



## **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 2011**



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 Annuities Limited**

Global business

Financial year ended **31 December 2011**

Solo solvency calculation

Solo solvency calculation	Company registration number	GL/ UK/ CM	day month year			Units	
	R2	2554213	GL	31	12	2011	£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	<b>11</b>	50000	99518
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	962149	1050992
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	1012149	1150510

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	78061	176053
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	934088	974457

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	234183	528160
Resilience capital requirement	<b>32</b>		
Base capital resources requirement	<b>33</b>	3056	3040
Individual minimum capital requirement	<b>34</b>	234183	528160
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	234183	528160
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	895057	886430
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	836511	754390

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		
Enhanced capital requirement	<b>40</b>	234183	528160

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	234183	528160
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	777966	622350

**Contingent liabilities**

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

**Covering Sheet to Form 2**

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2011**



**R A Devey**

**Director**



**A M Crossley**

**Director**



**D J Belsham**

**Director**

**Date**

**London 23 March 2012**

**Components of capital resources**

Name of insurer

**Prudential Annuities Limited**

Global business

Financial year ended

**31 December 2011**

	Company registration number	GL/ UK/ CM	day month year			Units
R3	2554213	GL	31	12	2011	£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	650000
Profit and loss account and other reserves	12		772400	772400	1174318
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		1422400	1422400	1824318

**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				

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	31		1422400	1422400	1824318
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35		403998	403998	665436
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37		403998	403998	665436
<b>Total tier one capital after deductions (31-37)</b>	39		1018402	1018402	1158882

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

Global business

Financial year ended **31 December 2011**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2011</b>	<b>£000</b>
		General insurance business  <b>1</b>	Long-term insurance business  <b>2</b>	Total as at the end of this financial year <b>3</b>	Total as at the end of the previous year <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 Annuities Limited**

Global business

Financial year ended **31 December 2011**

	Company registration number	GL/ UK/ CM	day month year			Units	
	R3	2554213	GL	31	12	2011	£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				
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		1018402	1018402	1158882
Inadmissible assets other than intangibles and own shares	73		1577	1577	8372
Assets in excess of market risk and counterparty limits	74		4676	4676	
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76				
Deductions of ineligible surplus capital	77				
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		1012149	1012149	1150510

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

Available capital resources for guarantee fund requirement	81		1012149	1012149	1150510
Available capital resources for 50% MCR requirement	82		1012149	1012149	1150510
Available capital resources for 75% MCR requirement	83		1012149	1012149	1150510

**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				
<b>Sum of financial engineering adjustments (91+92-93+94+95)</b>	<b>96</b>				

**Analysis of admissible assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2011**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	2011	£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	19358	
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43		
Rights under derivative contracts		44	8783	6382
Fixed interest securities	Approved	45	398641	639393
	Other	46	156373	39737
Variable interest securities	Approved	47	41450	35697
	Other	48	59703	55084
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	90486	75174
	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 assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2011**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	2011	£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	32	33
	due in more than 12 months	79		

**Other assets**

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	221011	255640
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	7255	11064
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	1003092	1118204
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**Analysis of admissible assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2011**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	2011	£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	1003092	1118204
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	1042	
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	(214785)	(242008)
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	789349	876196
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 Annuities Limited**

Global business

Financial year ended **31 December 2011**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	2011	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	
Land and buildings			11	576192		636791	

**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	135918	223524
Other shares and other variable yield participations		42	7	8
Holdings in collective investment schemes		43	34704	34140
Rights under derivative contracts		44	172927	93738
Fixed interest securities	Approved	45	710584	2095293
	Other	46	2255757	7842151
Variable interest securities	Approved	47		
	Other	48	398321	143749
Participation in investment pools		49		
Loans secured by mortgages		50	58039	137748
Loans to public or local authorities and nationalised industries or undertakings		51		467
Loans secured by policies of insurance issued by the company		52		
Other loans		53	11012	11616
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	117618	233755
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	1965861	2263337
	Property linked	59		

**Analysis of admissible assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2011**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	2011	£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	268	32
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		61
	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	52055	38510
	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	62803	218174
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	10558	26963

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	6562624	14000057
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**Analysis of admissible assets**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2011**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	2011	£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	6562624	14000057
Admissible assets in excess of market and counterparty limits	92	4676	
Inadmissible assets directly held	93	535	8372
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	(277)	(22545)
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100	6775	6581
Other asset adjustments (may be negative)	101	31846	(16086)
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	6606179	13976379
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 margins**

