



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 2012

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

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

Global business

Financial year ended **31 December 2012**

Solo solvency calculation

	Company registration number	GL/ UK/ CM	day month year			Units	
	R2	2554213	GL	31	12	2012	£000
				As at end of this financial year		As at end of the previous year	
				1		2	

Capital resources

Capital resources arising within the long-term insurance fund	11	62471	50000
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	1015735	962149
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	1078206	1012149

Guarantee fund

Guarantee fund requirement	21	69254	78061
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	1008952	934088

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	207761	234183
Resilience capital requirement	32		
Base capital resources requirement	33	2984	3056
Individual minimum capital requirement	34	207761	234183
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	207761	234183
Excess (deficiency) of available capital resources to cover 50% of MCR	37	974325	895057
Excess (deficiency) of available capital resources to cover 75% of MCR	38	922385	836511

Enhanced capital requirement

With-profits insurance capital component	39		
Enhanced capital requirement	40	207761	234183

Capital resources requirement (CRR)

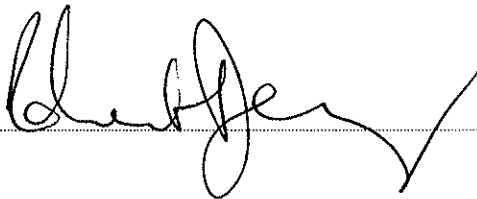
Capital resources requirement (greater of 36 and 40)	41	207761	234183
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	870445	777966

Contingent liabilities

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

Name of insurer **Prudential Annuities Limited**
Global business
Financial year ended **31 December 2012**



R A Devey

Director



A M Crossley

Director



D J Belsham

Director

Date

London 25 March 2013

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

Global business

Financial year ended **31 December 2012**

	Company registration number	GL/ UK/ CM	day month year			Units	
	R3	2554213	GL	31	12	2012	£000
			General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3	Total as at the end of the previous year 4	

Core tier one capital

Permanent share capital	11			650000	650000	650000
Profit and loss account and other reserves	12			435064	435064	772400
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			1085064	1085064	1422400

Tier one waivers

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

Other tier one capital

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

Total tier one capital before deductions (19+24+25+26+27+28)	31			1085064	1085064	1422400
Investments in own shares	32					
Intangible assets	33					
Amounts deducted from technical provisions for discounting	34					
Other negative valuation differences	35			454	454	403998
Deductions in related undertakings	36					
Deductions from tier one (32 to 36)	37			454	454	403998
Total tier one capital after deductions (31-37)	39			1084610	1084610	1018402

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

Global business

Financial year ended **31 December 2012**

	Company registration number	GL/ UK/ CM	day month year			Units
R3	2554213	GL	31	12	2012	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		1	2	3	4	

Tier two capital

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

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

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

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

Global business

Financial year ended **31 December 2012**

R3	Company registration number	GL/UK/CM	day month year			Units
	2554213	GL	31	12	2012	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		1	2	3	4	

Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71				
Total capital resources before deductions (39+69+71)	72		1084610	1084610	1018402
Inadmissible assets other than intangibles and own shares	73		506	506	1577
Assets in excess of market risk and counterparty limits	74		5898	5898	4676
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76				
Deductions of ineligible surplus capital	77				
Total capital resources after deductions (72-73-74-75-76-77)	79		1078206	1078206	1012149

Available capital resources for GENPRU/INSRU tests

Available capital resources for guarantee fund requirement	81		1078206	1078206	1012149
Available capital resources for 50% MCR requirement	82		1078206	1078206	1012149
Available capital resources for 75% MCR requirement	83		1078206	1078206	1012149

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

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

Global business

Financial year ended **31 December 2012**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	2012	£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	181	19358	
Other shares and other variable yield participations	42			
Holdings in collective investment schemes	43			
Rights under derivative contracts	44	6250	8783	
Fixed interest securities	Approved	45	494337	398641
	Other	46	385656	156373
Variable interest securities	Approved	47	62791	41450
	Other	48	84328	59703
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	32417	90486
	More than one month withdrawal	55		
Other financial investments	56			
Deposits with ceding undertakings	57			
Assets held to match linked liabilities	Index linked	58		
	Property linked	59		

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

Global business

Financial year ended **31 December 2012**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	2012	£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	32
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	14101	221011
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	13060	7255
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	1093153	1003092
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Analysis of admissible assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2012**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	2012	£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	1093153	1003092
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	102	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	(7890)	(214785)
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	1085365	789349

Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		
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Analysis of admissible assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2012**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	2012	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	
Land and buildings			11		579023	576192	

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	26085	135918	
Other shares and other variable yield participations	42	6	7	
Holdings in collective investment schemes	43	35295	34704	
Rights under derivative contracts	44	188891	172927	
Fixed interest securities	Approved	45	577527	710584
	Other	46	2429145	2255757
Variable interest securities	Approved	47		
	Other	48	384945	398321
Participation in investment pools	49			
Loans secured by mortgages	50	47389	58039	
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	9450	11012	
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	149163	117618
	More than one month withdrawal	55		
Other financial investments	56			
Deposits with ceding undertakings	57			
Assets held to match linked liabilities	Index linked	58	29	1965861
	Property linked	59		

