

# **Prudential Pensions Limited**

**Incorporated in England and Wales Registered No 992726**

**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 business**Name of insurer **Prudential Pensions Limited**

Global business

Financial year ended **31 December 2010**

Solo solvency calculation

Company registration number	GL/UK/CM	day	month	year	Units	
<b>R2</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
			<b>As at end of this financial year</b>		<b>As at end of the previous year</b>	
			<b>1</b>		<b>2</b>	

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	8333	8286
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	11659	11575
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	19992	19861

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	3408	3128
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	16584	16733

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	10225	9187
Resilience capital requirement	<b>32</b>	1840	2700
Base capital resources requirement	<b>33</b>	3040	3128
Individual minimum capital requirement	<b>34</b>	12065	11887
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	12065	11887
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	13960	13917
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	10944	10946

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		
Enhanced capital requirement	<b>40</b>	12065	11887

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	12065	11887
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	7927	7974

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	<b>51</b>	13774	18073
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**Covering Sheet to Form 2**

Name of insurer **Prudential Pensions Limited**

Global business

Financial year ended **31 December 2010**

..... **R A Devey** **Chief Executive**

..... **D J Belsham** **Director**

..... **K Nunn** **Director**

**Date** **28 March 2011**  
.....

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

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Core tier one capital**

Permanent share capital	<b>11</b>		6000	6000	6000
Profit and loss account and other reserves	<b>12</b>		23579	23579	17286
Share premium account	<b>13</b>				
Positive valuation differences	<b>14</b>				
Fund for future appropriations	<b>15</b>				
Core tier one capital in related undertakings	<b>16</b>				
Core tier one capital (sum of 11 to 16)	<b>19</b>		29579	29579	23286

**Tier one waivers**

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

**Other tier one capital**

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

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		29579	29579	23286
Investments in own shares	<b>32</b>				
Intangible assets	<b>33</b>				
Amounts deducted from technical provisions for discounting	<b>34</b>				
Other negative valuation differences	<b>35</b>		9587	9587	3425
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>		9587	9587	3425
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		19992	19992	19861

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

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day month year			Units	
	<b>R3</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year		
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>		

**Tier two capital**

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

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

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



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

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	<b>R3</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>		<b>4</b>	

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	<b>71</b>				
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		19992	19992	19861
Inadmissible assets other than intangibles and own shares	<b>73</b>				
Assets in excess of market risk and counterparty limits	<b>74</b>				
Deductions for related ancillary services undertakings	<b>75</b>				
Deductions for regulated non-insurance related undertakings	<b>76</b>				
Deductions of ineligible surplus capital	<b>77</b>				
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		19992	19992	19861

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

Available capital resources for guarantee fund requirement	<b>81</b>		19992	19992	19861
Available capital resources for 50% MCR requirement	<b>82</b>		19992	19992	19861
Available capital resources for 75% MCR requirement	<b>83</b>		19992	19992	19861

**Financial engineering adjustments**

Implicit items	<b>91</b>				
Financial reinsurance - ceded	<b>92</b>				
Financial reinsurance - accepted	<b>93</b>				
Outstanding contingent loans	<b>94</b>		13774	13774	18073
Any other charges on future profits	<b>95</b>				
<b>Sum of financial engineering adjustments (91+92-93+94+95)</b>	<b>96</b>		13774	13774	18073

**Analysis of admissible assets**Name of insurer **Prudential Pensions 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	
<b>R13</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>1</b>
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>
						<b>1</b>	<b>2</b>
Land and buildings			<b>11</b>				

**Investments in group undertakings and participating interests**

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

**Other financial investments**

Equity shares	<b>41</b>		
Other shares and other variable yield participations	<b>42</b>		
Holdings in collective investment schemes	<b>43</b>		
Rights under derivative contracts	<b>44</b>		
Fixed interest securities	Approved	<b>45</b>	
	Other	<b>46</b>	
Variable interest securities	Approved	<b>47</b>	
	Other	<b>48</b>	
Participation in investment pools	<b>49</b>		
Loans secured by mortgages	<b>50</b>		
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>		
Loans secured by policies of insurance issued by the company	<b>52</b>		
Other loans	<b>53</b>		
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	11178
	More than one month withdrawal	<b>55</b>	11333
Other financial investments	<b>56</b>		
Deposits with ceding undertakings	<b>57</b>		
Assets held to match linked liabilities	Index linked	<b>58</b>	
	Property linked	<b>59</b>	

**Analysis of admissible assets**Name of insurer **Prudential Pensions 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	992726	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	
	due in more than 12 months	79	

**Other assets**

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	481	242
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84		
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	11659	11575
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**Analysis of admissible assets**Name of insurer **Prudential Pensions 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	992726	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	11659	11575
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
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		
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	11659	11575
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 assets**Name of insurer **Prudential Pensions 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	
<b>R13</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>				

**Investments in group undertakings and participating interests**

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

**Other financial investments**

Equity shares	<b>41</b>			
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>			
Rights under derivative contracts	<b>44</b>			
Fixed interest securities	Approved	<b>45</b>	12282	11824
	Other	<b>46</b>		
Variable interest securities	Approved	<b>47</b>		
	Other	<b>48</b>		
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>			
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>			
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	34322	25167
	More than one month withdrawal	<b>55</b>		
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>		
	Property linked	<b>59</b>	9854987	8203783

**Analysis of admissible assets**Name of insurer **Prudential Pensions 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	992726	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	453	3957
	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	3283	5608
	due in more than 12 months	79		

**Other assets**

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	13312	6179
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	82	124
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	9918721	8256642
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**Analysis of admissible assets**Name of insurer **Prudential Pensions 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	992726	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	9918721	8256642
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
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	1451376	1051577
Other asset adjustments (may be negative)	101		
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	11370097	9308219
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103	4	4

