



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 2010



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 2010**

Solo solvency calculation

Company registration number	GL/UK/CM	day	month	year	Units	
R2	2554213	GL	31	12	2010	£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	99518	105685
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	1050992	664179
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	1150510	769864

Guarantee fund

Guarantee fund requirement	21	176053	172814
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	974457	597050

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	528160	518442
Resilience capital requirement	32		
Base capital resources requirement	33	3040	3128
Individual minimum capital requirement	34	528160	518442
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	528160	518442
Excess (deficiency) of available capital resources to cover 50% of MCR	37	886430	510643
Excess (deficiency) of available capital resources to cover 75% of MCR	38	754390	381033

Enhanced capital requirement

With-profits insurance capital component	39		
Enhanced capital requirement	40	528160	518442

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	528160	518442
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	622350	251422

Contingent liabilities

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51		533
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Covering Sheet to Form 2

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2010**

R A Devey

A M Crossley

D J Belsham

Date

London 28 March 2011

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

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day month year			Units
R3	2554213	GL	31	12	2010	£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	

Core tier one capital

Permanent share capital	11		650000	650000	550000
Profit and loss account and other reserves	12		1174318	1174318	995363
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		1824318	1824318	1545363

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		1824318	1824318	1545363
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35		665436	665436	710199
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37		665436	665436	710199
Total tier one capital after deductions (31-37)	39		1158882	1158882	835164

Components of capital resources

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day month year			Units	
	R3	2554213	GL	31	12	2010	£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		

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				

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

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day month year			Units	
	R3	2554213	GL	31	12	2010	£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		1158882	1158882		835164
Inadmissible assets other than intangibles and own shares	73		8372	8372		65300
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		1150510	1150510		769864

Available capital resources for GENPRU/INSPRU tests

Available capital resources for guarantee fund requirement	81		1150510	1150510		769864
Available capital resources for 50% MCR requirement	82		1150510	1150510		769864
Available capital resources for 75% MCR requirement	83		1150510	1150510		769864

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
Sum of financial engineering adjustments (91+92-93+94+95)	96					533

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

Global business

Financial year ended **31 December 2010**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	2010	£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			
Other shares and other variable yield participations	42			
Holdings in collective investment schemes	43			
Rights under derivative contracts	44	6382	5885	
Fixed interest securities	Approved	45	639393	561623
	Other	46	39737	14466
Variable interest securities	Approved	47	35697	5085
	Other	48	55084	40858
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	75174	30426
	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 2010**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	2010	£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	33	23
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	255640	13879
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	11064	9969
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	1118204	682214
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Analysis of admissible assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2010**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	2010	£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	1118204	682214
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		500
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	(242008)	(506)
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	876196	682208
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 2010**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	2010	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	
Land and buildings			11		636791	632380	

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	223524	210231
Other shares and other variable yield participations	42	8	8
Holdings in collective investment schemes	43	34140	29639
Rights under derivative contracts	44	93738	72013
Fixed interest securities	Approved	45	1634994
	Other	46	7932415
Variable interest securities	Approved	47	
	Other	48	94488
Participation in investment pools	49		
Loans secured by mortgages	50	137748	136737
Loans to public or local authorities and nationalised industries or undertakings	51	467	471
Loans secured by policies of insurance issued by the company	52		
Other loans	53	11616	12166
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	330200
	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
	Property linked	59	

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

Global business

Financial year ended **31 December 2010**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	2010	£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	32	66
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74	61	52
	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	38510	53344
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81		
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	218174	229838
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	26963	24573

