The Prudential Assurance Company Limited

Annual FSA Insurance Returns for the year ended 31 December 2008

(Appendices 9.4 and 9.4A valuation reports)

The Prudential Assurance Company Limited is registered in England and Wales.
Registered office at Laurence Pountney Hill, London EC4R 0HH. Registered number 15454.
Authorised and regulated by the FSA.

Contents

VALUATION REPORT ON THE PRUDENTIAL ASSURANCE COMPANY LIMITED AS AT 31 DECEMBER 2008

Structure of the long term business

1. Overview

The Prudential Assurance Company Limited (**PAC**) carries on Ordinary Branch and Industrial Branch business within its long-term fund. The Industrial Branch was closed to new business on 1 January 1995.

The long-term business of Scottish Amicable Life Assurance Society (**SALAS**) was transferred into PAC on 1 October 1997, and the long term business of Scottish Amicable Life plc (**SAL**) was transferred into PAC on 31 December 2002. The business transferred from SAL itself included business previously transferred into SAL from M&G Life Assurance Company Limited (M&G Life) and M&G Pensions and Annuity Company Limited (M&G Pensions).

The long term business is contained within the following four sub-funds:

(a) Non-Profit Sub-Fund (**NPSF**)

(b) Scottish Amicable Insurance Fund (**SAIF**)

(c) Defined Charge Participating Sub-Fund (**DCPSF**)

(d) With-Profits Sub-Fund (**WPSF**)

2. Non-Profit Sub-Fund

The business in this sub-fund comprises:

(1) Long term sickness and accident business, namely the directly written permanent health business in respect of which the directors have determined that profits should accrue 100% to shareholders.

(2) The linked business written directly by PAC, including linked business issued in France, in respect of which the directors have determined that profits should accrue 100% to shareholders.

(3) The loan protection business transferred into PAC from SAL on 31 December 2002 and such business subsequently written directly by PAC, in respect of which the directors have determined that profits should accrue 100% to shareholders.

(4) Defined Charge Participating business issued by PAC in France, and Defined Charge Participating business reassured into PAC by Prudential International Assurance plc (PIA) and Canada Life (Europe) Assurance Ltd, excluding the accumulated investment content of premiums paid, which is transferred to the DCPSF (see below).

(5) Ex-SAL business, namely the with-profits, non-participating and linked business (including internal linked funds) transferred into PAC from SAL on 31 December 2002 and any new premiums arising on those products, excluding Prudential Protection business written between 1 January 2003 and 25 July 2004 and the accumulated with-profits premiums which are held in the WPSF (see 5 below).

(6) Reassurance of the accumulated investment content of linked business written in Prudential (AN) Limited.

(7) Reassurance of 15% of the liabilities in respect of non-profit annuity business in Prudential Retirement Income Limited.

All profits from this business in the NPSF accrue 100% to shareholders.

Structure of the long term business (continued)

(8) PruProtect business which is administered and distributed by Prudential Health Services Limited (PHSL) on behalf of PAC. Profits from this business are passed to PHSL via the PAC shareholder fund under a white-label agreement. PHSL is wholly owned by PruHealth Holdings (PHH). PHH is 50% owned by PAC and 50% by Discovery, a South African insurer.

3. Scottish Amicable Insurance Fund

PAC acquired the business of Scottish Amicable Life Assurance Society (**SALAS**) on 1 October 1997. As a consequence a closed sub-fund SAIF and a memorandum account within the WPSF, the Scottish Amicable Account (**SAA**), were created. SAIF contains the pensions business, annuities and traditional with-profits life business transferred from SALAS and the accumulated investment content of with-profits business in SAA.

All profits in SAIF accrue to holders of with-profits contracts in SAIF and SAA.

The accumulated investment content of linked premiums is invested in the linked funds that were transferred from SAL to the NPSF on 31 December 2002.

The WPSF provides financial support to SAIF through a memorandum account, the Scottish Amicable Capital Fund (**SACF**), some of which may be drawn upon in adverse investment conditions to support the smoothing of bonuses within SAIF. No such drawings have yet been necessary. The WPSF receives an annual charge from SAIF for providing this financial support.

4. Defined Charge Participating Sub-Fund

The business in this sub-fund comprises:

(1) The accumulated investment content of premiums paid in respect of the Defined Charge Participating with-profits business issued in France, and the Defined Charge Participating with-profits business reassured into PAC from Prudential International Assurance plc and Canada Life (Europe) Assurance Ltd.

A bonus smoothing account is maintained in the WPSF so that whenever a claim payment is made from the DCPSF any excess of the claim amount over the policy's underlying asset share is transferred from the WPSF to the DCPSF and any shortfall is transferred from the DCPSF to the WPSF. It is intended that these smoothing transfers should generate neither profit nor loss to either fund over the long term.

(2) With-profits annuities transferred from Equitable Life Assurance Society to PAC on 31 December 2007. A separate bonus smoothing account for this business is also maintained in the WPSF. It is intended that transfers to and from this account should generate no net gain or loss to either the WPSF or DCPSF over the long term.

All profits in this fund accrue to policyholders in the DCPSF.

5. With-Profits Sub-Fund

The WPSF contains all other long term business, comprising:

(1) With-profits, non-participating and linked business (other than the categories defined above) written directly by PAC. This includes the Prudential Protection business written between 1 January 2003 and 25 July 2004.

(2) With-profits, non-participating and linked life business transferred to SAA from SALAS, excluding the accumulated investment content of with-profits premiums, which is held in SAIF, and also excluding the accumulated investment content of linked premiums, which is invested in the linked funds transferred from SAL to the NPSF on 31 December 2002.

(3) The accumulated with-profits premiums in respect of business transferred into the NPSF from SAL on 31 December 2002 and any new premiums arising on those products.

Structure of the long term business (continued)

(4) Reassurance of accumulating with-profits business written in Prudential (AN) Limited.

Divisible profits from this business accrue to both shareholders and with-profits policyholders in the WPSF (other than with-profits policyholders in SAA who share in the profits of SAIF).

Transfers not exceeding 5% of divisible profits may be made to a common contingency fund. Not less than 90% of the remainder is allocated to the with-profits policyholders, and the balance to shareholders.

6. Reinsurance of linked business

Much of the linked business in PAC was transferred either from SALAS on 1 October 1997 or from SAL on 31 December 2002.

Most of the property-linked business issued by PAC is linked, via reinsurance treaties, to the internal linked funds of other life assurance companies.

7. Reinsurance of annuity business

(1) Most of the non-profit and index-linked annuities in payment issued by PAC are ceded to Prudential Annuities Limited, a wholly-owned subsidiary of the WPSF, or to Prudential Retirement Income Limited. Most of the non-profit annuities in payment written in SAIF are ceded to Prudential Retirement Income Limited. The reassurance treaty between PAC and Prudential Retirement Income Limited covering annuities in payment originally written in SAL and transferred to the NPSF on 31 December 2002, ceased on 30 September 2008.

(2) PAC insures 15% of the liabilities in respect of the non-profit annuity business in Prudential Retirement Income Limited (**PRIL**) under a quota share arrangement effected on 31 December 2008. The reinsurance arrangement includes deposit back of reserves with PRIL.

VALUATION REPORT

1. Introduction

1.(1) The investigation relates to 31 December 2008.

1.(2) The previous investigation related to 31 December 2007.

1.(3) No interim valuations have been carried out for the purposes of IPRU(INS) 9.4 since 31 December 2007.

2. Product range

(a) New products

The following new products were launched during the year.

PRUlink Wealth Builder (Hong Kong)

This is a regular premium unit-linked back-end load product with redemption charges on withdrawal / surrender in the first 10 or 12 years depending on payment term. Benefits include a death benefit equal to the higher of 101% of the policy account value or 100% of total premium paid less total withdrawals (including redemption charge), an annual bonus and a loyalty bonus paid at the end of the premium term.

Hospital Cash Protection Plan (Hong Kong)

This is a 10-year reviewable premium hospital income plan with refundable features. Benefits include daily cash benefit for hospital confinement, surgery reimbursement, death benefit, surrender value and maturity benefit.

105% Refundable Surgical Cash Plan (Hong Kong)

This is a 10-year reviewable premium surgical cash plan with refundable features and protection up to age 64 next birthday. Benefits include cash for surgery, a death benefit and a no claims bonus of an additional refund of 5% of the total premiums paid at maturity.

(b) Products withdrawn

The Egg Protection product was withdrawn on 30 June 2008.

(c) New bonus series

A new bonus series was added during the year for the with-profits annuity business transferred to PAC from Equitable Life Assurance Society on 31 December 2007.

(d) Changes to options or guarantees under existing products

PruFund Investment Plan

PruFund Investment Plan included an optional guarantee that the value of the investment after 5 years would be no less than the initial investment (suitably adjusted in respect of any withdrawals made). This guarantee was paid for by an annual charge of 0.5% of the funds under management.

During 2008, this was extended so that after 5 years, the guarantee could be rolled-over to ensure that the value of the investment after 10 years would be no less than the value after 5 years (suitably adjusted in respect of any withdrawals made).

With effect from October 2008, the charge for the guarantee increased to 0.6% per annum of the value of the policy.

2. Product range (continued)

Flexible Investment Plan, Personal Investment Plan, Flexible Retirement Plan, Trustee Investment Plan

With effect from October 2008, these Plans were able to invest in the PruFund with-profits fund as an optional fund link. Investors could optionally choose a 5-year spot guarantee on the value of their investment.

International Prudence Bond

With effect from October 2008, International Prudence Bond Policies were able to invest in the PruFund with-profits fund as an optional fund link under their contract. Investors could optionally choose a 5-year spot guarantee on the value of their investment.

Better Life Series (Hong Kong)

This is a with-profits individual whole life plan, denominated in Hong Kong dollars, with similar product features to the existing product denominated in US dollars.

PRUsaver Series (Hong Kong)

A 10-year capital guarantee was added to all PRUsaver Series policies effected on or before 1 October 2003.

(e) With-profits sub-funds

The With-Profits Sub-Fund and the Defined Charge Participating Sub-Fund are both open to new with-profits business.

The Scottish Amicable Insurance Fund is closed to new business except by increment.

3. Discretionary charges and benefits

3.(1) Market value reduction

Market value reductions have been applied throughout 2008 except on corporate pensions business in the WPSF. The policy years of entry to which market value reductions were applied during 2008 are summarised below:

Product	Policy years of entry
SAIF	1985, 1987 – 1998, 2002, 2004 – 2005, 2007 – 2008
SAL pensions	1997 – 2008
Prudence Bond	1991 – 2008
PSA/PIB	1994 – 2008
Personal Pensions	1987 – 2000, 2004 – 2008
International Prudence Bond	2002 - 2008
PruWealth (US dollar)	2002 – 2008
PruWealth (Hong Kong dollar)	2007 – 2008

3.(2) Reviewable protection policies

There was a review of premium rates for PruMed Better Care during 2008. Premiums were increased by 4% for plans with annual in force premiums of HK$146m. An increase in premiums was permitted but did not occur for plans with annual in force premiums of HK$191m.

3.(3) Non-profit deposit administration benefits

There are no non-profit deposit administration contracts.

3. Discretionary charges and benefits (continued)

3.(4) Service charges on linked policies

Policy/member fees increased by 3.94% in 2008 for those linked products where the fees increase in line with Retail Price Index (RPI) inflation, based on the increase in RPI from September 2006 to September 2007.

3.(5) Benefit charges on linked policies

There have been no changes to benefit charges on linked policies during the financial year.

3.(6) Unit management charges and notional charges on accumulating with-profits policies

For accumulating with-profits business, changes to notional charges are shown in the table below:

	Reserves £m	New charge %	Old charge %
Prudence Bond – Pre Mk9 and Establishment Charge new business and top ups to this business up to 30/09/02	7,027	1.018	1.120
Prudence Bond – Top ups to pre Mk7 and all Establishment Charge options made after 30/09/02	338	1.168	1.270
Prudence Bond – Mk9 new business and top ups to Mk7, Mk8 and Mk9 after 30/09/02	250	1.268	1.370
Prudence Bond – Pre NIC3 new business and top ups to pre NIC up to 30/09/02	395	1.318	1.420
Prudence Bond – NIC3 new business and top ups to NIC1, NIC2 and NIC3 after 30/09/02	771	1.568	1.670
Prospects Bond	44	1.968	2.070

The notional charges for Prudential Investment Bond (product codes 500 and 505), all UK pensions business, Hong Kong policies and DCPSF policies were unchanged.

3.(7) Unit pricing of internal linked funds

(a) Hong Kong PruLink policies – Prudential Money Fund

The unit issue price and redemption price are always 1.000. Interest is credited to policies in the form of additional units not less frequently than once per month. The rate to be credited is determined from the value of the fund assets, any surplus being distributed by issuing new units on a pro-rata basis.

Hong Kong PruLink policies – all funds except the Prudential Money Fund

The funds are wholly invested in similarly named authorised Guernsey unit trusts managed by Prudential Fund Managers Guernsey. Units are allocated or cancelled on the next weekly valuation date at the prices determined by the unit trust manager. There is no bid/offer spread. PruLink policies provide that the fund unit prices may be varied from the corresponding unit trust price if a variation would be justified by, for example, a change in the basis of Hong Kong life office taxation.

Other business written and retained by PAC

The company operates its internal linked funds on a forward pricing basis. The daily unit prices used for the allocation of units to and deallocation of units from policies are calculated by a valuation of the internal linked funds. The valuation point of each fund is 12 noon. The allocation and deallocation of units is carried out once the unit prices are available. The unit prices for a fund are determined using either a creation price basis or a cancellation price basis, depending on the net cash flow position of the fund. Creation of asset units is carried out at the creation price, which is based on the purchase cost of the underlying assets plus any associated costs. Cancellation of asset units is carried out at the cancellation price, which is based on the sale value of the underlying assets of the fund less any associated costs.

3. Discretionary charges and benefits (continued)

Other

The unit pricing methods for all other contracts are described in the regulatory returns of the companies with which the linked liabilities are wholly reassured.

(b) Unit pricing bases are determined at fund level, so all policies invested in the same fund have the same basis applied.

(c) The price used for collective investment schemes and similar assets is the latest valuation at mid-day; deals placed before mid-day receive that price.

3.(8) Capital gains tax deductions from internal linked funds

Tax deductions are made on net realised gains as they arise, as well as for net unrealised gains on directly held assets. For holdings in collective investment schemes, allowance is made for the spreading over seven years of deemed disposals of net unrealised gains. Withdrawals from the fund for the payment of tax are made quarterly, the same frequency at which the company makes payments to the Inland Revenue.

Each unit fund is treated in principle as though it were a stand-alone taxable entity, so no credit is given for a net loss position, but no carry-back of losses is applied. Instead, credit is given for losses that would fall into the company's actual tax computation in a future year to the extent that they do not exceed the amount of deemed gains carried forward to that particular year. Net unrealised gains of directly held assets are not set off against any realised or deemed losses in the same fund, nor is credit given for net unrealised losses.

Allowance is made in determining the tax charge and provision for the time delay until the assets are assumed to be sold (for unrealised gains and losses) and between the date of calculation of the provision and the tax payment being made.

The tax rates applied in 2008 were as shown in 3.(9) below.

3.(9) Capital gains tax provisions for internal linked funds

Linked contracts in France and Hong Kong

The funds are not subject to capital gains tax.

Contracts with linked liabilities wholly reinsured

A full description of the capital gains tax provisions for these contracts can be found in the regulatory returns of the companies with which the linked liabilities are wholly reinsured.

Other business written by PAC – life business

As described in 3.(8) above, in determining the price of units in the internal linked funds relating to life business, the value of assets is adjusted by a provision to reflect, on a fund by fund basis, the capital gains tax on indexed gains on the assets held within the funds. On certain funds some credit has been given in respect of chargeable losses. The provision for tax is calculated on a daily basis allowing for the movement in unrealised gains, after any indexation, and losses, using a tax rate reflecting the expected tax payable by the Company as these gains and losses are realised. For investments in non-loan relationship unit trusts and OEICs, the tax rate used allows for the deemed disposal of the investments at the end of the year and the spreading of the tax payable over 7 years.

The mathematical reserves make allowance for the losses for which no credit is currently given but are carried forward and offset against future gains or deemed disposals in future years.

3. Discretionary charges and benefits (continued)

The following percentages were deducted or provided for during the year:

	Realised gains/losses	Unrealised gains/losses
Equities and properties	20%	17% to 20%
Unit trusts and OEICS	20%	15% to 20%
Gilts and bonds	20%	20%

For policies linked directly to unit trusts, a terminal deduction from benefits payable to policyholders is made in respect of any past or potential liabilities to corporation tax on chargeable gains relating to the units allocated to the policy.

Other business written by PAC – pensions business

The funds are not subject to capital gains tax.

3.(10) Discounts and commission on buying and selling units

Linked contracts in France

The company receives rebate commission of 0.6% per annum of funds under management from the Réactif and Carmignac external unit-linked funds. Corresponding rebate commission of 0.4% and 0.3% respectively is payable to distributing agents. Policyholders do not benefit from this rebate.

Linked contracts in Hong Kong

No special terms apply when units are purchased from the unit trust manager.

Business written by PAC

For investment in unit trusts and OEICs the Company receives a discount equal to the managers' initial charge. The internal linked funds also benefit from the rebate of the annual management charge. All of the benefits of annual management charge rebates are passed on to policyholders.

Other

The unit pricing methods for all other contracts are described in the regulatory returns of the companies with which the linked liabilities are wholly reassured.

4. Valuation methods and bases (other than for special reserves)

4.(1) Valuation methods

Unless specified to the contrary in 4.(1).6 on page 12, the following valuation methods apply.

4.(1).1 The mathematical reserve for assurances and annuities reported in Form 51 is the difference between the present value of the benefits and the present value of the future valuation net premiums (a net premium valuation (NPV) method), both calculated with provision for immediate payment of claims. Policies where negative reserves could arise have been valued individually and the mathematical reserves increased to zero so that no policy is treated as an asset. Otherwise, contracts with a common attained age and number of years to run to maturity or premium cessation are grouped together.

4. Valuation methods and bases (continued)

4.(1).2 The mathematical reserve for accumulating with-profits business in SAIF and SAA, and for accumulating with-profits business previously written in SAL and in respect of new business on those products, is taken as the lower of:

(a) the value at the bid price, excluding terminal bonus, of the notional number of units allocated to policyholders, and
(b) the surrender or transfer value which, having regard to the duty to treat customers fairly, would be payable at the valuation date,

or, if greater, the value of the guaranteed liabilities, excluding final bonus, calculated on a gross premium bonus reserve method making no allowance for future annual bonus interest.

A further non-unit reserve is held in respect of mortality or morbidity, as appropriate, and expenses (including investment management expenses and other outgo associated with payments to third parties).

The comparison of the value of units allocated, the surrender or transfer value and the bonus reserve liability is carried out on a policy-by-policy basis.

For contracts where actuarial funding is used, the value of the units is net of the present value of future annual establishment charges, recurrent management charges or additional management charges that are used to recoup initial expenses.

The surrender or transfer value is taken as the accumulated fund, including final bonus and less a market value reduction where appropriate, at the valuation date, less any explicit charge that would apply on immediate surrender.

The non-unit reserves are adequate, on the valuation basis, to eliminate any future negative cash flows which would otherwise arise.

Section 32 Buy Out contracts include a specific provision for the Guaranteed Minimum Pension.

4.(1).3 The mathematical reserve for all other accumulating with-profits business is the lower of:

(a) the accumulated fund or the value at the bid price of the notional number of units allocated to policyholders, in both cases excluding final bonus, and
(b) the surrender or transfer value which, having regard to the duty to treat customers fairly, would be payable at the valuation date,

or, if greater, the value of the guaranteed liabilities, excluding final bonus, calculated on a gross premium bonus reserve method making no allowance for future annual bonus interest.

