



Prudential Annuities Limited

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

Annual FSA Insurance Returns for the year ended

31 December 2009



IPRU(INS) Appendices 9.1, 9.3, 9.4, 9.6

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

Global business

Financial year ended **31 December 2009**

Solo solvency calculation

	Company registration number	GL/ UK/ CM	day	month	year	Units
R2	2554213	GL	31	12	2009	£000
			As at end of this financial year			As at end of the previous year
			1			2

Capital resources

Capital resources arising within the long-term insurance fund	11	105685	50000
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	664179	649965
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	769864	699965

Guarantee fund

Guarantee fund requirement	21	172814	166929
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	597050	533036

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	518442	500788
Resilience capital requirement	32		
Base capital resources requirement	33	3128	2518
Individual minimum capital requirement	34	518442	500788
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	518442	500788
Excess (deficiency) of available capital resources to cover 50% of MCR	37	510643	449571
Excess (deficiency) of available capital resources to cover 75% of MCR	38	381033	324374

Enhanced capital requirement

With-profits insurance capital component	39		
Enhanced capital requirement	40	518442	500788

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	518442	500788
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	251422	199177

Contingent liabilities

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51	533	1675
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Covering Sheet to Form 2**Form 2**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2009**.....
R A Devey**Director**.....
A M Crossley**Director**.....
D J Belsham**Director****Date****London 26 March 2010**

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

Global business

Financial year ended **31 December 2009**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	2554213	GL	31	12	2009	£000
		General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3	Total as at the end of the previous year 4	

Core tier one capital

Permanent share capital	11		550000	550000	550000
Profit and loss account and other reserves	12		995363	995363	999245
Share premium account	13				
Positive valuation differences	14				
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		1545363	1545363	1549245

Tier one waivers

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

Other tier one capital

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

Total tier one capital before deductions (19+24+25+26+27+28)	31		1545363	1545363	1549245
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35		710199	710199	753625
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37		710199	710199	753625
Total tier one capital after deductions (31-37)	39		835164	835164	795620

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

Global business

Financial year ended **31 December 2009**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	2554213	GL	31	12	2009	£000
		General insurance business			Total as at the end of this financial year	Total as at the end of the previous year
		1			3	4

Tier two capital

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

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

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

Form 3
(Sheet 3)

Components of capital resources

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2009**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	2554213	GL	31	12	2009	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		1	2	3	4	

Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71				
Total capital resources before deductions (39+69+71)	72		835164	835164	795620
Inadmissible assets other than intangibles and own shares	73		65300	65300	95655
Assets in excess of market risk and counterparty limits	74				
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76				
Deductions of ineligible surplus capital	77				
Total capital resources after deductions (72-73-74-75-76-77)	79		769864	769864	699965

Available capital resources for GENPRU/INSPRU tests

Available capital resources for guarantee fund requirement	81		769864	769864	699965
Available capital resources for 50% MCR requirement	82		769864	769864	699965
Available capital resources for 75% MCR requirement	83		769864	769864	699965

Financial engineering adjustments

Implicit items	91				
Financial reinsurance - ceded	92				
Financial reinsurance - accepted	93				
Outstanding contingent loans	94				
Any other charges on future profits	95		533	533	1675
Sum of financial engineering adjustments (91+92-93+94+95)	96		533	533	1675

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

Global business

Financial year ended **31 December 2009**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
	R13	2554213	GL	31	12	2009	£000	1
						As at end of this financial year	As at end of the previous year	
						1	2	
Land and buildings				11				

Investments in group undertakings and participating interests

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

Other financial investments

Equity shares		41		5003
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43		
Rights under derivative contracts		44	5885	1033
Fixed interest securities	Approved	45	561623	628681
	Other	46	14466	103069
Variable interest securities	Approved	47	5085	4873
	Other	48	40858	71858
Participation in investment pools		49		
Loans secured by mortgages		50		
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52		
Other loans		53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	30426	35433
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58		
	Property linked	59		

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

Global business

Financial year ended **31 December 2009**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
	R13	2554213	GL	31	12	2009	£000	1
					As at end of this financial year		As at end of the previous year	
					1		2	

Reinsurers' share of technical provisions

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

Debtors and salvage

Direct insurance business	Policyholders	71		
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75		
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	23	20758
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	13879	
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	9969	11235
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	682214	881943
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Analysis of admissible assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2009**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
R13	2554213	GL	31	12	2009	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	

Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	682214	881943
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	500	900
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101	(506)	(154288)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	682208	728555
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

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

Global business

Financial year ended **31 December 2009**Category of assets **Total long term insurance business assets**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	2554213	GL	31	12	2009	£000	10
					As at end of this financial year		As at end of the previous year
					1		2
Land and buildings			11		632380		579324

Investments in group undertakings and participating interests

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

Other financial investments

Equity shares		41	210231	237915
Other shares and other variable yield participations		42	8	8
Holdings in collective investment schemes		43	29639	31689
Rights under derivative contracts		44	72013	131806
Fixed interest securities	Approved	45	1634994	2039305
	Other	46	7932415	7302157
Variable interest securities	Approved	47		
	Other	48	94488	70899
Participation in investment pools		49		
Loans secured by mortgages		50	136737	131773
Loans to public or local authorities and nationalised industries or undertakings		51	471	1140
Loans secured by policies of insurance issued by the company		52		
Other loans		53	12166	13378
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	330200	133663
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	2124909	1949216
	Property linked	59		

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

Global business

Financial year ended **31 December 2009**Category of assets **Total long term insurance business assets**

Company registration number		GL/UK/CM	day	month	year	Units	Category of assets
R13	2554213	GL	31	12	2009	£000	10
					As at end of this financial year		As at end of the previous year
					1		2

Reinsurers' share of technical provisions

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

Debtors and salvage

Direct insurance business	Policyholders	71	66	56
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74	52	81
	Ceded	75		
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	53344	78325
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81		173148
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	229838	215842
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	24573	23370

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	13518524	13113095
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Analysis of admissible assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2009**Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
R13	2554213	GL	31	12	2009	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reconciliation to asset values determined in accordance
with the insurance accounts rules or international
accounting standards as applicable to the firm for the
purpose of its external financial reporting**

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	13518524	13113095
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	64800	94755
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98	(17101)	(6245)
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100	6121	5479
Other asset adjustments (may be negative)	101	(127001)	(85509)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	13445343	13121575
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

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

Global business

Financial year ended **31 December 2009**Total business/Sub fund **Ordinary Branch Long Term**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus		11	12961043	12519721
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus/(valuation deficit)		13	170485	144755
Long term insurance business fund carried forward (11 to 13)		14	13131528	12664476
Claims outstanding	Gross	15	5538	6508
	Reinsurers' share	16		
	Net (15-16)	17	5538	6508
Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	426	389
	Reinsurance accepted	32	6287	6015
	Reinsurance ceded	33		
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions		36	289837	251273
Creditors	Taxation	37	4221	4232
	Other	38	145487	270067
Accruals and deferred income		39		4890
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	451796	543374
Excess of the value of net admissible assets		51		
Total liabilities and margins		59	13583324	13207850

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	359	914
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		