**Long term insurance business liabilities and margins**Name of insurer **Prudential Pensions Limited**

Global business

Financial year ended **31 December 2010**Total business/Sub fund **Ordinary Long Term**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	<b>11</b>	9887189	8233775
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>		
Balance of surplus/(valuation deficit)	<b>13</b>	8333	8286
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	9895522	8242061
Claims outstanding	Gross	<b>15</b>	366
	Reinsurers' share	<b>16</b>	
	Net (15-16)	<b>17</b>	366
Provisions	Taxation	<b>21</b>	
	Other risks and charges	<b>22</b>	
Deposits received from reinsurers	<b>23</b>		
Creditors	Direct insurance business	<b>31</b>	
	Reinsurance accepted	<b>32</b>	1013
	Reinsurance ceded	<b>33</b>	4799
Debenture loans	Secured	<b>34</b>	
	Unsecured	<b>35</b>	
Amounts owed to credit institutions	<b>36</b>		
Creditors	Taxation	<b>37</b>	1
	Other	<b>38</b>	22185
Accruals and deferred income	<b>39</b>		9414
Provision for "reasonably foreseeable adverse variations"	<b>41</b>		
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	23199	14581
Excess of the value of net admissible assets	<b>51</b>		
Total liabilities and margins	<b>59</b>	9918721	8256642

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	2394	3128
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	9854987	8203783

Total liabilities (11+12+49)	<b>71</b>	9910388	8248356
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>	1451376	1051577
Other adjustments to liabilities (may be negative)	<b>74</b>	(9587)	(3425)
Capital and reserves and fund for future appropriations	<b>75</b>	17920	11711
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)	<b>76</b>	11370097	9308219



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

Global business

Financial year ended **31 December 2010**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	<b>R15</b>	<b>992726</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
						<b>As at end of this financial year 1</b>	<b>As at end of the previous year 2</b>

**Technical provisions (gross amount)**

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

**Provisions and creditors**

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

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance		<b>71</b>				
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Amounts deducted from technical provisions for discounting		<b>82</b>				
Other adjustments (may be negative)		<b>83</b>				
Capital and reserves		<b>84</b>			11659	11575
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)		<b>85</b>			11659	11575

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

Global business

Financial year ended **31 December 2010**

		Company registration number	GL/ UK/ CM	day	month	year	Units
		R16	992726	GL	31	12	2010
					This financial year		Previous year
					1		2
Transfer (to)/from the general insurance business technical account	From Form 20		11				
	Equalisation provisions		12				
Transfer from the long term insurance business revenue account			13				
Investment income	Income		14			116	91
	Value re-adjustments on investments		15				
	Gains on the realisation of investments		16				
Investment charges	Investment management charges, including interest		17				
	Value re-adjustments on investments		18				
	Loss on the realisation of investments		19				
Allocated investment return transferred to the general insurance business technical account			20				
Other income and charges (particulars to be specified by way of supplementary note)			21				
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29			116	91
Tax on profit or loss on ordinary activities			31			32	25
Profit or loss on ordinary activities after tax (29-31)			39			84	66
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			84	66
Dividends (paid or foreseeable)			51				
Profit or loss retained for the financial year (49-51)			59			84	66

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

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **Ordinary Long Term**  
 Financial year ended **31 December 2010**  
 Units **£000**

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

**Income**

Earned premiums	11	1356309	1174853
Investment income receivable before deduction of tax	12	348007	319829
Increase (decrease) in the value of non-linked assets brought into account	13	459	(205)
Increase (decrease) in the value of linked assets	14	619903	848228
Other income	15		5700
<b>Total income</b>	<b>19</b>	<b>2324678</b>	<b>2348405</b>

**Expenditure**

Claims incurred	21	643881	1003774
Expenses payable	22	20234	18415
Interest payable before the deduction of tax	23	56	67
Taxation	24	2442	(371)
Other expenditure	25	4604	
Transfer to (from) non technical account	26		
<b>Total expenditure</b>	<b>29</b>	<b>671217</b>	<b>1021885</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	1653461	1326520
Fund brought forward	49	8242061	6915541
Fund carried forward (39+49)	59	9895522	8242061

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

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **Ordinary 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		528		528	544
Single premiums	12		1704803		1704803	1380636

**Reinsurance - external**

Regular premiums	13					
Single premiums	14		349022		349022	206327

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17		528		528	544
Single premiums	18		1355781		1355781	1174309

**Total**

Gross	19		1705331		1705331	1381180
Reinsurance	20		349022		349022	206327
Net	21		1356309		1356309	1174853

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

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **Ordinary 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		2697		2697	2473
Disability periodic payments	12					
Surrender or partial surrender	13		736067		736067	1020057
Annuity payments	14		16591		16591	17643
Lump sums on maturity	15		2536		2536	2256
<b>Total</b>	<b>16</b>		<b>757891</b>		<b>757891</b>	<b>1042429</b>

**Reinsurance - external**

Death or disability lump sums	21		265		265	245
Disability periodic payments	22					
Surrender or partial surrender	23		106553		106553	31219
Annuity payments	24					
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>		<b>106818</b>		<b>106818</b>	<b>31464</b>

**Reinsurance - intra-group**

Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33					
Annuity payments	34		7192		7192	7191
Lump sums on maturity	35					
<b>Total</b>	<b>36</b>		<b>7192</b>		<b>7192</b>	<b>7191</b>

**Net of reinsurance**

Death or disability lump sums	41		2432		2432	2228
Disability periodic payments	42					
Surrender or partial surrender	43		629514		629514	988838
Annuity payments	44		9399		9399	10452
Lump sums on maturity	45		2536		2536	2256
<b>Total</b>	<b>46</b>		<b>643881</b>		<b>643881</b>	<b>1003774</b>

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

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **Ordinary 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		703	703	1040
Management - maintenance	14		18626	18626	16640
Management - other	15		905	905	735
<b>Total</b>	<b>16</b>		<b>20234</b>	<b>20234</b>	<b>18415</b>

**Reinsurance - external**

Commission - acquisition	21				
Commission - other	22				
Management - acquisition	23				
Management - maintenance	24				
Management - other	25				
<b>Total</b>	<b>26</b>				

**Reinsurance - intra-group**

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34				
Management - other	35				
<b>Total</b>	<b>36</b>				

**Net of reinsurance**

Commission - acquisition	41				
Commission - other	42				
Management - acquisition	43		703	703	1040
Management - maintenance	44		18626	18626	16640
Management - other	45		905	905	735
<b>Total</b>	<b>46</b>		<b>20234</b>	<b>20234</b>	<b>18415</b>