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

Global business

Financial year ended **31 December 2012**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	2012	£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	56	268
	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	12288	52055
	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	58314	62803
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	2993	10558

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	4500599	6562624
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Analysis of admissible assetsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2012**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	2012	£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	4500599	6562624
Admissible assets in excess of market and counterparty limits	92	5898	4676
Inadmissible assets directly held	93	404	535
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	273	(277)
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100	5560322	6775
Other asset adjustments (may be negative)	101	165364	31846
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	10232860	6606179

Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		
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Long term insurance business liabilities and marginsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31 December 2012**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
---------------------------------------------	-------------------------------------------

Mathematical reserves, after distribution of surplus	11	342	5854584
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12		
Balance of surplus/(valuation deficit)	13	68770	55211
Long term insurance business fund carried forward (11 to 13)	14	69112	5909795
Claims outstanding	Gross	15	824
	Reinsurers' share	16	
	Net (15-16)	17	824
Provisions	Taxation	21	
	Other risks and charges	22	
Deposits received from reinsurers	23	4019667	
Creditors	Direct insurance business	31	830
	Reinsurance accepted	32	
	Reinsurance ceded	33	
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions	36	224837	425088
Creditors	Taxation	37	5810
	Other	38	185818
Accruals and deferred income	39		
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49	4437786	658040
Excess of the value of net admissible assets	51		
Total liabilities and margins	59	4506898	6567835

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	367	1516
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		

Total liabilities (11+12+49)	71	4438128	6512624
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73	5560322	6775
Other adjustments to liabilities (may be negative)	74	165183	(372429)
Capital and reserves and fund for future appropriations	75	69227	459209
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76	10232860	6606179

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

Global business

Financial year ended **31 December 2012**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	R15	2554213	GL	31	12	2012	£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		71142	7846
Creditors	Taxation	47		6248	32999
	Foreseeable dividend	48			
	Other	49		28	98
Accruals and deferred income		51			
Total (19 to 51)		59		77418	40943
Provision for "reasonably foreseeable adverse variations"		61			
Cumulative preference share capital		62			
Subordinated loan capital		63			
Total (59 to 63)		69		77418	40943

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		(7890)	(214785)
Capital and reserves		84		1015837	963191
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		1085365	789349

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

Global business

Financial year ended **31 December 2012**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R16	2554213	GL	31	12	2012	£000
					This financial year		Previous year	
					1		2	
Transfer (to)/from the general insurance business technical account	From Form 20			11				
	Equalisation provisions			12				
Transfer from the long term insurance business revenue account				13				213743
Investment income	Income			14	37257			41321
	Value re-adjustments on investments			15	28030			33554
	Gains on the realisation of investments			16	3676			59403
Investment charges	Investment management charges, including interest			17	720			714
	Value re-adjustments on investments			18				
	Loss on the realisation of investments			19				
Allocated investment return transferred to the general insurance business technical account				20				
Other income and charges (particulars to be specified by way of supplementary note)				21	(334)			(320)
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)				29	67909			346987
Tax on profit or loss on ordinary activities				31	15265			34788
Profit or loss on ordinary activities after tax (29-31)				39	52644			312199
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	52644			312199
Dividends (paid or foreseeable)				51				400000
Profit or loss retained for the financial year (49-51)				59	52644			(87801)

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

Global business

Financial year ended **31 December 2012**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	2012	£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	6250				149432		149432
	Credit index / basket	14							
	Credit single name	15							
	Equity index	16							
	Equity stock	17							
	Land	18							
	Currencies	19							
	Mortality	20							
	Other	21							
In the money options	Swaptions	31							
	Equity index calls	32							
	Equity stock calls	33							
	Equity index puts	34							
	Equity stock puts	35							
	Other	36							
Out of the money options	Swaptions	41							
	Equity index calls	42							
	Equity stock calls	43							
	Equity index puts	44							
	Equity stock puts	45							
	Other	46							
Total (11 to 46)		51	6250				149432		149432
Adjustment for variation margin		52							
Total (51 + 52)		53	6250						

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

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

Global business

Financial year ended **31 December 2012**Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		R17	2554213	GL	31	12	2012	£000	10
Derivative contracts		Value as at the end of this financial year				Notional amount as at the end of this financial year			
		Assets		Liabilities		Bought / Long	Sold / Short		
		1	2	3	4				
Futures and contracts for differences	Fixed-interest securities	11							
	Interest rates	12	151666	59519		594753	594753		
	Inflation	13	25782	39710		642504	642504		
	Credit index / basket	14							
	Credit single name	15	2728			97746			
	Equity index	16							
	Equity stock	17							
	Land	18							
	Currencies	19	3671	81977		392909	438368		
	Mortality	20							
Other	21	5044							
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	188891	181206		1727912	1675625		
Adjustment for variation margin		52							
Total (51 + 52)		53	188891	181206					