Total liabilities (11+12+49)	71	13412839	13063095
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73	6121	5479
Other adjustments to liabilities (may be negative)	74	(854301)	(845379)
Capital and reserves and fund for future appropriations	75	880684	898379
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76	13445343	13121574

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

Global business

Financial year ended **31 December 2009**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	R15	2554213	GL	31	12	2009	£000
				As at end of this financial year 1		As at end of the previous year 2	

Technical provisions (gross amount)

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

Provisions and creditors

Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers		31		
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions		46	10934	215638
Creditors	Taxation	47	7095	14528
	Foreseeable dividend	48		
	Other	49	6	1812
Accruals and deferred income		51		
Total (19 to 51)		59	18035	231978
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69	18035	231978

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71		
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Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83	(506)	(154288)
Capital and reserves	84	664679	650866
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)	85	682208	728556

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

Global business

Financial year ended **31 December 2009**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R16	2554213	GL	31	12	2009	£000
				This financial year			Previous year	
				1			2	
Transfer (to)/from the general insurance business technical account		From Form 20	11					
		Equalisation provisions	12					
Transfer from the long term insurance business revenue account			13				(503664)	
Investment income	Income		14	31146			51391	
	Value re-adjustments on investments		15				17905	
	Gains on the realisation of investments		16	9391			1655	
Investment charges	Investment management charges, including interest		17	488			713	
	Value re-adjustments on investments		18	22527				
	Loss on the realisation of investments		19					
Allocated investment return transferred to the general insurance business technical account			20					
Other income and charges (particulars to be specified by way of supplementary note)			21	(235)			(260)	
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29	17287			(433686)	
Tax on profit or loss on ordinary activities			31	3473			19258	
Profit or loss on ordinary activities after tax (29-31)			39	13814			(452944)	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			41					
Tax on extraordinary profit or loss			42					
Other taxes not shown under the preceding items			43					
Profit or loss for the financial year (39+41-(42+43))			49	13814			(452944)	
Dividends (paid or foreseeable)			51					
Profit or loss retained for the financial year (49-51)			59	13814			(452944)	

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

Global business

Financial year ended **31 December 2009**Category of assets **Total other than long term insurance business assets**

		Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
		R17	2554213	GL	31	12	2009	£000	1
Derivative contracts			Value as at the end of this financial year				Notional amount as at the end of this financial year		
			Assets 1		Liabilities 2		Bought / Long 3	Sold / Short 4	
Futures and contracts for differences	Fixed-interest securities	11							
	Interest rates	12							
	Inflation	13	5885			132825	132825		
	Credit index / basket	14							
	Credit single name	15							
	Equity index	16							
	Equity stock	17							
	Land	18							
	Currencies	19							
	Mortality	20							
	Other	21							
In the money options	Swaptions	31							
	Equity index calls	32							
	Equity stock calls	33							
	Equity index puts	34							
	Equity stock puts	35							
	Other	36							
Out of the money options	Swaptions	41							
	Equity index calls	42							
	Equity stock calls	43							
	Equity index puts	44							
	Equity stock puts	45							
	Other	46							
Total (11 to 46)		51	5885			132825	132825		
Adjustment for variation margin		52							
Total (51 + 52)		53	5885						

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE.
Please see instructions 11 and 12 to this Form for the meaning of these figures.

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

Global business

Financial year ended **31 December 2009**Category of assets **Total long term insurance business assets**

			Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
			R17	2554213	GL	31	12	2009	£000	10
Derivative contracts				Value as at the end of this financial year				Notional amount as at the end of this financial year		
				Assets		Liabilities		Bought / Long		Sold / Short
				1	2	3	4			
Futures and contracts for differences	Fixed-interest securities		11							
	Interest rates		12	56543	27105		537399	537399		
	Inflation		13	14741	27195		568912	568912		
	Credit index / basket		14							
	Credit single name		15							
	Equity index		16							
	Equity stock		17							
	Land		18							
	Currencies		19	601	83983		446319	427878		
	Mortality		20							
	Other		21							
In the money options	Swaptions		31							
	Equity index calls		32							
	Equity stock calls		33							
	Equity index puts		34							
	Equity stock puts		35							
	Other		36	128			257			
Out of the money options	Swaptions		41							
	Equity index calls		42							
	Equity stock calls		43							
	Equity index puts		44							
	Equity stock puts		45							
	Other		46							
Total (11 to 46)			51	72013	138283		1552887	1534189		
Adjustment for variation margin			52							
Total (51 + 52)			53	72013	138283					

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE.
Please see instructions 11 and 12 to this Form for the meaning of these figures.

Long-term insurance business : Revenue account

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **Ordinary Branch Long Term**
 Financial year ended **31 December 2009**
 Units **£000**

Financial year	Previous year
1	2

Income

Earned premiums	11	7117	(3432)
Investment income receivable before deduction of tax	12	780295	772001
Increase (decrease) in the value of non-linked assets brought into account	13	612001	(1237565)
Increase (decrease) in the value of linked assets	14		
Other income	15		
Total income	19	1399413	(468996)

Expenditure

Claims incurred	21	897980	912236
Expenses payable	22	24988	26275
Interest payable before the deduction of tax	23	83	380
Taxation	24	9310	(154653)
Other expenditure	25		
Transfer to (from) non technical account	26		(503664)
Total expenditure	29	932361	280574

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	467052	(749570)
Fund brought forward	49	12664476	13414046
Fund carried forward (39+49)	59	13131528	12664476

Long-term insurance business : Analysis of premiums

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **Ordinary Branch Long Term**
 Financial year ended **31 December 2009**
 Units **£000**

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

Gross

Regular premiums	11					
Single premiums	12		7117		7117	(3432)

Reinsurance - external

Regular premiums	13					
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15					
Single premiums	16					

Net of reinsurance

Regular premiums	17					
Single premiums	18		7117		7117	(3432)

Total

Gross	19		7117		7117	(3432)
Reinsurance	20					
Net	21		7117		7117	(3432)

Long-term insurance business : Analysis of claims

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **Ordinary Branch Long Term**
 Financial year ended **31 December 2009**
 Units **£000**

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

Gross

Death or disability lump sums	11		349	349	545
Disability periodic payments	12				
Surrender or partial surrender	13		4239	4239	8933
Annuity payments	14		886149	886149	891920
Lump sums on maturity	15		7583	7583	11092
Total	16		898320	898320	912490

Reinsurance - external

Death or disability lump sums	21				
Disability periodic payments	22				
Surrender or partial surrender	23				
Annuity payments	24		340	340	254
Lump sums on maturity	25				
Total	26		340	340	254

Reinsurance - intra-group

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

Net of reinsurance

Death or disability lump sums	41		349	349	545
Disability periodic payments	42				
Surrender or partial surrender	43		4239	4239	8933
Annuity payments	44		885809	885809	891666
Lump sums on maturity	45		7583	7583	11092
Total	46		897980	897980	912236

Long-term insurance business : Analysis of expenses

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **Ordinary Branch Long Term**
 Financial year ended **31 December 2009**
 Units **£000**

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

Gross

Commission - acquisition	11					
Commission - other	12					
Management - acquisition	13		282	282	21	
Management - maintenance	14		22783	22783	23968	
Management - other	15		1923	1923	2286	
Total	16		24988	24988	26275	