**Long-term insurance business : Linked funds balance sheet**

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

Financial year	Previous year
1	2

**Internal linked funds (excluding cross investment)**

Directly held assets (excluding collective investment schemes)	11	9561787	7989281
Directly held assets in collective investment schemes of connected companies	12	251884	203223
Directly held assets in other collective investment schemes	13	75215	37104
<b>Total assets (excluding cross investment) (11+12+13)</b>	<b>14</b>	<b>9888886</b>	<b>8229608</b>
Provision for tax on unrealised capital gains	15		
Secured and unsecured loans	16		
Other liabilities	17	33899	25825
<b>Total net assets (14-15-16-17)</b>	<b>18</b>	<b>9854987</b>	<b>8203783</b>

**Directly held linked assets**

Value of directly held linked assets	21		
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**Total**

Value of directly held linked assets and units held (18+21)	31	9854987	8203783
Surplus units	32		
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>9854987</b>	<b>8203783</b>

**Long-term insurance business : Revenue account for internal linked funds**

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

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

**Income**

Value of total creation of units	11	1356309	1174853
Investment income attributable to the funds before deduction of tax	12	346844	321568
Increase (decrease) in the value of investments in the financial year	13	622158	848193
Other income	14		
<b>Total income</b>	<b>19</b>	<b>2325311</b>	<b>2344614</b>

**Expenditure**

Value of total cancellation of units	21	643881	1003774
Charges for management	22	27059	23016
Charges in respect of tax on investment income	23	2288	2257
Taxation on realised capital gains	24		
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25		
Other expenditure	26	879	806
<b>Total expenditure</b>	<b>29</b>	<b>674107</b>	<b>1029853</b>

Increase (decrease) in funds in financial year (19-29)	39	1651204	1314761
Internal linked fund brought forward	49	8203783	6889022
Internal linked funds carried forward (39+49)	59	9854987	8203783



**Long-term insurance business : Summary of new business**Name of insurer **Prudential Pensions 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				171
<b>Total</b>	<b>13</b>				<b>171</b>

**Amount of new regular  
premiums**

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

**Amount of new single  
premiums**

Direct insurance business	25		758799		758799	699821
External reinsurance	26		7113		7113	33568
Intra-group reinsurance	27		938891		938891	647247
<b>Total</b>	<b>28</b>		<b>1704803</b>		<b>1704803</b>	<b>1380636</b>

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

Name of insurer

**Prudential Pensions 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
735	Group money purchase pensions property linked				758799

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

Name of insurer

**Prudential Pensions Limited**

Total business

Financial year ended

**31 December 2010**

Units

**£000**

UK Pension / Reinsurance accepted external

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
735	Group money purchase pensions property linked				7113

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

Name of insurer

**Prudential Pensions 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
735	Group money purchase pensions property linked				938891

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

Name of insurer **Prudential Pensions 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					
Approved fixed interest securities	12	12320	12320	577	3.81	
Other fixed interest securities	13					
Variable interest securities	14					
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	51414	51414	251	0.49	
<b>Total</b>	<b>19</b>	<b>63734</b>	<b>63734</b>	<b>827</b>	<b>1.13</b>	

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

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

**Overall return on with-profits assets**

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

**Long-term insurance business : Summary of mathematical reserves**

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **Ordinary 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		81983	81983	82798
Form 52	13				
Form 53 - linked	14		11229378	11229378	9178148
Form 53 - non-linked	15		32202	32202	29992
Form 54 - linked	16				
Form 54 - non-linked	17				
<b>Total</b>	<b>18</b>		11343563	11343563	9290938

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22				
Form 52	23				
Form 53 - linked	24		1374391	1374391	974365
Form 53 - non-linked	25				
Form 54 - linked	26				
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>		1374391	1374391	974365

**Reinsurance - intra-group**

Form 51 - with-profits	31				
Form 51 - non-profit	32		81983	81983	82798
Form 52	33				
Form 53 - linked	34				
Form 53 - non-linked	35				
Form 54 - linked	36				
Form 54 - non-linked	37				
<b>Total</b>	<b>38</b>		81983	81983	82798

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42				
Form 52	43				
Form 53 - linked	44		9854987	9854987	8203783
Form 53 - non-linked	45		32202	32202	29992
Form 54 - linked	46				
Form 54 - non-linked	47				
<b>Total</b>	<b>48</b>		9887189	9887189	8233775

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

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **Ordinary 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
400	Annuity non-profit (CPA) - Direct business	5263	7208					81983

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

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **Ordinary Long Term**  
 Financial year ended **31 December 2010**  
 Units **£000**  
 UK Pension / Reinsurance ceded intra-group

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) - Ceded business		7208					81983



**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **Prudential Pensions Limited**  
Total business / subfund **Ordinary Long Term**  
Financial year ended **31 December 2010**  
Units **£000**  
UK Pension / Gross

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
725	Individual pensions property linked	3199	51164	528	51164	51164	106	51270
735	Group money purchase pensions property linked		11178214		11178214	11178214	12449	11190663
800	Additional reserves property linked						19647	19647

**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **Ordinary Long Term**  
 Financial year ended **31 December 2010**  
 Units **£000**  
 UK Pension / Reinsurance ceded external

<b>Product code number</b>	<b>Product description</b>	<b>Number of policyholders / scheme members</b>	<b>Amount of benefit</b>	<b>Amount of annual office premiums</b>	<b>Nominal value of units</b>	<b>Discounted value of units</b>	<b>Other liabilities</b>	<b>Amount of mathematical reserves</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
735	Group money purchase pensions property linked		1374391		1374391	1374391		1374391