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	14000057	13518524
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Analysis of admissible assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2010**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	2010	£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	14000057	13518524
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	8372	64800
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	(22545)	(17101)
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100	6581	6121
Other asset adjustments (may be negative)	101	(16086)	(127001)
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	13976379	13445343
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 2010**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	13203994	12961043	
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12			
Balance of surplus/(valuation deficit)	13	107890	170485	
Long term insurance business fund carried forward (11 to 13)	14	13311884	13131528	
Claims outstanding	Gross	15	5153	5538
	Reinsurers' share	16		
	Net (15-16)	17	5153	5538
Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers	23			
Creditors	Direct insurance business	31	180	426
	Reinsurance accepted	32	609	6287
	Reinsurance ceded	33		
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions	36	508176	289837	
Creditors	Taxation	37	4243	4221
	Other	38	178184	145487
Accruals and deferred income	39			
Provision for "reasonably foreseeable adverse variations"	41			
Total other insurance and non-insurance liabilities (17 to 41)	49	696545	451796	
Excess of the value of net admissible assets	51			
Total liabilities and margins	59	14008429	13583324	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	135	359
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		

Total liabilities (11+12+49)	71	13900539	13412839
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73	6581	6121
Other adjustments to liabilities (may be negative)	74	(704067)	(854301)
Capital and reserves and fund for future appropriations	75	773326	880684
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	13976379	13445343

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

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	R15	2554213	GL	31	12	2010	£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		54698	10934
Creditors	Taxation	47		12506	7095
	Foreseeable dividend	48			
	Other	49		8	6
Accruals and deferred income		51			
Total (19 to 51)		59		67212	18035
Provision for "reasonably foreseeable adverse variations"		61			
Cumulative preference share capital		62			
Subordinated loan capital		63			
Total (59 to 63)		69		67212	18035

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		(242008)	(506)
Capital and reserves		84		1050992	664679
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		876196	682208

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

Global business

Financial year ended **31 December 2010**

		Company registration number	GL/ UK/ CM	day	month	year	Units
		R16	2554213	GL	31	12	2010
					This financial year		Previous year
					1		2
							£000
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			242000	
Investment income	Income		14			31999	31146
	Value re-adjustments on investments		15			31913	
	Gains on the realisation of investments		16				9391
Investment charges	Investment management charges, including interest		17			460	488
	Value re-adjustments on investments		18				22527
	Loss on the realisation of investments		19			418	
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			(296)	(235)
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29			304738	17287
Tax on profit or loss on ordinary activities			31			18425	3473
Profit or loss on ordinary activities after tax (29-31)			39			286313	13814
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			286313	13814
Dividends (paid or foreseeable)			51				
Profit or loss retained for the financial year (49-51)			59			286313	13814

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

Global business

Financial year ended **31 December 2010**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	2010	£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	6382				136041	136041	
	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	6382				136041	136041	
Adjustment for variation margin		52							
Total (51 + 52)		53	6382						

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 2010**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	2010	£000	10
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	73719	36607	537345	537345			
	Inflation	13	18303	29867	602252	602252			
	Credit index / basket	14							
	Credit single name	15	1627		109488				
	Equity index	16							
	Equity stock	17							
	Land	18							
	Currencies	19		107048	394352	472400			
	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	89		207					
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	93738	173522	1643644	1611997			
Adjustment for variation margin		52							
Total (51 + 52)		53	93738	173522					

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 2010**
 Units **£000**

Financial year 1	Previous year 2
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Income

Earned premiums	11	1322	7117
Investment income receivable before deduction of tax	12	755586	780295
Increase (decrease) in the value of non-linked assets brought into account	13	654043	612001
Increase (decrease) in the value of linked assets	14		
Other income	15		
Total income	19	1410951	1399413

Expenditure

Claims incurred	21	894480	897980
Expenses payable	22	23298	24988
Interest payable before the deduction of tax	23	66	83
Taxation	24	70751	9310
Other expenditure	25		
Transfer to (from) non technical account	26	242000	
Total expenditure	29	1230595	932361

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	180356	467052
Fund brought forward	49	13131528	12664476
Fund carried forward (39+49)	59	13311884	13131528

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 2010**
 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		1322		1322	7117

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		1322		1322	7117

Total

Gross	19		1322		1322	7117
Reinsurance	20					
Net	21		1322		1322	7117

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 2010**
 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		322		322	349
Disability periodic payments	12					
Surrender or partial surrender	13		7834		7834	4239
Annuity payments	14		880590		880590	886149
Lump sums on maturity	15		6048		6048	7583
Total	16		894794		894794	898320