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 2012**
 Units **£000**

Financial year	Previous year
1	2

Income

Earned premiums	11	(5991066)	(7649799)
Investment income receivable before deduction of tax	12	263388	576284
Increase (decrease) in the value of non-linked assets brought into account	13	270634	659812
Increase (decrease) in the value of linked assets	14		
Other income	15		
Total income	19	(5457044)	(6413703)

Expenditure

Claims incurred	21	265692	695318
Expenses payable	22	8780	21072
Interest payable before the deduction of tax	23	106316	
Taxation	24	2851	58253
Other expenditure	25		
Transfer to (from) non technical account	26		213743
Total expenditure	29	383639	988386

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(5840683)	(7402089)
Fund brought forward	49	5909795	13311884
Fund carried forward (39+49)	59	69112	5909795

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 2012**
 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		(19)		(19)	(429)

Reinsurance - external

Regular premiums	13					
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15					
Single premiums	16		5991047		5991047	7649370

Net of reinsurance

Regular premiums	17					
Single premiums	18		(5991066)		(5991066)	(7649799)

Total

Gross	19		(19)		(19)	(429)
Reinsurance	20		5991047		5991047	7649370
Net	21		(5991066)		(5991066)	(7649799)

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 2012**
 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		134		134	498
Disability periodic payments	12					
Surrender or partial surrender	13		9581		9581	5234
Annuity payments	14		302228		302228	679734
Lump sums on maturity	15		7731		7731	10182
Total	16		319674		319674	695648

Reinsurance - external

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24		280		280	330
Lump sums on maturity	25					
Total	26		280		280	330

Reinsurance - intra-group

Death or disability lump sums	31		30		30	
Disability periodic payments	32					
Surrender or partial surrender	33		2398		2398	
Annuity payments	34		50144		50144	
Lump sums on maturity	35		1130		1130	
Total	36		53702		53702	

Net of reinsurance

Death or disability lump sums	41		104		104	498
Disability periodic payments	42					
Surrender or partial surrender	43		7183		7183	5234
Annuity payments	44		251804		251804	679404
Lump sums on maturity	45		6601		6601	10182
Total	46		265692		265692	695318

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 2012**
 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
Management - maintenance	14		8989	8989	17333
Management - other	15		1323	1323	3738
Total	16		10312	10312	21072

Reinsurance - external

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

Reinsurance - intra-group

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34		1265	1265	
Management - other	35		267	267	
Total	36		1532	1532	

Net of reinsurance

Commission - acquisition	41				
Commission - other	42				
Management - acquisition	43				1
Management - maintenance	44		7724	7724	17333
Management - other	45		1056	1056	3738
Total	46		8780	8780	21072

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

Total business

Financial year ended **31 December 2012**Units **£000**

UK Life 1	UK Pension 2	Overseas 3	Total Financial year 4	Total Previous year 5
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**Number of new policyholders/
scheme members for direct
insurance business**

Regular premium business	11					
Single premium business	12					
Total	13					

**Amount of new regular
premiums**

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

**Amount of new single
premiums**

Direct insurance business	25		(19)		(19)	(429)
External reinsurance	26					
Intra-group reinsurance	27		(5943704)		(5943704)	(7649370)
Total	28		(5943723)		(5943723)	(7649799)

Long-term insurance business : Analysis of new business

Name of insurer
 Total business
 Financial year ended
 Units
 UK Pension / Direct Insurance Business

Prudential Annuities Limited
 31 December 2012
 £000

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
400	Annuity non-profit (CPA) - individual annuities in payment				(19)

Long-term insurance business : Analysis of new business

Name of insurer Prudential Annuities Limited

Total business

Financial year ended 31 December 2012

Units

£000

UK Pension / Reinsurance accepted intra-group

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
390	Deferred annuity non-profit				(555154)
400	Annuity non-profit (CPA) - individual annuities in payment (reinsurance accepted from PAC)				(3325043)
405	Annuity non-profit (CPA impaired life)				(448)
905	Index linked annuity(CPA)				(1564378)
907	Index linked deferred annuity				(498683)

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 2012**
 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	579023	614318	33630	5.47	
Approved fixed interest securities	12	585613	585613	24356	3.64	
Other fixed interest securities	13	2473165	2473165	127759	4.23	
Variable interest securities	14	385924	385924	6494	6.18	
UK listed equity shares	15	26085	26085	1771	6.79	
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	450760	415465	2738	0.61	
Total	19	4500570	4500570	196748	4.17	

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

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

Overall return on with-profits assets

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

Long-term insurance business : Fixed and variable interest assets

Name of insurer **Prudential Annuities Limited**
 Category of assets **10 Total long term insurance business assets**
 Financial year ended **31 December 2012**
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
UK Government approved fixed interest securities	11	398057	19.82	3.45	3.45
Other approved fixed interest securities	21	187556	11.98	4.04	3.53
Other fixed interest securities					
AAA/Aaa	31	93744	10.13	3.20	3.14
AA/Aa	32	461199	13.08	4.04	3.35
A/A	33	884908	12.09	4.02	3.10
BBB/Baa	34	468157	9.58	4.44	3.11
BB/Ba	35	10665	4.08	7.75	3.27
B/B	36	10143	5.98	9.70	3.27
CCC/Caa	37				
Other (including unrated)	38	544349	8.41	4.54	3.42
Total other fixed interest securities	39	2473165	10.86	4.23	3.22
Approved variable interest securities	41				
Other variable interest securities	51	385924	4.17	6.18	5.68
Total (11+21+39+41+51)	61	3444702	11.21	4.35	3.54