**Long-term insurance business : Unit prices for internal linked funds**

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

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
All Stocks Corporate Bond	24 - group managed fund - other managed fund	3111752	GILP	0.30	17.6394	19.2723	9.26
Cash Fund	24 - group managed fund - other managed fund	180470	GILP	0.10	75.4570	77.2558	2.38
Corporate Bond	24 - group managed fund - other managed fund	1071131	GILP	0.30	21.7662	23.8319	9.49
Europe	26 - group managed fund - overseas equity	265702	GILP	0.50	19.6486	19.7092	0.31
Fixed Interest	24 - group managed fund - other managed fund	162109	GILP	0.25	373.5699	403.5576	8.03
Index Linked	24 - group managed fund - other managed fund	189531	GILP	0.25	272.9130	303.3154	11.14
Index Linked Passive	24 - group managed fund - other managed fund	339648	GILP	0.10	22.0366	23.9618	8.74
Long Term GILT	24 - group managed fund - other managed fund	426359	GILP	0.10	30.9892	33.6773	8.67
North America	26 - group managed fund - overseas equity	247183	GILP	0.50	13.8862	16.5441	19.14
Property	27 - group managed fund - property	562780	GILP	0.55	419.5109	455.7872	8.65
UK Specialist Equity	25 - group managed fund - UK equity	874390	GILP	0.75	27.5629	32.2117	16.87
Equity Growth	25 - group managed fund - UK equity	159253	GILP	0.75	9.5153	10.9684	15.27
Equity Dividend	25 - group managed fund - UK equity	120868	GILP	0.75	9.1919	10.2163	11.14
Global Leaders	26 - group managed fund - overseas equity	147770	GILP	0.75	9.9554	11.7189	17.71

**Long-term insurance business : Distribution of surplus**

Name of insurer **Prudential Pensions Limited**  
 Total business / subfund **Ordinary Long Term**  
 Financial year ended **31 December 2010**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	9895522	8242061
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	9895522	8242061
Mathematical reserves	21	9887189	8233775
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	8333	8286

**Composition of surplus**

Balance brought forward	31	8286	9198
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	47	(912)
Total	39	8333	8286

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47		
Total distributed surplus (46+47)	48		
Surplus carried forward	49	8333	8286
Total (48+49)	59	8333	8286

**Percentage of distributed surplus allocated to policyholders**

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

**Long-term insurance capital requirement**Name of insurer **Prudential Pensions 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%				
<b>Total</b>	<b>16</b>					

**Insurance health risk and life protection reinsurance capital component**

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

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	81983		0.85	697	704
Classes III, VII and VIII (investment risk)	33	1%	32380	32380	1.00	324	301
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%					
Classes III, VII and VIII (other)	35	25%				6142	5169
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	<b>39</b>					7163	6174

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	81983		0.85	2091	2111
Classes III, VII and VIII (investment risk)	43	3%	32380	32380	1.00	971	902
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%					
Classes III, VII and VIII (other)	45	0%	11229200	9854809			
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	<b>49</b>		11343563	9887189		3062	3013

<b>Long term insurance capital requirement</b>	<b>51</b>					10225	9187
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# VALUATION REPORT ON PRUDENTIAL PENSIONS LIMITED

## 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

There were no significant changes in products during 2010.

### 3. Discretionary charges and benefits

- (1) Not applicable.
- (2) Not applicable.
- (3) Not applicable.
- (4) The annual management charge for investments in the following fund has changed. Otherwise there have been no changes to service charges on linked policies.

Fund Charge	31 December 2010 bps	31 December 2009 bps
MPP4 Blackrock Ascent Pacific Rim Equity Fund	13.0	65.0

- (5) There have been no changes to benefit charges on linked policies.
- (6) Not applicable.
- (7)
- (a) The creation price is the cash cost of purchasing an identical portfolio of assets to that in the unit fund including all the costs that would be incurred in purchasing such assets, divided by the number of units in existence.

The cancellation price is the cash amount for which the assets of the unit fund can be sold net of all costs that would be incurred in disposing of the assets, divided by the number of units in existence.

## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

Specific points for each of the groups of internal linked funds are as follows:

#### GILP Funds

The “Single Swinging Pricing” approach is used. If the net cashflow on the day is positive, all transactions are at the offer price. If the net cashflow on the day is negative, all transactions are at the cancellation (bid/bid) price. For Fund of Funds, the cash balance in the fund may also be taken into account when deciding upon the pricing basis.

Unit prices are calculated daily and transactions in these funds are carried out at the next available price (i.e. on a forward pricing basis). The valuation point of each fund is 9.00 p.m.

#### Series I, II, III & IV Funds

Series I, II, III & IV funds are mainly invested in the GILP Funds or funds managed by external companies such as Blackrock, Baillie Gifford, Newton and Schroders. The funds buy and sell units in the GILP funds at the prevailing daily swinging price.

A smoothed equity approach is taken to unit pricing. This is different to the approach adopted for GILP funds. Units are allocated to policyholders at the offer price and de-allocated at the bid price. When the trend in the number of units in a unit fund is believed to be upward, the bid price is the creation price. If the trend in the number of units is believed to be downward the bid price is the cancellation price. Where the trend is unclear or changing the bid price may be between the creation price and the cancellation price. The offer price is then set equal to the bid price plus the initial charge plus a rounding adjustment, not exceeding 0.1p (there is no initial charge for Series II, Series III and Series IV funds and so there is only a single price applied to policyholders).

#### Pru-Link Funds

The Pru-Link Managed Fund is wholly invested in units of the GILP Discretionary Fund. The Pru-Link Cash Fund is wholly invested in units of the GILP Cash Fund. The creation and cancellation prices are determined once a week by reference to the appropriate GILP price. Transactions are carried out at the next available price (i.e. on a forward pricing basis).

Pru-Link Funds buy and sell GILP units at the current GILP price. No further adjustments are made for buying or selling expenses.

Units are allocated to policyholders at the offer price and deallocated at the bid price. The Pru-link Cash fund price is based on the GILP Cash fund creation price. The Pru-link Managed fund price is based on the GILP Discretionary fund price and the bid price is currently based on the GILP cancellation price. The offer price is then set equal to the bid price plus the initial charge plus a rounding adjustment not exceeding 0.1p. (The initial charge was removed on 1 April 2001).

- (b) Unit pricing bases are determined at fund level, so all policies invested in the same fund have the same basis applied.
- (c) Not applicable.
- (8) Not applicable as the Company writes pension business only.

## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

(9) Not applicable as the Company writes pension business only.

(10) Not applicable.

#### 4. Valuation basis (other than for special reserves)

At 31 December 2010 the total gross mathematical reserves amounted to £11,344m. The lesser of £10m and 1% of the total gross mathematical reserves was therefore equal to £10.0m.