Reinsurance - external

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24		314		314	340
Lump sums on maturity	25					
Total	26		314		314	340

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		322		322	349
Disability periodic payments	42					
Surrender or partial surrender	43		7834		7834	4239
Annuity payments	44		880276		880276	885809
Lump sums on maturity	45		6048		6048	7583
Total	46		894480		894480	897980

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 2010**
 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		3	3	282
Management - maintenance	14		21873	21873	22783
Management - other	15		1422	1422	1923
Total	16		23298	23298	24988

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		3	3	282
Management - maintenance	44		21873	21873	22783
Management - other	45		1422	1422	1923
Total	46		23298	23298	24988

Long-term insurance business : Summary of new businessName of insurer **Prudential Annuities Limited**

Total business

Financial year ended **31 December 2010**Units **£000**

UK Life 1	UK Pension 2	Overseas 3	Total Financial year 4	Total Previous year 5
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**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		1022		1022	8438
External reinsurance	26					
Intra-group reinsurance	27		300		300	(1321)
Total	28		1322		1322	7117

Long-term insurance business : Analysis of new business

Name of insurer

Prudential Annuities Limited

Total business

Financial year ended

31 December 2010

Units

£000

UK Pension / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
400	Annuity non-profit (CPA) - individual annuities in payment				(5)
401	Annuity non-profit (bulk transfer) - group annuities in payment				1027
905	Index linked annuity(CPA) - individual annuities in payment				
906	Index linked annuity (bulk transfer) - group annuities in payment				

Long-term insurance business : Analysis of new business

Name of insurer

Prudential Annuities Limited

Total business

Financial year ended

31 December 2010

Units

£000

UK Pension / Reinsurance accepted intra-group

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
400	Annuity non-profit (CPA) - individual annuities in payment (reassurance accepted from PAC)				309
401	Annuity non-profit (bulk transfer) - group annuities in payment (reassurance accepted from PAC)				(3)
906	Index linked annuity (bulk transfer) - group annuities in payment (reassurance accepted from PAC)				(6)

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 2010**
 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	636791	670931	36813	5.49	
Approved fixed interest securities	12	2130150	2130150	104167	4.24	
Other fixed interest securities	13	8018925	8018925	486904	5.65	
Variable interest securities	14	144197	144197	2725	2.07	
UK listed equity shares	15	210062	210062	12098	5.76	
Non-UK listed equity shares	16	767	767			
Unlisted equity shares	17	12695	12695	1273	10.03	
Other assets	18	583133	548993	12585	2.16	
Total	19	11736720	11736720	656565	5.18	

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 **31 December 2010**
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
UK Government approved fixed interest securities	11	1073428	16.82	4.27	4.27

Other approved fixed interest securities	21	1056722	10.42	4.21	4.02
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Other fixed interest securities

AAA/Aaa	31	330423	8.43	4.44	4.07
AA/Aa	32	1465759	10.20	5.18	4.17
A/A	33	3097567	9.80	5.55	4.33
BBB/Baa	34	1240610	7.49	6.05	4.65
BB/Ba	35	88653	7.87	8.42	4.67
B/B	36	19716	5.29	9.82	4.67
CCC/Caa	37	18254	3.74	29.42	8.85
Other (including unrated)	38	1757943	7.73	5.71	4.73
Total other fixed interest securities	39	8018925	8.96	5.65	4.44

Approved variable interest securities	41				
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Other variable interest securities	51	144197	10.34	2.07	1.16
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Total (11+21+39+41+51)	61	10293272	9.95	5.31	4.33
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Long-term insurance business : Summary of mathematical reserves

Name of insurer **Prudential Annuities Limited**
 Total business / subfund **Ordinary Branch Long Term**
 Financial year ended **31 December 2010**
 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		10893470	10893470	10764013
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16		2265386	2265386	2126863
Form 54 - non-linked	17		52057	52057	76595
Total	18		13210913	13210913	12967471