The comparison of the accumulated fund or value of units allocated, the surrender or transfer value and the bonus reserve liability is carried out on a policy-by-policy basis.

For contracts where initial expenses are recouped by an annual cancellation of units allocated in the first year, the number of units valued is reduced appropriately. In cases where a higher benefit would be payable on early death, due allowance has been made.

The surrender or transfer value is taken as the accumulated fund, including final bonus and less a market value reduction where appropriate, at the valuation date, less any explicit charge that would apply on immediate surrender.

4. Valuation methods and bases (continued)

4.(1).4 The mathematical reserve for property-linked contracts is the unit liability together with a non-unit liability (a "sterling reserve") to cover expenses, mortality, morbidity, options and guarantees and, where appropriate, capital gains tax.

The unit liability is based on the value at the date of valuation of the units allocated to policyholders. For contracts where actuarial funding is used, the value of the units is net of the present value of future annual establishment charges, recurrent management charges or additional management charges that are used to recoup initial expenses.

A non-unit liability for mortality and expenses is determined for each policy using a discounted cash flow method. For UK property-linked contracts in the NPSF the non-unit liability provides only for attributable expenses and an additional reserve for non-attributable expenses is calculated at a homogeneous risk group level as described in section 6.(6) on page 27. The total non-unit liability is adequate on the valuation basis to ensure that any future negative cash flows which would otherwise arise are eliminated, including ensuring that the reserve for an individual policy both currently and at any future date is at least equal to the surrender value. Provision is also made for tax on capital gains, for outstanding premiums and, where relevant, for premiums received in respect of policies not yet accepted.

4.(1).5 The mathematical reserve for RPI-linked annuities is 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 3% and a maximum annual increase of 5% are, for valuation purposes, treated as annuities with fixed 5% annual increases. They are, however, included in these returns as linked business.

4.(1).6 Exceptions to the above:

Mathematical reserves for with-profits whole life assurances issued by the Company before 1978 are calculated on the assumption that each policy is converted on its next anniversary to an endowment assurance maturing after ten years, this being the most onerous option.

Specific provision is made for guaranteed early maturity options under Flexidowment and certain other miscellaneous assurances and deferred annuities in SAIF, and for early maturity options and annuity options under Flexipension (Series 1) contracts, by valuing them at the earliest maturity option date and holding additional reserves for maturity options thereafter.

Specific provision is made for guaranteed cash options under pension assurance and pure endowment contracts in SAIF by valuing the greater of the cash option and the present value of the annuity benefit.

Prudential Protection policies sold from 1 August 2000 and PruProtect Plan are valued using a gross premium valuation method. For policies written in the NPSF, prudent lapse assumptions are allowed for in reserve calculations. Policies are valued individually and any negative mathematical reserves increased to zero so that no policy is treated as an asset.

Mortgage Protection (Home Protect/Synergy Protect) policies are valued using a gross premium valuation method with no allowance for lapses. Any negative mathematical reserves are increased to zero.

Individual permanent health insurances are valued using the claims inception and disability annuity (CIDA) gross premium method.

4. Valuation methods and bases (continued)

The mathematical reserve for some individual deferred annuities is the accumulation of the premiums paid at the greater of a rate of interest guaranteed at the date of issue and a concessionary rate of interest declared for each year. The concessionary rates are the interest rates used in determining the benefits payable.

For non-profit immediate annuities and some deferred annuities the mathematical reserve is the value of future annuity payments plus the value of future expenses, allowing for expense inflation.

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 3.5% annual revaluation throughout the remaining deferred period followed by the actual fixed escalation in payment.

For single premium loan protection policies the reserve is the sum of the unearned premium reserve, any accrued profit commission and reserves for claims incurred but not reported and claims in payment. The unearned premium is net of initial commission but gross of all other loadings for expenses and profit. The reserve for regular premium loan protection policies is taken as three times the monthly premium. For the life and critical illness elements of loan protection business, a reserve is held to provide for the reduction of future tax relief on commission where premiums would be rebated based on prudent assumptions for future policy lapses. A check is carried out to assess whether the unearned premium reserve will be sufficient given claims experience to date and, if necessary, a further unexpired risk reserve is held.

For linked life annuities transferred from M&G Pensions, the reserve is taken as the number of units payable per annum multiplied by an annuity factor and by the valuation unit price.

Policy reserves equal to the claim value are held for Industrial Branch whole life and endowment assurances where the policy benefit has not been claimed in the 15 years following the maturity date or (for whole life policies) the policy anniversary after age 90. The policy reserves for endowment assurances also include interest between the maturity date and the valuation date.

4.(2) Valuation interest rates

Valuation interest rates are reported in the tables in Appendix 1 on page 41.

The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in December 2008. The effect of the direction is to modify the provisions of INSPRU 3.1.35R and IPRU (INS) Appendix 9.3 in relation to fixed and index-linked immediate and deferred annuity business in the NPSF, so that a more appropriate rate of interest is used for assets taken in combination.

4.(3) Risk-adjustments to yields

4.(3).1 Fixed interest securities

Yields have been adjusted to allow for the risk of default on fixed interest securities (other than approved securities assessed as risk-free by the firm's investment manager).

The allowance for defaults is calculated as the long-term expected level of defaults plus an additional allowance for short-term defaults reflecting the market conditions at the valuation date.

The long-term default allowance is determined from data supplied by the firm's investment manager, which 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 mean default rates according to credit quality and term to redemption.

4. Valuation methods and bases (continued)

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 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 default rates for each category of credit rating and level of security, in basis points per annum, are set out below:

Term to Redemption	**Seniority**	**AAA**	**AA**	**A**	**BBB**	**BB**	**B and lower**
0 to 10 years	Senior Secured	8.5	8.5	11.4	24.9	136.6	276.0
	Senior Unsecured	18.6	18.6	25.0	54.8	300.4	607.3
	Subordinated	27.1	27.1	36.4	79.7	437.0	883.4
10 to 20 years	Senior Secured	6.4	6.4	10.2	28.5	97.4	196.8
	Senior Unsecured	14.2	14.2	22.4	62.7	214.2	433.0
	Subordinated	20.6	20.6	32.6	91.3	311.6	629.9
20 to 30 years	Senior Secured	5.9	8.9	15.7	30.3	97.4	196.8
	Senior Unsecured	13.0	19.6	34.5	66.7	214.2	433.0
	Subordinated	18.9	28.5	50.2	97.0	311.6	629.9
Over 30 years	Senior Secured	5.6	10.1	17.8	30.4	97.4	196.8
	Senior Unsecured	12.4	22.3	39.1	66.8	214.2	433.0
	Subordinated	18.1	32.4	56.9	97.1	311.6	629.9

The additional allowance for short-term defaults is taken to be 25% of the increase in credit spreads over swaps that has occurred since 31 December 2006 based on a set of externally published indices weighted to reflect the assets held in each sub-fund.

Aggregate yields on the backing assets have been adjusted by the rates shown in the table below to allow for potential credit risk within the fixed and variable interest bond portfolios. These credit risk adjustments include margins for prudence. Further implicit margins for prudence are held in the difference between the risk adjusted yields and the relevant valuation interest rates.

Sub-Fund	**Fixed/Variable Interest**	**Credit risk adjustment (in basis points)**
With-Profits Sub-Fund	Fixed	137
	Variable	125
SAIF	Fixed	131
	Variable	129
Defined Charge Participating Sub-Fund	Fixed	138
	Variable	131
Non-Profit Sub-Fund (except annuities accepted from PRIL)	Fixed	82
	Variable	82
Non-Profit Sub-Fund - annuities accepted from PRIL	Fixed	83
	Variable	69

4. Valuation methods and bases (continued)

4.(3).2 Property

Yields on individual properties were subjected to a cap equal to the risk-adjusted yield on the Merrill Lynch over 10 years corporate bond index. The risk adjustment was calculated by applying the methodology described in 4.(3).1 to the constituents of the index.

4.(3).3 UK equities

Yields on individual equities were subjected to a cap equal to 90% of the yield on the Merrill Lynch over 10 years corporate bond index less a risk adjustment calculated by applying the methodology in 4.(3).1 to the constituents of the index.

4.(3).4 Overseas equities

Yields on individual equities were subjected to the same cap used for property.

4.(4) Mortality rates

Mortality rates are reported in the tables in Appendix 2 on pages 43 to 45.

Specimen expectations of life for deferred and immediate annuities are shown in the table in Appendix 3 on pages 46 to 47.

4.(5) Morbidity rates

Morbidity rates are shown in Appendix 4 on pages 48 to 52.

4.(6) Valuation expense bases

Expense assumptions except for the DCPSF are shown in Appendix 5 on pages 53 to 55. Expenses for UK life products are assumed to attract tax relief at 20%.

A third party administers the accumulating with-profits and unit-linked business in the DCPSF and the renewal expenses allowed for in the valuation are based on the actual tariff in the service agreement. The expenses for with-profits annuities in the DCPSF are met by the NPSF.

4.(7) Unit growth and inflation rates

4.(7).1 Unit growth rates for linked business before management charges (net of tax for UK life business)

	31 December 2008	**31 December 2007**
	%	%
UK – Life	4.00	4.20
UK – Pensions	5.00	5.25
Overseas – Hong Kong	4.97	7.26
Overseas – other	4.50	4.50

4.(7).2 Expense inflation assumptions and future increases in policy charges

	31 December 2008	**31 December 2007**
	% per annum	% per annum
UK	3.50	3.75
Overseas – Hong Kong	2.50	2.50
Overseas – other	3.50	3.50

4. Valuation methods and bases (continued)

4.(8) Future bonus rates

The gross premium method is not used to value conventional with-profits business.

For unitised with-profits business the future annual bonus rates are assumed to be the higher of zero and any guaranteed rate.

4.(9) Lapse, surrender and paid-up assumptions

Prudent discontinuance assumptions are used only in the NPSF and only for some protection assurances on Form 51 and UK linked assurances and pensions on Form 53. We have considered only business in the NPSF to determine whether one product constitutes more than 50% of the business in force or whether to estimate a weighted average for several products.

Product		Average lapse / surrender / paid-up rate for the policy years			
		1 - 5 %	6 - 10 %	11 - 15 %	16 - 20 %
Level term	lapse	11.00	8.50	4.00	4.00
Decreasing term	lapse	11.00	8.50	4.00	4.00
Accelerated critical illness	lapse	11.00	8.50	4.00	4.00
Income protection	lapse	11.00	8.50	4.00	4.00
UL savings endowment	surrender	4.80	4.87	4.53	4.53
UL target cash endowment	surrender	19.20	9.10	4.40	4.40
UL bond	surrender	4.88	10.24	6.80	6.80
UL bond	automatic withdrawals	100% of current experience			
UL individual pension regular premium	PUP	19.20	4.80	4.80	4.80
UL individual pension regular premium	surrender	2.40	2.40	2.40	2.40
UL group pension regular premium	PUP	6.80	3.80	2.10	2.00
UL group pension regular premium	surrender	1.50	1.50	1.50	1.50
UL individual pension single premium	surrender	7.00	3.20	3.20	3.20

4.(10) Other material assumptions

There are no other material assumptions.

4.(11) Derivatives

In determining the long-term liabilities, allowance has been made for derivative contracts and contracts or assets having the effect of derivative contracts, by adjusting the existing assets attributed to the long-term business to reflect the underlying investment exposure.

SAIF and WPSF hold US dollar/sterling and euro/sterling currency forwards in connection with fixed interest securities denominated in US dollars and euros respectively. Taken in aggregate these combinations of currency forwards and fixed interest securities could be considered to be sterling assets and, as such, the yields should be comparable with sterling yields. To achieve this, the yields on the US dollar and/or euro assets are reduced if the US dollar risk-free yield curve or the euro risk-free yield curve respectively exceeds the sterling risk-free yield curve.

4. Valuation methods and bases (continued)

4.(12) Effect of change in methodology

There have been no changes to the mathematical reserves at the current valuation date as a result of the changes to the INSPRU rules at 31 December 2006.

5. Options and guarantees

5.(1) Guaranteed annuity rate options

(a) The mathematical reserves for guaranteed annuity options are calculated assuming a 100% take-up of available options, and are determined as follows:

Group cash accumulation contracts

For valuation purposes, it is assumed, in line with current practice, that if the guaranteed rates are higher than current rates on the valuation date, the guarantee will be revised with 6 months' notice from the next scheme renewal date. As a result, it is assumed that retirements for at most a further 18 months will be subject to the guarantee prior to its amendment. Any additional amount of annuity payable as a result of the guarantee is calculated assuming that the recent profile of retirements (age, sex and purchase money) continues. The resulting annuity is valued on the basis used for non-profit group deferred annuities.

EPP Mark 1

The fund in respect of the first 5 years' premiums for each scheme is calculated. The additional amount of annuity payable as a result of the guarantee is then calculated by age groups assuming that the recent profile of retirements by age and sex continues (all assumed to be at an age at which a guarantee applies). The distribution of long-term interest rates at retirement was provided by the economic scenario generator used to derive market-consistent returns for use in the Peak 2 valuation and a zero valuation interest rate was assumed in deferment.

SAIF products

- Flexipension (Series 1 and Series 2)
- Series 1 and Series 2 pension contracts written up to and including 26 July 2000 as increments to Flexipension (Series 1) contracts
- Individual Endowment/Pure Endowment - Series 1 and Series 2
- Individual Pension Account

For accumulating with-profits and linked business, an additional reserve is calculated by projecting the existing unit reserve with future premiums to the selected retirement date, and calculating the present value of the excess of the annuity guarantee over the projected fund value. The value of the annuity guarantee at retirement is calculated assuming a mortality basis in possession of 56% PMA92/64% PFA92 (c=2004) and a valuation interest rate of 3.5% p.a. in possession. For linked business, the projected fund is calculated assuming a fund growth rate of 7.125% (i.e. 8.0% less an annual management charge). The excess of the annuity guarantee over the projected fund value is discounted at 4.5% per annum. For accumulating with-profits business, no future bonus is allowed for. The projected fund is calculated assuming a fund growth rate of 4.0% (representing the 4.0% guarantee on SAIF pension policies). The present value of the excess of the annuity guarantee over the projected fund value is calculated at a discount rate of 3.15%.

5. Options and guarantees (continued)

For conventional business, the benefit included in the net premium reserve is the greater of the cash benefit and the value of the annuity guarantee. The mortality basis in deferment is AM92/AF92 + 1 for individual endowment/pure endowment and AM92/AF92 - 4 for Flexipension (Series 1), and in possession is 56% PMA92/64% PFA92 (c=2004). The valuation interest rate in deferment is reduced by 0.6% to allow for mortality improvement in deferment. The valuation interest rate (before the 0.6% reduction for mortality improvement) is 4.5% in deferment and 3.5% in possession.

For the purpose of determining the valuation interest rate, swaptions held were assumed to be non-yielding.

The adequacy of the reserve has been verified using stochastic modelling.

An additional expense reserve of £86.4m is held to meet the cost of administering the future annuities in payment under the guaranteed annuity options in SAIF.

(b) See the table on the following page.

5. Options and guarantees (continued)

Table 5.(1)(b) – Guaranteed annuity rate options

Product name	Basic reserve £m	Spread of outstanding durations	Guarantee reserve £m	Guaranteed annuity rate % for a male aged 65	Are increments permitted?	Form of the annuity	Retirement ages
WPSF Group cash accumulation	524	0 – 18 months	-	6.22	No	Single life, monthly in advance, guaranteed for 5 years	50 – 70
Executive Pension Plan Mark 1	143	0 – 35 yrs	42	10.29	Yes – in first 5 yrs of scheme	Single life, monthly in advance, without guarantee	60 – 70 (M) 55 – 70 (F)
SAIF Flexipension	771	0 – 40 yrs; average 10 yrs	526	10.90	No	Single life, yearly in arrears, without guarantee	60 - 75
Individual Endowment/Pure Endowment	183	0 – 40 yrs; average 10 yrs	97	10.00	No	Single life, monthly in advance, guaranteed for 5 years	60 – 70 (M) 55 – 70 (F)
Individual Pension Account	73	0 – 40 yrs; average 10 yrs	41	10.00	No	Single life, monthly in advance, guaranteed for 5 years	60 – 70 (M) 55 – 70 (F)

If the form of annuity taken is different to that shown in the table, by concession an actuarially equivalent rate is given.

5. Options and guarantees (continued)

5.(2) Guaranteed surrender values and guaranteed unit-linked maturity values

5.(2).1 There are no guaranteed unit-linked maturity values. The methods and bases used for guaranteed surrender values were as follows.

<u>PruFund Investment Plan</u>

This is a single premium whole-life accumulating with-profits contract written in the WPSF.

At the fifth anniversary of a premium payment, the smoothed fund value is increased by the value of additional units credited, if necessary, to give a total value equal to the guaranteed minimum fund value (the initial premium adjusted for withdrawals). Policies sold up to 31 July 2005 received this guarantee for no extra cost. After that date, policyholders choosing the guarantee pay an additional annual management charge for 5 years.

The reserve for the guarantee was set using the Black-Scholes option pricing formula and is 21% of the current fund value.

<u>Prudential Europe Vie</u>

This is a single premium whole-life accumulating with-profits contract denominated in euros and written as overseas life assurance business in the DCPSF.

The surrender value at any time is guaranteed to be no less than 75% of the initial investment, net of the initial charge, after allowing for any partial surrender and withdrawals made.

As at 31 December 2008, the basic policy reserves exceeded the minimum guaranteed surrender values to the extent that no additional reserve was considered necessary.

<u>Hong Kong</u>

The conventional with-profits contracts issued in Hong Kong have guaranteed surrender values based on a net premium valuation on specified bases. The valuation reserve is tested against the guaranteed surrender value on a policy-by-policy basis and no additional reserve is required.

The single premium whole life accumulating with-profits contracts (PRUsaver series) issued in Hong Kong have guaranteed surrender values at the fifth policy anniversary. In addition, in 2008, a 10 year guarantee was added to policies which have passed their fifth anniversary at 30 October 2008. The reserve for the 5-year guarantee is taken as the excess of the guaranteed capital over the surrender value discounted at a risk-free rate. The reserve for the 10-year guarantee is the estimated market consistent price of the guarantee.

5. Options and guarantees (continued)

5.(2).2 Guaranteed surrender values and unit-linked maturity values

Product name	Basic reserve £m	Spread of outstanding durations	Guarantee reserve £m	Guaranteed amount £m	MVA free conditions	In force premiums £m	Are increments permitted?
WPSF							
PruFund Investment Plan	844	0.7 – 5 yrs	178	Fund increased to initial premium (adjusted for withdrawals) after 5 years	N/A	849	No
DCPSF							
Prudential Europe Vie	91	Whole-Life	-	67	Regular withdrawals up to 5% per annum	102	Yes
Hong Kong							
Better Life	1,640	Whole-Life	-	983	N/A	155	No
Better Life Assurance II	238	Whole-Life	-	72	N/A	126	No
Better Life Plus II	17	Whole-Life	-	10	N/A	2	No
With Profit Endowment – 1st & 2nd Series	183	0 - 60 yrs; average 18 yrs	-	155	N/A	6	No
With Profit Whole Life – 1st & 2nd Series	79	Whole-Life	-	74	N/A	3	No
PruFlexLife	74	Whole-Life	-	39	N/A	38	No
PRUsave Plus	339	0 - 20 yrs; average 10 yrs	-	109	N/A	78	No
PruLife	58	Whole-Life	-	12	N/A	19	No
Double Treasure Retirement Income Plan – US$	27	0 – 24 yrs; average 20 yrs	-	2	N/A	14	No
Double Treasure Retirement Income Plan – HK$	78	0 – 24 yrs; average 20 yrs	-	-	N/A	35	No
PRUsaver – US$	132	Whole-Life	57	189	Policies effected from October 2008	189	No
PRUsaver – HK$	1,759	Whole-Life	139	1,814	Policies effected before 2007 and from October 2008	1,814	No

5. Options and guarantees (continued)

5.(3) Guaranteed insurability options

5.(3).1 There are a number of insurability options for which no additional reserve is considered necessary due to margins in the valuation mortality/morbidity bases. These options are:

Amicable Savings Plan
Extension Option allows the term of the plan to be extended by a period of at least ten years from the original maturity date.