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 2012**
 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		4005041	4005041	3836689
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16		2061704	2061704	1967595
Form 54 - non-linked	17		43882	43882	56946
Total	18		6110627	6110627	5861230

Reinsurance - external

Form 51 - with-profits	21				
Form 51 - non-profit	22		5660	5660	4912
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26		558	558	1734
Form 54 - non-linked	27				
Total	28		6218	6218	6646

Reinsurance - intra-group

Form 51 - with-profits	31				
Form 51 - non-profit	32		3999068	3999068	
Form 52	33				
Form 53 - linked	34				
Form 53 - non-linked	35				
Form 54 - linked	36		2061117	2061117	
Form 54 - non-linked	37		43882	43882	
Total	38		6104067	6104067	

Net of reinsurance

Form 51 - with-profits	41				
Form 51 - non-profit	42		313	313	3831777
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46		29	29	1965861
Form 54 - non-linked	47		0	0	56946
Total	48		342	342	5854584

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 2012
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)	10735	28574					531053
390	Deferred annuity non-profit - group deferred annuities (GPDA)	536	1336					15516
400	Annuity non-profit (CPA) - group annuities in payment	21356	43795					684284
400	Annuity non-profit (CPA) - individual annuities in payment	40290	165681					2467356
400	Annuity non-profit (CPA) - individual annuities in payment (reassurance accepted from PAC & PPL)		10673					127945
405	Annuity non-profit (CPA impaired life) - individual annuities in payment	5	25					435
405	Annuity non-profit (CPA impaired life) - individual annuities in payment (reassurance accepted from PAC & PPL)							4
440	Additional reserves non-profit OB - miscellaneous							28987
440	Additional reserves non-profit OB - mismatching							105406
440	Additional reserves non-profit OB - policy related expenses							44053

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

Name of insurer
 Total business / subfund
 Financial year ended
 Units
 UK Pension / Reinsurance ceded intra-group

Prudential Annuities Limited
 Ordinary Branch Long Term
 31 December 2012
 £000

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)	536	1336					15516
390	Deferred annuity non-profit - group deferred annuities (GPDA)	10735	28574					531053
400	Annuity non-profit (CPA impaired life) - group annuities in payment	21356	43795					684284
400	Annuity non-profit (CPA) - individual annuities in payment	40274	165454					2461397
400	Annuity non-profit (CPA) - individual annuities in payment (reassurance accepted from PAC & PPL)		10673					127945
405	Annuity non-profit (CPA impaired life) - individual annuities in payment	5	25					435
405	Annuity non-profit (CPA impaired life) - individual annuities in payment (reassurance accepted from PAC and PPL)		0					4
440	Additional reserves non-profit OB - miscellaneous							28985
440	Additional reserves non-profit OB - mismatching							105398
440	Additional reserves non-profit OB - policy related expenses							44050

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 2012**
 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	17440	34323		622100	622100		622100
905	Index linked annuity(CPA) - group annuities in payment - valued as fixed	31057	22410		406914	406914		406914
905	Index linked annuity(CPA) - individual annuities in payment	5791	25483		504451	504451		504451
905	Index linked annuity(CPA) - individual annuities in payment (reassurance accepted from PAC & PPL)		52		824	824		824
907	Index linked deferred annuity - group deferred annuities	9466	12339		276930	276930		276930
907	Index linked deferred annuity - group deferred annuities - valued as fixed	11111	8614		211974	211974		211974
915	Additional reserves index linked - miscellaneous						15459	15459
915	Additional reserves index linked - mismatching						28424	28424
915	Additional reserves index linked - Policy related expenses				38510	38510		38510

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 2012
 Units £000
 UK Pension / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
905	Index linked annuity(CPA) - group annuities in payment	17440	34323		622100	622100		622100
905	Index linked annuity(CPA) - group annuities in payment - valued as fixed	31057	22410		406914	406914		406914
905	Index linked annuity(CPA) - individual annuities in payment	5789	25440		503865	503865		503865
905	Index linked annuity(CPA) - individual annuities in payment (reinsurance accepted from PAC & PPL)		52		824	824		824
907	Index linked deferred annuity -group deferred annuities	9466	12339		276930	276930		276930
907	Index linked deferred annuity -group deferred annuities - valued as fixed	11111	8614		211974	211974		211974
915	Additional reserves index linked - miscellaneous						15458	15458
915	Additional reserves index linked - mismatching						28424	28424
915	Additional reserves index linked - policy related expenses				38509	38509		38509