Reinsurance - external

Form 51 - with-profits	21				
Form 51 - non-profit	22		4870	4870	4475
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26		2049	2049	1953
Form 54 - non-linked	27				
Total	28		6919	6919	6428

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		10888600	10888600	10759538
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46		2263337	2263337	2124910
Form 54 - non-linked	47		52057	52057	76595
Total	48		13203994	13203994	12961043

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 2010**
 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)	12029	31948					441204
390	Deferred annuity non-profit - group deferred annuities (GPDA)	536	1336					23444
390	Deferred annuity non-profit - group deferred annuities (reassurance accepted from PAC) (DAPA)		836					12065
390	Deferred annuity non-profit - group deferred annuities (reassurance accepted from PAC) (GPDA)		10202					108496
400	Annuity non-profit (CPA) - group annuities in payment	21946	42271					581817
400	Annuity non-profit (CPA) - individual annuities in payment	41850	166768					2307727
400	Annuity non-profit (CPA) - individual annuities in payment (reassurance accepted from PAC & PPL)		563549					6925474
405	Annuity non-profit (CPA impaired life) - individual annuities in payment	2	7					106
405	Annuity non-profit (CPA impaired life) - individual annuities in payment (reassurance accepted from PAC & PPL)		577					7453
440	Additional reserves non-profit OB - miscellaneous							79828
440	Additional reserves non-profit OB - mismatching							164979
440	Additional reserves non-profit OB - policy related expenses							240877

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 2010**
 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)		207					4870

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 2010**
 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	18343	32801		554382	554383		554383
905	Index linked annuity(CPA) - group annuities in payment - valued as fixed	25077	21080		348832	348832		348832
905	Index linked annuity(CPA) - individual annuities in payment	6089	24057		450678	450678		450678
905	Index linked annuity(CPA) - individual annuities in payment (reassurance accepted from PAC & PPL)		29622		443252	443252		443252
907	Index linked deferred annuity - group deferred annuities	10675	14602		223313	223313		223313
907	Index linked deferred annuity - group deferred annuities - valued as fixed	6382	10047		204619	204619		204619
907	Index linked deferred annuity - group deferred annuities (reassurance accepted from PAC)		404		7620	7620		7620
915	Additional reserves index linked - miscellaneous						16975	16975
915	Additional reserves index linked - mismatching						35082	35082
915	Additional reserves index linked - Policy related expenses				32689	32689		32689

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 2010**
 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)		124		2049	2049		2049

Long-term insurance business : Index linked business

Name of insurer **Prudential Annuities Limited**
 Total business
 Financial year ended **31 December 2010**
 Units **£000**

Value of assets	Mean Term
1	2

Analysis of assets

Approved variable interest securities	11	438737	17.96
Other variable interest securities	12	1106102	9.76
Approved fixed interest securities	13	100409	10.42
Other fixed interest securities	14	383534	8.30
Cash and deposits	15	108748	
Equity index derivatives	16		
Inflation swaps	17	71723	
Other assets	18	54084	
Variation margin	19		
Total (11 to 19)	20	2263337	

Credit rating of other fixed interest and other variable interest securities

AAA/Aaa	31	8353	6.94
AA/Aa	32	160357	10.41
A/A	33	554087	10.72
BBB/Baa	34	321332	8.98
BB/Ba	35	37482	7.47
B/B	36	409	5.29
CCC/Caa	37	333	3.74
Other (including unrated)	38	407283	7.72
Total other fixed interest and other variable interest securities	39	1489636	9.38

Long-term insurance business: Analysis of valuation interest rate

Name of insurer **Prudential Annuities Limited**
Total business **Ordinary Branch Long Term**
Financial year ended **31 December 2010**
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	10402917		4.52	4.64
Form 51: Additional reserves - policy related expenses	240877		1.00	1.02
Form 51: Additional reserves	244807			4.64
Form 54: Additional reserves	52057			1.02
Total	10940658			