Home Purchaser
Mortgage Alteration Option provides a limited facility, subject to conditions, to increase the life cover at ordinary rates of premium for the amount of any increase to the loan. If the term of the loan is also increasing, the term of the existing plan may also be extended to match the maturity date of the new plan.

Maximum Investment Plan and Flexible Investment Plan (ex M&G Life)
Maximum Investment Plans have an option at maturity to extend the term for a further ten years or to convert to a whole life assurance with a nominal premium. Flexible Investment Plans have an option to extend the premium paying term.

Investment Mortgage Plan (Ex M&G Life)
There is an option to increase the sum assured without medical evidence if the policyholder increases his or her mortgage.

Personal Security Plan (Ex M&G Life)
Most policies have an option to increase the benefits each year in line with the Retail Prices Index without medical evidence either to age 65 or throughout life. Benefits other than Keyman Disability Benefit may also be increased by up to 20% without medical evidence on marriage, house purchase or birth of children. On some policies the death benefit can be increased without medical evidence following changes in Inheritance Tax legislation. If any of these options is exercised the Company recommends an appropriate increase in premium.

Prudential Protection policies issued at ordinary rates include an option to increase cover without evidence of health in the event of mortgage increase, marriage, childbirth or adoption. The option can be exercised only before the life assured's 50th birthday and within 3 months of the event occurring.

Some UK policies issued between September 1975 and April 1984 and some policies issued in Hong Kong contain an option, in return for an additional premium, to effect further assurances without evidence of health.

Some assurance policies contain options to effect further assurances without evidence of health at specific ages, on marriage or on the adoption or birth of a child. Under some assurances in Hong Kong, a guaranteed insurability option of up to five times the basic sum assured is offered at the maturity of the pure endowment part of the assurance.

Some assurance policies issued between October 1973 and July 1979 on the life of a parent or guardian for the benefit of a child contain an option to permit the child, after attaining a specified age, to effect a whole life or endowment assurance without evidence of health for a sum assured not exceeding four times that of the original policy. On the marriage of a female child, the option may be exercised on her husband's life if he is under age 45.

Some individual level temporary assurance policies contain an option, in return for an additional premium, to convert wholly or partially to a whole life or endowment assurance for a sum assured not exceeding the original sum assured.

Some individual temporary assurance policies contain an option to renew the assurance every 5 or 10 years without evidence of health subject to a maximum age at renewal of 55 (65 in Hong Kong). The sum assured under this option may be increased by up to one half of the sum assured remaining at the end of the 5 or 10 year period. There is also an alternative option to convert at the end of the term to any other Ordinary Branch single life assurance, for a sum assured of up to 150% of that under the temporary assurance policy.

Under a few group life assurance policies, premium rates are guaranteed for employees in respect of current levels of sum assured. Group life assurance premium rates are generally guaranteed for 2 or 3 years.

5. Options and guarantees (continued)

Employees leaving group pension schemes, where it has not been possible to remove the option, may replace any temporary life assurance cover with an individual assurance at the relevant rates of premium then in force, based on the original underwriting decision. The continuation option was withdrawn for new schemes during 1988.

Prufund: Protection Plan
If the original policy was issued on normal terms, a new policy may be effected without evidence of health every 5 years before the attainment of age 50 for a sum assured of up to 50% of the sum assured under the original policy at the time each option is exercised. The option lapses if it is not exercised in whole or part. The new policy may be a with-profits whole life or endowment assurance.

Prufund: Savings Plan
At the end of the premium payment term, premiums may be continued for a further 10 years. Under Series 1 plans there is also an option after 10 years to continue the policy for a further 10 years without further payment of premiums.

Permanent Health Insurance
On payment of an additional premium, individual permanent health insurance policies issued in the United Kingdom between January 1982 and July 1988 carry an option to increase the original benefit by up to 25% (subject to the total benefit being no greater than 75% of earnings) on every fifth policy anniversary without medical evidence. This option cannot be exercised whilst incapacitated or within 10 years of the termination date of the policy.

Series A & Premier Pensions plans with Waiver Benefit or Comprehensive Waiver Benefit
Long Term Care Double Cover benefit entitles the plan holder to buy a Long Term Care Bond from Prudential International (or another contract approved by the PAC Actuary as a reasonable equivalent) at ordinary rates at retirement. Personal Pension and Group Personal Pension Plan holders with Waiver Benefit may increase the contributions covered by the benefit with no additional underwriting provided the increased contribution is no more than twice the previous contribution.

Mortgage Protection (Home Protect)
Policies issued at ordinary rates may include an option to increase cover without evidence of health in the event of mortgage increase, marriage, childbirth or adoption. The option can be exercised only before the life assured's 50th birthday and within 3 months of the event occurring. The increase can be up to 50% of the benefit for the mortgage option or 25% for the other options both subject to maxima of £150,000 (life and critical illness) or £1,000 a month (premium waiver and mortgage payment benefits).

Mortgage Protection (Ex M&G Life)
There are options for each life to continue cover for a further 5 years up to a date specified at the outset of the original cover, and, if the life assured increases his mortgage, to increase the benefit by the lower of 50% of the increase or £50,000 on rates in force at the time. Neither option requires medical evidence. Two schemes incorporate options for each life to add Critical Illness, Waiver of Contribution and PHI benefits. These options are offered subject to provision of satisfactory medical evidence.

5.(3).2 Conversion and renewal options where the total sum assured exceeds £1bn are as follows:

Product name	**In force premiums (£m)**	**Sum assured (£m)**	**Description of option**	**Guarantee Reserve (£m)**
Personal Pension Life Cover	6.7	2,000	If a member becomes ineligible to continue premiums under a Pensions Term Assurance, they have an option for one month to maintain life cover with a replacement policy, issued without further medical evidence, which has term and sum assured no greater than those under the Scheme benefit when it was cancelled. Any extra premiums on the original policy will also apply on the replacement policy.	Implicit in the basic reserve

5. Options and guarantees (continued)

5.(4) Other guarantees and options

5.(4).1 FSA personal pensions review

The mathematical reserve for guarantees issued under the FSA personal pensions review is calculated by valuing the pension scheme benefits to which the policyholder would otherwise have been entitled and subtracting the value of the personal pension policy. Where relevant, each policyholder is assumed to be in a scheme providing an RPI-linked pension of two thirds of final earnings after 40 years' service with a 50% continuation to a surviving spouse and equivalent death-in-service benefits.

Stochastic modelling is used to calculate the reserves for these guarantees. The distributions of investment returns over the remaining period to retirement and long-term interest rates at retirement were provided by the economic scenario generator used to derive market-consistent returns for use in the Peak 2 valuation. In deferment, allowance is made where appropriate for salaries to increase by 2% per annum in excess of RPI and by a further 1% per annum up to age 50.

The basic policy reserve held at 31 December 2008 was £334m and the guarantee reserve was £455m.

5.(4).2 Guaranteed Minimum Pensions (GMPs) under Section 32 contracts

Under early versions of Section 32 contracts, some or all of the GMP was secured by a non-profit deferred annuity. Those benefits are valued using the methodology described in paragraph 4.(1).1 (page 10). Any remaining GMP was covered by the excess premium not required to purchase the non-profit deferred annuity and this was invested in a cash accumulation or with-profits fund.

Under later versions of Section 32 contracts, the whole of the GMP was covered by the with-profits fund.

The reserves for that part of the GMP covered by with-profits have been calculated using stochastic modelling. The distributions of investment returns over the remaining period to retirement and long-term interest rates at retirement were provided by the economic scenario generator used to derive market-consistent returns for use in the Peak 2 valuation.

The guarantee reserve for a small number of accumulating with-profits contracts (ex-SAL) was calculated by a deterministic method, being the excess value on a policy-by-policy basis of the GMP liability (allowing for revaluation) over the basic policy reserve. The GMP liability is valued at a discount rate of 4%, with future increases in National Average Earnings assumed to be at 5% per annum.

The total basic reserve for Section 32 contracts is £249m and the guarantee reserve was £376m.

5.(4).3 PLCE100 - Mortgage endowments

PLCE100, a conventional with-profits low cost endowment assurance written in the WPSF, was designed to repay a mortgage if annual bonuses continued at the rate current at the date of issue. The policies included a provision that if the declared bonus rate were to fall, causing the projected claim value to fall, then the sum assured and premium would be increased accordingly. The Company has guaranteed that, once the premium has been increased to twice its initial level, and provided that the policy has not been assigned absolutely to a third party, then the maturity value will not be less than the mortgage the policy was intended to cover.

The guarantee reserve is determined by projecting current benefits to maturity assuming 4% growth and discounting any shortfall against the mortgage amount at 3%. If policies are not at their maximum premium level, allowance is made for the present value of additional premiums that could be payable up to twice the initial level.

The basic reserve for these policies is £32m and the guarantee reserve is £0.5m.

5. **Options and guarantees (continued)**

5.(4).4 Home Purchaser (Second Series)

Home Purchaser (Second Series) is a mortgage endowment product written in SAIF, for which the company has undertaken to guarantee that the maturity value will be no less than the original target amount if the experienced investment growth rate is greater than or equal to the growth rate assumption selected by the investor at outset.

The guarantee reserve is calculated based on a sample of policies by projecting policy benefits to maturity and discounting any shortfall against the mortgage amount at a valuation rate of 3%. The benefits were projected to maturity using a range of future investment returns and a return of 6.5% p.a. was chosen as a prudent assumption. Prudent allowance was made for an immediate rise/fall in policy values.

The basic reserve for these policies is £539m and the guarantee reserve is £11m.

6. Expense reserves

6.(1) Expense loadings of £566 million, grossed up for tax, are expected to arise during the 12 months from the valuation date. This comprises £261 million of explicit and £305 million of implicit loadings.

The following table shows a breakdown of the expense loadings by homogeneous risk group where some expenses are treated as non-attributable and total expense loadings for products where all expenses are treated as attributable.

Homogeneous risk group	Implicit allowances	Explicit allowance (investment)	Explicit allowance (other)	Non-attributable expenses	Total
	£m	£m	£m	£m	£m
Individual unit-linked life single premium business	-	5.0	1.4	3.4	9.8
Individual unit-linked life regular premium business	-	1.0	0.7	1.2	2.9
Individual unit-linked pensions single premium business	-	2.3	0.8	1.4	4.5
Group unit-linked pensions single premium business	-	0.4	0.2	0.3	0.8
Individual unit-linked pensions regular premium business	-	1.8	1.6	2.9	6.3
Group unit-linked pensions regular premium business	-	1.0	0.6	1.0	2.5
Stakeholder	-	1.5	2.0	3.6	7.1
All expenses attributable	304.6	28.8	198.1	n/a	531.5
Total	304.6	41.9	205.4	13.8	565.7

6. Expense reserves (continued)

6.(2) Implicit allowances are calculated as follows:

- For contracts valued using the net premium method, 90% of the excess of office over net premiums for Ordinary Branch with-profits contracts and 100% of the excess for Industrial Branch with-profits contracts and all non-profit contracts.
- A margin between the risk-adjusted yields on assets in the WPSF and DCPSF (0.13%) and the NPSF (0.07% for direct written annuities in payment, 0.06% for annuities accepted from PRIL, 0.1% otherwise) and that required to support the valuation interest rates to cover fund management expenses.
- A margin in property yields to cover maintenance costs and leases.

6.(3) Maintenance expenses shown at line 14 of Form 43 are £598 million. These expenses exceed the total expense loadings calculated in 6.(1) because they include non-recurrent expenses which are not covered by the expense loadings.

6.(4) A new business expense overrun reserve of £24 million is held in the NPSF. The reserve is calculated on a prudent basis as the excess, if any, of the present value of expenses and commission expected to arise in respect of business written in the 12 months following the valuation date over the present value of the charges available to cover such expenses.

6.(5) In the first instance, expense reserves are calculated on the assumption that Prudential's UK insurance operations will continue to write new business indefinitely and hence that there will be no loss of economies of scale.

For business valued by the net premium method, under which there is no explicit allowance for expenses, the need for a maintenance expense overrun reserve is tested by comparing the present value of the allowances described in sub-paragraph (2) above with the present value of the expenses and commission expected to be incurred over the remaining lifetime of the business. The calculation of the value of future expenses allows for inflation of 3.5% p.a. An additional reserve is held if the present value of expenses and commission exceeds the present value of the expense allowances. At 31 December 2008 a reserve of £48 million is held in the WPSF and £63 million in SAIF.

For all other business, the expense loadings over the remaining lifetime of the contracts in force at the valuation date are included in the reserves reported in Forms 50.

In order to allow for the possibility that the firm will cease to transact new business twelve months after the valuation date, all expense provisions are recalculated on the assumption that, over a two year period, unit costs would be reduced by 15% (except in SAIF, where no reductions are assumed) and that thereafter the loss of economies of scale would result in overall expenses being cut more slowly than the rate at which policies run off. In addition the costs associated with closing to new business, such as redundancy payments and the costs of terminating management agreements, are estimated. If the sum of the closed fund expense reserves and termination costs exceed the open fund expense reserve, then the excess is held as an additional reserve, to the extent that this excess cannot be offset by projected surplus on prudent assumptions from existing business. At 31 December 2008, an additional reserve of £221 million is held in the WPSF, £22 million in SAIF and £16 million in the NPSF.

6. Expense reserves (continued)

6.(6) An additional reserve of £14.3 million is held in the NPSF to cover non-attributable expenses. The additional reserve for each homogeneous risk group is calculated as the present value of all future expenses less charges, subject to a maximum of the non-attributable expenses, for the policies in that homogeneous risk group. All future charges and expenses are projected allowing for lapses on a prudent basis. Any future valuation strain is removed at the homogeneous risk group level.

The following table shows the reserve for each homogeneous risk group.

Homogeneous risk group	**Additional reserve**
	£m
Individual unit-linked life single premium business	-
Individual unit-linked life regular premium business	2.0
Individual unit-linked pensions single premium business	-
Group unit-linked pensions single premium business	-
Individual unit-linked pensions regular premium business	8.3
Group unit-linked pensions regular premium business	-
Stakeholder	4.0
Total	14.3

7. Mismatching reserves

7.(1) and (2) No deposits were received from reinsurers in 2008.

An analysis of the mathematical reserves (other than liabilities for property-linked benefits) and backing assets by currency is as follows:

Currency of liability	Mathematical reserves (excl. property-linked) in £m	% of reserves	Value of backing assets in currency: £	US$	HK$	Euro	Total
£	63,352	90.0	56,622	4,190	-	2,540	63,352
US$	3,697	5.3	-	3,697	-	-	3,697
HK$	2,117	3.0	-	-	2,117	-	2,117
Euro	1,166	1.7	-	-	-	1,166	1,166
Total	70,332	100.0					

7.(3) No reserve is held for currency mismatching.

7.(4) to (6) Not applicable for a realistic firm.

7.(7) The NPSF held a reserve of £127.9m in respect of the test for cashflow mismatching under INSPRU 1.1.34R(2).

This reserve was set at a level that was sufficient to ensure that it covered the result of projecting (i) the risk-adjusted cashflows of the assets backing the liabilities and (ii) the future liability payments on the valuation assumptions. In carrying out this test, the assets have been adjusted to reflect a longer term allowance for defaults of 37 basis points per annum for direct written business and 44 basis points per annum for accepted business.

In determining the risk-adjusted cashflows of the assets, it has been assumed that in any year where asset income exceeds liability outgo, the excess is 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

Other special reserves in excess of £10 million are as follows:

Reserves totalling £198 million (£108 million in the WPSF, £81 million in SAIF and £9 million in the NPSF) are held to cover the potential costs of compensating policyholders, and the associated expenses, in respect of complaints about mortgage endowment policies. The reserves are calculated by making prudent assumptions about the number of future complaints received, the proportion of these where compensation will be paid, and the average amount of compensation.

Reserves totalling £119 million (£101 million in the WPSF, £6 million in SAIF and £12 million in the NPSF) are held to cover potential additional liabilities in respect of systems and administration errors. The methods used to calculate the reserves vary depending on the nature of the error and take into account data sources alternative to policy valuation systems.

Reserves totalling £50 million (£32 million in the WPSF, £8 million in SAIF and £10 million in the NPSF) are held in respect of the UK life insurance operation's share of additional contributions expected to be required to fund future defined benefits in the Prudential Staff Pension Scheme and the Scottish Amicable Pension Scheme, taking into account the expected run-off of the schemes' membership.

Reserves totalling £514 million (£368 million in the WPSF, £56 million in SAIF, £11 million in DCPSF and £79 million in the NPSF) are held to cover general contingencies, taking into account internal assessment of operational risk.

A reserve of £67.2 million is held in the NPSF for the tax credit on losses in the unit-linked funds which will be carried forward and offset against gains in future years.

A reserve of £20 million is held for the Prudential Personal Retirement Plan (PPRP), a conventional with-profits deferred annuity product written in the WPSF, in respect of any additional cost of policyholders retiring later than age 65, taking into account current late retirement enhancement factors and a prudent assessment of the distribution of late retirements by age and sex.

Reserves totalling £13 million (£6 million in the WPSF, £6 million in SAIF and £1 million in the NPSF) are held in respect of claims that have been incurred but that are not yet reported. These reserves are calculated as a percentage of the retrospective claim amounts based on a prudent assumption about the delay in notification of claims.

9. Reinsurance

(1) No premiums were paid in 2008 in respect of reinsurance business ceded on a facultative basis to reinsurers not authorised to carry on business in the United Kingdom.

(2) The reinsurance treaties shown in the table below meet the FSA criteria for being reported in this section and were in force as at 31 December 2008.