##### (1) Non-linked and index-linked annuities in payment

The mathematical reserve for annuities in payment is the present value of future annuity payments, plus a provision for expenses.

##### Unit-linked deferred annuities and group pensions

The mathematical reserves for linked business consist of the unit liability together with a non-unit liability. A discounted cashflow method of valuation is used to determine the non-unit liability allowing for the value of future attributable expenses less the value of future management charges. An additional reserve for non-attributable expenses is calculated at a homogenous risk group level as described in section 6(6).

No allowance has been made for increasing fund management charges. However, the Company reserves the right to do so after the appropriate period of notice and to a level consistent with industry practice.

No reserve for tax on unrealised capital gains is required, as only pension business is written.

No reserve for investment performance guarantees is held, because the only investment performance guarantee is that the unit price of the Pru-Link Cash Fund will not go down. Units of this fund are invested in units of the GILP Cash Fund where the practice is to invest only in short term assets.

The unit liability has been obtained by valuing the units allocated to policyholders at the valuation unit price. This price is based on the bid price of the assets and includes investment income received.

(2) The interest rates used are as follows:

Product code number	Product description	31 December 2010	31 December 2009
400	Annuity non-profit (CPA) – individual annuities in payment (reassurance ceded to Prudential Annuities Limited)	4.47%	5.00%
725	Individual pensions property linked	2.50%	2.50%
735	Group money purchase pensions property linked	2.50%	2.50%



## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

(3) Not applicable.

(4)

Product code number	Product description	31 December 2010	31 December 2009
400	Annuity non-profit (CPA) – individual annuities in payment (reassurance ceded to Prudential Annuities Limited)		
	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)

#### Mortality bases used at 31 December 2010

Annuities are generally valued using a percentage of the 00 series tables for annuitants and pensioners. The base mortality assumptions now have been updated to use the PCxA tables. Previously the PNxA tables were used, which reflected the normal retirements only. The PCxA tables reflect all types of retirement, which 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).

#### Mortality bases used at 31 December 2009

Annuities are generally valued using a percentage of the 00 series tables for annuitants and pensioners (normal retirements). In order to allow for mortality improvement, future improvement factors are applied from 2001. For males, these 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.

(5) Not applicable.

## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

(6) The renewal expenses per annum used are described in the table below:

Product code number	Product description	31 December 2010	31 December 2009
400	Annuity non-profit (CPA) – individual annuities in payment (reassurance ceded to Prudential Annuities Limited)	£21.24 p.a.	£21.54 p.a.
725	Individual pensions property linked	£21.99 p.a. per policy for premium-paying policies; £14.98 p.a. per policy for other policies; £85.93 per claim	£21.20 p.a. per policy for premium-paying policies; £14.45 p.a. per policy for other policies; £82.86 per claim
735	Group money purchase pensions property linked	GILP: £4,538,506 p.a. including £1,125 p.a. per scheme (having allowed for £379,464 p.a. of additional administration service charges)  PIA: £64,921 p.a. including £169 p.a. per scheme  Reassurance from PACL: £873,311 p.a.	GILP: £4,376,573 p.a. including £1,085 p.a. per scheme (having allowed for £1,004,515 p.a. of additional administration services charges)  PIA: £62,604 p.a. including £163 p.a. per scheme  Reassurance from PACL: £650,568 p.a.

Expense figures for UL policies are attributable expenses only.

The investment management expenses used are described in the table below:

Product code number	Product description	31 December 2010	31 December 2009
400	Annuity non-profit (CPA) – individual annuities in payment (reassurance ceded to Prudential Annuities Limited)	0.050% p.a.	0.060% p.a.
725	Individual pensions property linked	0.100% p.a.	0.100% p.a.
735	Group money purchase pensions property linked	GILP: 0.141% p.a. PIA: 0.199% p.a.	GILP: 0.143% p.a. PIA: 0.200% p.a.

## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

(7) The unit growth rates (before management charges) and the inflation rates assumed for future expenses and the future increases in policy charges are as follows:

<b>Product code number</b>	<b>Parameter</b>	<b>31 December 2010 %</b>	<b>31 December 2009 %</b>
725 and 735	Unit fund growth rate	5.75%	5.75%
All products	Expense inflation rate	4.25%	4.25%
725 and 735	Policy charge inflation rate	Nil	Nil

(8) Not applicable.

(9) Not applicable.

(10) There are no other material assumptions.

(11) No derivatives were held outside of the internal linked funds.

Since the movement in linked assets would be offset by a corresponding change in the linked liability, no allowance is made for derivative contracts that were held inside of the internal linked funds.

Derivatives used in the internal linked funds were entered into only if they would have been reasonably likely to be exercised.

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

## 5. Options and guarantees

(1) Not applicable.

(2) Not applicable.

(3) Not applicable.

(4) Not applicable.

## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

#### 6. Expense reserves

(1)

Homogeneous risk group	Implicit allowances	Explicit allowances (investment)	Explicit allowances (other)	Non – attributable expenses	Total
GILP	-	£11,085,293	£7,077,706	£1,642,467	£19,805,466
PIA	-	£7,782	£64,921	£17,281	£89,984
Prulink SP	-	£1,254	£1,755	£439	£3,448
Prulink RP	-	£49,788	£87,662	£21,916	£159,366
Total	-	£11,144,117	£7,232,044	£1,682,103	£20,058,264

(2) Not applicable.

(3) Maintenance expenses shown at line 14 of Form 43 are £19 million. These expenses are net of annual management charge income and hence are less than the total expense loadings expected to arise in 2011 as calculated in 6.(1).

(4) For new business expected to be written in the twelve months following the valuation date, the income and outgo are projected on a prudent basis over the entire lifetime of the business and discounted to the valuation date. A reserve is held if the present value of the outgo exceeds the present value of income to the extent that the excess exceeds the projected surplus on prudent assumptions from existing business. No reserve is held at 31 December 2010.

(5) In the first instance, expense reserves are calculated on the assumption that Prudential's UK insurance operations will continue to write new business indefinitely and hence that there will be no loss of economies of scale. In this scenario, the expense loadings for the remaining lifetime of the contracts in force at the valuation date are included in the reserves reported in Form 50.