Name of insurer **Prudential Annuities Limited**  
Global business  
Financial year ended **31 December 2011**  
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		<b>11</b>	5854584	13203994
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>	55211	107890
Long term insurance business fund carried forward (11 to 13)		<b>14</b>	5909795	13311884
Claims outstanding	Gross	<b>15</b>	840	5153
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	840	5153
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>	462	180
	Reinsurance accepted	<b>32</b>		609
	Reinsurance ceded	<b>33</b>		
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions		<b>36</b>	425088	508176
Creditors	Taxation	<b>37</b>	10352	4243
	Other	<b>38</b>	221298	178184
Accruals and deferred income		<b>39</b>		
Provision for "reasonably foreseeable adverse variations"		<b>41</b>		
Total other insurance and non-insurance liabilities (17 to 41)		<b>49</b>	658040	696545
Excess of the value of net admissible assets		<b>51</b>		
Total liabilities and margins		<b>59</b>	6567835	14008429

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	1516	135
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>		

Total liabilities (11+12+49)	<b>71</b>	6512624	13900539
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>	6775	6581
Other adjustments to liabilities (may be negative)	<b>74</b>	(372429)	(704067)
Capital and reserves and fund for future appropriations	<b>75</b>	459209	773326
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>	6606179	13976379



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

Global business

Financial year ended **31 December 2011**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R15	2554213	GL	31	12	2011	£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	7846	54698
Creditors	Taxation	47	32999	12506
	Foreseeable dividend	48		
	Other	49	98	8
Accruals and deferred income		51		
Total (19 to 51)		59	40943	67212
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69	40943	67212

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	(214785)	(242008)
Capital and reserves	84	963191	1050992
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	789349	876196

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

Global business

Financial year ended **31 December 2011**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R16	2554213	GL	31	12	2011	£000
				This financial year 1			Previous year 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		213743	242000			
Investment income	Income	14		41321	31999			
	Value re-adjustments on investments	15		33554	31913			
	Gains on the realisation of investments	16		59403				
Investment charges	Investment management charges, including interest	17		714	460			
	Value re-adjustments on investments	18						
	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		(320)	(296)			
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)		29		346987	304738			
Tax on profit or loss on ordinary activities		31		34788	18425			
Profit or loss on ordinary activities after tax (29-31)		39		312199	286313			
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		312199	286313			
Dividends (paid or foreseeable)		51		400000				
Profit or loss retained for the financial year (49-51)		59		(87801)	286313			

**Analysis of derivative contracts**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2011**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	2011	£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	8662				145690		145690
	Credit index / basket		14							
	Credit single name		15							
	Equity index		16							
	Equity stock		17							
	Land		18							
	Currencies		19							
	Mortality		20							
	Other		21	121				253		
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	8783				145943		145690
Adjustment for variation margin			52							
Total (51 + 52)			53	8783						

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 contracts**Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
<b>R17</b>		<b>2554213</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2011</b>	<b>£000</b>	<b>10</b>
<b>Derivative contracts</b>			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	148203	55394	594066	594066		
	Inflation	13	23758	39891	646815	646815		
	Credit index / basket	14						
	Credit single name	15		762	102119			
	Equity index	16						
	Equity stock	17						
	Land	18						
	Currencies	19	966	119255	393738	467531		
	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	172927	215302	1736738	1708412		
Adjustment for variation margin		52						
Total (51 + 52)		53	172927	215302				

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 2011**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	(7649799)	1322
Investment income receivable before deduction of tax	12	576284	755586
Increase (decrease) in the value of non-linked assets brought into account	13	659812	654043
Increase (decrease) in the value of linked assets	14		
Other income	15		
<b>Total income</b>	<b>19</b>	<b>(6413703)</b>	<b>1410951</b>

**Expenditure**

Claims incurred	21	695318	894480
Expenses payable	22	21072	23298
Interest payable before the deduction of tax	23		66
Taxation	24	58253	70751
Other expenditure	25		
Transfer to (from) non technical account	26	213743	242000
<b>Total expenditure</b>	<b>29</b>	<b>988386</b>	<b>1230595</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(7402089)	180356
Fund brought forward	49	13311884	13131528
Fund carried forward (39+49)	59	5909795	13311884

**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 2011**  
 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		(429)		(429)	1322

**Reinsurance - external**

Regular premiums	13					
Single premiums	14					

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16		7649370		7649370	

**Net of reinsurance**

Regular premiums	17					
Single premiums	18		(7649799)		(7649799)	1322

**Total**

Gross	19		(429)		(429)	1322
Reinsurance	20		7649370		7649370	
Net	21		(7649799)		(7649799)	1322