9. Reinsurance (continued)

Reinsurance treaties:

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Barclays Global Investors Pensions Management Ltd	Linked benefits under GPP3, GPP4, MPP3, stakeholder pensions and the Company Pension Transfer Plan (Bulk Section 32 Buy-Out) where the member has chosen to invest in BGIPM's funds, on a 100% quota share basis. The assets under this treaty are covered by a pari passu charge.	831	Open	15,104	Nil
Aberdeen Asset Management PLC	Linked benefits under unit linked pension contracts where the member has chosen to invest in AAM's funds, on a 100% quota share basis. The assets under this treaty are covered by a pari passu charge.	2,256	Open	18,271	Nil
Legal & General Assurance (Pensions Management) Limited	Linked benefits under GPP4, MPP3, stakeholder pensions and the Company Pension Transfer Plan (Bulk Section 32 Buy-Out), where the member has chosen to invest in L&GA(PM)'s funds, on a 100% quota share basis.	12,635	Open	93,270	Nil
Munich Reinsurance Company UK Life Branch	Individual UK term insurance issued before 1 January 2000 in surplus form on an original terms basis.	7,053	Closed	35,912	Nil retention, 100% reinsured

9. Reinsurance (continued)

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Munich Reinsurance Company UK Life Branch	Life, critical illness and disability cover sold through arrangements with NDF Administration Limited and Synergy Financial Products Limited. This treaty also includes a financing arrangement. (i) Payments to the reinsurer are a proportion of the reinsurance premium in benefit years three, four, five and six for all in-force benefits. If a policy exits then payments to the reinsurer cease. The total amount paid to the reinsurer in respect of an individual policy is independent of the amount originally advanced by the reinsurer and depends on how long each policy remains in force. There is therefore no undischarged obligation. (ii) Allowance has been made for the repayment of this financing in calculating the level of the reserves required.	1,071	Open	5,820	Mortality benefits and critical illness (per life) 33.33% up to £50,000 Nil above £50,000 Sickness and accident (per life per month) 33.33% up to £625 Nil above £625
Prudential Annuities Limited*	United Kingdom non-profit pensions annuities in payment on a 100% quota share basis. This is to a member of the Prudential Group and is covered by a pari passu charge on assets.	-2,882 (premium rebate)	Closed	7,563,369	Nil
Prudential Holborn Life Limited *	United Kingdom linked benefits under Prudence Bond, Prudence Managed Bond and Prudence Distribution Bond on a 100% quota share basis. This business is covered by a pari passu charge on assets.	114,756	Open	1,488,911	Nil
Prudential Pensions Limited *	United Kingdom linked benefits under Group AVC, MPP2, GPP1/2/3/4, SHP and PTP contracts on a 100% quota share basis. This is to a member of the Prudential Group and is covered by a pari passu charge on assets.	490,191	Open	1,830,806	Nil
Prudential Retirement Income Limited *	Two related treaties for annuity liabilities for relevant annuities issued by PAC. One covers annuities written from 1 July 2004 to 25 November 2004 and the other covers annuities written after 25 November 2004. Under the terms of the agreement Prudential Retirement Income Limited will meet the liability of the Company to pay the benefits due under the reassured policies. This business is covered by a pari passu charge on assets.	1,145,940	Open	3,776,552	Nil

9. Reinsurance (continued)

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Prudential Retirement Income Limited *	Two related treaties for annuity liabilities for relevant annuities issued by the Scottish Amicable Insurance Fund (SAIF). One covers annuities written before 1 January 2006. The other covers annuities written from 1 January 2006 onwards.	1,402	Open	499,199	Nil
Prudential Holborn Life Limited *	Permanent Health Insurance claims in payment at 31 December 2008	36,610	Closed	36,610	Nil
Suffolk Life Annuities Limited	Self-Invested Personal Pension (SIPP) option under the Flexible Retirement Plan policy.	12,983	Open	15,639	Nil
Swiss Re Europe S.A., UK branch	Two treaties covering unit-linked bond business on a quota share basis.	Nil	Closed	48,072	For certain Flexible Bonds linked to the Extra Yield fund, 89% of all unit-linked liabilities are reinsured For Managed Income Bonds linked to Managed Income (Series A) units, 90% of all unit-linked liabilities are reinsured For Managed Income Bonds linked to Managed Income (Series B) units, 25% of all unit-linked liabilities are reinsured

9. Reinsurance (continued)

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Swiss Re Europe S.A., UK branch	Three treaties covering Prudential Protection business over consecutive periods on a quota share basis. The financing agreements with Swiss Re detailed below are connected to this business.	10,874	Closed	46,250	Mortality Benefits only (per life) 10% up to £50,000 Nil above £50,000 Mortality plus CI and stand alone CI Benefits (per life) 10% up to £50,000 Nil above £50,000 Mortgage Payment Benefits (per life per annum) 25% up to £5,000 Nil above £5,000 Waiver of Premium Benefits (per life per annum) 25% up to £5,000 Nil above £5,000

9. Reinsurance (continued)

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Swiss Re Europe S.A., UK branch	Two financing arrangements in respect of acquisition costs incurred in writing Prudential Protection contracts with a policy proposal date: • prior to 31 December 2002, an acceptance date in 2002 and a policy issue date prior to 31 March 2003 • in the range 6 May 2002 to 30 June 2003, a policy issue date in the range 1 January 2003 to 31 December 2003 (i) Payments to the reinsurer are a proportion of the difference between the office premium and the reinsurance premium net of an allowance for renewal expenses for the time that the policy remains in force. If a policy lapses within the initial commission period the Company pays the reinsurer the amount of the indemnity commission that can be clawed back at that time. If a policy lapses outside of the initial commission period or becomes a mortality or morbidity claim at any time then payments to the reinsurer cease. The total amount paid to the reinsurer in respect of an individual policy is independent of the amount originally advanced by the reinsurer and depends on how long each policy remains in force. There is therefore no undischarged obligation. (ii) Allowance has been made for the repayment of this financing in calculating the level of the reserves required for these contracts.	2,351	Closed	-	N/A

9. Reinsurance (continued)

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Hannover Rückversicherung AG	Financing and quota share risk reassurance arrangement in respect of Flexible Protection and PruProtect Plans. (i) Payments to the reinsurer are a proportion of the office premium for the time that the policy remains in force. If a policy lapses within the initial commission period the Company pays the reinsurer a proportion of the amount of the indemnity commission that can be clawed back at that time. If a policy lapses outside of the initial commission period or exits due to a mortality claim at any time then payments to the reinsurer cease. The total amount paid to the reinsurer in respect of an individual policy is independent of the amount originally advanced by the reinsurer and depends on how long each policy remains in force. There is therefore no undischarged obligation. (ii) Allowance has been made for the repayment of this financing in calculating the level of the reserves required for these contracts.	Nil	Open	4,499	Mortality Benefits (per life) 50% up to £150,000 Nil above £150,000 Serious Illness Cover and Disability Cover 50% up to £150,000 Nil above £150,000 Waiver of Premium 50% up to £15,000 p.a. Nil above £15,000 p.a

(g) There were no deposit back arrangements under the above treaties.

(i) There are no “undischarged obligations of the insurer”. Premiums are payable only if the gross business remains in force.

(l) All of the above companies are authorised to carry on insurance business in the United Kingdom.

(m) An asterisk (*) denotes companies connected to the cedant.

(n) In general the treaties are exposed to the credit risk of the reinsurers, against which a reserve is held.

(o) The net liability includes no allowance for the refund of any reinsurance commission.

10. Reversionary (or annual) bonus

Table 1 SAIF

Bonus series	Mathematical reserves	Annual bonus rate for		UWP unit price increase during the year	Guaranteed bonus rate during the year
		2008	2007		
	£m	%	%	%	%
Principal	2,792	0.80/1.50	1.10/2.00		
Flexidowment (Second Series)	259	0.70/1.70	0.90/2.20		
Net With Profits Fund 1	856	2.00/2.00	2.50/2.50		
Flexipension (First Series)	697	0.40/0.90	0.60/1.40		
Superannuation (Second Series)	175	0.40/0.90	0.60/1.40		
Group	102	0.90	1.40		
Exempt With Profits Funds 1	114	4.00	4.00	4.00	4.00
Exempt With Profits Funds 2	1,211	4.00	4.00	4.00	4.00
Exempt With Profits Funds 3A*	1,289	4.00	4.00	4.00*	4.00*
Exempt With Profits Funds 3B*	451	4.00	4.00	4.00*	4.00*
Exempt With Profits Funds 4 *	15	4.00	4.00	4.00*	4.00*

* Bonus rate for investments made after 1/1/06 is 2.75%. Guaranteed bonus applies to pre 2006 investments only.

10. Reversionary (or annual) bonus (continued)

Table 2 WPSF - UK and, where appropriate, Guernsey, Jersey, and Isle of Man

Bonus series	Mathematical reserves	Annual bonus rate for		UWP unit price increase during the year	Guaranteed bonus rate during the year
		2008	2007		
	£m	%	%	%	%
With-profits Industrial Branch assurances issued before 1 July 1988	743	1.10/2.30	1.10/2.30		
Other conventional with-profits assurances	3,149	1.20/2.50	1.20/2.50		
Individual with-profits deferred annuities	5,028	0.25/0.50	0.25/0.50		
UWP life assurance bonds					
Prudence Bond – optimum return	8,268	3.50	3.25	3.50	
Prospects Bond – optimum return	27	3.10	2.85	3.10	
Prudence Bond – optimum bonus	563	4.25	4.00	4.25	
Prospects Bond – optimum bonus	17	3.85	3.60	3.85	
Prudential Investment Bond (accounts £6,000 and over)	2,723	3.50	3.25	3.50	
Prudential Investment Bond (accounts under £6,000)		2.50	2.25	2.50	
Group cash accumulation (defined benefit) with a 4.75% guarantee	236	-	-	4.75	4.75
Group cash accumulation (defined benefit) with a 2.5% guarantee	123	-	0.25	2.50	2.50
Group cash accumulation (defined benefit) with a 0.01% guarantee	166	2.24	2.74	2.25	0.01
Other group cash accumulation with a 4.75% guarantee	641	-	-	4.75	4.75
Other group cash accumulation with a 2.5% guarantee	1,738	0.25	0.75	2.75	2.50
Other group cash accumulation with a 0.01% guarantee	1,231	2.74	3.24	2.75	0.01

10. Reversionary (or annual) bonus (continued)

Table 2 WPSF - UK and, where appropriate, Guernsey, Jersey, and Isle of Man (continued)

Bonus series	Mathematical reserves	Annual bonus rate for		UWP unit price increase during the year	Guaranteed bonus rate during the year
		2008	2007		
	£m	%	%	%	%
Flexible Retirement Income Account	51	2.75	2.75	2.75	
Individual UWP pensions other than FRIA	12,913	3.50	3.25	3.50	
Pension Savings Plan	107	2.75	2.50	2.75	
Group UWP pensions	1,251	3.75	3.50	3.75	
Group UWP pensions with GMP guarantee	61	2.75	2.50	2.75	
With-profits pensions annuities in payment	2,301	2.75	2.75		
PCRS/PCPS annuities in payment	71	2.00	2.00		
Former SAL products					
Net With Profits Fund 2	221	2.75/2.75	3.25/3.25		
Exempt With Profits Funds 5 and 6	198	3.625	3.375	3.625	
Exempt With Profits Funds 7 and 8	265	3.50	3.25	3.50	
Exempt With Profits Funds 9 and 10 (or C and C2)	76	3.50	3.25	3.50	
Exempt With Profits Fund 13 (F)	43	3.25	3.00	3.25	

10. Reversionary (or annual) bonus (continued)

Table 3 WPSF - Policies issued in Hong Kong

Bonus series	Mathematical reserves	Annual bonus rate for		UWP unit price increase during the year	Guaranteed bonus rate during the year
		2008	2007		
	£m	%	%	%	%
Conventional with-profits assurances - First series	262	3.00/3.00	3.50/3.50		
Conventional with-profits assurances - Better Life	1,640	2.50/3.60	3.00/4.30		
Conventional with-profits assurances - Better Life Assurance II	238	2.50/3.60	3.00/4.30		
Conventional with-profits assurances - Better Life Plus II	17	2.50/2.50	3.00/3.00		
Conventional with-profits assurances - PRUsave Plus	339	1.30/1.30	1.70/1.70		
Double Treasure Retirement Income Plan – US$	27	2.00/2.00	2.50/2.50		
Double Treasure Retirement Income Plan – HK$	78	2.00/2.00	2.50/2.50		
Group cash accumulation (HKDF and USDF)	50	4.00	3.50	4.00	
PRUsavings Plan	14	2.00	2.00	2.00	
Other UWP - US$	185	1.75	1.75	1.75	
Other UWP - HK$	1,896	1.95	1.95	1.95	

10. Reversionary (or annual) bonus (continued)

Table 4 DCPSF

Bonus series	Mathematical reserves	Annual bonus rate for		UWP unit price increase during the year	Guaranteed bonus rate during the year
		2008	2007		
	£m	%	%	%	%
Contracts expressed in euro					
Issued in France	85	3.75	3.75	3.75	
External reinsurance accepted	149	4.60	4.60	4.60	
International Prudence Bond	902	3.50	3.50	3.50	
Contracts expressed in sterling	378	4.00	3.75	4.00	
Contracts expressed in US dollars	293	3.50	3.50	3.50	
With-profits annuity business transferred from Equitable Life Assurance Society	1,190	0.00	n/a		

10. Reversionary (or annual) bonus (continued)

10.(4) Cash bonus contracts issued in Hong Kong for which mathematical reserves were £132 million on the valuation date vary by product, by age at entry and by duration in force. Rates for the PRUflexilife product vary from $0.50 per $1,000 sum assured at duration 3 years to $5.90 per $1,000 sum assured at duration 11 years. Rates for the Galaxy product vary from $3.20 per $1,000 sum assured at duration 1 year to $10.40 per $1,000 sum assured at duration 7 years.

Valuation interest rates

Product group	2008	2007
	%	%
UK Life - UWP (excluding endowment assurances issued by SALAS)	1.60	1.60
UK Life - CWP and CNP in SAIF	3.00	3.00
UK Life - Prudential Protection, PruProtect and Home/Synergy Protect in NPSF	3.00	3.20
UK Life - CNP in WPSF	3.00	3.00
UK Life - Linked in NPSF	3.00	3.20
UK Life - Linked in WPSF	3.20	3.20
UK Life - UWP issued by SALAS	3.20	3.20
UK Life – CWP in WPSF	3.50	3.00
UK Life - Annuities in WPSF	4.00	4.00
UK Pensions & OS - WP CPAs	0.00	0.00
UK Pensions - Index-linked CPA reinsured to PAL	1.93	1.73
UK Pensions - UWP in WPSF	2.00	2.00
UK Pensions - Deposit Administration with 0.01% guarantee	2.00	2.00
UK Pensions - Index-linked CPA reinsured to PRIL	2.12	1.49
UK Pensions – Index-linked CPA (excluding Index-linked CPAs valued as fixed) accepted from PRIL	2.12	n/a
UK Pensions – CWP group deferred annuities in WPSF	3.00	3.00
UK Pensions – Group non-profit deferred annuities, term assurance and UWP in SAIF	3.75	3.75
UK Pensions - Linked in SAIF	4.00	4.00
UK Pensions - Non-profit annuities in WPSF	4.00	4.00
UK Pensions & OS - Deposit Administration with 2.5% guarantee	4.00	4.00
UK Pensions - Term assurance	4.00	4.00
UK Pensions - Non-profit deferred annuities in WPSF	4.00	4.00
UK Pensions - Linked in NPSF and WPSF	4.00	4.25
UK Pensions - Group WPDA in SAIF	4.25/3.75	4.25/3.75
UK Pensions & OS - Deposit Administration with 4.75% guarantee	4.25	4.25
UK Pensions - With-profits endowments in SAIF	4.50	4.50
UK Pensions - Individual with-profits deferred annuities in SAIF	4.50/3.75	4.50/3.75
UK Pensions - WPDA in WPSF	4.75	4.25
UK Pensions - CPA retained in NPSF	5.66	5.10
UK Pensions - CPA reinsured to PAL	5.72	5.25
UK Pensions - CPA reinsured to PRIL	5.83	5.19
UK Pensions – CPA accepted from PRIL (including Index-linked CPAs valued as fixed)	5.83	n/a
Overseas - Hong Kong - Linked and protection riders in NPSF	0.74	2.46
Overseas - Hong Kong UWP - HK$ currency	1.10	2.35
Overseas - Hong Kong CWP - HK$ currency	1.10	2.90
Overseas - Hong Kong UWP -US$ currency	2.10	2.90
Overseas - Hong Kong - CWP, term assurance, accelerated CI in WPSF – US$ currency	2.90	2.90
Overseas - DCPSF offshore bond - sterling currency	2.00	2.00
Overseas - DCPSF offshore bond - euro currency	2.75	2.75
Overseas - DCPSF offshore bond - US$ currency	3.00	3.00

Valuation interest rates (continued)

If deferred annuities are valued at the same rate of interest in possession as in deferment, only one rate of interest is shown. Otherwise, two rates are shown, the first being that in deferment. Valuation interest rates shown for UK Life are net of tax.

Valuation mortality bases

	2008	2007
UK Life - UWP and linked regular premium endowment assurances (Home Purchaser)	85% AM80 / 85% AF80	85% AM80 / 85% AF80
Industrial Branch assurances	A1967/70 rated up 1 year	A1967/70 rated up 1 year
UK Life - linked Prudence Bond UK Pensions NPSF - group stakeholder, personal and money purchase pensions UK Pension WPSF - linked	AM92 / AF92 both rated down 3 years	AM92 / AF92 both rated down 3 years
UK Life WPSF - conventional assurances except Prudential Protection, UWP assurances except those issued by SAL or SALAS UK Pensions WPSF - group deposit administration	AM92 / AF92 both rated up 1 year	AM92 / AF92 both rated up 1 year
UK Life - assurances issued by SAL or SALAS, Prudential Protection in WPSF UK Pensions issued by SAL or SALAS	AM92 / AF92 both rated up 1 year plus 1/3 of projection R6A of the Institute of Actuaries AIDS Working Party Bulletin No. 5	AM92 / AF92 both rated up 1 year plus 1/3 of projection R6A of the Institute of Actuaries AIDS Working Party Bulletin No. 5
UK Life - Prudential Protection and PruProtect in NPSF	110% of AM/AF92 plus 1 year plus 1/3 AIDS ‘R6A’ for both males and females	110% of AM/AF92 plus 1 year plus 1/3 AIDS ‘R6A’ for both males and females
UK Pensions - individual UWP pensions sold by the DSF	AM92 rated up 1 year for men and rated down 3 years for women	AM92 rated up 1 year for men and rated down 3 years for women
UK Life NPSF - linked assurances sold by the DSF	Single life: AM92 rated down 3 years for men and rated down 8 years for women Joint lives: AM92 rated up 3 years	Single life: AM92 rated down 3 years for men and rated down 8 years for women Joint lives: AM92 rated up 3 years
UK Pensions - group deferred annuities in deferment in WPSF	AM92 / AF92 both rated down 4 years with mortality improvement being allowed by a reduction of 0.55% p.a. in the valuation interest rate	AM92 / AF92 both rated down 4 years with mortality improvement being allowed by a reduction of 0.50% p.a. in the valuation interest rate
UK Pensions - Flexipension in deferment in SAIF	AM92 / AF92 both rated down 4 years with mortality improvement being allowed by a reduction of 0.60% p.a. in the valuation interest rate	AM92 / AF92 both rated down 4 years with mortality improvement being allowed by a reduction of 0.60% p.a. in the valuation interest rate
UK Pensions WPSF - group deferred annuities in possession ceded to PAL (GPDA admin system)	Modified 126% PNMA00 Modified 117% PNFA00	Modified 126% PNMA00 Modified 117% PNFA00
UK Pensions WPSF - group deferred annuities in possession ceded to PAL (DAPA admin system)	Modified 105% PNMA00 Modified 103% PNFA00	Modified 112% PNMA00 Modified 107% PNFA00

Valuation mortality bases

	2008	2007
UK Pensions WPSF - WP individual deferred annuities in deferment	AM92 rated down 3 years for men and 7 years for women with mortality improvement being allowed by a reduction of 0.55% p.a. in the valuation interest rate	AM92 rated down 3 years for men and 7 years for women with mortality improvement being allowed by a reduction of 0.50% p.a. in the valuation interest rate
UK Pensions WPSF - WP deferred annuities in possession	Modified 102% PNMA00 Modified 88% PNFA00	Modified 106% PNMA00 Modified 84% PNFA00
UK Pensions - WPSF and SAIF annuities reassured to PRIL	Modified 97% PNMA00 Modified 88% PNFA00	Modified 99% PNMA00 Modified 85% PNFA00
UK Pensions - SAIF deferred annuities in possession	Modified 104% PNMA00 Modified 91% PNFA00	Modified 110.5% PNMA00 Modified 86.1% PNFA00
UK Pensions - NPSF – NP individual immediate annuities accepted from PRIL	Modified 97% PNMA00 Modified 88% PNFA00	n/a
UK Pensions - NPSF – NP group deferred annuities in deferment accepted from PRIL	AM92 / AF92 both rated down 4 years	n/a
UK Pensions - NPSF – NP group immediate and deferred annuities (in possession) accepted from PRIL	Modified 102% PNMA00 Modified 98% PNFA00	n/a
UK Pensions - NPSF annuities	Modified 100% PNMA00 Modified 88% PNFA00	Modified 106% PNMA00 Modified 84% PNFA00
UK Pensions – PAC WP annuities in payment	Modified 76%PNMA00 Modified 79% PNFA00	Modified 89%PNMA00 Modified 80% PNFA00
UK Pensions & OS – Equitable Life WP annuities in payment	Modified 78%PNMA00 Modified 76% PNFA00	Modified 78%PNMA00 Modified 71% PNFA00
UK Pensions - WPSF individual annuities retained in PAC or reassured to PAL	Modified 102%PNMA00 Modified 88% PNFA00	Modified 106%PNMA00 Modified 84% PNFA00
UK Pensions - Flexible Lifetime Annuity	Modified 71% PNMA00 Modified 70% PNFA00	Modified 105% PNMA00 Modified 80% PNFA00
Hong Kong assurances except cash bonus and UWP policies	90% HKA93M / 90% HKA93F	100% HKA93M / 100% HKA93F
Hong Kong cash bonus policies	90% HKA93M / 90% HKA93F	125% HKA93M / 125% HKA93F
Hong Kong UWP assurances	140% HKA93M / 140% HKA93F	165% HKA93M / 165% HKA93F
DCPSF - Prudential Vie	102.5% TV8890 / TD8890 both rated down 3 years	102.5% TV8890 / TD8890 both rated down 3 years
DCPSF - other	AM92 / AF92	AM92 / AF92

Annuity mortality bases used at 31 December 2008 and 31 December 2007

Annuities are generally valued using a percentage of the 00 series tables for annuitants and pensioners. In order to allow for mortality improvement, improvement factors are applied from 2001 and the bases in the table above are therefore described as "modified". 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.