In order to allow for the possibility that the firm will cease to write 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 15% and that thereafter loss of economies of scale would result in overall expenses being cut more slowly than the rate at which policies run off. If this revised calculation results in a higher reserve than described in the paragraph above, then the difference is held as an additional reserve. In addition the costs associated with closing to new business, such as redundancy costs or the costs of terminating management agreements, are estimated. To the extent that these costs exceed the projected surplus, on prudent assumptions, from existing business, a further additional reserve is held. At the valuation date an additional reserve of £765,043 is held for the impact of closing to new business.

## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

- (6) The additional reserve for non-attributable expenses at a homogenous risk group level is calculated as the present value of all futures expenses less charges, subject to a maximum of the non-attributable expenses for policies in that risk group. Any future valuation strain is removed at the homogenous risk group level. The additional reserves for non-attributable expenses at 31 December 2010 were as follows:

Homogeneous Risk Group	Homogeneous Risk Group Reserve (£000)
GILP	-
PIA	520
Prulink SP	-
Prulink RP/PUP	-
<b>TOTAL</b>	<b>520</b>

### 7. Mismatching reserves

- (1) and (2) All assets and liabilities are denominated in sterling. There is no currency mismatching.
- (3) There is no reserve for currency mismatching.
- (4) In accordance with INSPRU 3.1.16R, for the purposes of calculating the resilience capital requirement in INSPRU 3.1.10R the most onerous scenario is as follows (prior year in brackets):

Asset class	Scenario
<b>Equities:</b>	
Market values – UK and overseas (excl. US and euro zone)	-10% (-20%)
Market values – US	-10% (-25%)
Market values – euro zone	-10% (-25%)
<b>Property:</b>	
Market values	-17% (-10%)
<b>Fixed interest:</b>	
Yields – UK and overseas	+80 bps (+89 bps)

- (5) Not applicable.
- (6)
- (a) A Resilience Capital Requirement of £1,840,000 was held.
- (b) There was an increase of £780,668 in the aggregate amount of the long term liabilities.
- (c) The assets allocated to match such liabilities decreased in value by £1,053,433 from the amount of the assets shown in Form 13.
- (7) There is no reserve held under INSPRU 1.1.34R(2).

## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

#### 8. Other special reserves

Not applicable.

#### 9. Reinsurance

(1) No premiums were paid in 2010 in respect of reinsurance business ceded on a facultative basis to reinsurers not authorised to carry on business in the United Kingdom.

(2) The reinsurance treaties shown in the table below meet the FSA criteria for being reported in this section and were in force as at 31 December 2010.

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Prudential Annuities Limited *	Immediate annuities which are wholly reassured on original terms. The reinsurer is a member of the Prudential group of companies and the business is covered by a pari passu charge on assets.	Nil	Closed	81,397	Nil
Blackrock Asset Management Pensions Ltd	Reinsurance of unit-linked pension liabilities of the Company arising in relation to reinsurance of certain unit-linked pensions contracts issued by a member of the Prudential Group. The business is covered by a pari passu charge on assets.	304,021	Open	1,316,076	Nil
Baillie Gifford Life Ltd	Reinsurance of unit-linked pension liabilities of the Company arising in relation to reinsurance of certain unit-linked pensions contracts issued by a member of the Prudential Group. The business is covered by a pari passu charge on assets.	14,255	Open	8,297	Nil
Schroder Pension Management Ltd	Reinsurance of unit-linked pension liabilities of the Company arising in relation to reinsurance of certain unit-linked pensions contracts issued by a member of the Prudential Group. The business is covered by a pari passu charge on assets.	10,322	Open	19,239	Nil

## PRUDENTIAL PENSIONS LIMITED

### Appendix 9.4 (continued)

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Managed Pension Funds Ltd	Reinsurance of unit-linked pension liabilities of the Company arising in relation to reinsurance of certain unit-linked pensions contracts issued by a member of the Prudential Group. The business is covered by a pari passu charge on assets.	18,855	Open	20,339	Nil

- (g) There were no deposit back arrangements under the above treaties.
- (i) There are no “undischarged obligations of the insurer”. Premiums are only payable if the gross business remains in force.
- (l) The above reinsurers are authorised to carry on insurance business in the United Kingdom.
- (m) An asterisk denotes companies connected to the cedant (\*).
- (n) In general the treaties are exposed to the credit risk of the reinsurers, against which a reserve is held.
- (o) The net liability includes no allowance for the refund of any reinsurance commission.
- (p) Not applicable.

#### 10. Reversionary (or annual) bonus

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

## PRUDENTIAL PENSIONS LIMITED

### Returns for the year ended 31 December 2010

#### Notes to the Returns

##### Form 2

\*0201\* Waivers issued disapplying or modifying any of the provisions of the Accounts and Statement Rules in respect of long term insurance business.

There were no waivers issued disapplying or modifying any of the provisions of the Accounts and Statement Rules in respect of long term insurance business.

##### Form 3

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

	£'000
Form 13 Line 89 (Long term) Grand total of admissible assets	9,918,721
Form 14 Line 11 Mathematical reserves after distribution of surplus	(9,887,189)
Form 14 Line 49 Total other insurance and non-insurance liabilities	(23,199)
Form 13 Line 89 (Other than long term) Grand total of admissible assets	11,659
Form 15 Line 69 Total	-
	<hr/> 19,992
Form 3 Line 79 Capital resources after deductions	<hr/> 19,992
Difference	<hr/> <hr/> 0

\*0308\* There is one contingent loan at the year end repayable to a related group undertaking. The loan and interest on the loan is repayable out of the surplus emerging on its business and is contingent on surpluses arising, but can be repaid by the Company at any time.

The loan is repayable to the extent of a specified percentage of surplus of the Company, a repayment obligation crystallising on the last day of the Company's financial year and being discharged by application of funds on a date nominated by the Company (being prior to the last working day for submission of its regulatory returns for such financial year).

In accordance with its terms, the loan may be prepaid upon prior notice, and the repayment obligation discharged in whole or part.