## 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 2011**  
 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		498		498	322
Disability periodic payments	12					
Surrender or partial surrender	13		5234		5234	7834
Annuity payments	14		679734		679734	880590
Lump sums on maturity	15		10182		10182	6048
<b>Total</b>	<b>16</b>		<b>695648</b>		<b>695648</b>	<b>894794</b>

**Reinsurance - external**

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24		330		330	314
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>		<b>330</b>		<b>330</b>	<b>314</b>

**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					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Death or disability lump sums	41		498		498	322
Disability periodic payments	42					
Surrender or partial surrender	43		5234		5234	7834
Annuity payments	44		679404		679404	880276
Lump sums on maturity	45		10182		10182	6048
<b>Total</b>	<b>46</b>		<b>695318</b>		<b>695318</b>	<b>894480</b>

**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 2011**  
 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		1	1	3	
Management - maintenance	14		17333	17333	21873	
Management - other	15		3738	3738	1422	
<b>Total</b>	<b>16</b>		<b>21072</b>	<b>21072</b>	<b>23298</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		1	1	3	
Management - maintenance	44		17333	17333	21873	
Management - other	45		3738	3738	1422	
<b>Total</b>	<b>46</b>		<b>21072</b>	<b>21072</b>	<b>23298</b>	



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

Total business

Financial year ended **31 December 2011**Units **£000**

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

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

Regular premium business	11					
Single premium business	12					
<b>Total</b>	<b>13</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		(429)		(429)	1022
External reinsurance	26					
Intra-group reinsurance	27		(7649370)		(7649370)	300
<b>Total</b>	<b>28</b>		(7649799)		(7649799)	1322

## Prudential Annuities Limited

UK Pension / Direct Insurance Business

0003

[illegible]

## Prudential Annuities Limited

Total business

31 December 2011

**£000**

UK Pension / Reinsurance accepted intra-group

[illegible]

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

Name of insurer **Prudential Annuities Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2011**  
 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	576192	610897	33028	5.41	
Approved fixed interest securities	12	719631	719631	29698	3.48	
Other fixed interest securities	13	2302567	2302567	131353	5.12	
Variable interest securities	14	399463	399463	8262	3.33	
UK listed equity shares	15	129389	129389	11031	8.53	
Non-UK listed equity shares	16					
Unlisted equity shares	17	6529	6529	1179	18.06	
Other assets	18	462992	428287	3391	0.73	
<b>Total</b>	<b>19</b>	<b>4596763</b>	<b>4596763</b>	<b>217942</b>	<b>4.45</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 : 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 2011**  
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
UK Government approved fixed interest securities	11	515285	18.56	3.25	3.25

Other approved fixed interest securities	21	204346	12.28	4.07	3.80
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## Other fixed interest securities

AAA/Aaa	31	72712	10.53	4.36	4.01
AA/Aa	32	401634	12.88	4.10	3.74
A/A	33	817795	11.57	5.08	3.96
BBB/Baa	34	382466	8.88	6.20	4.03
BB/Ba	35	13727	4.20	10.85	4.20
B/B	36	16575	4.79	10.75	4.08
CCC/Caa	37				
Other (including unrated)	38	597658	8.27	4.98	4.30
Total other fixed interest securities	39	2302567	10.37	5.12	4.03

Approved variable interest securities	41				
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Other variable interest securities	51	399463	4.25	3.33	2.84
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Total (11+21+39+41+51)	61	3421661	11.00	4.57	3.76
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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 2011**  
 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		3836689	3836689	10893470
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16		1967595	1967595	2265386
Form 54 - non-linked	17		56946	56946	52057
<b>Total</b>	<b>18</b>		<b>5861230</b>	<b>5861230</b>	<b>13210913</b>

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22		4912	4912	4870
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26		1734	1734	2049
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>		<b>6646</b>	<b>6646</b>	<b>6919</b>

**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				
<b>Total</b>	<b>38</b>				

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42		3831777	3831777	10888600
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46		1965861	1965861	2263337
Form 54 - non-linked	47		56946	56946	52057
<b>Total</b>	<b>48</b>		<b>5854584</b>	<b>5854584</b>	<b>13203994</b>

## 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 2011**  
 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)	11314	30260					472468
390	Deferred annuity non-profit - group deferred annuities (GPDA)	536	1336					13447
400	Annuity non-profit (CPA) - group annuities in payment	21708	43999					622614
400	Annuity non-profit (CPA) - individual annuities in payment	41059	166440					2353345
400	Annuity non-profit (CPA) - individual annuities in payment (reassurance accepted from PAC & PPL)		14228					172422
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment	2	7					109
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment (reassurance accepted from PAC & PPL)		0					4
440	Additional reserves non-profit OB - miscellaneous							27534
440	Additional reserves non-profit OB - mismatching							133101
440	Additional reserves non-profit OB - policy related expenses							41645