In practice, some annuities in payment in the NPSF and some deferred annuities in possession have 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 deferred annuities, a further deduction from the valuation rate of interest has been made during the deferred period, to allow for expected mortality improvements prior to vesting. The deduction is 0.55% for policies in WPSF and 0.60% for policies in SAIF.

Immediate and deferred annuities: expectations of life at different ages

The table below shows the expectations of life at different ages for the mortality tables reported in Appendix 2 used to value annuities in possession.

Basis description	Valuation Date	Life expectancy for annuities in payment		Life expectancy for deferred annuities	
		At 65	At 75	At 65 for current age 45	At 65 for current age 55
Modified 126% PNMA00 Modified 117% PNFA00	31/12/2008			men: 25.6 women: 24.9	men: 23.7 women: 23.9
	31/12/2007			men: 25.4 women: 24.8	men: 23.5 women: 23.8
Modified 105% PNMA00 Modified 103% PNFA00	31/12/2008			men: 27.3 women: 26.0	men: 25.3 women: 25.0
Modified 112% PNMA00 Modified 107% PNFA00	31/12/2007			men: 26.5 women: 25.6	men: 24.5 women: 24.6
Modified 102% PNMA00 Modified 88% PNFA00	31/12/2008	men: 23.6 women: 25.3	men: 14.3 women: 16.1	men: 27.6 women: 27.3	men: 25.6 women: 26.3
Modified 106% PNMA00 Modified 84% PNFA00	31/12/2007	men: 23.1 women: 25.6	men: 13.8 women: 16.4	men: 27.0 women: 27.6	men: 25.1 women: 26.6
Modified 97% PNMA00 Modified 88% PNFA00	31/12/2008	men: 24.1 women:25.3	men: 14.6 women: 16.1		
Modified 99% PNMA00 Modified 85% PNFA00	31/12/2007	men: 23.7 women: 25.5	men: 14.3 women: 16.3		
Modified 104% PNMA00 Modified 91% PNFA00	31/12/2008			men: 27.8 women: 27.3	men: 25.8 women: 26.3
Modified 110.5% PNMA00 Modified 86.1% PNFA00	31/12/2007			men: 26.7 women: 27.4	men: 24.7 women: 26.4
Modified 102% PNMA00 Modified 98% PNFA00	31/12/2008	men: 23.6 women: 24.4	men: 14.3 women: 15.3	men: 27.6 women: 26.4	men: 25.6 women: 25.4
Modified 100% PNMA00 Modified 88% PNFA00	31/12/2008	men: 23.8 women: 25.3	men: 14.4 women: 16.1		
Modified 76%PNMA00 Modified 79% PNFA00	31/12/2008	men: 26.4 women: 26.2	men: 16.6 women: 16.9		
Modified 89%PNMA00 Modified 80% PNFA00	31/12/2007	men: 24.7 women: 26.0	men: 15.1 women: 16.7		
Modified 78%PNMA00 Modified 76% PNFA00	31/12/2008	men: 26.7 women: 27.0	men: 16.7 women: 17.5		
Modified 78%PNMA00 Modified 71% PNFA00	31/12/2007	men: 26.5 women: 27.5	men: 16.5 women: 17.9		
Modified 71% PNMA00 Modified 70% PNFA00	31/12/2008	men: 27.1 women: 27.3	men: 17.2 women: 17.8		

Immediate and deferred annuities: expectations of life at different ages (continued)

The table below shows the expectations of life at different ages for the mortality tables reported in Appendix 2 used to value annuities in possession.

Basis description	Valuation Date	Life expectancy for annuities in payment		Life expectancy for deferred annuities	
		At 65	At 75	At 65 for current age 45	At 65 for current age 55
Modified 105% PNMA00 Modified 80% PNFA00	31/12/2007	men: 23.1 women: 26.0	men: 13.9 women: 16.7		

Morbidity bases

A4.1 Critical illness and total and permanent disability (TPD) business issued in Hong Kong

Annual rates per 10,000 sum assured

A4.1.1 Contracts that cover 12 critical illnesses. These are closed to new business.

31 December 2008

Age next Birthday	Critical illness rates				TPD rates
	Male Non Smoker	Male Smoker	Female Non Smoker	Female Smoker	
25	7.31	6.55	4.08	5.87	0.68
35	7.48	8.93	9.52	10.97	1.02
45	19.81	26.86	21.51	28.65	2.55
55	52.70	71.06	46.84	57.89	6.63

31 December 2007

Age next Birthday	Critical illness rates				TPD rates
	Male Non Smoker	Male Smoker	Female Non Smoker	Female Smoker	
25	7.74	6.93	4.32	6.21	0.72
35	7.92	9.45	10.08	11.61	1.08
45	20.97	28.44	22.77	30.33	2.70
55	55.80	75.24	49.59	61.29	7.02

A4.1.2 Contracts that cover 30 critical illnesses.

31 December 2008

Age next Birthday	Critical illness rates				TPD rates
	Male Non Smoker	Male Smoker	Female Non Smoker	Female Smoker	
25	7.31	7.23	8.25	9.86	0.68
35	8.67	9.86	10.37	10.71	1.02
45	20.32	27.12	19.30	28.56	2.55
55	52.53	71.23	58.40	76.16	6.63

31 December 2007

Age next Birthday	Critical illness rates				TPD rates
	Male Non Smoker	Male Smoker	Female Non Smoker	Female Smoker	
25	7.74	7.65	8.73	10.44	0.72
35	9.18	10.44	10.98	11.34	1.08
45	21.51	28.71	20.43	30.24	2.70
55	55.62	75.42	61.83	80.64	7.02

Morbidity bases (continued)

A4.2 Prudential Protection

The rates were used at both 31 December 2008 and 31 December 2007.

A4.2.1 Life and basic critical illness annual rates per £10,000 sum assured

Age next Birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	8.95	8.95	6.90	6.90
35	14.07	22.08	12.59	12.59
45	29.28	58.03	27.26	27.26
55	80.51	148.44	63.77	80.79

A4.2.2 Top-up critical illness annual rates per £10,000 sum assured

Age next Birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	4.82	4.82	5.68	5.68
35	9.63	14.92	11.64	11.64
45	23.64	46.30	26.42	26.42
55	68.82	125.65	61.57	77.89

For business written after 13 March 2005 the rates are increased by 14% to cover possible future changes in morbidity.

In the NPSF where prudent lapse assumptions are allowed for in the reserve calculations, the rates are increased by 10% to allow for the possibility of selective withdrawals.

A4.3 Benefits attached to Home Purchaser (Series 3) and Amicable Savings Plan

The rates were used at both 31 December 2008 and 31 December 2007.

A4.3.1 Home Purchaser (Series 3) version 2 issued on or after 29 July 1996

Level top-up critical illness annual rates per £10,000 sum assured

Age next birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	3.84	6.29	4.39	7.12
35	8.45	14.01	11.87	19.71
45	35.57	59.50	27.27	45.44
55	83.87	140.44	61.77	103.36

A4.3.2 Home Purchaser (Series 3) other than those above and Amicable Savings Plan

Level critical illness annual rates per £10,000 sum assured

Age next Birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	2.73	4.42	3.38	5.45
35	6.49	10.64	8.43	14.01
45	27.87	46.41	17.77	29.69
55	47.70	79.71	37.34	62.48

Morbidity bases (continued)

A4.3.3 Home Purchaser (Series 3)

Decreasing top-up annual critical illness annual rates per £10,000 sum assured

Age next Birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	4.14	6.79	4.74	7.68
35	9.11	15.11	12.80	21.26
45	38.36	64.17	29.41	49.00
55	90.45	151.46	66.61	111.47

A4.3.4 Home Purchaser (Series 3) and Amicable Savings Plan

Total and permanent disability annual rates per £10,000 sum assured

Age next Birthday	Basic	Version 2 Level top-up	Version 2 Decreasing top-up
25	0.78	0.98	1.06
35	0.91	0.86	0.92
45	2.33	2.20	2.38
55	7.91	8.69	9.37

A4.3.5 Home Purchaser (Series 3)

Annual mortgage interest benefit rates per £1,200 annual benefit without critical illness, occupation classes 1, 2 and 3, deferred period 6 months

Men

Age Next Birthday	Policy Term Remaining				
	5	10	15	20	25
25	2.88	3.84	4.44	4.68	4.68
35	4.44	6.24	7.20	7.44	7.56
45	11.52	16.32	18.72		
55	36.36				

Women

Age Next Birthday	Policy Term Remaining				
	5	10	15	20	25
25	4.32	5.88	6.72	6.96	6.96
35	6.72	9.36	10.80	11.04	11.40
45	17.16	24.48	27.96		
55	54.48				

No recovery rates are shown as claim inception and recovery are not modelled. Instead an inception annuity approach based on rates from the reinsurer is used. The rates therefore allow implicitly for both the probability of a claim and the expected length of the claim.

Morbidity bases (continued)

A4.4 Synergy Protect

The rates were used at both 31 December 2008 and 31 December 2007.

A4.4.1 Level critical illness annual rates per £10,000 sum assured

Age next Birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	11.14	15.61	7.43	10.85
35	16.02	24.25	15.85	23.85
45	45.37	78.55	38.98	66.19
55	133.51	248.00	90.80	167.19

A4.4.2 Top-up critical illness annual rates per £10,000 sum assured

Age next Birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	7.09	9.94	6.79	9.90
35	12.66	19.16	15.85	23.86
45	42.36	73.34	40.64	69.01
55	131.89	245.00	95.32	175.53

A4.4.3 Mortgage payment benefit annual rates per £1,200 annual benefit without critical illness

Male aggregate lives, non smokers, occupation class 1, deferred period 26 weeks

Age next Birthday	Policy Term Remaining				
	5	10	15	20	25
25	1.82	2.55	3.03	3.36	3.57
35	2.16	3.32	4.07	4.57	4.90
45	6.95	11.24	14.08	16.07	
55	23.52	39.49			

Female aggregate lives, non smokers, occupation class 1, deferred period 26 weeks

Age next Birthday	Policy Term Remaining				
	5	10	15	20	25
25	3.19	4.46	5.30	5.88	6.25
35	3.78	5.81	7.12	8.00	8.58
45	12.16	19.67	24.64	28.12	
55	41.16	69.11			

Male aggregate lives, smokers, occupation class 1, deferred period 26 weeks

Age next Birthday	Policy Term Remaining				
	5	10	15	20	25
25	2.42	3.39	4.03	4.47	4.75
35	2.87	4.42	5.41	6.08	6.52
45	9.24	14.95	18.73	21.37	
55	31.28	52.52			

Morbidity bases (continued)

Female aggregate lives, smokers, occupation class 1, deferred period 26 weeks

Age next Birthday	Policy Term Remaining				
	5	10	15	20	25
25	4.24	5.94	7.05	7.82	8.31
35	5.03	7.73	9.47	10.64	11.40
45	16.18	26.16	32.77	37.40	
55	54.74	91.91			

No recovery rates are shown as claim inception and recovery are not modelled. Instead an inception annuity approach based on rates from the reinsurer is used. The rates therefore allow implicitly for both the probability of a claim and the expected length of the claim.

Valuation expense bases

A5.1 SAIF

		31 December 2008			31 December 2007		
Product code(s)		Maintenance expenses	Termination expenses	Investment expenses	Maintenance expenses	Termination expenses	Investment expenses
		£ per annum	£	basis points pa	£ per annum	£	basis points pa
525	UWP regular premium pension	38.46	65.91	12.80	43.66	70.06	12.80
525	UWP single premium pension	32.59	65.91	12.80	29.52	70.06	12.80
535	UWP group regular premium pension	79.09	95.92	12.80	119.92	71.18	12.80
535	UWP group single premium pension	67.13	95.92	12.80	75.96	71.18	12.80
725	UL regular premium pension	38.46	65.91	25.00	43.66	70.06	25.00
725	UL single premium pension	32.59	65.91	25.00	29.52	70.06	25.00
735	UL group regular premium pension	79.09	95.92	25.00	119.92	71.18	25.00
735	UL group single premium pension	67.13	95.92	25.00	75.96	71.18	25.00

Conventional contracts are valued using a net premium method, zillmerised for with-profits contracts and unmodified for term assurances. The zillmer adjustment is 3% of sums assured for with-profits life business and 2% for with-profits pensions.

A5.2 WPSF

		31 December 2008			31 December 2007		
Product code(s)		Maintenance expenses	Termination expenses	Investment expenses	Maintenance expenses	Termination expenses	Investment expenses
		£ per annum	£	basis points pa	£ per annum	£	basis points pa
340 to 355, 365 and 385	Critical illness, income protection in force and income protection claims in payment	44.50	46.06	10.00	37.78	57.68	10.00
400	Annuity	19.60		6.00	22.11		6.00
500	UWP bond	43.67		13.00	50.10		13.00
510	UWP savings endowment	45.11	46.06	13.00	39.86	57.68	13.00
515	UWP target cash endowment	38.37	53.25	12.80	35.42	67.92	12.80
525	UWP regular premium pension	41.12		13.00	37.54		13.00
525	UWP single premium pension	34.95		13.00	31.91		13.00
535	UWP group regular premium pension	117.49		13.00	86.17		13.00
535	UWP group single premium pension	23.50		13.00	17.23		13.00
710	UL bond	18.76	53.25	25.00	25.42	67.92	25.00
715	UL savings endowment	38.37	53.25	25.00	35.42	67.92	25.00
720	UL target cash endowment	38.37	53.25	25.00	35.42	67.92	25.00
735	UL group regular premium pension	144.28		20.00	139.44		25.00
735	UL group single premium pension	28.86		20.00	27.89		25.00

Conventional contracts are valued using a net premium method, zillmerised for with-profits contracts and unmodified for term assurances. The zillmer adjustment is 3% of sums assured for with-profits life business and 2% of the value of the annuity at retirement for with-profits pensions deferred annuities.

A5.3 NPSF

		31 December 2008			31 December 2007		
Product code(s)		Maintenance expenses	Termination expenses	Investment expenses	Maintenance expenses	Termination expenses	Investment expenses
		£ per annum	£	basis points pa	£ per annum	£	basis points pa
325, 330, 340 to 355 and 365	Term assurance, critical illness and income protection	44.50	46.06	10.00	37.78	57.68	10.00
400	Annuity	26.75		7.00	25.58		7.00
700	UL bond	5.94	15.67	18.00	9.03	12.40	18.00
715	UL savings endowment	23.39	91.42	15.00	16.34	14.42	25.00
720	UL target cash endowment	15.79	18.89	25.00	16.34	14.42	25.00
725	UL regular premium pension	14.82	31.12	25.00	19.70	17.81	25.00
725	UL single premium pension	13.10	28.26	25.00	14.63	17.14	25.00
735	UL group regular premium pension	30.32		20.00	31.78		20.00
735	UL group single premium pension	6.06		20.00	6.36		20.00

For linked business, the figures are for per-policy attributable expenses only.

APPENDIX 9.4A

VALUATION REPORT FOR REALISTIC VALUATION ON THE PRUDENTIAL ASSURANCE COMPANY LIMITED AS AT 31 DECEMBER 2008

Throughout this document the abbreviations “CWP” and “AWP” are used for Conventional With-Profits business and Accumulating With-Profits business respectively.

1. Introduction

(1) The investigation relates to 31 December 2008.

(2) The date of the previous valuation related to 31 December 2007.

(3) A valuation was carried out at 30 June 2008 in accordance with IPRU(INS) rule 9.3A.

2. Assets

(1) The economic assumptions used to determine the value of future profits on non-profit business written in the WPSF and SAIF are:

Description	31 December 2008		31 December 2007	
	Gross %	Net %	Gross %	Net %
Investment return	3.520	2.816	4.580	3.664
Less: Investment expenses	0.116	0.093	0.116	0.093
Discount rate	3.404	2.723	4.464	3.571
Inflation (except IB business)	3.0	3.0	3.2	3.2
Inflation (IB business)	5.0	5.0	5.2	5.2

The DCPSF has no non-profit business.

(2) For the WPSF, the economic assumptions used to determine any additional amount arising from the excess of the present value of future profits (or losses) of Prudential Annuities Limited (PAL) in accordance with INSPRU 1.3.33R(3)(b)(iii) are:

Description	31 December 2008 %	31 December 2007 %
Investment return	6.539	5.445
Less: Investment expenses	0.060	0.060
Discount rate	6.479	5.385
Rate of tax on profits	28	28

SAIF and the DCPSF have no assets valued under INSPRU 1.3.33R(3)(b)(iii).

(3) Not applicable

(4) Not applicable

(5) Not applicable

3. With-Profits Benefits Reserve Liabilities

(1) The methods used to calculate the with-profits benefits reserves are:

Business class	Method		With-profits benefits reserves	Future policy related liabilities
WPSF			£m	£m
Ex-Direct Sales Force (DSF) Industrial Branch (IB)	Retrospective*	Grouped	1,971	145
DSF CWP Ordinary Branch (OB) assurances	Retrospective*	Grouped	3,851	139
DSF PPRP	Retrospective*	Grouped	4,014	966
DSF AWP Life	Retrospective*	Individual	2,713	131
DSF AWP Pensions	Retrospective*	Grouped	14,260	754
Ex-ISC Pensions	Retrospective*	Individual	1,090	373
Group Pensions	Retrospective*	Individual	5,657	390
With profit immediate annuities	Retrospective*	Individual	1,813	477
Prudence Bond	Retrospective	Individual	10,346	247
Ex-SAL AWP	Retrospective	Individual	796	43
Hong Kong	Retrospective	Grouped	4,327	392
Malta	Retrospective	Grouped	9	0
Additional reserve	Other	n/a	-	432
Sub-total			**50,848**	**4,490**
SAIF				
CWP	Retrospective*	Individual	4,685	134
AWP – Pensions	Retrospective*	Individual	3,091	243
AWP – Life	Retrospective*	Individual	974	6
Additional reserve	Other	n/a	10	614
Sub-total			**8,761**	**997**
DCPSF				
PAC France	Retrospective	Individual	81	-
Canada Life (Germany)	Retrospective	Individual	147	-
International Prudential Bond	Retrospective	Individual	1,510	-
With profit immediate annuities	Retrospective	Grouped	1,190	-
Sub-total			**2,928**	**-**
Total PAC			**62,537**	**5,487**

* Adjusted as described in section 5

99.7% of SAIF AWP Pensions business has a minimum guarantee attached. Certain Group Pension contracts include minimum rates of guarantee ranging from 2.5% to 4.75%

(2) The with-profits benefits reserves and future policy related benefits correspond to the amounts shown in Form 19.