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 2010**
 Units **£000**

Financial year	Previous year
1	2

Valuation result

Fund carried forward	11	13311884	13131528
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	242000	
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	13553884	13131528
Mathematical reserves	21	13203994	12961043
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	349890	170485

Composition of surplus

Balance brought forward	31	170485	144755
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	179405	25730
Total	39	349890	170485

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	242000	
Total distributed surplus (46+47)	48	242000	
Surplus carried forward	49	107890	170485
Total (48+49)	59	349890	170485

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 2010**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%	10893469	10888599	1.00	108886	107595
Classes III, VII and VIII (investment risk)	33	1%	2317444	2315395	1.00	23154	22015
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					132040	129610

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	10893469	10888599	1.00	326658	322786
Classes III, VII and VIII (investment risk)	43	3%	2317444	2315395	1.00	69462	66045
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		13210913	13203994		396120	388831

Long term insurance capital requirement	51					528160	518442
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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 2010

1. Introduction

- (1) The investigation relates to 31 December 2010.
- (2) The previous investigation related to 31 December 2009.
- (3) No interim valuations have been carried out for the purposes of rule 9.4 since 31 December 2009.

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 2010 (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 Pensions Limited	Reassurance accepted from PAC & 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 2010 (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 5% annual revaluation throughout the deferred period followed by the actual fixed escalation in payment. These annuities are included in these returns as non-linked business.

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

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

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 2010	31 December 2009
		%	%
All	All products	4.52	5.06

Valuation Report as at 31 December 2010 (continued)

Index-linked

Product code number	Product description	31 December 2010 %	31 December 2009 %
All	All products (excluding index linked annuities – valued as fixed)	1.00	1.46
All	Index linked annuity – group annuities in payment – valued as fixed Index linked annuity – group deferred annuities – valued as fixed	4.52	5.06

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 40 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 2010 (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	5.2	8.6	15.7	28.8	94.8	185.2
Senior Unsecured	11.4	18.8	34.5	63.3	208.4	407.4
Subordinated Debt	16.5	27.4	50.2	92.1	303.2	592.5

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 2010 has been taken to be the allowance for defaults brought forward from 31 December 2009 but adjusted to allow for changes in asset mix that have occurred during 2010. In addition, a surplus which arose during 2010 due to the default experience being better than allowed for at 31 December 2009, has been retained and used to increase the allowance for defaults at 31 December 2010.

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 0.89% and 0.76% 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 87 basis points per annum. This can alternatively be expressed as 230 basis points for 3 years and 41 basis points per annum thereafter.

Valuation Report as at 31 December 2010 (continued)

(4) Non-linked

Product code number	Product description	31 December 2010	31 December 2009
400	Annuity non-profit (CPA) – individual annuities in payment Annuity non-profit (CPA) – individual annuities in payment (reassurance accepted from PAC & 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 & PPL)		
	Mortality table	Modified 98% PCMA00 / 88% PCFA00	Modified 102% PNMA00 / 88% PNFA00
	Expectation of life age 65	24.3 (M), 25.6 (F)	23.8 (M), 25.4 (F)
	Expectation of life age 75	14.7 (M), 16.2 (F)	14.4 (M), 16.2 (F)
400	Annuity non-profit (CPA) – group annuities in payment		
	Mortality table	Modified 92% PCMA00 / 100% PCFA00	Modified 105% PNMA00 / 103% PNFA00
	Expectation of life age 65	24.9 (M), 24.6 (F)	23.5 (M), 24.1 (F)
	Expectation of life age 75	15.2 (M), 15.3 (F)	14.2 (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	26.0 (M), 25.1 (F)	25.8 (M), 25.0 (F)
	Current age 55, expectation of life age 65	24.1 (M), 24.1 (F)	23.9 (M), 24.0 (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 92% PCMA00 / 100% PCFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 105% PNMA00 / 103% PNFA00
	Current age 45, expectation of life age 65	28.7 (M), 26.5 (F)	27.5 (M), 26.1 (F)
	Current age 55, expectation of life age 65	26.8 (M), 25.6 (F)	25.5 (M), 25.1 (F)