Name of insurer	Prudential Annuities Limited
Total business / subfund	Ordinary Branch Long Term
Financial year ended	31 December 2011
Units	£000

UK Pension / Reinsurance ceded external

[illegible]



## 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 2011**  
 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	17785	34075		595771	595771		595771
905	Index linked annuity(CPA) - group annuities in payment - valued as fixed	24561	21882		373639	373639		373639
905	Index linked annuity(CPA) - individual annuities in payment	5857	24971		492390	492390		492390
905	Index linked annuity(CPA) - individual annuities in payment (reassurance accepted from PAC & PPL)		98		1972	1972		1972
907	Index linked deferred annuity - group deferred annuities	10058	13311		269406	269406		269406
907	Index linked deferred annuity - group deferred annuities - valued as fixed	11753	9235		199453	199453		199453
915	Additional reserves index linked - miscellaneous						14744	14744
915	Additional reserves index linked - mismatching						42202	42202
915	Additional reserves index linked - Policy related expenses				34964	34964		34964

Name of insurer	Prudential Annuities Limited
Total business / subfund	Ordinary Branch Long Term
Financial year ended	31 December 2011
Units	£000

[illegible]

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

Total business

Financial year ended **31 December 2011**Units **£000**

Value of assets	Mean Term
1	2

**Analysis of assets**

Approved variable interest securities	11	169160	22.34
Other variable interest securities	12	871100	10.63
Approved fixed interest securities	13	131586	12.87
Other fixed interest securities	14	443744	9.06
Cash and deposits	15	137766	
Equity index derivatives	16		
Inflation swaps	17	105141	
Other assets	18	107364	
Variation margin	19		
<b>Total (11 to 19)</b>	<b>20</b>	<b>1965861</b>	

**Credit rating of other fixed interest and other variable interest securities**

AAA/Aaa	31	38442	2.10
AA/Aa	32	174470	12.38
A/A	33	494441	11.13
BBB/Baa	34	298425	9.16
BB/Ba	35	38746	11.39
B/B	36	1691	4.79
CCC/Caa	37		
Other (including unrated)	38	268629	8.80
<b>Total other fixed interest and other variable interest securities</b>	<b>39</b>	<b>1314844</b>	<b>10.10</b>

**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 2011**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	3629497		4.01	4.11
Form 51: Additional reserves - policy related expenses	41645		0.26	0.27
Form 51: Additional reserves	160635			4.11
Form 54: Additional reserves	56946			0.27
<b>Total</b>	3888723			

**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 2011**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	5909795	13311884
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	213743	242000
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	6123538	13553884
Mathematical reserves	21	5854584	13203994
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	268954	349890

**Composition of surplus**

Balance brought forward	31	107890	170485
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	161064	179405
Total	39	268954	349890

**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	213743	242000
Total distributed surplus (46+47)	48	213743	242000
Surplus carried forward	49	55211	107890
Total (48+49)	59	268954	349890

**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 Annuities Limited**

Global business

Financial year ended **31 December 2011**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%	3836687	3831776	1.00	38318	108886
Classes III, VII and VIII (investment risk)	33	1%	2024541	2022808	1.00	20228	23154
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					58546	132040

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	3836687	3831776	1.00	114953	326658
Classes III, VII and VIII (investment risk)	43	3%	2024541	2022808	1.00	60684	69462
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%					
<b>Total</b>	<b>49</b>		5861228	5854584		175638	396120

<b>Long term insurance capital requirement</b>	<b>51</b>					234183	528160
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## **PRUDENTIAL ANNUITIES LIMITED**

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

**Valuation Report as at 31 December 2011**

### **1. Introduction**

- (1) The investigation relates to 31 December 2011.
- (2) The previous investigation related to 31 December 2010.
- (3) No interim valuations have been carried out for the purposes of rule 9.4 since 31 December 2010.

### **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 2011 (continued)

(6) Not applicable

(7) Not applicable

(8) Not applicable

(9) Not applicable

(10) Not applicable

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

The majority of the annuities previously reinsured from The Prudential Assurance Company (PAC) to PAL were recaptured by PAC on 31 August 2011. These recaptured annuities were previously valued as part of the PAL business. The valuation basis detailed below as at 31 December 2010, is in respect of the PAL business in aggregate (ie including the now recaptured business), whilst the valuation basis at 31 December 2011 is in respect of the post-recapture PAL business.