Reinsurance - external

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

Reinsurance - intra-group

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

Net of reinsurance

Commission - acquisition	41					
Commission - other	42					
Management - acquisition	43		282	282	21	
Management - maintenance	44		22783	22783	23968	
Management - other	45		1923	1923	2286	
Total	46		24988	24988	26275	

Long-term insurance business : Summary of new business

Name of insurer **Prudential Annuities Limited**

Total business

Financial year ended **31 December 2009**

Units **£000**

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

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

Regular premium business	11					
Single premium business	12					
Total	13					

**Amount of new regular
premiums**

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

**Amount of new single
premiums**

Direct insurance business	25		8438		8438	(550)
External reinsurance	26					
Intra-group reinsurance	27		(1321)		(1321)	(2882)
Total	28		7117		7117	(3432)

Prudential Annuities Limited

31 December 2009

£000

UK Pension / Direct Insurance Business

[illegible]

Prudential Annuities Limited

31 December 2009

£000

UK Pension / Reinsurance accepted intra-group

[illegible]

Long-term insurance business : Assets not held to match linked liabilities

Name of insurer **Prudential Annuities Limited**
 Category of assets **10 Total long term insurance business assets**
 Financial year ended **31 December 2009**
 Units **£000**

Unadjusted assets	Economic exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
1	2	3	4	5

Assets backing non-profit liabilities and non-profit capital requirements

Land and buildings	11	632380	662019	38830	5.87	
Approved fixed interest securities	12	1667166	1667166	87633	4.40	
Other fixed interest securities	13	8122238	8122238	522556	6.44	
Variable interest securities	14	94904	94904	1934	6.81	
UK listed equity shares	15	210231	210231	12099	5.76	
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	666696	637057	13243	1.99	
Total	19	11393615	11393615	676295	5.85	

Assets backing with-profits liabilities and with-profits capital requirements

Land and buildings	21					
Approved fixed interest securities	22					
Other fixed interest securities	23					
Variable interest securities	24					
UK listed equity shares	25					
Non-UK listed equity shares	26					
Unlisted equity shares	27					
Other assets	28					
Total	29					

Overall return on with-profits assets

Post investment costs but pre-tax	31					
Return allocated to non taxable 'asset shares'	32					
Return allocated to taxable 'asset shares'	33					

Long-term insurance business : Fixed and variable interest assets

Name of insurer **Prudential Annuities Limited**
Category of assets **10 Total long term insurance business assets**
Financial year ended **####**
Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
UK Government approved fixed interest securities	11	521396	17.61	4.54	4.54

Other approved fixed interest securities	21	1145770	9.42	4.34	4.21
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Other fixed interest securities

AAA/Aaa	31	320673	8.35	5.32	4.87
AA/Aa	32	1008786	10.54	5.78	4.91
A/A	33	3256721	9.93	5.99	5.04
BBB/Baa	34	1613260	8.08	6.95	5.22
BB/Ba	35	168142	7.90	9.96	5.46
B/B	36	29764	5.46	16.50	5.20
CCC/Caa	37	7118	4.75	20.79	5.47
Other (including unrated)	38	1717774	8.02	6.81	5.42
Total other fixed interest securities	39	8122238	9.11	6.44	5.14

Approved variable interest securities	41				
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Other variable interest securities	51	94904	14.77	6.81	6.35
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Total (11+21+39+41+51)	61	9884308	9.65	6.10	5.01
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Long-term insurance business : Summary of mathematical reservesName of insurer **Prudential Annuities Limited**Total business / subfund **Ordinary Branch Long Term**Financial year ended **31 December 2009**

Units

£000

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

Gross

Form 51 - with-profits	11				
Form 51 - non-profit	12		10764013	10764013	10468452
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16		2126863	2126863	1951071
Form 54 - non-linked	17		76595	76595	105764
Total	18		12967471	12967471	12525287

Reinsurance - external

Form 51 - with-profits	21				
Form 51 - non-profit	22		4475	4475	3711
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26		1953	1953	1855
Form 54 - non-linked	27				
Total	28		6428	6428	5566

Reinsurance - intra-group

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

Net of reinsurance

Form 51 - with-profits	41				
Form 51 - non-profit	42		10759538	10759538	10464741
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46		2124910	2124910	1949216
Form 54 - non-linked	47		76595	76595	105764
Total	48		12961043	12961043	12519721

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

Name of insurer **Prudential Annuities Limited**
Total business / subfund **Ordinary Branch Long Term**
Financial year ended **31 December 2009**
Units **£000**
UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
390	Deferred annuity non-profit - group deferred annuities (DAPA)	12889	34239					393704
390	Deferred annuity non-profit - group deferred annuities (GPDA)	536	1336					22483
390	Deferred annuity non-profit - group deferred annuities (reassurance accepted from PAC) (DAPA)		864					10525
390	Deferred annuity non-profit - group deferred annuities (reassurance accepted from PAC) (GPDA)		10202					99304
400	Annuity non-profit (CPA) - group annuities in payment	24153	41951					560433
400	Annuity non-profit (CPA) - individual annuities in payment	42710	167380					2255147
400	Annuity non-profit (CPA) - individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)		573285					6844207
405	Annuity non-profit (CPA impaired life) - individual annuities in payment	2	7					102
405	Annuity non-profit (CPA impaired life) - individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)		603					7543
440	Additional reserves non-profit OB - miscellaneous							78148
440	Additional reserves non-profit OB - mismatching							261647
440	Additional reserves non-profit OB - policy related expenses							230770

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

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **Ordinary Branch Long Term**
 Financial year ended **31 December 2009**
 Units **£000**
 UK Pension / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
400	Annuity non-profit (CPA)		198					4475

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

Name of insurer **Prudential Annuities Limited**
Total business / subfund **Ordinary Branch Long Term**
Financial year ended **31 December 2009**
Units **£000**
UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
905	Index linked annuity(CPA) - group annuities in payment	22025	32443		515286	515286		515286
905	Index linked annuity(CPA) - group annuities in payment - valued as fixed	18790	19837		349228	349228		349228
905	Index linked annuity(CPA) - individual annuities in payment	6207	23801		429675	429675		429675
905	Index linked annuity(CPA) - individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)		28982		418414	418414		418414
907	Index linked deferred annuity - group deferred annuities	11145	15084		183700	183700		183700
907	Index linked deferred annuity - group deferred annuities - valued as fixed	6042	9947		194794	194794		194794
907	Index linked deferred annuity - group deferred annuities (reassurance accepted from PAC)		419		6691	6691		6691
915	Additional reserves index linked - miscellaneous						15937	15937
915	Additional reserves index linked - mismatching						60658	60658
915	Additional reserves index linked - Policy related expenses				29075	29075		29075

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

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **Ordinary Branch Long Term**
 Financial year ended **31 December 2009**
 Units **£000**
 UK Pension / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
905	Index linked annuity(CPA)		120		1953	1953		1953

Long-term insurance business : Index linked businessName of insurer **Prudential Annuities Limited**