Valuation Report as at 31 December 2010 (continued)

Index linked

Product code number	Product description	31 December 2010	31 December 2009
905	Index linked annuity (CPA) - individual annuities in payment Index linked annuity (CPA) - individual annuities in payment (reassurance accepted from PAC & PPL)		
	Mortality table	Modified 98% PCMA00 / 88% PCFA00	Modified 102% PNMA00 / 88% PNFA00
	Expectation of life age 65	24.3 (M), 25.6 (F)	23.8 (M), 25.4 (F)
	Expectation of life age 75	14.7 (M), 16.2 (F)	14.4 (M), 16.2 (F)
905	Index linked annuity (CPA) - group annuities in payment Index linked annuity (CPA) - group annuities in payment - valued as fixed		
	Mortality table	Modified 92% PCMA00 / 100% PCFA00	Modified 105% PNMA00 / 103% PNFA00
	Expectation of life age 65	24.9 (M), 24.6 (F)	23.5 (M), 24.1 (F)
	Expectation of life age 75	15.2 (M), 15.3 (F)	14.2 (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 92% PCMA00 / 100% PCFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 105% PNMA00 / 103% PNFA00
	Current age 45, expectation of life age 65	28.7 (M), 26.5 (F)	27.5 (M), 26.1 (F)
	Current age 55, expectation of life age 65	26.8 (M), 25.6 (F)	25.5 (M), 25.1 (F)

Valuation Report as at 31 December 2010 (continued)

Mortality bases used at 31 December 2010 and 31 December 2009

Annuities are generally valued using a percentage of the 00 series tables for annuitants and pensioners. The base mortality assumptions have now been updated to use the PCxA tables. Previously the PNxA tables were used, which reflected normal retirements only. The PCxA tables reflect all types of retirement and have been found to provide a better fit to experience. In order to allow for mortality improvement, future improvement factors are applied from 2001. For males these future improvement factors are in line with Prudential's own calibration of the CMI 2009 mortality model, with a long term improvement rate of 2.25% p.a. For females, future improvement factors are in line with Prudential's own calibration of the CMI 2009 mortality model, with a long term improvement rate of 1.25% p.a. Compared with the core CMI mortality model, Prudential's calibration:

- (a) blends period improvements between ages 60 to 80 to the long term improvement rate over a 15 year period (compared with a 20 year period in the core CMI model), and
- (b) assumes that cohort improvements dissipate over a 30 year period, or by age 90 if earlier (compared with a 40 year period, or by age 100 if earlier, in the core CMI model).

The mortality improvement assumptions applied at the 31 December 2009 valuation were: for males, future improvement factors were 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 were 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 exception to the above, 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 PNxA double entry tables with future improvement factors unchanged from those used at the 31 December 2009 valuation. 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

Valuation Report as at 31 December 2010 (continued)

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

Product code number	Product description	31 December 2010	31 December 2009
All	All products	£21.24 p.a.	£21.54 p.a.

The inflation rate assumed for future expenses is as follows:

Product code number	Product description	31 December 2010	31 December 2009
All	All products	4.25% p.a.	4.25% p.a.

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

Product code number	Product description	31 December 2010	31 December 2009
All	All products	0.05% 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 2010 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;

Valuation Report as at 31 December 2010 (continued)

- 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;
- x) Contracts to take sovereign credit risk in return for ongoing premiums.

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

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

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

The effect of the contracts under iv) combined with the 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 effect of the contracts under x) is to take sovereign credit risk in return for fixed, ongoing premiums.

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.

Valuation Report as at 31 December 2010 (continued)

- (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 £8m 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:

	£m
Per policy expenses	13.2
Investment management expenses	7.2
Total	20.4

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 £21.9m. This includes one-off exceptional expenses of £1.4m. 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).