## PRUDENTIAL PENSIONS LIMITED

### Notes to the Returns (continued)

#### Form 3 (continued)

##### \*0310\* Valuation differences

	£'000
<i>Positive valuation differences where liabilities are lower than in the shareholder accounts</i>	
Contingent loan	13,774
	<u>13,774</u>
<i>Negative valuation differences where liabilities are higher than in the shareholder accounts</i>	
Additional reserves held in the long term fund	(32,002)
Deferred tax on additional reserves held in the long term fund	8,641
	<u>(23,361)</u>
Form 3 Line 35 Negative Valuation Differences	<u>(9,587)</u>

##### \*0313\* Reconciliation of profit and loss account change

	£'000
Profit and loss account and reserves b/fwd	17,286
Profit and loss account and reserves c/fwd	23,579
Movement	<u>6,293</u>
Movement in additional reserves held for FSA	(2,510)
Movement in deferred tax	647
Movement in contingent loan balance	(4,299)
Movement in unallocated surplus	(47)
Form 16 Line 59 Profit retained for the financial year	<u>84</u>

Notes 1304 to 1306 apply to other than long term business fund.

##### \*1304\* Statement on Set Off

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

##### \*1305\* Maximum Counterparty Limits

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\* Counterparty exposures at year end

There were counterparty exposures held at year end that were greater than 5% of the sum of the base capital resources requirements and long term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded. These include cash on deposit with; Credit Agricole Corporate and Investment Bank £5m and Danske Bank A/S £6m.

## **PRUDENTIAL PENSIONS LIMITED**

### **Notes to the Returns (continued)**

#### **Form 13**

Notes 1308 to 1319 apply to long term business fund.

\*1308\* Assets specified in IPRU(INS) Form 13 instruction 5.

The Company held no unlisted investments or listed investments that are not readily realisable.

\*1310\* Statement on Set Off

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

\*1312\* Counterparty exposures at year end

There were counterparty exposures held at year end that were greater than 5% of the sum of the base capital resources requirements and long term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded. These include cash on deposit with; Bank of America NA £5m, Close Brothers Limited £6.5m, Fortis Bank N.V £10m, Royal Bank of Scotland Plc £8m, Danske Bank A/S £4m and a cash balance of £13.3m with HSBC Bank.

\*1319\* Maximum Counterparty Limits

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.

#### **Form 14**

\*1401\* Provision for adverse changes

No derivatives were held outside of the internally linked funds at any time during the year and therefore no provision for adverse changes is required.

\*1402\* Uncertain and Potential Liabilities

- 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 were £3,293.0m, £65.9m, £29.2m and £2.0m. The whole of the amount at Form 13 line 89 is subject to charge.
- b) There were no potential capital gains tax liabilities at the year end.
- c) There was one contingent loan, not in Form 14, at the year end repayable to a related group undertaking. The loan and interest on the loan is repayable out of the surplus emerging on its business and is contingent on surpluses arising, but can be repaid by the Company at any time. The value of this loan is £13,774k.

## **PRUDENTIAL PENSIONS LIMITED**

### **Notes to the Returns (continued)**

#### **Form 14 (continued)**

##### **\*1402\* Uncertain and Potential Liabilities (continued)**

The loan is repayable to the extent of a specified percentage of surplus of the Company, a repayment obligation crystallising on the last day of the Company's financial year and being discharged by application of funds on a date nominated by the Company (being prior to the last working day for submission of its regulatory returns for such financial year).

In accordance with the terms, the loan may be prepaid upon prior notice, and the repayment obligation discharged in whole or part.

- 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.
- e) Provision for claims outstanding: the Company had instigated a full review of its defined benefit payment processes and had set up a reasonable and prudent provision to cover the cost of performing the review and the cost of any contingent loss, if any, arising out of the review's findings. The review was completed in the year and the remaining provision released. A provision of £Nil is included on F14 line 15 (2009: £366,000).

##### **\*1405\* Other adjustments to liabilities**

Included in line 74 are:

	£'000
Positive valuation differences (see note 0310)	13,774
Negative valuation differences (see note 0310)	(23,361)
Form 14 Line 74	<u>(9,587)</u>

#### **Form 15**

##### **\*1501\* Provision for adverse changes**

No derivatives were held by the other than long term fund at any time during the year and therefore no provision for adverse changes is required.

##### **\*1502\* Charges, potential tax liability, contingent liabilities, guarantees and fundamental uncertainties**

- a) There were no charges attributable to the other than long term business assets.
- b) There was no potential tax liability arising in the other than long term fund at the year end.
- c) There were no contingent liabilities at the year-end.
- d) There are no guarantees, indemnities or other contractual commitments, effected other than in the ordinary course of insurance business, in respect of related companies.
- e) There were no fundamental uncertainties at the year-end.

## **PRUDENTIAL PENSIONS LIMITED**

### **Notes to the Returns (continued)**

#### **Form 16**

##### **\*1601\* Foreign Currencies**

Foreign currency assets and liabilities are translated at year-end exchange rates. Foreign currency revenue transactions are translated at rates ruling at the transaction dates, except for accrued revenue items that are translated at year-end exchange rates.

#### **Form 17**

\*1700\* Form 17 has been omitted, as no such contracts were used.

#### **Form 40**

\*4002\* Other expenditure represents a repayment of a contingent loan repayable to a related group undertaking. Prior year other income represents a capital injection in the form of a contingent loan under the existing agreement with The Prudential Assurance Company Limited. The loan and interest on the loan is repayable out of the surplus emerging on its business and is contingent on surpluses arising, but can be repaid by the Company at any time. The loan has no repayment obligation during the first year.

The loan is repayable to the extent of a specified percentage of surplus of the Company, a repayment obligation crystallising on the last day of the Company's financial year and being discharged by application of funds on a date nominated by the Company (being prior to the last working day for submission of its regulatory returns for such financial year).

In accordance with their terms, the loans may be prepaid upon prior notice, and the repayment obligation discharged in whole or part.

##### **\*4008\* Provision of management services**

The Company was provided throughout the year with day to day management services by The Prudential Assurance Company Limited (the immediate holding Company), and Prudential Property Investment Managers Limited, Prudential UK Services Limited, Prudential Distribution Limited, Prudential Services Limited and M&G Investment Management Limited, all group companies. The Company was further assisted during the year with day to day management services by The Bank of New York Mellon (International) Limited and State Street Bank & Trust Company, third parties.