Total business

Financial year ended **31 December 2009**Units **£000**

Value of assets	Mean Term
1	2

Analysis of assets

Approved variable interest securities	11	239785	16.69
Other variable interest securities	12	1196189	10.75
Approved fixed interest securities	13	88742	8.38
Other fixed interest securities	14	375699	8.12
Cash and deposits	15	95903	
Equity index derivatives	16		
Inflation swaps	17	76356	
Other assets	18	52235	
Variation margin	19		
Total (11 to 19)	20	2124909	

Credit rating of other fixed interest and other variable interest securities

AAA/Aaa	31	7190	7.71
AA/Aa	32	172483	10.34
A/A	33	617064	12.00
BBB/Baa	34	301449	9.64
BB/Ba	35	70311	8.77
B/B	36	602	5.46
CCC/Caa	37	143	4.75
Other (including unrated)	38	402646	7.80
Total other fixed interest and other variable interest securities	39	1571888	10.12

Long-term insurance business: Analysis of valuation interest rateName of insurer **Prudential Annuities Limited**Total business **Ordinary Branch Long Term**Financial year ended **31 December 2009**Units **£000**

Product group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
Form 51: Immediate & deferred annuities	10188971		5.06	5.18
Form 51: Additional reserves - policy related expenses	230770		1.46	1.50
Form 51: Additional reserves	339795			5.18
Form 54: Additional reserves	76595			1.50
Total	10836131			

Long-term insurance business : Distribution of surplus

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **Ordinary Branch Long Term**
 Financial year ended **31 December 2009**
 Units **£000**

Financial year 1	Previous year 2
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Valuation result

Fund carried forward	11	13131528	12664476
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	13131528	12664476
Mathematical reserves	21	12961043	12519721
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	170485	144755

Composition of surplus

Balance brought forward	31	144755	34115
Transfer from non-technical account	32		503664
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	25730	(393024)
Total	39	170485	144755

Distribution of surplus

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47		
Total distributed surplus (46+47)	48		
Surplus carried forward	49	170485	144755
Total (48+49)	59	170485	144755

Percentage of distributed surplus allocated to policyholders

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

Long-term insurance capital requirementName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2009**Units **£000**

LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Reinsurance factor	LTICR Financial year	LTICR Previous year
1	2	3	4	5	6

Insurance death risk capital component

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

Insurance health risk and life protection reinsurance capital component

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

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	10764012	10759538	1.00	107595	104647
Classes III, VII and VIII (investment risk)	33	1%	2203457	2201505	1.00	22015	20550
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%					
Classes III, VII and VIII (other)	35	25%					
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%					
Total	39					129610	125197

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	10764012	10759538	1.00	322786	313942
Classes III, VII and VIII (investment risk)	43	3%	2203457	2201505	1.00	66045	61649
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%					
Classes III, VII and VIII (other)	45	0%					
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
Total	49		12967469	12961043		388831	375592

Long term insurance capital requirement	51					518442	500789
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PRUDENTIAL ANNUITIES LIMITED

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

Valuation Report as at 31 December 2009

1. Introduction

- (1) The investigation relates to 31 December 2009.
- (2) The previous investigation related to 31 December 2008.
- (3) No interim valuations have been carried out for the purposes of rule 9.4 since 31 December 2008.

2. Product range

(a) New products

No new products have been introduced during the financial year.

(b) New bonus series

No new bonus series have been introduced during the financial year.

(c) Products withdrawn

No products have been withdrawn during the financial year.

(d) Changes to options or guarantees under existing products

No changes have been made to options or guarantees on existing products during the financial year.

(e) With-profits subfunds

There are no with-profit subfunds.

3. Discretionary charges and benefits

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

Valuation Report as at 31 December 2009 (continued)

(6) Not applicable

(7) Not applicable

(8) Not applicable

(9) Not applicable

(10) Not applicable

4. Valuation basis (other than for special reserves)

For the purpose of reporting interest rates, mortality and expense bases, the following abbreviations are used:

Description	Abbreviation
Reassurance accepted from The Prudential Assurance Company Limited, Prudential (AN) Limited & Prudential Pensions Limited	Reassurance accepted from PAC, P(AN)L & PPL
Group Pension Deferred Annuity administration system	GPDA
Deferred Annuity Pension Administration system	DAPA

- (1) The mathematical reserve for annuities in payment is the present value of the annuities.

The mathematical reserve for RPI-linked annuities is, in general, determined without an explicit allowance for future increases in annuity payments, which is consistent with the treatment of the matching assets. The treatment of RPI-linked annuities which are subject to maximum and/or minimum percentage increases is as follows:

- (a) RPI-linked annuities subject to a minimum annual increase of 0% and a maximum annual increase of 5% are, for valuation purposes, treated as being identical to normal RPI-linked annuities.
- (b) RPI-linked annuities subject to a minimum annual increase of 2.5% and a maximum annual increase of 5% are, for valuation purposes, treated as annuities with fixed 5% annual increases.
- (c) RPI-linked annuities subject to a minimum annual increase of 4% and a maximum annual increase of 8.5% are, for valuation purposes, treated as annuities with fixed 8.5% annual increases.
- (d) RPI-linked annuities subject to a minimum annual increase of 3% are, for valuation purposes, treated as annuities with fixed 6% annual increases.

Valuation Report as at 31 December 2009 (continued)

- (e) RPI-linked annuities subject to a minimum annual increase of 0% and a maximum annual increase of 3% arising from Guaranteed Minimum Pension liabilities are, for valuation purposes, treated as annuities with fixed 3% annual increases.

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

The mathematical reserve for deferred annuities is the present value of the annuity secured to date.

For deferred annuities where benefits include revaluation in deferment in line with RPI, followed by fixed escalation in payment, the revaluation in deferment is generally subject to a minimum annual increase of 0% and a maximum annual increase of 5%. For valuation purposes these are treated as annuities with fixed 4.25% annual revaluation throughout the deferred period followed by the actual fixed escalation in payment. These annuities are included in these returns as non-linked business. They are matched with non-linked assets and inflation swaps.

A separate expense reserve is held. This is calculated as the present value of future expenses, allowing for inflation.

- (2) The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000. The effect of the direction is to modify the provisions of INSPRU 3.1.35R and IPRU(INS) Appendix 9.3 so that a more appropriate rate of interest will be used for assets taken in combination.

In applying the section 148 waiver, the yield on property is taken to be the lower of the current rental yield and the “redemption yield”, which is the interest rate at which the market value equates to the present value of future rental income and the disposal value. No allowance is made for non-contractual increases in rental income. As an allowance for the risk of falls in value, the disposal value of the property at the end of the lease is taken as 75% of the current market value.

The interest rates used are as follows:

Non-linked

Product code number	Product description	31 December 2009 %	31 December 2008 %
All	All products	5.06	5.78

Valuation Report as at 31 December 2009 (continued)

Index-linked

Product code number	Product description	31 December 2009 %	31 December 2008 %
All	All products (excluding index linked annuities – valued as fixed)	1.46	1.99
All	Index linked annuity – group annuities in payment – valued as fixed Index linked annuity – group deferred annuities – valued as fixed	5.06	5.78

Investment management expenses are allowed for by means of an appropriate deduction from the valuation rate of interest (see 4(6) below). The valuation rates of interest above are shown before the deduction for investment management expenses.

