumed investment returns for all asset classes, market values of debt securities and all risk discount rates) of 1% as at 31 December 2008 and 2007 and of a movement in interest rates of 2% as at 31 December 2008 are as follows:

	2008				2007	
	Fall of 2%	**Fall of 1%**	**Rise of 1%**	**Rise of 2%**	Fall of 1%	Rise of 1%
	£m	**£m**	**£m**	**£m**	£m	£m
Carrying value of debt securities and derivatives	**2,866**	**1,306**	**(1,113)**	**(2,075)**	1,632	(1,367)
Long term business provision	**(2,622)**	**(1,189)**	**999**	**1,847**	(1,441)	1,194
Related tax effects	**(68)**	**(33)**	**32**	**64**	(57)	52
Net sensitivity of profit after tax and shareholders' funds	**176**	**84**	**(82)**	**(164)**	134	(121)

The close matching by the Company of assets of appropriate duration to annuity liabilities is based on maintaining economic and regulatory capital. The measurement of liabilities under capital reporting requirements and UK GAAP is not consistent, with contingency reserves and some other margins for prudence within the assumptions required under the FSA regulatory solvency basis not included for UK GAAP reporting purposes. As a result UK GAAP's shareholders' funds are higher than regulatory capital and therefore more sensitive to interest rate risk.

7. Investments (continued)

(b) Market risk (continued)

(ii) Currency risk

As at 31 December 2008, the Company held 4% (2007: 1%) and 43% (2007: 41%) of its financial assets and financial liabilities respectively, in currencies, mainly US dollar and Euro, other than the functional currency, Sterling.

The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts.

(iii) Other Price Risk – Equities and Property

In addition the portfolio of the Company includes equity securities and investment property. Similar to the sensitivity analysis to interest rate movement above, the Company has also extend the range of reasonably possible movements in the value of equity securities and investment property at 31 December 2008. In addition to the movement of 10% as applied in 31 December 2007, for 2008, the Company has also estimated the sensitivity to movements to 20% and 40% fall in their value at 31 December 2008. Excluding any second order effects on the measurement of liabilities for future cash flow to the policyholder, a 10% fall in their value at 31 December 2008 and 2007 and a 20% and 40% fall in their value at 31 December 2008 would have given rise to the following effects on pre-tax profit, profit after tax and shareholders' equity.

(iii) Other Price Risk – Equities and Property

	2008 **A decrease of 40%**	**A decrease of 20%**	**A decrease of 10%**	2007 A decrease of 10%
	£m	**£m**	**£m**	£m
Pre-tax profit	**(342)**	**(171)**	**(85)**	(83)
Related deferred tax effects	**96**	**48**	**24**	23
Net sensitivity of profit after tax and shareholders' funds	**(246)**	**(123)**	**(61)**	(60)

A 10%, 20% or 40% increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above.

(c) Derivatives

The Company uses various currency derivatives in order to limit volatility due to foreign currency exchange fluctuations arising on securities denominated in currencies other than Sterling. In addition, total return swaps and interest rate swaps are held for efficient portfolio management.

The Company is party to a number of currency and interest rate swap agreements. Currency swap agreements involve the exchange of payments in different currencies over the life of the agreement. The Company enters into currency swap transactions to hedge foreign currency risk on overseas investments. Interest rate swap agreements involve the exchange of fixed and floating payments over the life of the agreements without an exchange of the underlying principal amount. The Company enters into interest swap transactions to assist in the matching of contractual liabilities.

These currency and interest rate swap agreements are accounted for on a fair value basis, consistent with the assets and liabilities hedged.

Prudential Annuities Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

7. Investments (continued)

(c) Derivatives (continued)

All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual group entities, of which the Company is one, and relevant counterparties in place under each of these market master agreements.

The notional amount of the derivatives were as follows at 31 December 2008 and 2007.