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

Total business

Financial year ended **31 December 2012**Units **£000**

Value of assets	Mean Term
1	2

Analysis of assets

Approved variable interest securities	11	256221	19.28
Other variable interest securities	12	901305	9.57
Approved fixed interest securities	13	116449	12.49
Other fixed interest securities	14	481910	9.11
Cash and deposits	15	125116	
Equity index derivatives	16		
Inflation swaps	17	82816	
Other assets	18	(1963788)	
Variation margin	19		
Total (11 to 19)	20	29	

Credit rating of other fixed interest and other variable interest securities

AAA/Aaa	31	38979	2.52
AA/Aa	32	182600	11.24
A/A	33	429358	10.58
BBB/Baa	34	423221	8.57
BB/Ba	35	45718	11.07
B/B	36	1023	5.98
CCC/Caa	37		
Other (including unrated)	38	262316	8.32
Total other fixed interest and other variable interest securities	39	1383215	9.41

Long-term insurance business: Analysis of valuation interest rateName of insurer **Prudential Annuities Limited**Total business **Ordinary Branch Long Term**Financial year ended **31 December 2012**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	299		3.40	3.49
Form 51: Additional reserves - policy related expenses	3		0.04	0.04
Form 51: Additional reserves	11			3.49
Form 54: Additional reserves	0			0.04
Total	313			

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 2012**
 Units **£000**

Financial year	Previous year
1	2

Valuation result

Fund carried forward	11	69112	5909795
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		213743
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	69112	6123538
Mathematical reserves	21	342	5854584
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	68770	268954

Composition of surplus

Balance brought forward	31	55211	107890
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	13559	161064
Total	39	68770	268954

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
Total distributed surplus (46+47)	48		213743
Surplus carried forward	49	68770	55211
Total (48+49)	59	68770	268954

Percentage of distributed surplus allocated to policyholders

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

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

Global business

Financial year ended **31 December 2012**Units **£000**

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

Insurance death risk capital component

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

Insurance health risk and life protection reinsurance capital component

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

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	4005041	313	0.85	34043	38318
Classes III, VII and VIII (investment risk)	33	1%	2105586	29	0.85	17897	20228
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					51940	58546

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	4005041	313	0.85	102129	114953
Classes III, VII and VIII (investment risk)	43	3%	2105586	29	0.85	53692	60684
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%					
Classes III, VII and VIII (other)	45	0%					
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
Total	49		6110627	342		155821	175638

Long term insurance capital requirement	51					207761	234183
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PRUDENTIAL ANNUITIES LIMITED

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

Valuation Report as at 31 December 2012

1. Introduction

- (1) The investigation relates to 31 December 2012.
- (2) The previous investigation related to 31 December 2011.
- (3) No interim valuations have been carried out for the purposes of rule 9.4 since 31 December 2011.

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 2012 (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 remainder of the annuities previously reinsured from the Prudential Assurance Company With-Profits Sub Fund (PAC WPSF) to PAL were recaptured by PAC WPSF on 30 September 2012. These recaptured annuities were previously valued as part of the PAL business under the PAC60 reinsurance treaty.

As at 31 October 2012 the remaining annuities insured by the Company, net of a small outward reinsurance, were 100% reinsured on a quota share basis to the WPSF of PAC; this arrangement allows for the reinsured assets to be deposited back with the Company.

The valuation basis detailed below as at 31 December 2011, is in respect of the PAL business in aggregate (i.e. including the now recaptured business), while the valuation basis at 31 December 2012 is in respect of the post-recapture PAL business gross of reinsurance.

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:

Valuation Report as at 31 December 2012 (continued)

- (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.
- (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 2012 (continued)

The interest rates used are as follows:

Non-linked

Product code number	Product description	31 December 2012 %	31 December 2011 %
All	All products	3.40	4.01

Index-linked

Product code number	Product description	31 December 2012 %	31 December 2011 %
All	All products (excluding index linked annuities – valued as fixed)	0.04	0.26
All	Index linked annuity – group annuities in payment – valued as fixed Index linked annuity – group deferred annuities – valued as fixed	3.40	4.01

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.

Valuation Report as at 31 December 2012 (continued)

- (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:

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 95th 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.

Valuation Report as at 31 December 2012 (continued)

The overall allowance for credit risk at 31 December 2012 has been taken to be the allowance for credit risk brought forward from 31 December 2011 but adjusted to allow for changes in asset mix that have occurred during 2012.

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.

Aggregate yields on the backing assets have been adjusted by 0.81% 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 84 basis points per annum. This can alternatively be expressed as 243 basis points for 3 years and 43 basis points per annum thereafter.