\*4009\* The Company has a reinsurance agreement with a related Company, The Prudential Assurance Company Limited, in respect of linked premiums. Included in earned premiums for the year is an amount of £590m received under this reinsurance agreement. The reinsurance agreement was drawn up under normal commercial terms which reflect the level of business transacted with the Company.

Also included within claims incurred is an amount of £229m arising from claims under this reinsurance agreement and a claims recovery of £7m received from a related Company, Prudential Annuities Limited.

The Company has a reinsurance agreement with a related Company, Prudential Retirement Income Limited, in respect of annuities. No claims have been paid during the year under this reinsurance agreement. The reinsurance agreement was drawn up under normal commercial terms which reflect the level of business transacted with the Company.

A contingent loan of £13,774k is in place with a related group undertaking The Prudential Assurance Company Limited.

## PRUDENTIAL PENSIONS LIMITED

### Notes to the Returns (continued)

#### Form 44

##### \*4401\* Valuation of Linked Assets

Linked assets are valued at market value.

Investment properties, though, are independently valued each month on the basis of open market value in accordance with the RICS Appraisal and Valuation Manual. All the properties are currently valued by CB Richard Ellis Limited. Securities are valued at a bid-market price.

##### \*4402\* Derivative Contracts

The aggregate value of rights and the aggregate amount of liabilities under derivative contracts was as follows:

	<b>Assets</b> <b>£000's</b>	<b>Liabilities</b> <b>£000's</b>
Futures:		
Gross of variation margin	529	(13)
Net of variation margin	(359)	0
Forwards:		
Gross of variation margin	5,303	(1,970)
Net of variation margin	5,303	(1,970)

#### Form 45

##### \*4502\* Other Expenditure

	<b>2010</b> <b>£000's</b>	<b>2009</b> <b>£000's</b>
Safe custody fees	(674)	(557)
Transaction fees	(205)	(249)
Total	<u>(879)</u>	<u>(806)</u>

#### Form 47

\*4701\* for code 735 there are 38 schemes.

#### Form 48

##### \*4804\* other assets

Included in Line 18 (Other assets) are:

	<b>£000's</b>
Assets producing income	47,634
Assets not producing income	<u>3,780</u>
	<u>51,414</u>

## **PRUDENTIAL PENSIONS LIMITED**

### **Notes to the Returns (continued)**

#### **Form 53**

\*5301\* For product code 735 there are 435 schemes.

\*5305\* Non-unit reserves

Certain expenses associated with managing a property portfolio have not been included in the renewal expense margins used in the calculation of the non-unit reserves. These expenses are deducted from the investment return credited to policyholders.

**PRUDENTIAL PENSIONS LIMITED**

Global business

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

**Financial year ended 31 December 2010**

We certify:

1. (a) that the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU; 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 and 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  
Chief Executive

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D J Belsham  
Director

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K Nunn  
Director

28 March 2011

## **Independent auditor's report to the Directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers IPRU(INS)**

### **PRUDENTIAL PENSIONS LIMITED**

Global business

Financial year ended 31 December 2010

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 16, 40 to 45, 48, 58 and 60 (including the supplementary notes) on pages 1 to 50 ('the Forms');
- the statement required by IPRU(INS) rule 9.29 on page 54 ('the Statement');
- the valuation report required by rule IPRU(INS) 9.31(a) ('the valuation report').

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

- Forms 46, 47, 50 to 55 (including the supplementary notes) on pages 21 to 31 and pages 49 to 50;
- the statement required by IPRU(INS) rule 9.30 on page 55; and
- the certificate required by IPRU(INS) rule 9.34 on page 51 ('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 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 work (including our examination), for this report, or for the opinions we have formed.

### **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. Under IPRU(INS) rule 9.11 the Forms, the Statement and the valuation report, are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules.

The methods and assumptions determined by the company and used to perform the actuarial investigation as set out in the valuation report, 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.



**Independent auditor's report to the Directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers IPRU(INS) (continued)**

**PRUDENTIAL PENSIONS LIMITED**

Global business

**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, 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 company in the preparation of the Forms, the Statement, 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, the valuation report are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with IPRU(INS) rule 9.11.

In accordance with rule IPRU(INS) 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 insurer.

**Opinion**

In our opinion:

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

**Chris Moulder (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**

*Chartered Accountants*

Registered Auditor

15 Canada Square

Canary Wharf

London

E14 5GL

Date 28 March 2011

## **PRUDENTIAL PENSIONS LIMITED**

### **Returns for the year ended 31 December 2010**

#### **Statement in accordance with Rule 9.29 of the Accounts and Statements Rules**

a. **Investment Guidelines**

During 2010, investment guidelines allowed the use of derivative contracts in the GILP (and hence MPP) internal linked funds. The derivatives and use thereof was restricted to that permitted by Appendix 3.2 of the Accounts and Statements Rules. The use of derivatives was not permitted in the non-linked funds.

Derivatives are limited to: exchange traded warrants; exchange traded index or stock futures; forward currency contracts; partly paid shares; and convertible bonds. Derivatives must be listed or with an approved counterparty and must be capable of being readily closed out at a price the basis of which is pre-determined. Exchange traded index and stock futures must be based on underlying assets which are themselves permitted links.

b. **Derivatives where exercise is unlikely**

Derivatives used in the internal linked funds were entered into only if they would have been reasonably likely to be exercised.

c. **Quantification of derivatives in (b) above**

No such contracts were used by the Company.

The largest exposure during the year to out of the money call options/warrants was £510k.

h. **Provisions for reasonably foreseeable variations arising from derivative contracts, rule INSPRU 3.2.17R**

The only derivatives on Form 13, relate to property linked assets and are included on line 59 of Form 13, which would not change in value.

The Company would not be exposed to any fluctuation in asset values.

i. **Consideration received for granting rights under derivative contracts**

The investment guidelines did not allow the writing of options.

## **PRUDENTIAL PENSIONS LIMITED**

### **Returns for the year ended 31 December 2010**

#### **Rule 9.30 Statement on Shareholder Controllers**

The following companies were shareholder controllers of Prudential Pensions Limited for the year: The Prudential Assurance Company Limited 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 Limited throughout the year.