Valuation Report as at 31 December 2010 (continued)

In the first instance, expense reserves are calculated on the assumption that Prudential's UK insurance operations will continue to write new business indefinitely and hence that there will be no loss of economies of scale. In this scenario, the amount of the expense loading over the remaining lifetime of the contracts in force at the valuation date is £234.6m.

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.

At the valuation date, an additional reserve of £39.0m 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 17% plus a fall in rental income of 10%, and;
 - (ii) a fall in yield on all fixed interest securities of 0.80%, which is the percentage point fall equal to 20% of the long-term gilt yield at the valuation date, and;
 - (iii) a fall of 0.11% in the indexed-linked real security yield in conjunction with a fall of 0.67% in the inflation rate such that the overall fall in the nominalised yield is equal to 0.80%.
- (5) There were no significant territories at the valuation date.
- (6) In respect of the scenario described under (4) above;

Valuation Report as at 31 December 2010 (continued)

- (a) No resilience capital requirement was necessary.
 - (b) The increase in the aggregate amount of the long-term insurance liabilities was £733m.
 - (c) The increase in the aggregate amount of assets backing these liabilities was £757m.
- (7) A reserve of £200m was held arising from the test on assets in INSPRU 1.1.34R(2).

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

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

In 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 41 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

Other special reserves are as follows:

A reserve of £97m is held to cover general contingencies.

A reserve of £33m is held to eliminate the impact on the portfolio asset yield, and hence the valuation interest rate, of very high yields on some fixed interest securities.

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

Valuation Report as at 31 December 2010 (continued)

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 2010

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

	2010 £'000s
Line 89 on Form 13 (OLTB)	1,118,204
Line 89 on Form 13 (LTB)	14,000,057
Line 11 on Form 14	(13,203,994)
Line 49 on Form 14	(696,545)
Line 69 on Form 15	(67,212)
Line 79 on Form 3	<u>1,150,510</u>

0310 Valuation differences

	2010 £'000s
<i>Positive valuation differences where liabilities are lower than in the shareholder accounts</i>	
Deferred tax held on additional reserves and valuation differences	246,121
<i>Positive valuation differences where assets are higher than in the shareholder accounts</i>	
FSA valuation difference on investments	22,545
<i>Negative valuation differences where liabilities are higher than in the shareholder accounts</i>	
Additional reserves held in long term fund	(934,102)
Line 35 on Form 3	<u>(665,436)</u>

Supplementary notes to the returns (continued)

Form 3 (Continued)

0313 Reconciliation of profit and loss account and other reserves

	2010 £'000s
Profit and loss account and other reserves c/fwd (Form 3 Line 12 – Column 3)	1,174,318
Profit and loss account and other reserves b/fwd (Form 3 Line 12 – Column 4)	995,363
Movement	178,955
Movement in additional reserves held for FSA	69,916
Movement in valuation difference	4,912
Movement in deferred tax	(30,065)
Movement in unallocated surplus	62,595
Profit and loss account retained for the financial year (Form 16 Line 59)	286,313

Form 13

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

1301 The Company held £44m 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 £1,017m in unlisted securities.

1309 The Company held £1,178m 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

	2010 £'000s
<i><u>Total other than long term business assets</u></i>	
Miscellaneous liabilities netted off against assets in the financial statements	(8)
Amounts due from long term fund, notionally settled and shown as cash at bank on Form 13, which consolidates out in the financial statements	(242,000)
Line 101 on Form 13	<u>(242,008)</u>
	2010 £'000s
<i><u>Total long term business assets</u></i>	
Bank account overdraft moved to Form 14 which consolidates out in the financial statements.	(256,301)
Cash at bank used to notionally settle balance owed to the other than long term fund	242,000
Miscellaneous liabilities netted off against assets in the financial statements	(1,785)
Line 101 on Form 13	<u>(16,086)</u>

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

	2010 £'000s
<i><u>Total long term business assets</u></i>	
Assets valued on a different basis than that in the financial statements	(22,545)
Line 98 on Form 13	<u>(22,545)</u>