- (3) The allowance for defaults is calculated as the long-term expected level of defaults plus the long-term credit risk premium and an allowance for the impact of additional short-term defaults and credit rating downgrades reflecting the market conditions at the valuation date.

The long-term expected level of defaults are determined from data supplied by our investment manager, which itself is based upon research carried out by one of the major rating agencies. This analysis, based on actual default experience over a 35 year period, produces mean default rates according to credit quality and term to redemption.

In the event of default it may be possible to recover some capital, especially if the loan is secured. The allowance for recovery (or partial recovery) of the loan varies according to the level of security and the following recovery rates are assumed:

First Mortgage Debenture/Senior Secured	75%
Senior Unsecured	45%
Subordinated Debt	20%

To calculate the overall long-term default provision, the corporate bond portfolio is broken down according to credit rating and level of security. The default rate for each category is assumed to vary between 100% and 200% of the appropriate mean default rate, reduced by the expected recovery, plus a further amount for credit risk. This further amount for credit risk (the long-term credit risk premium) is determined as the excess over the best estimate level of default, of the 95th percentile of historic cumulative defaults, reduced to allow for the

Valuation Report as at 31 December 2009 (continued)

expected recovery of capital and subject to a minimum margin over best estimate of 50%. The derived default rates for each level of security are set out below:

Default rates – basis points per annum:

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

A deduction is also made to allow for the risk of default of rent on properties. This deduction is calculated in the same way as for corporate bonds (having regard to the credit quality of the relevant tenants), as described above.

The overall allowance for default risk at 31 December 2009 has been taken to be the allowance for defaults brought forward from 31 December 2008 but adjusted to allow for changes in asset mix that have occurred during 2009. In addition, a surplus which arose during 2009 due to the default experience being better than allowed for at 31 December 2008, has been retained and used to increase the allowance for defaults at 31 December 2009.

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

Aggregate yields on the backing assets have been adjusted by 1.02% and 0.91% to allow for defaults within the non-linked and index-linked portfolios respectively. These default adjustments include margins for prudence.

For the portfolio as a whole this represents an aggregate default assumption of 100 basis points per annum. This can alternatively be expressed as 243 basis points for 3 years and 53 basis points per annum thereafter.

Valuation Report as at 31 December 2009 (continued)

(4) Non-linked

Product code number	Product description	31 December 2009	31 December 2008
400	Annuity non-profit (CPA) – individual annuities in payment Annuity non-profit (CPA) – individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)		
405	Annuity non-profit (CPA impaired life) – individual annuities in payment Annuity non-profit (CPA impaired life) - individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)		
	Mortality table	Modified 102% PNMA00 / 88% PNFA00	Modified 102% PNMA00 / 88% PNFA00
	Expectation of life age 65	23.8 (M), 25.4 (F)	23.6 (M), 25.3 (F)
	Expectation of life age 75	14.4 (M), 16.2 (F)	14.3 (M), 16.1 (F)
400	Annuity non-profit (CPA) – group annuities in payment		
	Mortality table	Modified 105% PNMA00 / 103% PNFA00	Modified 105% PNMA00 / 103% PNFA00
	Expectation of life age 65	23.5 (M), 24.1 (F)	23.3 (M), 24.0 (F)
	Expectation of life age 75	14.2 (M), 15.0 (F)	14.0 (M), 15.0 (F)
390	Deferred annuity non-profit – group deferred annuities (GPDA) Deferred annuity non-profit - group deferred annuities (reassurance accepted from PAC) (GPDA)		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 126% PNMA00 / 117% PNFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 126% PNMA00 / 117% PNFA00
	Current age 45, expectation of life age 65	25.8 (M), 25.0 (F)	25.6 (M), 24.9 (F)
	Current age 55, expectation of life age 65	23.9 (M), 24.0 (F)	23.7 (M), 23.9 (F)
390	Deferred annuity non-profit – group deferred annuities (DAPA) Deferred annuity non-profit - group deferred annuities (reassurance accepted from PAC) (DAPA)		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 105% PNMA00 / 103% PNFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 105% PNMA00 / 103% PNFA00
	Current age 45, expectation of life age 65	27.5 (M), 26.1 (F)	27.3 (M), 26.0 (F)
	Current age 55, expectation of life age 65	25.5 (M), 25.1 (F)	25.3 (M), 25.0 (F)

Valuation Report as at 31 December 2009 (continued)

Index linked

Product code number	Product description	31 December 2009	31 December 2008
905	Index linked annuity (CPA) - individual annuities in payment Index linked annuity (CPA) - individual annuities in payment (reassurance accepted from PAC, P(AN)L & PPL)		
	Mortality table	Modified 102% PNMA00 / 88% PNFA00	Modified 102% PNMA00 / 88% PNFA00
	Expectation of life age 65	23.8 (M), 25.4 (F)	23.6 (M), 25.3 (F)
	Expectation of life age 75	14.4 (M), 16.2 (F)	14.3 (M), 16.1 (F)
905	Index linked annuity (CPA) - group annuities in payment Index linked annuity (CPA) - group annuities in payment - valued as fixed		
	Mortality table	Modified 105% PNMA00 / 103% PNFA00	Modified 105% PNMA00 / 103% PNFA00
	Expectation of life age 65	23.5 (M), 24.1 (F)	23.3 (M), 24.0 (F)
	Expectation of life age 75	14.2 (M), 15.0 (F)	14.0 (M), 15.0 (F)
907	Index linked deferred annuity - group deferred annuities Index linked deferred annuity - group deferred annuities – valued as fixed Index linked deferred annuity – group deferred annuities (reassurance accepted from PAC)		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 105% PNMA00 / 103% PNFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 105% PNMA00 / 103% PNFA00
	Current age 45, expectation of life age 65	27.5 (M), 26.1 (F)	27.3 (M), 26.0 (F)
	Current age 55, expectation of life age 65	25.5 (M), 25.1 (F)	25.3 (M), 25.0 (F)

Valuation Report as at 31 December 2009 (continued)

Mortality bases used at 31 December 2009 and 31 December 2008

Annuities are generally valued using a percentage of the 00 series tables for annuitants and pensioners (normal retirements). In order to allow for mortality improvement, improvement factors are applied from 2001. For males these future improvement factors are in line with 100% of the CMI medium cohort projections, subject to future improvement factors not being less than 2.25% p.a. until age 90, tapering linearly to zero at age 120. For females, future improvement factors are in line with 75% of the CMI medium cohort projections, subject to future improvement factors not being less than 1.25% p.a. until age 90, tapering linearly to zero at age 120.

For impaired lives, an adjustment is made to the annuitant's age to allow for the impairment. The mortality assumptions and expectations of life in the tables above are before the allowance for the impairment has been applied.

In practice, some of the group deferred annuity business has been valued using percentages of single entry tables based on the 92 series tables for annuitants and pensioners, with calendar year 2004 (improvements in line with CMIR17 until 2004). The percentages have been chosen so that the rates used are equivalent to the double entry tables with future improvement factors as described above. For these contracts, a further deduction of 0.65% from the valuation rate of interest has been made during the deferred period, to allow for expected mortality improvements prior to vesting.