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 inflation-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 inflation-linked annuities which are subject to maximum and/or minimum percentage increases is as follows:

- (a) inflation-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 inflation-linked annuities.
- (b) inflation-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.



## Valuation Report as at 31 December 2011 (continued)

- (c) inflation-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) inflation-linked annuities subject to a minimum annual increase of 3% are, for valuation purposes, treated as annuities with fixed 6% annual increases.
- (e) inflation-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 inflation, 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.

## Valuation Report as at 31 December 2011 (continued)

The interest rates used are as follows:

### Non-linked

Product code number	Product description	31 December 2011 %	31 December 2010 %
All	All products	4.01	4.52

### Index-linked

Product code number	Product description	31 December 2011 %	31 December 2010 %
All	All products (excluding index linked annuities – valued as fixed)	0.26	1.00
All	Index linked annuity – group annuities in payment – valued as fixed Index linked annuity – group deferred annuities – valued as fixed	4.01	4.52

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 credit risk is calculated as the long-term expected level of defaults plus the long-term credit risk premium plus the long-term downgrade resilience reserve plus an allowance for the impact of additional short-term credit events reflecting the market conditions at the valuation date.

The long-term expected levels 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:

## Valuation Report as at 31 December 2011 (continued)

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

To calculate the aggregate provision for the long-term expected levels of defaults and the long-term credit risk premium, 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 95<sup>th</sup> percentile of historic cumulative defaults, reduced to allow for the 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

The long-term downgrade resilience reserve is determined as the hypothetical impact on the aggregate provision described above of a one-notch downgrade of the entire credit-risky asset portfolio.

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 credit risk at 31 December 2011 has been taken to be the allowance for credit risk brought forward from 31 December 2010 but adjusted to allow for changes in asset mix that have occurred during 2011. For the valuation at 31 December 2010, a surplus, which arose during 2010 due to credit experience being better than allowed for in the previous valuation, was retained and used to increase the allowance for credit risk at 31 December 2010. During 2011, credit experience was again better than allowed for in the previous valuation. For the valuation at 31 December 2011, this experience has not been used to increase the allowance for credit risk and has therefore emerged into surplus.

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

## Valuation Report as at 31 December 2011 (continued)

Aggregate yields on the backing assets have been adjusted by 0.86% and 0.94% to allow for credit risk within the non-linked and index-linked portfolios respectively. These credit risk adjustments include margins for prudence.

For the portfolio as a whole this represents an aggregate credit risk assumption of 88 basis points per annum. This can alternatively be expressed as 240 basis points for 3 years and 47 basis points per annum thereafter.

### (4) Non-linked

Product code number	Product description	31 December 2011	31 December 2010
400	<b>Annuity non-profit (CPA) – individual annuities in payment</b>		
	<b>Annuity non-profit (CPA) – individual annuities in payment (reassurance accepted from PAC &amp; PPL)</b>		
405	<b>Annuity non-profit (CPA impaired life) – individual annuities in payment</b>		
	<b>Annuity non-profit (CPA impaired life) - individual annuities in payment (reassurance accepted from PAC &amp; PPL)</b>		
	Mortality table	Modified 98% PCMA00 / 88% PCFA00	Modified 98% PCMA00 / 88% PCFA00
	Expectation of life age 65	24.5 (M), 25.7 (F)	24.3 (M), 25.6 (F)
	Expectation of life age 75	14.9 (M), 16.3 (F)	14.7 (M), 16.2 (F)
400	<b>Annuity non-profit (CPA) – group annuities in payment</b>		
	Mortality table	Modified 92% PCMA00 / 100% PCFA00	Modified 92% PCMA00 / 100% PCFA00
	Expectation of life age 65	25.1 (M), 24.7 (F)	24.9 (M), 24.6 (F)
	Expectation of life age 75	15.4 (M), 15.4 (F)	15.2 (M), 15.3 (F)
390	<b>Deferred annuity non-profit – group deferred annuities (GPDA)</b>		
	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	26.2 (M), 25.2 (F)	26.0 (M), 25.1 (F)
	Current age 55, expectation of life age 65	24.2 (M), 24.2 (F)	24.1 (M), 24.1 (F)
390	<b>Deferred annuity non-profit – group deferred annuities (DAPA)</b>		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 92% PCMA00 / 100% PCFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 92% PCMA00 / 100% PCFA00
	Current age 45, expectation of life age 65	28.9 (M), 26.6 (F)	28.7 (M), 26.5 (F)
	Current age 55, expectation of life age 65	27.0 (M), 25.7 (F)	26.8 (M), 25.6 (F)