4. With-Profits Benefits Reserves – Retrospective method

(1)(a)&(b) The proportions of the with-profits benefit reserve (excluding additional reserves) calculated using individual or grouped methodology as shown in 3.(1) are:

	WPSF	SAIF	DCPSF
	%	%	%
Individual basis	44	100	59
Grouped basis	56	0	41
Other	0	0	0
Total	100	100	100

(1)(c)(i) For WPSF DSF CWP, policies are differentiated by benefit type (eg full endowment, low cost endowment, whole life or deferred annuity), sex (but not for IB assurances) and premium status (single, regular, fully paid or partly paid) and then grouped, by age, duration and original policy term. Only policies with the same age, duration and policy term are grouped together (i.e. data is not grouped into bands).

For WPSF DSF AWP pensions business, the approach is the same as for CWP except that policies are not differentiated by sex and paid up policies are grouped only if they had the same curtate duration when they were made paid-up. In addition DWP rebate business is differentiated according to sex, maturity age and curtate duration in force at the valuation date.

(1)(c)(ii) The number of individual contracts and the number of model points used to represent them at 31 December 2008 are:

Product	Policies	Valuation file records	Number of model points
DSF IB	999,501	999,501	13,466
DSF CWP OB assurances	347,761	372,233	134,898
DSF CWP PPRP	234,016	495,536	261,986
DSF AWP pensions - rebates	333,393	443,376	8,829
DSF AWP pensions - other	536,462	3,059,143	425,352

The number of records in the valuation file can exceed the number of policies because:

- new records are set up for increments to existing policies, and
- for unitised with-profits pensions business, separate records are set up for ordinary rights regular premium, ordinary rights single premium, protected rights and life cover.

The Hong Kong with-profits benefits reserve is calculated by scaling up the results in respect of the modelled business, which represents 94% of the total Hong Kong with-profits benefits reserve.

(1)(c)(iii) The main classes valued on a grouped basis are the products originally sold through the former Direct Sales Force. The business volumes of the grouped classes are large and homogeneous and the grouping basis used has been designed to separate out any significant attributes that affect the retrospective benefit reserve. The model points lead to an accurate retrospective valuation. An investigation has verified that the asset shares using grouped and ungrouped data are within 0.02% in aggregate.

(2)(a) Not applicable

(2)(b) Not applicable

(3) Directly attributable expenses are allocated to the products or product groups to which they relate. Other expenses are mostly apportioned by reference to such measures as considered appropriate, for example business volumes, time spent, or mean fund (for investment expenses.

(3)(a) The previous full expense investigation related to 2007.

(3)(b) A full review of the company's cost allocation basis is carried out annually to ensure maintenance of an appropriate allocation of expenses to the with-profit and other parts of the long-term fund. Additional reviews are conducted quarterly.

(3)(c)(i)&(ii) Expense allocation for 2008

Description	**WPSF**	**SAIF**	**DCPSF**
	£m	£m	£m
Initial expenses including commission†	139	0	0
Maintenance expenses	178	39	19
Investment management expenses	201	18	0
Total expenses charged to with profits benefit reserve	**518**	**57**	**19**
Total expenses **not** charged to with profits benefit reserve	162	13	(23)
Total	681	69	(4)

† Net of any initial expenses written off

Investment expenses in respect of property maintenance and PPM Capital are allowed for in the calculation of investment returns credited to asset shares rather than being reflected as an explicit expense charge.

The investment expenses shown above exclude those incurred in respect of the assets backing the free estate.

For the DCPSF Prudential International Bond and ex-Equitable Life with-profit annuity business, explicit charges are specified in the policy and passed to the Non-Profit Sub-Fund, which bears the actual costs incurred.

(3)(c)(iii) Expenses charged to the with-profits benefits reserve are expressed as some or all of an amount per policy, a percentage of premium or sum assured, or a reduction in the investment return, with an allowance for tax relief where appropriate.

(3)(c)(iv) Certain expenses are not charged to the with-profits benefits reserve. In particular:

- Expenses related to non-profit or unit-linked business.
- Deductions for initial expenses are restricted to the policy-specific charges used when illustrating benefits at the point of sale.
- For the WPSF, expenses associated with the personal pensions mis-selling review are met by the inherited estate rather than asset shares.
- For a number of pension contracts the net impact of deductions has been limited to 1% p.a. since April 2001, though this level of charge is not guaranteed to apply in future.

(4) For WPSF policies, a charge for guarantees is expressed as a proportion of asset shares. The with-profits benefits reserves are shown before this charge. The current charge is 2% for all business although, for With-Profits Immediate Annuities, the charge is expressed as a 0.16% pa reduction in the investment return credited to the with-profits benefits reserve.

For DCPSF policies, excluding the with-profits annuity business transferred from Equitable Life Assurance Society on 31 December 2007, the charge for guarantees is again expressed as a proportion of asset shares, and the with-profits benefits reserve is shown before this 2% charge. A 0.20% pa reduction in the investment return credited to the with-profits benefit reserve also applies in respect of capital support provided by the WPSF.

For the with-profits annuity business in the DCPSF that was transferred from the Equitable Life Assurance Society, the charge for guarantees is expressed as a 0.5% pa reduction in the investment return credited to the with-profits benefit reserve. A 0.14% pa reduction in the investment return credited to the with-profits benefit reserve also applies in respect of capital support provided by the WPSF.

For SAIF, two charges were made in 2008:

- an annual charge for the cost of guaranteed annuity options of 0.25% of asset shares. This is the maximum amount that which the Scottish Amicable Board has currently determined should be charged directly to asset shares for this cost. Any excess of the guaranteed annuity option costs over the charge made reduces the potential surplus available to enhance claim values under the Scheme of Transfer.

- an annual charge for the capital support provided by the Scottish Amicable Capital Fund (SACF) of 0.15% of asset shares.

For the WPSF, SAIF and the DCPSF the level of charges deducted during 2007 and 2008 is shown below:

Fund	**2008 charges £m**	**2007 charges £m**
WPSF	113	118
DCPSF	13	3
SAIF	41	49

(5) For the WPSF, shareholder transfers are charged to the with-profits benefits reserve. In 2008 the shareholder transfers amounted to £298m.

(6) The table below shows the ratio of claims (excluding deaths) paid over each of the last three years to the asset shares for those policies (including the contribution from miscellaneous surplus).

Fund	**2008**	**2007**	**2006**
	%	%	%
WPSF	110	98	93
DCPSF	109	92	90
SAIF	110	96	93

(7) The 2008 rates of investment return, before tax and investment management expenses, allocated to the with-profits benefits reserves were as follows:

Fund	Business	Investment return %
WPSF	Prudence Bond Optimum Bonus	-16.45
	Other UK	-19.68
SAIF	All	-18.45
DCPSF	Sterling funds	-19.68
	US dollar funds	-31.01
	Euro funds	-26.93

The investment return for Prudence Bond Optimum Bonus business reflects a higher fixed interest content than for the main WPSF, in line with the notional investment mix of assets which is appropriate for that product line.

The investment return for Hong Kong business reflects the investment mix appropriate to each product line.

5. With-profits benefits reserves – Prospective method

With-profits benefits reserves are primarily based on the retrospective asset shares. However a number of adjustments are made because:

- WPSF DSF CWP whole life policies include significant death benefits that are more appropriately valued using expected future bonus rates rather than aggregate asset shares.
- WPSF IB bonus rates are derived from the corresponding OB rates, as opposed to the IB asset shares, in line with the undertaking given in 1988 when the IB and OB assets were merged. At that time, the Prudential undertook to declare IB bonuses that were equal to 100% of OB rates for new business issued from July 1988 and at least 90% of OB rates for business issued prior to July 1988.
- The Company has restricted the future implicit fund charge on many pension contracts to reflect its intention to restrict charges on personal pensions to stakeholder consistent levels, so restricting its ability to target claim values on the underlying asset shares.
- For some product lines the only asset shares available are charges asset shares (where asset shares have been built up using the charges associated with that product line) rather than expenses asset share (where the actual expenses have been charged). The prospective method is used to value the future liabilities (based on bonus rates derived from the charges asset shares) and determine the equivalent (expenses) asset shares required to meet such bonus rates.
- The SAIF asset share liability is increased by the value of the Scottish Amicable Account (SAA) AWP life business, calculated on a charges less expenses basis, that is passed to the WPSF.

These adjustments to the underlying asset share liability are determined using a bonus reserve valuation approach. This is a prospective approach which determines the present value of liabilities allowing for expected rates of future reversionary and terminal bonuses.

A prospective valuation is not performed for the DCPSF, nor SAIF with the exception of the SAA business mentioned above.

The non-economic assumptions largely reflect the realistic component of the regulatory basis excluding the margins for adverse deviation (MADs). The elements of the resulting reserves that represent the bonus glidepath costs and prospective miscellaneous surpluses are identified and deducted from the prospective liability to determine the adjusted with-profits benefits reserves.

(1)(a)(b)&(c) The economic assumptions for the WPSF and SAA AWP business are:

	31 December 2008		**31 December 2007**	
	Gross	**Net**	**Gross**	**Net**
	%	%	%	%
Investment return	6.60	5.79	7.85	6.92
Less: Investment expenses	0.12	0.09	0.12	0.09
Discount rate	6.48	5.70	7.73	6.83
Expense Inflation (except IB business)	3.0	3.0	3.2	3.2
Expense Inflation (IB business)	5.0	5.0	5.2	5.2
Annuity interest rate (PPRP risk free rate of interest)	5.47	N/A	5.40	N/A

The economic assumptions used to value the prospective benefits are the same as those used for European Embedded Value reporting, which represent our best estimate assumptions allowing for prevailing market conditions at the valuation date, thereby complying with INSPRU 1.3.130 R. The discount rates therefore differ from the risk free rates required by 6.(4)(a)(iii).

(1)(d) Future annual and final bonus rates for WPSF significant product lines are shown in Appendix 8.

(1)(e) Future expense assumptions for significant product lines are shown below

PER POLICY EXPENSES		
Product	**Premium Paying (£)**	**PUP (% of premium paying)**
IB	21.66	16.7
OB Life	40.32	85
PPRP	37.38	85
Personal Pensions	37.38	85
AVCs	105.47	20
Cash Accumulation Defined Benefit	460.28	20

The expense assumptions are the realistic component of the Peak 1 basis i.e. before the application of the margin for adverse deviation (MAD).

(1)(f) Future persistency assumptions for significant product lines are as follows (using the same format as for paragraph 6.(6)):

Product	**Decrement**	Average surrender/paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
CWP savings endowment	surrender	8.96	3.36	1.40	1.40
CWP target cash endowment	surrender	8.96	3.36	1.40	1.40
UWP savings endowment	surrender	N/A	N/A	N/A	N/A
UWP target cash endowment	surrender	N/A	N/A	N/A	N/A
UWP bond	surrender	4.10	11.40	7.50	7.50
UWP bond	automatic withdrawals	0.00	0.00	0.00	0.00
CWP pension regular premium	PUP	3.50	4.00	3.00	3.00
CWP pension regular premium	surrender	1.50	1.50	1.50	1.50
CWP pension single premium	surrender	1.00	1.00	1.00	1.00
UWP individual pension regular premium	PUP	9.50	7.50	5.00	5.00
UWP individual pension regular premium	surrender	3.50	3.50	3.50	3.50
UWP individual pension single premium	surrender	3.00	3.00	3.00	3.00

6. Cost of guarantees, options and smoothing

(1) Not applicable

(2)(a) For the WPSF and SAIF, the value of guarantees, options and smoothing costs, net of the charge for such guarantees is determined by using market-consistent stochastic models as follows:

- For WPSF business issued in Hong Kong, the HK stochastic asset liability model (HKSALM) is used.
- The reserve in the WPSF for guarantees resulting from the personal pension mis-selling review is calculated using the Pension Mis-selling Reserve model.
- The reserve in the WPSF for the guaranteed minimum pensions (GMPs) on Section 32 type products is calculated using the Guaranteed Minimum Pension model.
- The cost of guarantees for the with-profits annuity business transferred from Equitable Life on 31 December 2007 is calculated using a stochastic model adapted from PSALM (see below).
- For all other WPSF business issued in the UK, the Prudential Stochastic Asset Liability Model (PSALM), our in-house model, is used to value product-related guarantees, except for the small volume of guaranteed annuity options (GAOs), for which the realistic reserve is set equal to the regulatory reserve.
- For SAIF business, including SAIF GAOs, PSALM is used.

For the DCPSF, a bonus smoothing account is maintained in the WPSF and credited or debited as appropriate with any difference between claim payments made from the DCPSF and the relevant policies' underlying asset shares. It is intended that these smoothing transfers should generate no net profit or loss over the long term. Claim payouts can be adjusted to cover the cost of guarantees and smoothing. If, however, in extreme circumstances, a shortfall arises in the bonus smoothing account, additional capital support is provided by the WPSF. The WPSF receives an annual charge from the NPSF for this support. Within the WPSF a further reserve is therefore held in line with the cost on similar contracts.

(2)(b)(i)(ii) &(iii) The reserves in respect of the personal pension mis-selling review, GMPs and WPSF GAOs are valued on an individual basis.

SAIF GAOs are valued on a grouped basis, under which 68,280 contracts have been represented by 847 model points.

For other product-related guarantees the model points used in the valuation are all grouped data sets generated using one of the following:

- individual policy details
- grouped data from other similar contracts
- a representative set of policies

The business grouped by each method is:

Business	Valuation method	Model point grouping	Contracts	Model points
WPSF-UK	PSALM	Grouped	3,357,139	9,044
WPSF-HK	HKSALM	Grouped	555,991	26,607
SAIF	PSALM	Grouped	729,217	1,416

Model points used to determine the cost of guarantees and smoothing in the 31 December 2008 FSA return were generated from in-force data extracted at 31 December 2007, 30 June 2008 and 30 September 2008. These model points were then rolled forward to 31 December 2008.

New model points based on data as at 31 December 2007 have been produced for product classes covering 29% (WPSF) and 100% (SAIF) of total asset shares. New model points based on data as at 30 June 2008 have been produced for product classes covering 24% (WPSF) and 0% (SAIF) of total asset shares. New model points based on data as at 30 September 2008 have been produced for product classes covering 47% (WPSF) and 0% (SAIF) of total asset shares. These new model points have been rolled forward to 31 December 2008.

The Prudential Sourcebook guidance requires that the grouping of policies for valuing the cost of guarantees, options and smoothing should not materially misrepresent the underlying exposure. In particular policies with guarantees “in the money” should not be grouped with policies with guarantees well “out of the money”. (The “moneyness” of guarantees describes the extent to which guarantees are biting for a policy.)

To meet this requirement WPSF (excluding Hong Kong) policies have been grouped together where they are subject to the same rate of bonus. This has been done by grouping policies separately for:

- Major product categories
- Single premium policies, regular premium policies, and paid-up policies
- Year of inception
- Year of maturity, where applicable

To more accurately group specific product lines a number of additional fields are also utilised:

- For Prudence Bond: withdrawal option and duration since top-up
- For SAIF and PSA: age
- For Group Pensions and ex-SAL Personal Pensions: initial allocation, commission type and front-end commission

For with-profits annuities, age, sex, anticipated bonus rate, guarantee term, interest rate, and type, have been used as grouping variables.

Checks were performed to ensure that the model policies suitably reflected the underlying data. The ungrouped policy data and grouped model points were separately projected through the valuation models. Comparisons of revenue and balance sheet items over the projection period were produced to demonstrate that the model points represent the policy data adequately. The key check was to ensure that the run-off of asset share and fund value over the projection period were well matched.

(2)(c) Approximations are necessary for WPSF IB business because IB bonus rates are derived from the corresponding OB bonus rates as a result of the bonus harmonisation undertakings given in 1988 when the assets of the two funds were merged. That is, IB bonus rates are 100% of the corresponding OB rates for new business issued since July 1988 and at least 90% for earlier business. The total liability is determined prospectively allowing for the expected OB-related bonuses, but the amount of this liability ascribed to guarantees and smoothing is approximate.

(3) During 2008 PSALM has been further enhanced to better capture the range of actions that the Company's management could take in the light of emerging economic conditions and or the level of solvency of the fund. In particular, the following changes have been made to the modelling of management actions, which are described in more detail in paragraph 6.(5)(a):

- smoothing is suspended should the solvency ratio fall below a minimum threshold,

- MVRs on personal pensions are phased out in the final years leading up to the selected retirement, better reflecting actual practice†,

- MVRs on Prudence Bond and PSA are phased out by the later of age 85 and in-force duration of 15 years,

- a cap is applied to the MVR amount providing the solvency ratio exceeds a specified threshold, and

- additional mid-year bonus declarations are made if both the solvency ratio falls below a specified threshold, and claim value to asset share ratios lie outside a given upper and lower limit.

†At the 31 December 2007 valuation, allowance for actual practice was made by reducing assumed early retirement rates in the policy years in which reduced MVRs would be applied.

(4)(a) The following paragraphs describe the approach taken in respect of the options and guarantees valued using the PSALM model. The same asset model is used to generate the investment returns assumed in the Pension Mis-selling Reserve and Guaranteed Minimum Pension models, and also for the model used to value guarantee costs arising on the with-profit annuities transferred from the Equitable Life Assurance Society on 31 December 2007. A similar approach is also taken for HKSALM.

(4)(a)(i) For the WPSF and SAIF, the guarantees valued using the full stochastic model include sums assured and projected reversionary bonuses (including any minimum guaranteed rates of reversionary bonus) payable on death, maturity or vesting. For SAIF, guaranteed annuity options are also valued.

The extent to which guarantees are in or out of the money varies greatly across product lines and in particular by duration in force within each product line. The ratio of reversionary bonus funds to asset shares for separate AWP product lines ranged from 78% to 103%, averaging 89% overall for the WPSF and 87% overall for SAIF business.

(4).(a)(ii) The economic scenario generator

Economic scenarios are generated by the GeneSIS model. This is a risk neutral stochastic asset model. The models used for each asset class are as follows:

- Nominal interest rate model

  The interest rate model is a Hull and White two-factor model. Current forward rates (the UK gilts instantaneous nominal forward curve) are used to define an initial yield curve. The short rate in the model is assumed to fluctuate around this initial curve. A second random process disturbs the initial curve to which the short rate reverts.

- Equity model

  The equity return is generated using a risk-neutral lognormal model. It consists of a drift term and a random process. The drift term is the short rate taken from the nominal interest rate model described above. Equity returns fluctuate about this rate by means of a random process based on an annual volatility and a random number. The volatility assumption is time dependent. The process for dividends is designed to be consistent with the current dividend yield and tends to a defined long-term yield level, whilst being constrained by a total return on equities that is consistent with the risk-neutral framework.

- Corporate bond model

  Corporate bond returns are modelled as a gilt return plus additional volatility. This is an approximation to the Merton model which suggests that the return on a corporate bond can be decomposed into the return on a risk-free bond and the return on a put option on the value of a firm.

- Property model

  Property returns are modelled as a corporate bond (the lease) and an equity component (the residual price). Property effectively behaves like a lognormal process with annual volatility of 15%.