Valuation Report as at 31 December 2012 (continued)

(4) Non-linked

Product code number	Product description	31 December 2012	31 December 2011
400	Annuity non-profit (CPA) – individual annuities in payment Annuity non-profit (CPA) – individual annuities in payment (reassurance accepted from PAC & PPL)		
405	Annuity non-profit (CPA impaired life) – individual annuities in payment Annuity non-profit (CPA impaired life) - individual annuities in payment (reassurance accepted from PAC & PPL)		
	Mortality table	Modified 99% PCMA00 / 89% PCFA00	Modified 98% PCMA00 / 88% PCFA00
	Expectation of life age 65	24.7 (M), 26.8 (F)	24.5 (M), 25.7 (F)
	Expectation of life age 75	15.1 (M), 17.0 (F)	14.9 (M), 16.3 (F)
400	Annuity non-profit (CPA) – group annuities in payment		
	Mortality table	Modified 93% PCMA00 / 101% PCFA00	Modified 92% PCMA00 / 100% PCFA00
	Expectation of life age 65	25.3 (M), 25.7 (F)	25.1 (M), 24.7 (F)
	Expectation of life age 75	15.6 (M), 16.0 (F)	15.4 (M), 15.4 (F)
390	Deferred annuity non-profit – group deferred annuities (GPDA)		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 126% PNMA00 / 117% PNFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 126% PNMA00 / 117% PNFA00
	Current age 45, expectation of life age 65	26.4 (M), 25.3 (F)	26.2 (M), 25.2 (F)
	Current age 55, expectation of life age 65	24.4 (M), 24.3 (F)	24.2 (M), 24.2 (F)
390	Deferred annuity non-profit – group deferred annuities (DAPA)		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 93% PCMA00 / 101% PCFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 92% PCMA00 / 100% PCFA00
	Current age 45, expectation of life age 65	29.1 (M), 28.5 (F)	28.9 (M), 26.6 (F)
	Current age 55, expectation of life age 65	27.2 (M), 27.1 (F)	27.0 (M), 25.7 (F)

Valuation Report as at 31 December 2012 (continued)

Index linked

Product code number	Product description	31 December 2012	31 December 2011
905	Index linked annuity (CPA) - individual annuities in payment Index linked annuity (CPA) - individual annuities in payment (reassurance accepted from PAC & PPL)		
	Mortality table	Modified 99% PCMA00 / 89% PCFA00	Modified 98% PCMA00 / 88% PCFA00
	Expectation of life age 65	24.7 (M), 26.8 (F)	24.5 (M), 25.7 (F)
	Expectation of life age 75	15.1 (M), 17.0 (F)	14.9 (M), 16.3 (F)
905	Index linked annuity (CPA) - group annuities in payment Index linked annuity (CPA) - group annuities in payment - valued as fixed		
	Mortality table	Modified 93% PCMA00 / 101% PCFA00	Modified 92% PCMA00 / 100% PCFA00
	Expectation of life age 65	25.3 (M), 25.7 (F)	25.1 (M), 24.7 (F)
	Expectation of life age 75	15.6 (M), 16.0 (F)	15.4 (M), 15.4 (F)
907	Index linked deferred annuity - group deferred annuities Index linked deferred annuity - group deferred annuities – valued as fixed		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 93% PCMA00 / 101% PCFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 92% PCMA00 / 100% PCFA00
	Current age 45, expectation of life age 65	29.1 (M), 28.5 (F)	28.9 (M), 26.6 (F)
	Current age 55, expectation of life age 65	27.2 (M), 27.1 (F)	27.0 (M), 25.7 (F)

Valuation Report as at 31 December 2012 (continued)

Mortality bases used at 31 December 2012 and 31 December 2011

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 2000. For males these future improvement factors are in line with Prudential's own calibration of the CMI 2011 mortality model (CMI 2009 for 31 December 2011 valuation), 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 2011 mortality model (CMI 2009 for 31 December 2011 valuation), with a long term improvement rate of 1.75% p.a. Compared with the core CMI mortality model, Prudential's calibration:

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

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

Valuation Report as at 31 December 2012 (continued)

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

Product code number	Product description	31 December 2012	31 December 2011
All	All products	£21.57 p.a.	£19.84 p.a.

The inflation rate assumed for future expenses is as follows:

Product code number	Product description	31 December 2012	31 December 2011
All	All products	3.50% p.a.	3.75% p.a.

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

Product code number	Product description	31 December 2012	31 December 2011
All	All products	0.057% p.a.	0.054% 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 2012 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;

Valuation Report as at 31 December 2012 (continued)

- 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) Contracts 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.

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 the 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/floating UK Sterling assets into UK Sterling RPI/LPI inflation-linked cashflows.

The effect of the contract under viii) is to convert future fixed UK Sterling cashflows into future RPI/LPI 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.

Valuation Report as at 31 December 2012 (continued)

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

5. Options and guarantees

- (1) Not applicable
- (2) Not applicable
- (3) Not applicable
- (4) Some 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 £0.8m 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	4.3
Total	7.2

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 £9.0m.
- (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

Valuation Report as at 31 December 2012 (continued)

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 £64.3m.

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 22% 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 £18.3m 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 18% plus a fall in rental income of 10%, and;
 - (ii) a fall in yield on all fixed interest securities of 0.46%, which is the percentage point fall equal to 20% of the long-term gilt yield at the valuation date, and;
 - (iii) a fall of 0.01% in the indexed-linked real security yield in conjunction with a fall of 0.45% in the inflation rate such that the overall fall in the nominalised yield is equal to 0.46%.
- (5) There were no significant territories at the valuation date.