2008	**Notional amount on which future payments are based**	
	Asset 2008 £m	**Liability 2008 £m**
Cross-currency swaps	**456**	**489**
Inflation swaps	**1,117**	**1,117**
Interest rate swaps	**549**	**549**

2007	Notional amount on which future payments are based	
	Asset 2007 £m	Liability 2007 £m
Cross-currency swaps	368	352
Inflation swaps	812	812
Interest rate swaps	949	949

(d) Credit risk

(i) Loans and receivables

Of the total loans and receivables held £7m (2007: £2m) are past their due date but have not been impaired. Of the total past due but not impaired, £7m (2007: £2m) are less than 1 year past their due date. The Company expects full recovery of these loans and receivables.

(ii) Securities lending and reverse repurchase agreements

The Company has entered into securities lending (including repurchase agreements) whereby blocks of securities are loaned to third parties, primarily major brokerage firms. The amounts above the fair value of the loaned securities required to be held as collateral by the agreements, depend on the quality of the collateral, calculated on a daily basis. The loaned securities are not removed from the Company's balance sheet, rather they are retained within the appropriate investment classification. Collateral, typically consists of cash, debt securities, equity securities and letters of credit. At 31 December 2008, the Company had lent £2,143m (2007: £3,353m) of securities and held collateral under such agreements of £2,193m (2007: £3,542m).

At 31 December 2008, the Company had entered into reverse repurchase transactions, under which it purchased securities and had taken on the obligation to resell the securities for the purchase price, amounting to £147m (2007: £228m), together with accrued interest. Of this amount, £75m (2007: £Nil) related to another group company.

(iii) Collateral under derivative transactions

At 31 December 2008,the Company had pledged £127m (2007: £Nil) for liabilities and held collateral of £Nil (2007: £7m) in respect of OTC (over-the-counter) derivatives transactions.

Notes to the financial statements for the year ended 31 December 2008 (continued)

7. Investments (continued)

(d) Credit risk (continued)

(iii) Collateral under derivative transactions (continued)

The following table summarises by the rating, the securities held by the Company as at 31 December 2008 and 2007:

	Total 2008 £m	Total 2007 £m
S&P – AAA	**2,761**	3,686
S&P – AA+ to AA-	**1,198**	1,391
S&P – A+ to A-	**2,742**	2,236
S&P – BBB+ to BBB-	**797**	801
S&P -Other	**15**	11
	7,513	8,125
Moody's – Aaa	**87**	175
Moody's –Aa1 to Aa3	**245**	264
Moody's –A1 to A3	**199**	235
Moody's – Baa1 to Baa3	**133**	145
Moody's - Other	**10**	-
	674	819
Fitch	**126**	188
Other	**1,845**	2,040
Total debt securities	**10,158**	11,172

In the table above, S&P ratings have been used where available. For securities where S&P ratings are not available, those produced by Moody's and then Fitch have been used as an alternative.

Where no external ratings are available, internal ratings produced by the Groups' asset management operations, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. Of the total debt securities held at 31 December 2008 which are not externally rated, £967m (2007: £1,047m) were internally rated AAA to A-, £871m (2007: £862m) were internally rated BBB to B-, £7m (2007: £Nil) were internally rated Other, and £Nil (2007: £131m) were unrated.

(e) Reinsurer's share of technical provisions

Of the reinsurer's share of technical provisions at 31 December 2008 of £6m (2007: £6m), 100% (2007: 100%) of the balance relates to companies outside of the Prudential Group and of these 100% (2007: 100%) of the balance were from reinsurers with S&P's rating of A+ and above, based on the ratings at the date of signing these financial statements.

(f) Risk management

The Company's business involves the acceptance and management of risk. The Company has in place a risk management process, which is undertaken in accordance with the Group Risk Framework adopted by the Prudential Group in 1999.

A number of risk factors affect the Company's operating results and financial condition. The financial risk factors affecting the Company include the effects of market risk, credit risk and liquidity risk on the financial instruments of the Company.

7. Investments (continued)

(f) Risk management (continued)

The Company uses derivatives to facilitate efficient portfolio management or to reduce investment risk. The most widely used derivatives by the Company are interest rate, currency and inflation-linked swaps.

The Company also uses over-the-counter swaps (including total return swaps), options, swaptions and warrants.

It is the Company's policy that cash or corresponding assets cover amounts at risk through derivative transactions. Derivative financial instruments used to facilitate efficient portfolio management and for investment purposes are carried at fair value with changes in fair value included in the profit and loss account. The Company has not applied hedge accounting to its derivatives.