Form 14

1401 The long term fund held a number of interest rate swaps, inflation swaps, credit default swaps and foreign currency swaps 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 £7,812m. 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) 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

	2010 £'000s
Additional reserves held in long term fund	(934,102)
Deferred tax held on additional reserves and valuation differences	246,121
Bank account overdraft moved from Form 13 which consolidates out in the financial statements.	(256,301)
Cash at bank used to notionally settle balances owed to the other than long term fund	242,000
Miscellaneous adjustments to liabilities	(1,785)
Line 74 on Form 14	<u>(704,067)</u>

Form 15

- *1501* The other than long term fund held a number of inflation swaps during the year. The swaps involved the exchange of cash flows and not the underlying principal amount. No provision for adverse change is required, as all derivatives that impose an obligation on the fund are strictly covered.
- *1502* (a) There were no charges attributable to the other than long term business assets.
- (b) The total potential liability to taxation on capital gains which might arise if the company disposed of its assets was £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.

Supplementary notes to the returns (continued)

Form 15 (continued)

1507 Details of other adjustment in liabilities

	2010 £'000s
Miscellaneous adjustments to liabilities	(8)
Cash at bank used to notionally settle balances owed to the other than long term fund	(242,000)
Line 83 on Form 15	<u>(242,008)</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 £586m arising from claims under this reinsurance agreement. The liabilities included in the return, relating to this business amount to £7,812m at the year end.

Form 48

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

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.

Supplementary notes to the returns (continued)

Form 49

4901 Credit ratings used on Form 49 are the second best of external rating agencies, namely Fitch, S&P and Moody's.

Form 51

5105 The amount of double counting of policies between Forms 51 and 54 combined is 15,677.

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 15,677.

Form 56

5601 Credit ratings used on Form 49 are the second best of external rating agencies, namely Fitch, S&P and Moody's.

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	4.64%	5.53%
Form 51: Additional reserves non-profit OB – policy related expenses	1.02%	1.78%

Form 58

5803 There is a difference between line 29 and Form 2 line 11 of £8,372k. This difference relates to the inadmissible assets shown on Form 13 (Long term Business) line 93.

PRUDENTIAL ANNUITIES LIMITED

Global business

Returns for the year ended 31 December 2010

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 (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;
 - (c) that we have, in preparing the return, taken and paid due regard to advice in preparing the return from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.

.....

R A Devey
Director

.....

A M Crossley
Director

.....

D J Belsham
Director

28 March 2011

PRUDENTIAL ANNUITIES LIMITED

Global business

Returns for the year ended 31 December 2010

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 insurer 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 48.

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 insurer’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 insurer’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 insurer, conferred on the FSA by or under the Financial Services and Markets Act 2000. Our work (including our examination) has been undertaken so that we might state to the insurer’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 insurer and the insurer’s directors as a body, for our audit work, for this report, or for the opinions we have formed.

PRUDENTIAL ANNUITIES LIMITED

Global business

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

Respective responsibilities of the Company and its auditors

The insurer is responsible for the preparation of an annual return (including the Forms, the Statement, the valuation report) 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 insurer and used to perform the actuarial investigation as set out in the valuation report 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:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Forms, the Statement and the valuation report are not in agreement with the accounting records and returns; or
- 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 insurer for the financial year. It also included an assessment of the significant estimates and judgements made by the insurer 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.

PRUDENTIAL ANNUITIES LIMITED

Global business

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

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
15 Canada Square
Canary Wharf
London
E14 5GL
28 March 2011

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2010

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, 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, credit default and inflation-linked swaps in the long term business and interest rate swaps in the other than long term business.

The company has also used redeemable convertible corporate bonds. These bonds have not been categorised as derivative contracts as the derivative element is minimal and have therefore not been reported on Form 17. The total value of these bonds on the Form 13 is £1,342k.

(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

The largest exposure during the year to out of the money call options/warrants was £155k.

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

There were no derivative contracts held during 2010 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 2010

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.