Valuation Report as at 31 December 2012 (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 £83m.
 - (c) The increase in the aggregate amount of assets backing these liabilities was £107m.
- (7) A reserve of £134m 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 43 basis points per annum.

In determining the risk adjusted cashflows of the assets, two scenarios are tested:

- Scenario A: 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 2.0% higher than 97.5% of the maximum reinvestment rate.
- Scenario B: 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 the valuation rate of interest (as specified in 4(2)). 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 1.2% higher than the valuation rate of interest.

The reserve held is that required to satisfy the more onerous of these two scenarios.

Valuation Report as at 31 December 2012 (continued)

8. Other special reserves

Other special reserves are as follows:

A reserve of £44m is held to cover general contingencies.

9. Reinsurance

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

(1) Not applicable

(2) Details of any reinsurance treaties held as at 31 December 2012 which satisfy criteria (a), (b) or (c) are as follows:

Valuation Report as at 31 December 2012 (continued)

(d) Reinsurer	(e) Nature of Cover	(f) Premiums £m	(g) Deposits back at the valuation date £m	(h) Open/ Closed	(i) Amount of any Undischarged Obligation	(j) Reserves Ceded £m	(k) Retention
The Prudential Assurance Company Limited (PAC)	PAC reinsures 100% of the net liabilities in respect of PAL's liabilities, except for policies reinsured under pre existing treaties.	5,944.9	6,036.1	Open	None	6,104.1	None

Valuation Report as at 31 December 2012 (continued)

- (l) The company above is authorised to carry on insurance business in the United Kingdom.
- (m) PAC is authorised to carry on insurance business in the United Kingdom.
- (n) The treaty is not subject to any material contingencies.
- (o) The net liability includes no allowance for the refund of any reinsurance commission.
- (p) 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 2012

Supplementary notes to the returns

Form 2

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

(1502380) The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in August 2012. 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 certain assets taken in combination. This direction ends on 31 March 2014 or, if earlier, the date the relevant rule is revoked or no longer applies to the firm (in whole or in part). This waiver is a renewal of the waiver direction 771848 which ended on 31 October 2012.

Form 3

0301 Reconciliation of net admissible assets to total capital resources

	2012 £'000s
Line 89 on Form 13 (OLTB)	1,093,153
Line 89 on Form 13 (LTB)	4,500,599
Line 11 on Form 14	(342)
Line 49 on Form 14	(4,437,786)
Line 69 on Form 15	(77,418)
Line 79 on Form 3	<u>1,078,206</u>

0310 Valuation differences

	2012 £'000s
<i>Positive valuation differences where liabilities are lower than in the shareholder accounts</i>	
Deferred tax held on life tax transitional arrangements	135
<i>Positive valuation differences where assets are higher than in the shareholder accounts</i>	
FSA valuation difference on investments	(273)
<i>Negative valuation differences where liabilities are higher than in the shareholder accounts</i>	
Additional reserves held in long term fund	(316)
Line 35 on Form 3	<u>(454)</u>

Supplementary notes to the returns (continued)

Form 3 (Continued)

0313 Reconciliation of profit and loss account and other reserves

	2012 £'000s
Profit and loss account and other reserves c/fwd (Form 3 Line 12 – Column 3)	435,064
Profit and loss account and other reserves b/fwd (Form 3 Line 12 – Column 4)	772,400
Movement	(337,336)
Movement in additional reserves held for FSA	538,689
Movement in valuation difference	(555)
Movement in deferred tax	(134,595)
Movement in unallocated surplus	(13,559)
Profit and loss account retained for the financial year (Form 16 Line 59)	<u>52,644</u>

Form 13

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

1301 The Company held £50m in unlisted securities.

1302 The Company held £51m 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 £151m to “secured obligations”. This figure has not been deducted from the admissibility testing for 31 December 2012, 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 £348m in unlisted securities and units of beneficial interest in collective investment schemes with an aggregate value of £35m.

1309 The Company held £169m 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 £151m to “secured obligations”. This figure has not been deducted from the admissibility testing for 31 December 2012, as the original test covered all exposures within the limits set.

1318 Other asset adjustments

	2012 £'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	(7,760)
Deferred tax asset netted off deferred tax liabilities in Financial Statements	(102)
Miscellaneous adjustments to assets	(28)
Line 101 on Form 13	<u>(7,890)</u>
	2012 £'000s
<i><u>Total long term business assets</u></i>	
Bank account overdraft moved to Form 14 which consolidates out in the financial statements.	(888)
Deposit back liability netted off Index Linked assets in the regulatory return	140,516
Cash at bank used to notionally settle balance owed to the other than long term fund	7,760
Miscellaneous adjustments to assets	17,976
Line 101 on Form 13	<u>165,364</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.