## Valuation Report as at 31 December 2011 (continued)

### Index linked

Product code number	Product description	31 December 2011	31 December 2010
905	<b>Index linked annuity (CPA) - individual annuities in payment</b> <b>Index linked annuity (CPA) - individual annuities in payment (reassurance accepted from PAC &amp; PPL)</b>		
	Mortality table	Modified 98% PCMA00 / 88% PCFA00	Modified 98% PCMA00 / 88% PCFA00
	Expectation of life age 65	24.5 (M), 25.7 (F)	24.3 (M), 25.6 (F)
	Expectation of life age 75	14.9 (M), 16.3 (F)	14.7 (M), 16.2 (F)
905	<b>Index linked annuity (CPA) - group annuities in payment</b> <b>Index linked annuity (CPA) - group annuities in payment - valued as fixed</b>		
	Mortality table	Modified 92% PCMA00 / 100% PCFA00	Modified 92% PCMA00 / 100% PCFA00
	Expectation of life age 65	25.1 (M), 24.7 (F)	24.9 (M), 24.6 (F)
	Expectation of life age 75	15.4 (M), 15.4 (F)	15.2 (M), 15.3 (F)
907	<b>Index linked deferred annuity - group deferred annuities</b> <b>Index linked deferred annuity - group deferred annuities – valued as fixed</b>		
	Mortality table	In deferment: AM92 / AF92 – 4 years In payment: Modified 92% PCMA00 / 100% PCFA00	In deferment: AM92 / AF92 – 4 years In payment: Modified 92% PCMA00 / 100% PCFA00
	Current age 45, expectation of life age 65	28.9 (M), 26.6 (F)	28.7 (M), 26.5 (F)
	Current age 55, expectation of life age 65	27.0 (M), 25.7 (F)	26.8 (M), 25.6 (F)

### Mortality bases used at 31 December 2011 and 31 December 2010

Annuities are generally valued using a percentage of the 00 series PCxA tables for annuitants and pensioners. 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

## Valuation Report as at 31 December 2011 (continued)

- (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).

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 of:

- for males, future improvement factors 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 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 these contracts, a further deduction of 0.65% from the valuation rate of interest has been made during the deferred period, to allow for expected mortality improvements prior to vesting.

(5) Not applicable

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

Product code number	Product description	31 December 2011	31 December 2010
All	All products	£19.84 p.a.	£21.24 p.a.

The inflation rate assumed for future expenses is as follows:

Product code number	Product description	31 December 2011	31 December 2010
All	All products	3.75% p.a.	4.25% p.a.

## Valuation Report as at 31 December 2011 (continued)

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 2011	31 December 2010
All	All products	0.054% p.a.	0.050% 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 2011 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 inflation-linked RPI UK Sterling for fixed UK Sterling;
- vi) Contracts to swap inflation-linked UK Sterling property income for fixed UK Sterling;
- vii) Contracts to swap fixed UK Sterling for inflation-linked UK Sterling RPI/LPI;
- viii) A contract to swap future fixed UK sterling for future inflation-linked UK Sterling RPI/LPI;
- ix) Contracts to take sovereign credit risk in return for ongoing premiums.

## Valuation Report as at 31 December 2011 (continued)

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 contracts under v) is to lengthen the duration of fixed portfolio.

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

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

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

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

The effect of the contracts under ix) is to take sovereign credit risk in return for a premium.

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

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

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

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

### 5. Options and guarantees

(1) Not applicable

(2) Not applicable

(3) Not applicable



## Valuation Report as at 31 December 2011 (continued)

- (4) Some inflation linked annuities are subject to maximum and minimum percentage increases. The valuation of this business is described in 4(1). An additional reserve of £0.5m is held at the valuation date to cover the risk of negative 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	2.9
Investment management expenses	3.9
Total	6.8

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 £17.3m. These expenses include the costs of administering the recaptured business for the first 8 months of 2011.
- (4) With the exception of a small volume of increments to existing policies, the Company does not expect to write any new business in the twelve months following the valuation date. Therefore no new business expense overrun reserve is required.
- (5) Although the Company is effectively closed to new business, the expense reserves in (1) above are calculated on the implicit assumption that the Company will continue to write new business (on the basis that new business, that would have been written by the Company in previous years, continues to be written elsewhere in the Prudential Group).