- Real interest rate and inflation model

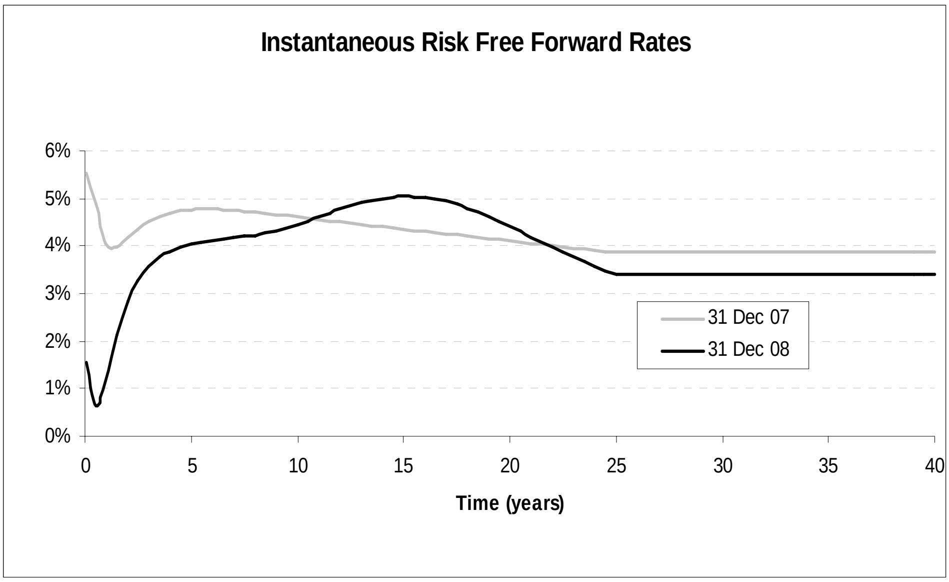
  Real interest rates are modelled using a one-factor Hull and White model. This model takes current forward rates (the UK gilts instantaneous real forward curve) to define an initial yield curve. The modelled interest rate is assumed to fluctuate around this initial curve. This fluctuation is correlated to the random variables used to derive nominal interest rates. The inflation rate is defined as the difference between the nominal and the real interest rate.

Calibration of asset model

The GeneSIS model has been calibrated to the market prices of traded derivative instruments as at 31 December 2008. The assumptions used in the calibration are:

- Risk free interest rate

The yield curve used to calibrate the nominal interest rate model is shown below:



A table of the above interest rates is given in Appendix 9.

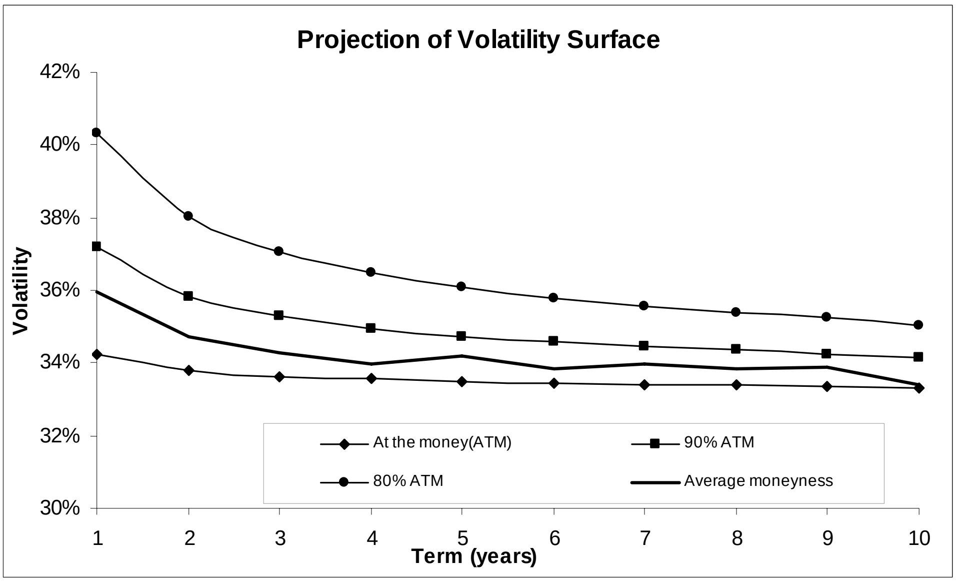
The risk-free rate has been determined as 10 bps over the gilt rate, reflecting the decrease in yield on gilts arising from their repo abilities and other factors.

It has been assumed the parameters defining the fluctuation in modelled interest rates around this yield curve are obtained by calibrating the model to replicate observed swaption rates.

- Equity volatility

  For UK equities, total return option prices were obtained with exercise dates from 1 to 10 years, and for (forward) strikes K = {0.8, 0.9, 1.0}. The resulting volatility surface (based on moneyness and term) was converted into a structure dependent only on term through determining the moneyness of the policy guarantees. The average strike was 0.96 for the first ten years.

The resulting volatilities for UK equities are shown in the graph below:

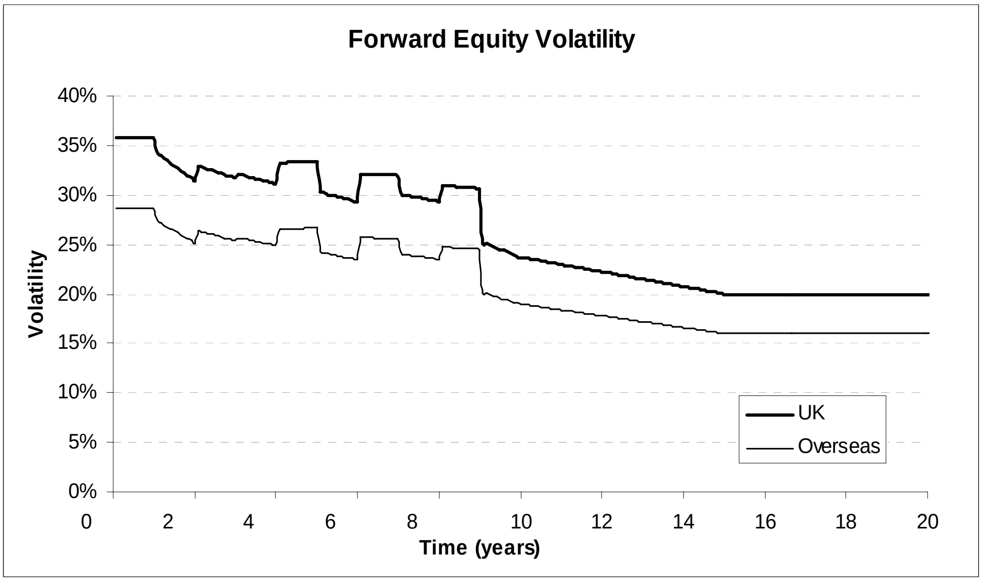


A table of the above volatilities is given in Appendix 10.

There is no deep and liquid market for put options on a basket of overseas equities. Thus overseas equity volatility is pegged to that of UK equity to reflect the market data. The peg is set at 80%, reflecting the diversification benefit of overseas equities.

For periods over 15 years, market observation is not possible and we have assumed 20% volatility for UK equities and 16% for overseas.

The final volatility term structure for UK equities is shown in the graph below:



A table of the above volatilities is given in Appendix 11.

- Corporate bonds

  The annualised additional volatility over the gilt return for corporate bonds was 4.63%. This volatility was determined from a historical index of corporate bond returns.

- Property

  Property returns were decomposed into a corporate bond return plus the value of upward only rent increases. Due to scarcity of market data and the serial correlation of published indices, the property parameters were based on expert opinion.

- Real interest rates

  The model was calibrated using 5 years of real forward rates data, instantaneous nominal forward rates for 25 years and the RPI inflation rate as at December 2008.

- Correlations

  Correlations between asset classes have been determined based on internal expert opinion and analysis of historical values. The correlations implied by the economic scenarios generated for the valuation are as follows:

	Cash	**Corporate Bonds**	**UK Equities**	**Overseas Equities**	**Property**
Cash	100%	15%	6%	7%	8%
Corporate Bonds	15%	100%	30%	20%	30%
UK Equities	6%	30%	100%	50%	40%
OS Equities	7%	20%	50%	100%	30%
Property	8%	30%	40%	30%	100%

(4)(a)(iii) The asset model was used to value the required example options. The same table applies to WPSF UK and SAIF liabilities. The results are set out in Appendix 6.

(4)(a)(iv) The initial and long-term yields assumed for assets backing WPSF UK and SAIF liabilities are shown below:

	31 December 2008		**31 December 2007**	
	UK %	**Overseas %**	**UK %**	**Overseas %**
Equity dividend yield				
Current	4.43	3.94	3.12	2.37
Long term	3.25	2.50	3.25	2.50
Property rental yield				
Current	8.35	N/A	6.00	N/A
Long term	6.50	N/A	6.25	N/A

All overseas territories for the UK business are treated together; we do not isolate significant territories within these.

(4)(a)(v) When expressed in sterling, the entries would be the same as for UK assets.

(4)(a)(vi) A table of the outstanding mean durations of reversionary bonus claims for material products is:

	31 December 2008	
Product	**Proportion of total RB guarantee (%)**	**Duration (Years)**
WPSF Pru Bond and PSA	9	8
WPSF OB/IB	9	8
WPSF Personal Pensions	8	8
WPSF PPRP	32	8
WPSF Group Pensions	11	9
With Profit Annuities	20	10
SAIF	10	9
Total	**98**	**N/A**

A check of the model was carried out to calculate the (Monte Carlo) prices of the equity put options with a strike of 100% ATM forward. The results are shown below and demonstrate that the GeneSIS model is capable of reproducing market prices.

Term (yrs)	**Strike (%)**	**Market Price (%)**	**GeneSIS Price (%)**
Strike = ATM forward			
1	101.0	13.6	13.6
2	103.2	18.9	19.1
3	106.7	22.9	23.2
4	110.9	26.3	26.8
5	115.5	29.2	29.8
6	120.5	31.8	32.4
7	125.8	34.1	34.7
8	131.4	36.3	36.7
9	137.4	38.3	38.5
10	143.8	40.2	40.3

(4)(a)(vii) The model reproduces the current asset values for a wide range of securities, equity options and swaptions when the future income, gains and losses are projected and discounted to the valuation date.

(4)(a)(viii) The PSALM model projects 5000 scenarios over 40 years. We have demonstrated that this produces statistically credible results, both using statistical theory and empirically by running the model several times on randomly different sets of economic scenarios and demonstrating that the results are materially close.

(4)(b) Not applicable

(4)(c) Not applicable

(5)(a) For the WPSF UK business and SAIF, modelled management decisions are consistent with the Principles and Practices of Financial Management (PPFM) available to the public, and with the Financial Condition Reports submitted annually to the PAC Board. Details are given for UK business; a similar approach is used for the Hong Kong business.

In practice, a range of management actions would be considered at any time of stress. The actions taken would depend on the economic outlook and the financial position of the fund at that time. The stochastic model cannot reflect all possible actions and so it includes assumptions to broadly reflect the likely decisions. The assumptions made, as described below, are therefore indicative of the actions that might be taken in practice.

The results are sensitive to the bonus, MVR and investment policy the company employs. The annual bonuses and investment mix are dynamically modelled in PSALM stochastic projections. Dynamic management actions are assumed to depend on the PAC solvency position during the projection. For this purpose a PAC solvency ratio is calculated as (assets/regulatory liability – 1) for the combined with-profits funds, where the regulatory liability includes a notional resilience capital requirement. Two ratios are calculated either including or excluding the cost of personal pension mis-selling costs (accumulated past and potential future costs, run-off in line with relevant policy asset shares) as an additional notional asset. The appropriate ratio is applied when deriving management actions in order to ensure that PAC's bonus and investment policy remain unaffected by the charging of personal pension mis-selling costs to the inherited estate in the WPSF.

Paragraphs (5)(a)(i) to (5)(a)(vii) below set out the key management actions assumed.

(5)(a)(i) Reversionary bonuses (RB)

The following rules are assumed for WPSF business:

- The initial RB rates are shown in Appendix 7.
- When the solvency ratio (including the cost of personal pension mis-selling) is at or above 8%, RB rates are determined by comparing the projected terminal bonus level with the theoretical terminal bonus level that would be consistent with targeting RB rates on 60% of expected future investment returns, net of charges. RB rates are increased if the projected terminal bonus level is too high or decreased if the projected terminal bonus level is too low, compared with a target range.
- If (on the RB declaration month) the solvency level is below 8%, then RB rates are reduced by 50%. If solvency recovers back above 8% then RB rates are assumed to revert back to the full level.

The following additional rules are assumed for SAIF business:

- The calculated RB rates (ie determined by projecting the terminal bonus level) are assumed to apply when the solvency ratio (including the cost of personal pension mis-selling) is at or above 16.6%.
- If (on the RB declaration month) the solvency ratio is below 8.3%, SAIF RB rates are assumed to reduce by 90%. Between 16.6% and 8.3% solvency, SAIF RB rates are reduced linearly. When the solvency ratio rises above 16.6%, RB rates return to the full level.
- If the WPSF RB rates have been cut by 50%, the SAIF RB rates derived above are also assumed to reduce by a further 50%.

(5)(a)(ii) Smoothing rules

Smoothing costs are determined in line with expected company practice to the extent that this can be modelled (given the practical constraints of stochastic modelling).

The stochastic asset liability model does not hold specific final bonus rates; instead the approach used is to determine:

- the opening claim values by applying a ratio of claim value to asset share to each model point asset share, and
- all future claim values as equal to asset shares, subject to the smoothing of claim values and the reversionary bonus underpin (where applicable).

The claim value between year ends is determined by accumulating the previous year-end smoothed claim value at a rate of return, which is equal to the risk-free rate plus a risk premium (which is the weighted average of the risk premiums for each asset class). The risk premiums are set to target an overall fund return of 8% over the long term.

In the RCM scenario, the risk-free rate reduces in line with the interest rate event. The yearly reviews adjust the claim value towards the asset share, as follows:

- if the claim value (before the application of smoothing) is within ± 10% of the target asset share, the smoothed claim value is set equal to the target asset share,
- if the claim value (before the application of smoothing) is outside ± 10% but within ± 20% of the target asset share, the smoothed claim value is moved 10% (of the asset share) closer to the asset share,
- if the claim value (before the application of smoothing) is outside ± 20% but within ± 33% of the target asset share, the smoothed claim value is moved to ±10% of the asset share,
- if the claim value (before the application of smoothing) is outside ± 33% of the target asset share, the smoothed claim value is moved two thirds of the way to the target asset share.

With-profit immediate annuities in the WPSF are constrained such that the year-on-year change in total annuity lies within the range -5% to 11%.

In addition to the modelling assumptions described above smoothing is suspended if the solvency ratio (including the cost of personal pension mis-selling) is less than 6%. In these circumstances, for AWP and CWP products, claim values on maturity or death are set equal to the greater of the guaranteed benefit and the asset share. For other decrements, claim values are set equal to the asset share. For with-profit immediate annuities (WPIA), there is no limit to the fall in smoothed annuity that can be applied when smoothing is suspended. The solvency check is carried out monthly for AWP business, and annually for CWP and WPIA business, to reflect practical constraints on when claim values can be revised.

(5)(a)(iii) Market value reductions (MVRs)

It is assumed that the MVR-free limit to be applied to all AWP business in the sixth and subsequent policy years varies according to the solvency ratio (including the cost of personal pension mis-selling), as follows:

- When the solvency ratio is above 8%, the MVR-free limit is £25,000.
- When the solvency ratio is between 6% and 8%, the MVR-free limit is £10,000.

- When the solvency ratio is below 6%, the MVR-free limit is zero.

- Once the MVR-free limit has fallen to £10,000 or zero it does not return to £25,000 until the solvency ratio is at least 15%.

For personal pensions, our current practice is to apply a reducing scale of MVRs on early retirement within six years of the selected retirement date. The phasing out of MVRs on Prudence Bond and PSA by the later of age 85 and in-force duration of 15 years is also allowed for. For both personal pensions and Prudence Bond/PSA, it is assumed that phased MVRs would be applied only if the solvency ratio (including the cost of personal pension mis-selling) is at or above 8%. Below 8%, full MVRs are assumed to be applied.

The maximum MVR (as a percentage of the pre-MVR claim value) is capped at 15% providing the solvency ratio (including the cost of personal pension mis-selling) is at or above 6%. When the solvency ratio is below 6%, the MVR is not capped.

(5)(a)(iv) Frequency of bonus declarations

Bonus declarations are assumed to be made annually. Additional mid-year bonus declarations for accumulating with-profits (AWP) business are made if both:

- the solvency ratio (including the cost of personal pension mis-selling) is less than or equal to 15%, and

- the claim value to asset share ratio for AWP business is either greater than 125% or less than 75%.

(5)(a)(v) Asset re-balancing and switching

The asset allocations are assumed to be re-balanced on an annual basis towards the long-term benchmark asset allocation. There is no assumed limit on the maximum amount that can be re-balanced in any month.

In addition to rebalancing, asset switching (pro rata from UK and overseas equities into corporate bonds) is triggered when the solvency ratio falls below 6% (including the cost of personal pension mis-selling). The amounts to be switched are determined as follows:

- At 6% solvency or above, UK and overseas equities are assumed to remain at their long-term benchmark proportions (if switching has not yet taken place). If switching has already taken place in the model, switching from corporate bonds back into equities (in order to return to the long-term benchmark) can only occur when solvency rises above 8%.

- At 2.5% solvency, UK and overseas equities are assumed to be fully switched into corporate bonds.

- Between 6% and 2.5% solvency, the required switch amount is determined by linear interpolation between the limits specified above.

The maximum amount that can be switched in any month is 2% of total assets.

The SAIF asset allocation is assumed to be the same as the WPSF but with around 6% more corporate bonds (and around 6% less in other assets).

The property portfolio is assumed to be illiquid over the short term, so no switching of property assets occurs in the model.

(5)(a)(vi) Tax on shareholders’ transfers

If the PAC solvency level (excluding the cost of personal pension mis-selling) is above 8%, tax on shareholders' transfers is assumed to be paid from the WPSF's free assets.

(5)(a)(vii) Operation of SAIF

PSALM contains rules to model the SAIF Principles of Financial Management. As well as the rules set out above, this includes:

- recalculating the enhancement factor applied to SAIF asset shares, with the intention of distributing all SAIF assets (including future profits arising in SAIF) to SAIF policies, and
- merging SAIF into the WPSF when SAIF assets (including the bonus smoothing account but excluding SACF) fall below £1bn, increased in line with RPI from the date of commencement of the Scottish Amicable scheme (1997).

(5)(b) The proportion of equities and level of reversionary bonus rates after 5 and 10 years are shown below, projected by the PSALM model assuming various specific constant rates of return.

(i) Based on forward rates derived from the risk free interest rate curve

Year	**Rate of return**	**Equity proportion**		**Proportion of initial RB rate**			
		WPSF	**SAIF**	**WPSF – Life**	**WPSF – Pensions**	**SAIF – Life**	**SAIF - Pensions**
	%	%	%	%	%	%	%
Current	N/A	51	50	100	100	100	100
5 years	2.78	46	48	58	50	46	10
10 years	3.50	44	48	75	0	0	14

(ii) Based on forward rates plus 17.5% of the long-term gilt yield

Year	**Rate of return**	**Equity proportion**		**Proportion of initial RB rate**			
		WPSF	**SAIF**	**WPSF – Life**	**WPSF – Pensions**	**SAIF – Life**	**SAIF - Pensions**
	%	%	%	%	%	%	%
Current	N/A	51	50	100	100	100	100
5 years	3.27	46	48	75	83	42	9
10 years	4.11	43	48	92	25	15	13

(iii) Based on forward rates less 17.5% of the long-term gilt yield

Year	**Rate of return**	**Equity proportion**		**Proportion of initial RB rate**			
		WPSF	**SAIF**	**WPSF – Life**	**WPSF – Pensions**	**SAIF – Life**	**SAIF - Pensions**
	%	%	%	%	%	%	%
Current	N/A	51	50	100	100	100	100
5 years	2.30	46	48	33	25	28	8
10 years	2.89	44	48	50	8	0	14

The initial reversionary bonus rates are shown in Appendix 7.