Supplementary notes to the returns (continued)

Form 13 (continued)

1321 Other differences in valuation of assets

	2012 £'000s
<i>Total long term business assets</i>	
Assets valued on a different basis than that in the financial statements	273
Line 98 on Form 13	<u>273</u>

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 £58m. 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

	2012 £'000s
Additional reserves held in long term fund	(316)
Deferred tax held on life tax transitional arrangements	135
Bank account overdraft moved from Form 13 which consolidates out in the financial statements.	(888)
Deposit back liability netted off Index Linked assets in the regulatory return	140,516
Cash at bank used to notionally settle balances owed to the other than long term fund	7,760
Miscellaneous adjustments to liabilities	17,976
Line 74 on Form 14	<u>165,183</u>

Supplementary notes to the returns (continued)

Form 15

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

1502 (a) There were no charges attributable to the other than long term business assets.

(b) The total potential liability to taxation on capital gains which might arise if the Company disposed of its assets was £Nil.

(c) There were no contingent liabilities at the year end.

(d) There were no guarantees, indemnities or other contractual commitments other than in the ordinary course of insurance business and in respect of related companies.

1507 Details of other adjustment in liabilities

	2012 £'000s
Deferred tax asset netted off deferred tax liabilities in Financial Statements	(102)
Miscellaneous adjustments to liabilities	(28)
Cash at bank used to notionally settle balances owed to the other than long term fund	(7,760)
Line 83 on Form 15	<u>(7,890)</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.

4009 The Company has reinsurance agreements with a related company, The Prudential Assurance Company Ltd, in respect of non-participating approved pension annuity contracts.

Supplementary notes to the returns (continued)

Form 40 (continued)

During the year, claims amounting to £13m were paid under these reinsurance agreements and claims amounting to £54m were ceded. A premium amounting to £5,944m was ceded. The reinsurance included in the Return, relating to this business, amount to £58m liability for reinsurance accepted and £6m asset for the reinsurance ceded at the year end.

There were no other material intra-group transactions.

Form 41

4101 Following the recapture of the majority of the annuities reinsured from the Prudential Assurance Company (PAC) into the Company in 2011, the remaining annuities of £47m reinsured from the With-Profits Sub Fund (WPSF) of PAC into the Company were recaptured as at 30 September 2012. This amount is shown in Form 41 Line 16 column 2.

Form 46

4601 The premiums shown in Form 46 differ from those shown in Form 41 by £47,343k. This difference relates to the further reinsurance recapture referred to in note *4101* above. The payment of £47m to PAC is included in Form 41 but not in Form 46.

Form 48

4802 There are 8 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 three external rating agencies, namely Fitch, S&P and Moody's.

Form 51

5105 The amount of double counting of policies on Forms 51 and 54 combined is 14,532.

Supplementary notes to the returns (continued)

Form 51 (continued)

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 on Forms 51 and 54 combined is 14,532.

Form 56

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

Form 57

The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in August 2012. 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 certain assets taken in combination.

The information required in respect of waiver 1502380 (effective from 1 November 2012) is as follows:

Product group	Risk adjusted yield on matching assets (Form 57 column 5)	Corresponding asset yield
Form 51: Immediate & deferred annuities	3.49%	4.29%
Form 51: Additional reserves non-profit OB – policy related expenses	0.04%	0.98%

Form 58

5803 There is a difference between line 49 and Form 2 line 11 of £6,299k. 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

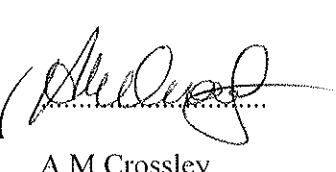
Global business

Returns for the year ended 31 December 2012

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 and section 68 of the Insurance Companies Act 1982 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

25 March 2013

PRUDENTIAL ANNUITIES LIMITED

Global business

Returns for the year ended 31 December 2012

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 60 ('the Forms');
- the statement required by IPRU(INS) rule 9.29 on pages 65 to 66 ('the Statement'); and
- the valuation report required by IPRU(INS) rule 9.31(a)(i) on pages 37 to 53 ('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 60;
- the statement required by IPRU(INS) rules 9.30 on page 67; or
- the certificate required by IPRU(INS) rule 9.34(1) on page 61 ('the certificate').

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

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 Statements and the valuation reports) under the provisions of the Rules. The requirements of the Rules have been modified by a direction 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.

Under IPRU(INS) rule 9.11 the Forms, the Statements and the valuation reports 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 reports, 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 Statements and the valuation reports 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 Statements and the valuation reports 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 Statements and the valuation reports. 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 reports.

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 Statements and the valuation reports are free

from material misstatement, whether caused by fraud or other irregularity or error, and comply with IPRU(INS) rule 9.11.

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

Opinion

In our opinion:

- i) the Forms, the Statements and the valuation reports 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 reports appropriately reflect the requirements of INSPRU 1.2.

Robert Lewis

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

25 March 2013

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2012

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 previously 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. This year the value is £Nil as there are none held.

(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 manager's work within these constraints.

(c) Quantification of derivatives in (b) above

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

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

There were no derivative contracts held during 2012 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 2012

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.