(5) Not applicable

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

Product code number	Product description	31 December 2009	31 December 2008
All	All products	£21.54 p.a.	£19.60 p.a.

The inflation rate assumed for future expenses is as follows:

Product code number	Product description	31 December 2009	31 December 2008
All	All products	4.25% p.a.	3.50% p.a.

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

Valuation Report as at 31 December 2009 (continued)

Product code number	Product description	31 December 2009	31 December 2008
All	All products	0.06% p.a.	0.06% p.a.

The valuation rates of interest in 4(2) (and the asset yields in Form 48 and Form 57) are shown before the deduction for investment management expenses.

Outgo on property maintenance costs and leases is allowed for directly in the valuation rates of interest used (and the asset yields shown in Form 48 and Form 57 are shown after this deduction).

(7) Not applicable

(8) Not applicable

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

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

(11) Derivative contracts held as at 31 December 2009 comprised:

- i) Contracts to swap fixed US Dollars for fixed UK Sterling;
- ii) Contracts to swap fixed Euros for fixed UK Sterling;
- iii) Contracts to swap floating UK Sterling LIBOR for fixed UK Sterling;
- iv) Contracts to swap fixed UK Sterling for floating UK Sterling LIBOR;
- v) Contracts to swap floating UK Sterling LIBOR for fixed UK Sterling;
- vi) Contracts to swap inflation linked RPI UK Sterling for fixed UK Sterling;
- vii) Contracts to swap inflation linked UK Sterling property income for fixed UK Sterling;
- viii) Contracts to swap fixed UK Sterling for inflation linked UK Sterling RPI/LPI;
- ix) A contract to swap future fixed UK Sterling for future inflation linked UK Sterling RPI/LPI.

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

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

Valuation Report as at 31 December 2009 (continued)

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

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

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

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

The effect of the contracts under viii) is to convert fixed UK Sterling assets into UK Sterling RPI inflation linked cashflows.

The effect of the contract under ix) is to convert future fixed UK Sterling cashflows into future RPI inflation linked cashflows.

The cashflows involved in these arrangements were included in the aggregate cashflows from the portfolio in order to derive the aggregate yield on the portfolio. This is in accordance with the section 148 waiver.

No options are held and hence no out-of-the-money derivatives have been used to back liabilities.

The yields shown in Form 48 column 4 were determined in accordance with the requirements of INSPRU 3.1 and hence differ from the yields calculated in accordance with the section 148 waiver.

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

5. Options and guarantees

- (1) Not applicable
- (2) Not applicable
- (3) Not applicable
- (4) Some RPI linked annuities are subject to maximum and minimum percentage increases. The valuation of this business is described in 4(1). An additional reserve of £20m is held at the valuation date to cover the risk of negative RPI inflation.

6. Expense reserves

- (1) The aggregate amount arising during the twelve months after the valuation date from implicit and explicit expense reserves made in the valuation to meet expenses are:

Valuation Report as at 31 December 2009 (continued)

	£m
Per policy expenses	12.8
Investment management expenses	8.8
Total	21.6

Outgo on property maintenance costs and leases is allowed for directly in the valuation rates of interest used (and the asset yields shown in Form 48 and Form 57 are shown after this deduction).

- (2) Not applicable
- (3) The maintenance expenses shown at line 14 of Form 43 are £22.8m. This includes one-off exceptional expenses of £1.8m and a prior year performance related investment fee of £1.1m. The expense reserves include a margin for prudence on top of the ongoing level of expenses.
- (4) With the exception of a small volume of increments to existing policies, the Company does not expect to write any new business in the twelve months following the valuation date. Therefore no new business expense overrun reserve is required.
- (5) Although the Company is effectively closed to new business, the expense reserves in (1) above are calculated on the implicit assumption that the Company will continue to write new business (on the basis that new business, that would have been written by the Company in previous years, continues to be written elsewhere in the Prudential Group).

In the first instance, expense reserves are calculated on the assumption that Prudential's UK insurance operations will continue to write new business indefinitely and hence that there will be no loss of economies of scale. In this scenario, the amount of the expense loading over the remaining lifetime of the contracts in force at the valuation date is £234.1m.

In order to allow for the possibility that the firm will cease to transact new business twelve months after the valuation date, the expense loading is recalculated on the assumption that, over a two year period, unit costs would be reduced by 25% and that loss of economies of scale would result in overall expenses thereafter being cut more slowly than the rate at which policies run off. If this revised calculation results in a higher reserve than described in the paragraph above, then the difference is held as an additional reserve. In addition, the costs associated with closing to new business, such as redundancy costs or the costs of terminating management agreements, are estimated. To the extent that these costs exceed the surplus expected to arise over the following year on prudent assumptions from existing business a further additional reserve is held.

Valuation Report as at 31 December 2009 (continued)

At the valuation date, an additional reserve of £25.7m is held for the impact of closing to new business.

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

7. Mismatching reserves

- (1) All the mathematical reserves are payable in sterling and the assets which match the liabilities are sterling assets. There are some US Dollar and Euro denominated assets which, in conjunction with specific swap derivative contracts, effectively produce income in UK Sterling. See 4(11) for details.
- (2) Not applicable
- (3) Not applicable
- (4) The most onerous scenario under INSPRU 3.1.16R was:
- (i) a fall in property values of 10% plus a fall in rental income of 10%, and;
 - (ii) a fall in yield on all fixed interest securities of 0.89%, which is the percentage point fall equal to 20% of the long-term gilt yield at the valuation date, and;
 - (iii) a fall of 0.12% in the indexed-linked real security yield in conjunction with a fall of 0.75% in the inflation rate such that the overall fall in the nominalised yield is equal to 0.89%.
- (5) There were no significant territories at the valuation date.
- (6) In respect of the scenario described under (4) above;
- (a) No resilience capital requirement was necessary.
 - (b) The increase in the aggregate amount of the long-term insurance liabilities was £785m.
 - (c) The increase in the aggregate amount of assets backing these liabilities was £850m.
- (7) A reserve of £322m was held arising from the test on assets in INSPRU 1.1.34R(2).

This reserve was set at a level which was sufficient to ensure that it covered the results of projecting:

- (i) the risk adjusted cashflows of the assets backing the liabilities, and;
- (ii) the future liability payments on the valuation assumptions.

Valuation Report as at 31 December 2009 (continued)

In carrying out this test, the asset cashflows have been adjusted to allow for a level of defaults equivalent to the short-term element of the Company's default assumptions occurring immediately followed by a longer-term rate of default equivalent to 53 basis points per annum.

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

The additional reserves include an allowance of £94m for general contingencies.

9. Reinsurance

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

(1) Not applicable

(2) Not applicable

(3) Not applicable

10. Reversionary (or annual) bonus

(1) Not applicable

(2) Not applicable

(3) Not applicable

(4) Not applicable

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2009

Supplementary notes to the returns

Form 2

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

(771848) The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in May 2005. The effect of the direction is to modify the provisions of INSPRU 3.1.35R and IPRU(INS) Appendix 9.3 so that a more appropriate rate of interest is used for assets taken in combination. This direction ends on 31 October 2012.