(6) For SAIF guaranteed annuity options, modelled in PSALM, no decrements are assumed in deferment and 10% of the annuity is assumed to be taken as cash (i.e. the guarantee cost applies only to the remaining 90%). Due to constrained information on the age at vesting and the nature of the annuity, GAO costs are calculated using an annuity certain of 22 years.

A summary of the decrement assumptions is shown in the table below:

Product	**Decrement**	Average surrender/paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
CWP savings endowment	surrender	8.06	3.02	1.26	1.26
CWP target cash endowment	surrender	8.06	3.02	1.26	1.26
UWP savings endowment	surrender	N/A	N/A	N/A	N/A
UWP target cash endowment	surrender	N/A	N/A	N/A	N/A
UWP bond	surrender	3.69	10.26	6.75	6.75
UWP bond	automatic withdrawals	0.00	0.00	0.00	0.00
CWP pension regular premium	PUP	3.15	3.60	2.70	2.70
CWP pension regular premium	surrender	1.35	1.35	1.35	1.35
CWP pension single premium	surrender	0.90	0.90	0.90	0.90
UWP individual pension regular premium	PUP	8.55	6.75	4.50	4.50
UWP individual pension regular premium	surrender	3.15	3.15	3.15	3.15
UWP individual pension single premium	surrender	2.70	2.70	2.70	2.70

(7) It is assumed that in extreme market scenarios, the group actions of policyholders would serve to increase the costs of guarantees and smoothing. This is modelled by assuming that decrement rates will be 10% lower than our current best estimate. The same assumptions are used in both the base valuation and the RCM.

7. Financing costs

Not applicable

8. Other long-term insurance liabilities

No liabilities are shown at line 46 of Form 19. Liabilities shown at line 47 of Form 19 are as follows:

With-profits fund	Description	Amount £m
WPSF	The tax payable from the estate in respect of future shareholder transfers from the fund	385
	Pensions mis-selling liabilities	397
	Reserve for compensation in respect of complaints on mortgage endowment policies	54
	Other	44
SAIF	SACF capital support fee	99
	Reserve for compensation in respect of complaints on mortgage endowment policies	40
	Other	27
DCPSF	Charges for guarantees payable to the WPSF	77

9. Realistic current liabilities

Regulatory current liabilities comprise two elements:

(i) a provision for the capital gains tax (CGT) expected to be paid on unrealised investment gains, and
(ii) other current liabilities, as reported within Form 14 lines 17 to 41.

The realistic current liabilities shown at line 51 of Form 19 are the same as the regulatory current liabilities except that:

(a) the unrealised CGT provision is determined assuming a discounted CGT rate of 18.4% rather than the undiscounted rate of 20%, and

(b) the realistic current liabilities include cash bonuses which had not been paid to policyholders prior to the end of the financial year (as shown at Form 14 line 12).

The reconciliation of realistic to regulatory current liabilities is shown below:

	WPSF £m	**SAIF £m**	**DCPSF £m**
Current liabilities (Form 14 lines 17 to 41)	4,092	884	5
Unpaid cash bonus (Form 14 line 12)	2	0	0
Regulatory current liabilities	4,093	884	5
Impact of discounting CGT rate	(38)	(2)	0
Realistic current liabilities (Form 19 line 51)	4,055	882	5

10. Risk capital margin

(a) The risk capital margin is £1,744m for the WPSF (plus the DCPSF) and £287m for SAIF.

This has been calculated assuming:

(i) a percentage change in market values, in accordance with INSPRU 1.3.68R, of 20.0% for equities and 12.5% for real estate. The assumed percentage changes for each significant territory were the same as for United Kingdom assets. A fall in market values is the more onerous.

(ii) a change in the yields of United Kingdom fixed interest securities of 66 bps. For significant territories, the assumed change in yields is 66 bps for the United States and 66 bps for the member states of the European Union that have adopted the euro as their official currency ("euroland"). A fall in yields is the more onerous. The assumed long-term gilt yields or nearest equivalent are shown below:

Territory	**Long-term gilt yield in base valuation %**	**Long-term gilt yield in RCM %**
UK	3.74	3.08
USA	3.12	2.46
euroland	3.68	3.02

(iii) in respect of credit risk, average changes in spreads and consequent changes in asset values as follows:

(a) for bonds issued or guaranteed by an organisation which is a credit risk scenario exempt organisation in accordance with INSPRU 1.3.87R, no credit stress is applied. For other bonds, spreads are assumed to increase on average by 172 basis points for each of WPSF, DCPSF and SAIF. Asset values (including those in respect of credit risk scenario exempt organisations) fall overall by 8.3% (WPSF and DCPSF) and by 8.0% (SAIF).

(b) for debts, it is assumed that spreads increase on average by 146 basis points and asset values fall overall by 13.4%.

(c) no allowance is made for reinsurance credit risk as the volume of reinsured with-profits business is immaterial.

(d) no change is assumed for non-reinsurance financing agreements. These are not considered to present a significant credit risk.

(e) for other debtors reported in lines 78 and 79 of Form 13, it is assumed that asset values fall overall by 1.0%.

(iv) the impact of the persistency risk scenario is equivalent to an increase in the realistic value of liabilities of 0.8% for the WPSF and 1.1% for SAIF.

(v) that any change in asset values in (iii) is independent of the change in liability values in (iv).

(b) In the risk capital margin calculation the management actions assumed are the same as those set out in 6.(5)(a).

There are no changes to other assumptions.

(c) (i) The assets allocated to support the WPBR and the reserve for unrealised capital gains reflect the actual mix of the assets backing with-profits business. The assets allocated to support the FPRL include any remaining equities and property in the fund, with the balance required being provided by fixed interest and other assets. Current assets are used to support current liabilities. The RCM is backed by surplus fixed interest and other assets.

SAIF has insufficient assets within the fund to cover its risk capital margin; the assets covering SAIF's RCM are held within the WPSF.

(ii) For the WPSF none of the assets held to cover the risk capital margin are outside the respective fund.

The Scheme of Transfer by which the company acquired the business in SAIF includes allowance for the provision of capital support by the WPSF. This capital support is being relied upon at 31 December 2008 to cover SAIF's risk capital margin.

For the DCPSF the assets backing the RCM are held in the WPSF.

11. Tax

The treatment of tax is set out below.

(i) The investment returns credited to the with-profits benefits reserves include an allowance for tax deducted during 2008 at the rates shown below. Further adjustments may be made from time to time to bring the tax charged to asset shares into line with the aggregate tax actually paid and expected to be paid in the future. Tax on shareholders transfers is not currently deducted from asset shares.

(ii) The future policy related liabilities include allowance for tax on future investment returns and tax relief on expenses at current rates of tax allowing for any likely deferral of tax on capital gains, as shown in the table below.

(iii) The realistic current liabilities include a reserve for unrealised capital gains which is the regulatory reserve except that a discounted rate of 18.4% rather than 20% is applied.

TAX RATES **Source**	**WPSF and SAIF †** **Tax Rate**
Franked Investment Income	0.0%
Unfranked Investment Income (fixed interest and cash)	20.0%
Unfranked Investment Income (property)	20.0%
Capital Gains	18.4%
Initial Expense Relief	15.0%
Renewal Expense Relief	20.0%
Shareholder Transfers (gross business)	38.9%
Shareholder Transfers (net business)	8.0%

† Tax is not applied to pensions or DCPSF business other than in respect of tax on shareholders' transfers from the WPSF.

12. Derivatives

The WPSF and SAIF hold:

- Exchange traded equity index and fixed income futures. Positions are used either:

  (a) to reflect tactical asset allocation (short term) views around the strategic (long term) benchmark, or

  (b) as part of a delta hedging programme to protect the inherited estate from large falls in equity values.

- Forward currency contracts primarily to hedge currency risk arising from US and European bond exposures, but also to implement tactical asset allocation positions.

- Over-the-counter (OTC) equity single stock options to increase the equity exposure of the convertible bond sub-fund.

- OTC fixed income derivatives positions to convert floating rate assets into fixed rate assets.

- OTC total return swaps based on the IPD Annual All Property index to adjust tactically the fund's exposure to property.

- Index and single name credit default swaps to increase or decrease credit exposure.

- SAIF holds OTC swaptions to partially hedge its guaranteed annuity liabilities.

13. Analysis of change in working capital

	WPSF £m	SAIF £m
Working capital at 1 January 2008	8,718	-
Reversal of zeroisation by closed funds	-	533
Working capital at 1 January 2008 prior to zeroisation	8,718	533
Assets:		
Investment return on opening working capital (excluding PAL)	(1,033)	(94)
Return on PAL	244	-
Investment return on assets backing liabilities	(693)	(189)
Excess of 2008 claim values over asset shares	(590)	(144)
Change in cost of guarantees, options, and smoothing:		
2008 economic experience (investment return and estate asset mix)	(1,665)	(69)
2008 non-economic experience	-	-
Economic assumption changes	(494)	(71)
Non-economic assumption changes	9	-
Modelling of management actions	417	111
Other	54	17
Other:		
Change in the liabilities shown in Form 19 line 47	638	23
Change in the liabilities shown in Form 19 line 51 (excluding taxation and creditors)	(125)	(60)
Impact of new business	(136)	-
Change in the value of non-profit business	(2)	(68)
Provision for enhancements to SAIF asset shares from bonus smoothing account	-	179
Other	21	-
Working capital at 31 December 2008 prior to zeroisation	5,363	169
Zeroisation by closed funds	-	(169)
Working capital at 31 December 2008	5,363	-

14. Optional disclosure

Not applicable

Appendix 6

	Asset type	K = 0.75			
	n	5	15	25	35
	Annualised compound equivalent of the risk free rate assumed for the period	2.84%	4.02%	4.19%	3.98%
1	Risk-free zero coupon bond	869,559	552,683	356,549	254,250
2	FTSE All Share Index (p=1)	160,898	272,425	341,139	403,191
3	FTSE All Share Index (p=0.8)	150,509	220,895	250,105	275,883
4	Property (p=1)	35,087	113,887	192,225	259,156
5	Property (p=0.8)	30,036	78,787	122,004	157,384
6	15 year risk free zero coupon bonds (p=1)	2,353	5,069	5,412	14,623
7	15 year risk free zero coupon bonds (p=0.8)	1,643	1,073	384	1,182
8	15 year corporate bonds (p=1)	10,752	32,430	56,579	93,469
9	15 year corporate bonds (p=0.8)	8,122	15,325	21,088	33,076
10	Portfolio of 65% FTSE All Share and 35% property (p=1)	98,938	189,830	259,729	327,134
11	Portfolio of 65% FTSE All Share and 35% property (p=0.8)	90,178	146,805	179,170	212,993
12	Portfolio of 65% FTSE All Share and 35% 15 risk free zero coupon bonds (p=1)	79,266	148,040	204,381	257,042
13	Portfolio of 65% FTSE All Share and 35% 15 risk free zero coupon bonds (p=0.8)	71,393	109,653	132,815	155,341
14	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	42,515	94,453	144,929	199,359
15	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	36,448	63,735	85,321	108,303
		L = 15			
16	Receiver swaptions	6.39%	7.26%	7.32%	5.25%

	Asset type	K = 1			
	n	5	15	25	35
	Annualised compound equivalent of the risk free rate assumed for the period	x	x	x	x
1	Risk-free zero coupon bond	x	x	x	x
2	FTSE All Share Index (p=1)	302,816	444,519	523,330	595,591
3	FTSE All Share Index (p=0.8)	285,707	366,082	388,488	413,693
4	Property (p=1)	141,680	249,417	345,454	427,488
5	Property (p=0.8)	126,480	184,398	230,699	267,971
6	15 year risk free zero coupon bonds (p=1)	66,159	74,743	77,130	103,527
7	15 year risk free zero coupon bonds (p=0.8)	52,261	29,273	14,080	17,067
8	15 year corporate bonds (p=1)	94,946	139,112	179,977	236,012
9	15 year corporate bonds (p=0.8)	79,957	81,640	82,639	99,800
10	Portfolio of 65% FTSE All Share and 35% property (p=1)	228,063	344,265	427,651	505,415
11	Portfolio of 65% FTSE All Share and 35% property (p=0.8)	212,226	272,624	302,470	336,669
12	Portfolio of 65% FTSE All Share and 35% 15 risk free zero coupon bonds (p=1)	203,244	294,667	360,552	424,317
13	Portfolio of 65% FTSE All Share and 35% 15 risk free zero coupon bonds (p=0.8)	187,522	225,569	243,448	265,772
14	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	153,137	226,235	289,347	356,612
15	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	137,855	162,376	179,899	207,272
		L = 20			
16	Receiver swaptions	8.16%	9.36%	8.83%	6.33%

	Asset type	K = 1.5			
	n	5	15	25	35
	Annualised compound equivalent of the risk free rate assumed for the period	x	x	x	x
1	Risk-free zero coupon bond	x	x	x	x
2	FTSE All Share Index (p=1)	668,582	835,915	922,278	1,013,14 1
3	FTSE All Share Index (p=0.8)	635,254	702,800	699,566	714,167
4	Property (p=1)	531,320	619,075	719,836	816,520
5	Property (p=0.8)	494,047	485,249	506,166	535,583
6	15 year risk free zero coupon bonds (p=1)	504,931	498,406	497,276	503,336
7	15 year risk free zero coupon bonds (p=0.8)	464,291	338,903	240,345	197,275
8	15 year corporate bonds (p=1)	514,361	540,420	577,756	636,040
9	15 year corporate bonds (p=0.8)	474,653	391,865	342,232	340,985
10	Portfolio of 65% FTSE All Share and 35% property (p=1)	594,182	723,749	812,253	903,985
11	Portfolio of 65% FTSE All Share and 35% property (p=0.8)	560,039	590,934	595,165	617,223
12	Portfolio of 65% FTSE All Share and 35% 15 risk free zero coupon bonds (p=1)	570,995	670,914	737,642	814,756
13	Portfolio of 65% FTSE All Share and 35% 15 risk free zero coupon bonds (p=0.8)	536,283	538,055	522,336	532,336
14	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	534,274	601,304	664,530	739,508
15	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	497,593	466,294	447,834	460,290
		L = 25			
16	Receiver swaptions	10.24%	11.12%	10.07%	7.22%

Appendix 7

Initial reversionary bonus (RB) rates in stochastic valuation

	RB rates **%**
Life & Pensions	
1. PSA/PIB	3.00
2. Personal Pensions	3.00
3. OB assurances	1.2/2.5
4. IB assurances	1.1/2.3
5. PPRP	0.25/0.50
Annuities	
6. Annuities	2.00
Corporate	
8. Unitised	3.25
9a. DC Cash Accumulation	2.75[1]
9b. DB Cash Accumulation	2.25[1]
10. AVC Cash Accumulation	2.75[1]
12. Pension Savings Plan	2.25
IFA	
13. Prudence Bond	
- Standard	3.00
- High RB	3.75
14. Prudential Pensions	3.00
15. SAL Life	2.75
16. SAL Pensions	
- Funds 5, 6	3.125
SAIF[2]	
17. Principal Endowment	0.80/1.50
20. Flexipension (series 1)	0.40/0.90
21. Life	2.00
22. Pensions – Funds 3 & 4	2.25

[1] *Subject to a guarantee of 4.75%, 2.50% for certain earlier business*

[2] *SAIF projected rates are reduced by applying the PAC solvency adjustment factor*

Where two rates are shown, the first is the rate of RB added to the original sum assured and the second is the rate of RB added to existing RB.

Appendix 8
The tables below show the Reversionary Bonus (RB) rates and the Terminal Bonus (TB) as a proportion of the Sum Assured.

OB Assurances

Reversionary Bonus Rates				
	2008 Actual	2009	2010	Ultimate
RB on SA	1.2%	1.2%	1.0%	1.0%
RB on RB	2.5%	2.5%	2.0%	2.0%

TB as a proportion of Sum Assured					
Term	2008	2009	2010	2011	2012
10	35%	15%	13%	15%	17%
15	48%	21%	16%	16%	17%
20	87%	50%	34%	25%	19%
25	111%	64%	45%	38%	39%
30	220%	137%	105%	78%	55%

PPRP Regular Premium

Reversionary Bonus Rates				
	2008	2009	2010	Ultimate
RB on SA	0.25%	0.25%	0.05%	0.05%
RB on RB	0.50%	0.50%	0.20%	0.20%

TB as a proportion of Sum Assured					
Term	2008	2009	2010	2011	2012
10	19%	6%	5%	5%	7%
15	24%	8%	6%	7%	9%
20	51%	15%	8%	7%	9%
25	40%	0%	0%	0%	0%
30	123%	45%	29%	17%	9%

PPRP Single Premium

Reversionary Bonus Rates				
	2008	2009	2010	Ultimate
RB on SA	0.25%	0.25%	0.05%	0.05%
RB on RB	0.50%	0.50%	0.20%	0.20%

TB as a proportion of Sum Assured					
Term	2008	2009	2010	2011	2012
10	10%	0%	0%	34%	23%
15	56%	27%	16%	6%	0%
20	41%	8%	1%	0%	0%
25	172%	71%	57%	44%	34%
30	354%	191%	161%	136%	147%

PP Regular Premium

Reversionary Bonus Rates				
	2008 actual	2009	2010	Ultimate
RB rate	3.50%	3.00%	3.00%	3.00%

TB as a proportion of Sum Assured					
Term	2008	2009	2010	2011	2012
10	18%	20%	21%	21%	19%
15	25%	26%	26%	26%	26%

Appendix 9
The table below shows the instantaneous risk-free forward rates used to calibrate the nominal interest rate model.

Year	31 December 2008	31 December 2007
0	1.54	5.51
1	1.20	4.03
2	2.82	4.17
3	3.58	4.51
4	3.89	4.69
5	4.04	4.76
6	4.12	4.77
7	4.17	4.75
8	4.23	4.71
9	4.32	4.66
10	4.45	4.61
11	4.61	4.56
12	4.78	4.51
13	4.91	4.46
14	5.00	4.41
15	5.04	4.36
16	5.02	4.31
17	4.94	4.26
18	4.80	4.21
19	4.62	4.16
20	4.42	4.11
21	4.20	4.05
22	3.97	4.00
23	3.76	3.95
24	3.57	3.91
25	3.41	3.87
26	3.41	3.87
27	3.41	3.87
28	3.41	3.87
29	3.41	3.87
30	3.41	3.87
31	3.41	3.87
32	3.41	3.87
33	3.41	3.87
34	3.41	3.87
35	3.41	3.87
36	3.41	3.87
37	3.41	3.87
38	3.41	3.87
39	3.41	3.87
40	3.41	3.87

Appendix 10
The table below shows the UK equity volatilities obtained for the GeneSIS asset model calibration.

Year	100% at the money	90% at the money	80% at the money	Average moneyness
1	34.22	37.21	40.32	35.96
2	33.78	35.84	38.03	34.73
3	33.63	35.29	37.06	34.28
4	33.56	34.95	36.50	33.97
5	33.50	34.74	36.07	34.20
6	33.45	34.60	35.80	33.85
7	33.40	34.46	35.56	33.97
8	33.39	34.38	35.39	33.82
9	33.34	34.26	35.23	33.87
10	33.30	34.14	35.04	33.39

Appendix 11
The table below shows the final term structure for UK and overseas equity volatilities used in the GeneSIS asset model calibration.

Equity volatilities (%)		
Year	**UK**	**Overseas**
0	35.76	28.61
1	34.18	27.34
2	32.95	26.36
3	32.08	25.66
4	33.27	26.62
5	30.32	24.25
6	32.13	25.70
7	30.02	24.02
8	30.95	24.76
9	25.17	20.14
10	23.66	18.93
11	22.91	18.33
12	22.17	17.74
13	21.43	17.14
14	20.68	16.55
15	20.00	16.00
16	20.00	16.00
17	20.00	16.00
18	20.00	16.00
19	20.00	16.00
20	20.00	16.00