Market risk

Market risk is the risk that arises from adverse changes in the value of, or income from, assets and changes in interest rates or exchange rates.

The primary market risks that the Company faces is interest rate risk because most of its assets are investments that are bonds, mortgages or cash deposits, the values of which are subject to interest rate risk.

The Company has some liabilities that contain guaranteed returns which generally will be supported by fixed income investments.

Credit risk

Credit risk is the risk of loss to the Group if another party fails to perform its obligations, or fails to perform them in a timely manner. The Company's long term fund holds large amounts of interest rate sensitive investments that contain credit risk on which a certain level of defaults is expected. These expected losses are considered when the Company determines the crediting rates, deposit rates and premium rates for the products that will be supported by these assets. Certain over-the-counter derivatives contain a credit risk element that is controlled through evaluation of collateral agreements and master netting agreements on interest rate and currency swaps. The Company is also exposed to credit-related losses in the event of non-performance by counterparties.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet payment of obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or rates. Liquidity management in the Company seeks to ensure that, even under adverse conditions, the Company has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities.

In practice, most of the Company's assets are marketable securities. This reduces the liquidity risk.

Prudential Annuities Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

8. Capital Requirements and Management

Regulatory capital requirements apply at both an individual Company level and at the Prudential Group level, of which the Company is a part, for life assurance and investment management business. The Prudential Group, of which the Company is a part, is currently subject to the solvency requirements of the Insurance Groups Directive (IGD) as implemented by the FSA. Under the IGD a continuous parent company solvency test is applied: Under this test the surplus capital held in each of the regulated subsidiaries, including the Company, is aggregated with the free assets of non-regulated subsidiaries. From this total, Prudential Group borrowings are deducted, other than subordinated debt issues which qualify as capital.

In addition to obligations under subsidiary and Prudential Group regulatory requirements, the Prudential Group applies an economic framework to its management of capital. Economic capital provides a realistic and consistent view of the Group's capital requirements, allowing for diversification benefits.

At the Company level, the FSA rules which govern the Prudential regulation of insurance form part of the Insurance Prudential Sourcebook, the General Prudential Sourcebook and Interim Prudential Sourcebook for Insurers. Overall, the net requirements of the General Prudential Sourcebook are intended to align the capital adequacy requirements for insurance business more closely with those of banking and investment firms and building societies, for example, by addressing tiers of capital, rather than looking at net admissible assets. An insurer must hold capital resources equal at least to the Minimum Capital Requirement (MCR).

The Insurance Prudential Sourcebook also contains rules on Individual Capital Assessments. Under these rules and the rules of the General Prudential Sourcebook all insurers must assess for themselves the amount of capital needed to back their business. If the FSA views the results of this assessment as insufficient, it may draw up its own Individual Capital Guidance for a firm, which can be superimposed as a requirement.

The available capital of £700m (2007: £1,137m) reflects the excess of regulatory basis assets over liabilities of the fund, before deduction of the capital resources requirement of £501m (2007: £535m).

The capital resources requirement for this Company broadly reflects a formula which, for active funds, equates to a percentage of regulatory reserves plus a percentage of death strains.

	31 December 2008	31 December 2007
	£m	£m
Shareholders' equity		
Held outside long term funds:		
Net assets	**651**	1,087
Total	**651**	1,087
Held in long term funds	**898**	635
Total shareholders' equity	**1,549**	1,722
Adjustments to regulatory basis		
Other adjustments to restate these amounts to a regulatory basis	**(849)**	(585)
Total adjustments	**(849)**	(585)
Total available capital resources on FSA regulatory bases	**700**	1,137

Notes to the financial statements for the year ended 31 December 2008 (continued)

9. Assets held to cover linked liabilities

	Cost		Current Value	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Assets held to cover linked liabilities	**1,623**	1,592	**1,870**	2,026

The change in current value of assets held to cover linked liabilities included in the Long term business technical account was a loss of £181m (2007: gain of £6m).