Form 3

0301 Reconciliation of net admissible assets to total capital resources

	2009 £'000s
Line 89 on Form 13 (OLTB)	682,214
Line 89 on Form 13 (LTB)	13,518,524
Line 11 on Form 14	(12,961,043)
Line 49 on Form 14	(451,796)
Line 69 on Form 15	(18,035)
Line 79 on Form 3	<u>769,864</u>

0310 Valuation differences

	2009 £'000s
<i>Positive valuation differences where liabilities are lower than in the shareholder accounts</i>	
Deferred tax held on additional reserves and valuation differences	276,183
<i>Positive valuation differences where assets are higher than in the shareholder accounts</i>	
FSA valuation difference on investments	17,634
<i>Negative valuation differences where liabilities are higher than in the shareholder accounts</i>	
Additional reserves held in long term fund	(1,004,016)
Line 35 on Form 3	<u>(710,199)</u>

Supplementary notes to the returns (continued)

Form 3 (Continued)

0313 Reconciliation of profit and loss account and other reserves

	2008 £'000s
Profit and loss account and other reserves c/fwd (Form 3 Line 12 – Column 3)	995,363
Profit and loss account and other reserves b/fwd (Form 3 Line 12 – Column 4)	999,245
Movement	(3,882)
Movement in additional reserves held for FSA	50,599
Movement in valuation difference	9,715
Movement in deferred tax	(16,888)
Movement in unallocated surplus	(25,730)
Profit and loss account retained for the financial year (Form 16 Line 59)	13,814

Form 13

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

1301 The Company held £43m in unlisted securities.

1302 The Company held £10m in hybrid securities.

1304 Amounts due to or from the Company have been set off to the extent permitted by generally accepted accounting principles.

1305 The maximum permitted exposure to any one counterparty has been set in accordance with the counterparty limits detailed in INSPRU 2.1.22. Therefore exposures to non-approved counterparties have been restricted to a maximum of 5% of the business amount. No counterparty exposure during the year exceeded these limits.

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

1307 No “secure obligations” were held at the year end.

Notes 1308 to 1313 apply to the long term business fund.

1308 The Company held £1,001m in unlisted securities.

1309 The Company held £1,357m in hybrid securities.

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

1312 No counterparty exposure at the year end exceeded 5% of the long term business amount.

Supplementary notes to the returns (continued)

Form 13 (continued)

1313 No “secure obligations” were held at the year end.

1318 Other asset adjustments

	2009 £'000s
<i><u>Total other than long term business assets</u></i>	
Miscellaneous liabilities netted off against assets in the financial statements	(506)
Line 101 on Form 13	(506)
	2009 £'000s
<i><u>Total long term business assets</u></i>	
Bank account overdraft moved to Form 14 which consolidates out in the financial statements.	(65,073)
Miscellaneous liabilities netted off against assets in the financial statements	(61,928)
Line 101 on Form 13	(127,001)

1319 The maximum permitted exposure to any one counterparty has been set in accordance with the counterparty limits detailed in the various Prudential Sourcebooks. Therefore exposures to non-approved counterparties have been restricted to a maximum of 5% of the long term business amount. No counterparty exposure during the year exceeded these limits.

1321 Other differences in valuation of assets

	2009 £'000s
<i><u>Total long term business assets</u></i>	
Assets valued on a different basis than that in the financial statements	(17,101)
Line 98 on Form 13	(17,101)

Form 14

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

Supplementary notes to the returns (continued)

Form 14 (continued)

- *1402* (a) In the normal course of business certain reinsurance liabilities were secured by a floating charge, ranking these liabilities equally with amounts due under unsecured direct (non-reassurance) policies, over the long term insurance assets of the Company. The amounts secured by charges of this nature and included in Form 14 line 11 was £7,701m. The whole of the amount at F13 line 89 is subject to charge.
- (b) Increases in the values of assets of the long term fund do not attract tax, and therefore no provision, potential or otherwise, has been made for any liability to tax which might arise if the Company disposed of its assets at the values stated in this return.
- (c) Excluded from Form 14 is a performance related investment fee (PRF). The PRF was not paid in respect of 2008 and 2009 as it only becomes payable in the event of surplus emerging on the Company's business. The value of the PRF for 2008 and 2009 totals £533k. This amount will be paid in future years if sufficient surplus emerges.
- (d) There were no guarantees, indemnities or other contractual commitments other than in the ordinary course of insurance business and in respect of related companies.

1405 Details of other adjustments to liabilities

	2009 £'000s
Additional reserves held in long term fund	(1,004,016)
Deferred tax held on additional reserves and valuation differences	276,183
Contingent performance related investment fees	533
Bank account overdraft moved from Form 13 which consolidates out in the financial statements.	(65,073)
Miscellaneous adjustments to liabilities	(61,928)
Line 74 on Form 14	<u>(854,301)</u>

Form 15

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

Supplementary notes to the returns (continued)

Form 15 (continued)

- *1502* (a) There were no charges attributable to the other than long term business assets.
- (b) The total potential liability to taxation on capital gains which might arise if the company disposed of its assets was £Nil.
- (c) There were no contingent liabilities at the year end.
- (d) There were no guarantees, indemnities or other contractual commitments other than in the ordinary course of insurance business and in respect of related companies.

1507 Details of other adjustment in liabilities

	2009
	£'000s
Miscellaneous adjustments to liabilities	(506)
Line 83 on Form 15	<u>(506)</u>

Form 16

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

1603 Balances in line 21 relate to management expenses.

Form 40

4008 Management services are provided to the Company for day to day administration from The Prudential Assurance Company Ltd, M&G Investment Management Ltd, Prudential Property Investment Managers Ltd, PPM America Inc., Prudential UK Services Ltd and Prudential Services Ltd, Prudential Distribution Ltd, all being group companies.

4009 The Company has a reinsurance agreement with a related company, The Prudential Assurance Company Ltd, in respect of non-participating approved annuity contracts. The reinsurance agreement was drawn up under normal commercial terms which reflect the level of business transacted with the Company.

Included within claims incurred is an amount of £594m arising from claims under this reinsurance agreement. The liabilities included in the return, relating to this business amount to £7,701m at the year end.

Form 48

4802 There are no assets where the payment of interest is in default.

Supplementary notes to the returns (continued)

Form 48 (Continued)

- *4803* Where securities may be redeemed over a period at the option of the guarantor or issuer, and they are valued “above par” they have been classified on the assumption that they will be redeemed at the earliest possible date. Where they are valued “below par” they have been classified on the basis that they will be redeemed at the latest possible date. The only exception to this rule is where the terms and conditions of a security are such that the coupon steps up from current level, should the issuer not redeem at the earliest call date. Securities that fall into this category have been classified on the assumption that they will redeem at the earliest possible date.

Form 49

- *4901* The credit ratings shown are the lowest of the three external ratings agencies (S&P, Moody’s & Fitch) expressed in the S&P format.

Form 51

- *5105* The amount of double counting of policies between Forms 51 and 54 combined is 13,610.
- *5106* Annuities included in Forms 51 and 54 are categorised depending on the type of escalation of benefits once an annuity is in payment. Form 51 includes annuities that increase at a guaranteed fixed rate and Form 54 includes annuities where benefits are dependent on changes in RPI. Deferred annuities with revaluation in line with RPI in deferment and fixed increases in payment are included in Form 51.