In the first instance, expense reserves are calculated on the assumption that Prudential's UK insurance operations will continue to write new business indefinitely and hence that there will be no loss of economies of scale. In this scenario, the amount of the expense loading over the remaining lifetime of the contracts in force at the valuation date is £60.7m.

## Valuation Report as at 31 December 2011 (continued)

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 21% 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 £15.9m 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 20% plus a fall in rental income of 10%, and;

(ii) a fall in yield on all fixed interest securities of 0.50%, which is the percentage point fall equal to 20% of the long-term gilt yield at the valuation date, and;

(iii) a rise of 0.03% in the indexed-linked real security yield in conjunction with a fall of 0.52% in the inflation rate such that the overall fall in the nominalised yield is equal to 0.50%.

(5) There were no significant territories at the valuation date.

## **Valuation Report as at 31 December 2011 (continued)**

- (6) In respect of the scenario described under (4) above;
  - (a) No resilience capital requirement was necessary.
  - (b) The increase in the aggregate amount of the long-term insurance liabilities was £84m.
  - (c) The increase in the aggregate amount of assets backing these liabilities was £98m.
- (7) A reserve of £175m 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 credit risk assumptions occurring immediately followed by a longer-term rate of default equivalent to 47 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 notional 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 below 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 £42m is held to cover general contingencies.

A reserve of £12.8m is held to cover the additional costs of providing early retirement benefits on a deferred annuity scheme.

## **Valuation Report as at 31 December 2011 (continued)**

### **9. Reinsurance**

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

(1) Not applicable

(2) Not applicable

(3) Not applicable

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

(1) Not applicable

(2) Not applicable

(3) Not applicable

(4) Not applicable

## PRUDENTIAL ANNUITIES LIMITED

### Returns for the year ended 31 December 2011

#### 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

	2011 £'000s
Line 89 on Form 13 (OLTB)	1,003,092
Line 89 on Form 13 (LTB)	6,562,624
Line 11 on Form 14	(5,854,584)
Line 49 on Form 14	(658,040)
Line 69 on Form 15	(40,943)
Line 79 on Form 3	<u>1,012,149</u>

\*0310\* Valuation differences

	2011 £'000s
<i>Positive valuation differences where liabilities are lower than in the shareholder accounts</i>	
Deferred tax held on additional reserves and valuation differences	134,730
<i>Positive valuation differences where assets are higher than in the shareholder accounts</i>	
FSA valuation difference on investments	277
<i>Negative valuation differences where liabilities are higher than in the shareholder accounts</i>	
Additional reserves held in long term fund	(539,005)
Line 35 on Form 3	<u>(403,998)</u>

## Supplementary notes to the returns (continued)

### Form 3 (Continued)

#### \*0313\* Reconciliation of profit and loss account and other reserves

	2011 £'000s
Profit and loss account and other reserves c/fwd (Form 3 Line 12 – Column 3)	772,400
Profit and loss account and other reserves b/fwd (Form 3 Line 12 – Column 4)	1,174,318
Movement	(401,918)
Movement in additional reserves held for FSA	395,097
Movement in valuation difference	(22,268)
Movement in deferred tax	(111,391)
Movement in unallocated surplus	52,679
Profit and loss account retained for the financial year (Form 16 Line 59)	(87,801)

### Form 13

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

\*1301\* The Company held £1m in unlisted securities.

\*1302\* The Company held £8m 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 single counterparty has been set in accordance with the counterparty limits detailed in the various Prudential Sourcebooks. Therefore exposures to individual non-approved counterparties have been restricted to a maximum of 5% of the business amount. No non-approved counterparty exposure during the year exceeded these limits.

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

\*1307\* The Company has an exposure of £194m to “secured obligations”. This figure has not been deducted from the admissibility testing for 31 December 2011, as the original test covered all exposures within the limits set.

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

\*1308\* The Company held £313m in unlisted securities.

\*1309\* The Company held £241m in hybrid securities.

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

## Supplementary notes to the returns (continued)

### Form 13 (continued)

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

\*1313\* The Company has an exposure of £194m to “secured obligations”. This figure has not been deducted from the admissibility testing for 31 December 2011, as the original test covered all exposures within the limits set.