10. Reserves and policyholder liabilities (net of reinsurance)

	Claims Outstanding	**Technical provision for linked liabilities**	**Long term business provision**	**Profit and loss account**
	£m	**£m**	**£m**	**£m**
Balance at 1 January 2008	8	2,026	10,524	1,172
Movement in:				
- Movement in technical provisions for the year	(1)	(156)	(929)	-
- Profit and loss account	-	-	-	(173)
Balance at 31 December 2008	**7**	**1,870**	**9,595**	**999**

Of the balance on the profit and loss account of £999m (2007: £1,172m), £199m (2007: £537m) is distributable to the shareholder. The remaining balance on the profit and loss account is not distributable due to the need to maintain the required margin of solvency, as computed under the rules of the FSA's Interim Prudential Sourcebook, Insurance Prudential Sourcebook and General Prudential Sourcebook.

11. Long term business provisions

The Company's liabilities are for contracts that provide individual immediate and bulk immediate and deferred annuities.

The immediate annuities are either fixed or retail price-index linked (referred to as RPI), where annuity payments are guaranteed from the outset. These products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products.

The deferred annuities are also either fixed or RPI linked, both during deferment and in payment.

The primary risks to the Company are therefore mortality, investment and credit risk.

The Company's fixed-increase annuities may incorporate automatic increases in annuity payments by fixed amounts over the policyholder's life. The Company's RPI annuity contracts provide for a regular annuity payment which changes periodically based on the change in the UK Retail Prices Index, subject to pre-defined minima and maxima.

For bulk annuity business the Company manages the assets and accepts the liabilities of a company pension scheme, to the extent to which they are funded, often when it is wound up by the employer.

Notes to the financial statements for the year ended 31 December 2008 (continued)

11. Long term business provisions (continued)

The provisions are the present value of the annuity payments and expenses. The calculation of the provisions requires a number of actuarial assumptions regarding future experience to be made. The assumptions are set by the Directors having regard to actuarial advice and based on analysis of relevant past and current data and information on anticipated future trends.

The key assumptions made at 31 December 2007 and 31 December 2008 are shown below.

Mortality

Mortality assumptions are set in light of recent population and internal experience. The mortality assumptions used are percentages of standard actuarial mortality tables. Where annuities have been sold on an enhanced basis to impaired lives an additional age adjustment is made. The percentages of the standard table used are selected according to the source of business.

Recent mortality experience has been broadly in line with expectations, and no change has been required to the overall strength of the current mortality assumptions at 31 December 2008. The assumptions have, however, been rebalanced across the different categories of business so that they are more closely aligned to the actual experience of each product category. The overall effect of rebalancing assumptions between different product groups has been financially neutral.

The mortality assumptions also include an allowance for expected future improvements in longevity (expressed as a percentage of a standard improvement table, subject to a minimum level). The assumptions used (shown as a range of percentages of base tables with future improvements) are set out below:

	2008		2007	
	Males	Females	Males	Females
In payment:	102% - 126% PNMA00 (C=2000) with medium cohort improvement table with a minimum annual improvement of 2.25% up to age 90, tapering to zero at age 120.	84% - 117% PNFA00 (C=2000) with 75% of medium cohort improvement table with a minimum annual improvement of 1.25% up to age 90, tapering to zero at age 120.	106% - 126% PNMA00 (C=2000) with medium cohort improvement table with a minimum annual improvement of 2.25% up to age 90, tapering to zero at age 120.	84% - 117% PNFA00 (C=2000) with 75% of medium cohort improvement table with a minimum annual improvement of 1.25% up to age 90, tapering to zero at age 120.
In deferment:	AM92 - 4 years	AF92 - 4 years	AM92 - 4 years	AF92 - 4 years

Interest rate

The valuation interest rates comply with the requirements of Rule 1.2.33R of the Prudential Sourcebook for Insurers except that:

- additional margins for prudence required in setting the valuation interest rate for the valuation of liabilities for statutory solvency purposes have been removed

- the Company is required, by an order issued under section 148 of the Financial Services and Markets Act 2000, to calculate the valuation rate of interest by reference to the aggregate yield on the assets rather than the market weighted gross redemption yield which is normally required by the Valuation Rules.

Notes to the financial statements for the year ended 31 December 2008 (continued)

11. Long term business provisions (continued)

Interest rate (continued)

The valuation interest rates are adjusted to reflect investment management expenses and the risk of default on the assets.