Form 54

- *5405* The amount of double counting of policies between Forms 51 and 54 combined is 13,610.

Form 56

- *5601* The credit ratings shown are the lowest of the three external rating agencies (S&P, Moody’s & Fitch) expressed in the S&P format.

Supplementary notes to the returns (continued)

Form 57

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

Product group	Risk adjusted yield on matching assets (Form 57 column 5)	Corresponding asset yield
Form 51: Immediate & deferred annuities	5.18%	6.20%
Form 51: Additional reserves non-profit OB – policy related expenses	1.50%	2.41%

Form 58

5803 There is a difference between line 29 and Form 2 line 11 of £64,800k. This difference relates to the inadmissible assets shown on Form 13 (Long term Business) line 93.

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2009

Directors' Certificate required by rule 9.34 of the Accounts and Statements Rules.

We certify:

1. (a) that the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU as modified by a waiver detailed in supplementary note 0201 issued under section 148 of the Financial Services and Markets Act 2000 which continues to have effect; and:
 - (b) we are satisfied that:
 - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements of SYSC and PRIN as well as the provisions of IPRU(INS), GENPRU, INSPRU; and
 - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.
2. (a) that in our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
 - (b) that the sum of the mathematical reserves and the deposits received from reinsurers, as shown in Form 14, constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;
 - (c) that we have, in preparing the return, taken and paid due regard to advice in preparing the return from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.

.....

R A Devey
Director

.....

A M Crossley
Director

.....

D J Belsham
Director

26 March 2010

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2009

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

We have examined the following documents prepared by the Company pursuant to the Accounts and Statements Rules set out in part I and part IV of chapter 9 to IPRU(INS), the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU, the Insurance Prudential Sourcebook, (“the Rules”) made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- Forms 2, 3, 13 to 17, 40 to 43, 48, 49, 56, 58 and 60, (including the supplementary notes) on pages 1 to 54 (‘the Forms’);
- the statement required by IPRU(INS) rule 9.29 on pages 59 to 60 (‘the Statement’); and
- the valuation report required by IPRU(INS) rule 9.31(a) (“the valuation report”) on pages 35 to 47.

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

- Forms 46, 47, 50, 51, 54 and 57 (including the supplementary notes) on pages 21 to 54;
- the statement required by IPRU(INS) rules 9.30 on page 61; or
- the certificate required by IPRU(INS) rule 9.34 on page 55 (‘the certificate’).

This report is made solely to the Company’s directors, as a body, in accordance with the requirements of IPRU(INS) rule 9.35. We acknowledge that the directors are required to submit this report to the FSA, to enable the FSA to verify that an auditor’s report has been commissioned by the Company’s directors and issued in accordance with the requirements of IPRU(INS) rule 9.35 and to facilitate the discharge by the FSA of its regulatory functions in respect of the Company, conferred on the FSA by or under the Financial Services and Markets Act 2000. Our audit work has been undertaken so that we might state to the Company’s directors, as a body, those matters we are required to state to them in an auditor’s report issued pursuant to IPRU(INS) rule 9.35 of the Rules and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s directors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Company and its auditors

The Company is responsible for the preparation of an annual return (including the Forms, the Statement, the valuation report, the forms and statements not examined by us and the certificate) under the provisions of the Rules. The requirements of the Rules have been modified by waiver issued under section 148 of the Financial Services and Markets Act 2000 dated 17 December 2007. Under IPRU(INS) rule 9.11 the Forms, the Statement, valuation report, the forms and statements not examined by us and the certificate are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules.

The methods and assumptions determined by the Company and used to perform the actuarial investigation as set out in the valuation report, prepared in accordance with IPRU(INS) rule 9.31 are required to reflect appropriately the requirements of INSPRU 1.2.

It is our responsibility to form an independent opinion as to whether the Forms, the Statement and the valuation report meet these requirements, and to report our opinions to you. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information we require for our examination.

Basis of opinion

We conducted our work in accordance with Practice Note 20 “The audit of insurers in the United Kingdom (Revised)” issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the Statement, and the valuation report. The evidence included that previously obtained by us relating to the audit of the financial statements of the Company for the financial year. It also included an assessment of the significant estimates and judgements made by the Company in the preparation of the Forms, the Statement and the valuation report.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the Statement and the valuation report are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with IPRU(INS) rule 9.11.

In accordance with IPRU(INS) rule 9.35(1A), to the extent that any document, Form, Statement, analysis or report to be examined under IPRU(INS) rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to IPRU(INS) rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the Company.

Opinion

In our opinion:

- i) the Forms, the Statements and the valuation report fairly state the information provided on the basis required by the Rules as modified and have been properly prepared in accordance with the provisions of those Rules; and
- ii) the methods and assumptions determined by the Company and used to perform the actuarial investigation as set out in the valuation report prepared in accordance with IPRU(INS) rule 9.31 appropriately reflect the requirements of INSPRU 1.2.

Chris Moulder
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
1 Canada Square
Canary Wharf
London
E14 5AG
26 March 2010

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2009

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

(a) Investment guidelines

As requested by Rule 9.29 of the Interim Prudential Sourcebook for Insurers (IPRU (INS)), the investment guidelines for the use of derivative contracts for both long term and other than long term funds are set out below. These are fully explained in the Company's Investment Management Agreement with its fund managers and are consistent with the investment strategy.

- (i) Derivatives are used for the purpose of efficient portfolio management or to reduce risk, specific examples being to implement tactical asset allocation changes around the strategic benchmark, hedge cash flows, or control the risk profile of an identified strategy.
- (ii) A number of restrictions on the use of derivatives have been agreed with the Company's fund managers and can only be overruled by prior agreement between the two parties:
 - all derivatives that impose obligations on the fund must be strictly covered.
 - all derivative contracts must satisfy the definition of approved under Rule 3.2.5 of the Prudential Sourcebook for Insurers (INSPRU)
 - the maximum allowable exposure to counterparties should not be exceeded.
 - only certain permitted exchanges and contracts can be used.
- (iii) During the year the company has used interest rate, currency and inflation-linked swaps in the long term business and interest rate swaps in the other than long term business.

(b) Derivatives where exercise is unlikely.

There are no specific guidelines for the use of contracts not reasonably likely to be exercised. However the Investment Management Agreement only allows the use of derivatives for the purpose of efficient portfolio management or to reduce risk and the Company's investment managers work within these constraints.

(c) Quantification of derivatives in (b) above

During 2009 no such contracts were used.

(h) Derivatives not covered the definition of an admissible derivative contract in the Prudential Sourcebook.

There were no derivative contracts held during 2009 that did not satisfy this criteria.

(i) Consideration for granting rights under derivative contracts

No rights under derivative contracts have been granted.

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2009

Rule 9.30 Statement on Shareholder Controllers

The following companies were shareholder controllers of Prudential Annuities Limited for the year: The Prudential Assurance Company Ltd holding 100% of its issued share capital and voting power throughout the year; and Prudential plc, being the ultimate holding company, holding 100% of the issued share capital and voting power of The Prudential Assurance Company Ltd throughout the year.