\*1318\* Other asset adjustments

	2011 £'000s
<i><u>Total other than long term business assets</u></i>	
Amounts due from long term fund, notionally settled and shown as cash at bank on Form 13, which consolidates out in the financial statements	(213,743)
Deferred tax asset netted off deferred tax liabilities in Financial Statements	(1,042)
Line 101 on Form 13	<u>(214,785)</u>
	2011 £'000s
<i><u>Total long term business assets</u></i>	
Bank account overdraft moved to Form 14 which consolidates out in the financial statements.	(203,469)
Cash at bank used to notionally settle balance owed to the other than long term fund	213,743
Miscellaneous adjustments to assets	21,572
Line 101 on Form 13	<u>31,846</u>

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

\*1321\* Other differences in valuation of assets

	2011 £'000s
<i><u>Total long term business assets</u></i>	
Assets valued on a different basis than that in the financial statements	(277)
Line 98 on Form 13	<u>(277)</u>

## Supplementary notes to the returns (continued)

### Form 14

\*1401\* The long term fund held a number of interest rate swaps, inflation swaps, credit default swaps, forwards, 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.

\*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 £103m. 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

	2011 £'000s
Additional reserves held in long term fund	(539,005)
Deferred tax held on additional reserves and valuation differences	134,730
Bank account overdraft moved from Form 13 which consolidates out in the financial statements.	(203,469)
Cash at bank used to notionally settle balances owed to the other than long term fund	213,743
Miscellaneous adjustments to liabilities	21,572
Line 74 on Form 14	<u>(372,429)</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.



## Supplementary notes to the returns (continued)

### Form 15 (continued)

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

### \*1507\* Details of other adjustment in liabilities

	2011 £'000s
Deferred tax asset netted off deferred tax liabilities in Financial Statements	(1,042)
Cash at bank used to notionally settle balances owed to the other than long term fund	(213,743)
Line 83 on Form 15	<u>(214,785)</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, Prudential Services Ltd and Prudential Distribution Ltd, all being group companies.

### Form 41

- \*4101\* The amount shown in Form 41 Line 16 column 2 relates to the annuities previously reinsured from The Prudential Assurance Company (PAC) to PAL which were recaptured by PAC on 31 August 2011.

## Supplementary notes to the returns (continued)

### Form 48

- \*4802\* There are 10 assets where payment of interest is in default. The expected interest from these assets has been reduced to nil.
- \*4803\* Securities with an issuer option to redeem early are assumed to redeem at the next call date. The only exception to this are Government perpetual bonds (which can redeem at any time), and for these securities we assume that cashflows continue for 150 years.

### 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 14,859.
- \*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 UK inflation. Deferred annuities with revaluation in line with inflation 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 14,859.

### 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	4.11%	4.96%
Form 51: Additional reserves non-profit OB – policy related expenses	0.27%	1.21%

## **Supplementary notes to the returns (continued)**

### Form 58

- \*5803\* There is a difference between line 49 and Form 2 line 11 of £5,211k. This difference relates to the inadmissible assets shown on Form 13 (Long term Business) line 93 and the admissible assets in excess of counterparty limits shown on Form 13 (Long term Business) line 92.

**PRUDENTIAL ANNUITIES LIMITED**

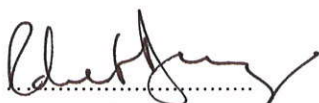
Global business

**Returns for the year ended 31 December 2011**

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

We certify:

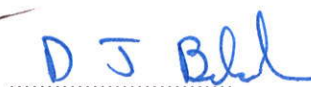
1. (a) that the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU as modified by a waiver detailed in supplementary note 0201 issued under section 148 of the Financial Services and Markets Act 2000 which continues to have effect; and
- (b) we are satisfied 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

23 March 2012

## **PRUDENTIAL ANNUITIES LIMITED**

Global business

### **Returns for the year ended 31 December 2011**

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

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 55 ('the Forms');
- the statement required by IPRU(INS) rule 9.29 on pages 60 to 61 ('the Statement'); and
- the valuation report required by IPRU(INS) rule 9.31(a)(i) on pages 35 to 48 ('the valuation report').

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 55;
- the statement required by IPRU(INS) rules 9.30 on page 62; or
- the certificate required by IPRU(INS) rule 9.34(1) on page 56 ('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

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

#### **Respective responsibilities of the Insurer 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 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 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

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

### **Opinion**

In our opinion:

- i) the Forms, the Statement 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 insurer and used to perform the actuarial investigation as set out in the valuation report appropriately reflect the requirements of INSPRU 1.2.



Robert Lewis  
For and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
Canary Wharf  
London  
E14 5GL  
23 March 2012

## **PRUDENTIAL ANNUITIES LIMITED**

### **Returns for the year ended 31 December 2011**

#### **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 £640k.

##### **(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**

There was zero exposure exposure to out of the money call options / warrants.

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

There were no derivative contracts held during 2011 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 2011**

### **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.