The investment management expenses are reviewed annually and reflect the Company's costs. The credit risk assumption is also reviewed annually to reflect the assets actually held. In response to the uncertain market conditions at 31 December 2008, the assumption about the future level of defaults has been increased to 64 basis points per annum (23 basis points per annum at 31 December 2007). The allowance for defaults at 31 December 2008 is made up of:

(i) 17 basis points per annum in respect of long term expected defaults: this is derived by applying Moody's data from 1970 onwards uplifted by between 100% (B) and 200% (AAA) according to credit rating to the asset portfolios.

(ii) 13 basis points per annum in respect of long term credit risk premium for the potential volatility in default levels: this is derived by applying the 95th worst percentile from Moody's data from 1970 onwards to the asset portfolios.

(iii) 34 basis points per annum in respect of additional short term credit risk, reflecting the extreme market conditions at 31 December 2008.

Offsetting the strengthening of the default assumptions was profit arising from a rebalancing of the Company's asset portfolio during 2008 (which increased the risk adjusted yield used to value the liabilities). The net effect of the strengthening default assumptions and the portfolio rebalancing resulted in an increase in the long term provision of £245m.

Expenses

An allowance is made for expenses. This allowance is reviewed annually following an investigation into the Company's costs.

Other assumptions

A number of other, less financially significant, actuarial assumptions are made in calculating the provisions, including the likely marital status of joint-life policyholders on death and the future rates of escalation of certain benefits.

12. Provision for deferred tax

	2008 £m	2007 £m
Unrealised (gains) on investments	**(3)**	(5)
Transfer to the non-technical account in excess of the statutory surplus	**295**	233
Unrelieved losses carried forward	**(94)**	-
Capital allowances on items expensed in the accounts	**(1)**	(1)
Undiscounted provision for deferred tax	**197**	227

	2008 £m	2007 £m
Deferred tax liability at start of year	**227**	216
Deferred tax (credit) / charge in profit and loss account	**(30)**	11
Deferred tax liability at end of year	**197**	227

In April 2008 the standard corporation tax rate for the UK changed from 30% to 28%. Deferred tax at the end of 2008 has been provided wholly at the rate of 28% on the basis that all of the temporary differences will reverse at the new rate. The effect of this change on the deferred tax assets and liabilities at 31 December 2008 is less than £1m.

13. Creditors

All creditors are payable within a period of five years.

Other creditors including taxation and social security	**2008 £m**	2007 £m
Taxation	**19**	17
Other creditors	**7**	6
	26	23

14. Bank current accounts

Under the terms of the Company's arrangements with the Prudential Group's main UK banker, the bank has a right of set-off between credit balances (other than those of long term business funds) and all overdrawn balances of those Group undertakings with similar arrangements.

15. Called up share capital

The Company's authorised share capital is £800,000,000 (2007: £800,000,000) comprising 800,000,000 ordinary shares of £1 each, of which 550,000,000 (2007: 550,000,000) have been issued and fully paid.

16. Charges

In the normal course of business certain reinsurance liabilities were secured by a floating charge, ranking these liabilities equally with amounts due under unsecured direct (non-reassurance) policies, over the long term insurance assets of the Company. Amounts secured by charges of this nature was £6,968.1m, representing liabilities to one customer.

17. Related party transactions

The Company has taken advantage of the exemption under paragraph 3(c) of Financial Reporting Standard Number 8 from disclosing transactions with other subsidiary undertakings of the Prudential Group. There were no other transactions with related parties.

18. Immediate and ultimate parent company

The immediate parent company is The Prudential Assurance Company Limited. The ultimate parent company is Prudential plc, which is the only parent company which prepares group financial statements. Copies of these financial statements can be obtained from the Company Secretary, Laurence Pountney Hill, London, EC4R 0HH.

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

A M Crossley
Director

27 March 2009

Prudential Annuities Limited

Independent Auditor’s report to the member of Prudential Annuities Limited

We have audited the financial statements of Prudential Annuities Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of movements in Shareholders Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company’s members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 33.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors’ Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors’ remuneration and other transactions is not disclosed.

We read the Directors’ Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditor's report to the member of Prudential Annuities Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Director's Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB
27 March 2009