THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Year ended 31 December 2014

Supplementary Notes to the Forms

APPENDIX 9.1

0101 Waivers modifying the Accounts and Statements rules

Section 68 (Insurance Companies Act 1982) Orders modifying 1996 Regulation provisions continued under transitional arrangements

The Financial Services Authority (FSA), the UK insurance regulator at the time, used its powers under section 156(2) of the Financial Services and Markets Act 2000 to allow waivers granted under section 68 of the Insurance Companies Act 1982 to continue without the need for companies to request a waiver under the Financial Services and Markets Act 2000.

(826) The Treasury issued to the Company in February 1999 an Order under section 68 of the Insurance Companies Act 1982 modifying the provisions of Regulation 13 of The Insurance Companies (Accounts and Statements) Regulations 1996 so that the Company is not required to submit a Form 31 in respect of the business written through its Dutch branch in the years 1976 to 1979. The section 68 Order under the Insurance Companies Act 1982 continues to have effect under the transitional arrangements set out in the Supervision manual. Regulation 13 of The Insurance Companies (Accounts and Statements) Regulation 1996 has been replaced by Rule 9.19 of the Interim Prudential Sourcebook for Insurers.

Application of Section 138 Waiver

(1614497) The Prudential Regulation Authority (PRA), on the application of the firm, made a direction under section 138 of the Financial Services and Markets Act 2000 in May 2013. The effect of the direction is to reduce the level of detail reported in Forms 23, 24, 25, 31 and 32 (by showing all business as written in prior years), and to exclude Forms 28, 29, 34, 37, 38 and 39 in the firm's return to the PRA, in respect of the firm's UK commercial lines general insurance business, which has been in run-off since 31 December 1992. This direction ends on the earlier of the date the relevant rules are revoked or no longer apply to the firm in whole or in part and 01 April 2018. This waiver is an extension of waiver 1245544 which expired on 30 June 2013.

(1664660) The PRA, on the application of Prudential Assurance Company Ltd, made a Direction under Section 138A of the Financial Services and Markets Act 2000 in September 2013. The effect of the direction is to modify GENPRU 2 Annex 7R and INSPRU 3.2.33R so as to permit the firm to value debts arising from amounts advanced as commission to approved credit institutions and wholly owned subsidiaries of approved credit institutions in respect of certain long term insurance policies sold on or before 31 December 2018. This direction ends on the earlier of the date the relevant rules are revoked or no longer applies to the firm and 31 December 2018. This waiver is an extension of waiver 948128 which expired on 09 September 2013.

(1270416) The FSA (the UK insurance regulator at the time), on the application of the firm, made a direction in February 2011 under section 148 of the Financial Services and Markets Act 2000. The effect of the direction is to enable the firm to contract to pay benefits under linked long term contracts relating to (i) Ex- Prudential Holborn Life Limited (PHL) funds in Prudential Assurance Company Limited (PAC) (Prudential European, Prudential International, Prudential Managed, Prudential Strategic Growth, Prudential Japanese, Prudential North American and Prudential Equity (Life only)); (ii) Ex-Scottish Amicable Life (SAL) funds in PAC (Prudential European, Prudential International, Prudential Managed, Prudential Japanese, Prudential North American and Prudential Equity (Life only)); (iii) Ex-Scottish Amicable Life (SAL) funds in PAC (Prudential European, Prudential International, Prudential Managed, Prudential Japanese, Prudential North American and Prudential Equity (Pension only)); (iv) Ex-M&G funds in PAC (Pru Equity Pension fund (ex M&G), Pru Equity Life fund (ex M&G), Pru Managed life fund (ex M&G) Pru Managed pension fund (ex M&G) and Pru Personal Pension fund (ex M&G) (Life & Pension)); and (v) PAC fund (Prufund Managed Fund) which are themselves determined, either wholly or partly, by reference to units in the Prudential European QIS Fund, Prudential Japanese QIS Fund, Prudential North American QIS Fund, and Prudential UK Growth QIS Fund. This direction ends on 08 February 2016.

(1388495) The FSA (the UK insurance regulator at the time), on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in September 2011. 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 expired on 31 March 2014.

(1735909) The PRA, on the application of the firm, made a direction under Section 138A of FSMA in February 2014. 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 01 April 2016 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 1388495 which expired on 31 March 2014.

(1741411) The FCA, on the application of the firm, made a direction in March 2014 under section 138A of the Financial Services and Markets Act 2000. The effect of the direction is to enable the firm to contract to pay benefits under linked long term contracts relating to (i) Ex-Prudential Holborn Life Limited (PHL) funds in Prudential Assurance Company Limited (PAC) (Prudential European, Prudential International, Prudential Managed, Prudential Strategic Growth, Prudential Japanese, Prudential North American and Prudential Equity (Life only); (ii) Ex-Scottish Amicable Life (SAL) funds in PAC (Prudential European, Prudential International, Prudential Managed, Prudential Japanese, Prudential North American and Prudential Equity (Life only); (iii) Ex-Scottish Amicable Life (SAL) funds in PAC (Prudential European, Prudential International, Prudential Managed, Prudential. Japanese, Prudential North American and Prudential Equity (Pension only); (iv) Ex-M&G funds in PAC (Pru Equity Pension fund (ex M&G), Pru Equity Life fund (ex M&G), Pru Managed life fund (ex M&G) Pru Managed pension fund (ex M&G) and Pru Personal Pension fund (ex M&G) (Life &

Pension); and (v) PAC fund (Prufund Managed Fund) which are themselves determined, either wholly or partly, by reference to units in the CF Prudential European QIS Fund, CF Prudential Japanese QIS Fund, CF Prudential North American QIS Fund, and CF Prudential UK Growth QIS Fund. This direction ends on 08 February 2016.

0103 Restatement of prior year figures

On 1 January 2014, the Hong Kong branch business was transferred to two new Hong Kong incorporated Prudential companies; Prudential Hong Kong Limited (PHKL) providing life insurance and Prudential General Insurance Hong Kong Limited (PGHK) providing general insurance. INSPRU 1.1.71R requires recalculation of the gross adjusted premiums and claims amount if there has been a significant change to the business portfolio. Therefore these amounts have been restated in the prior year column of Forms 11 and 12, to exclude the business written by the Hong Kong branch. However Form 1 line 31 column 2 has not been restated.

0301 Reconciliation of net assets to total capital resources

	2014 £000
Total assets per Form 13 (other than long-term business) line 89	4,843,819
Total assets per Form 13 (long-term business) line 89	122,305,812
Less: the sum of lines 11, 12 and 49 in Form 14	100,468,806
Less: liabilities per Form 15 line 69	1,488,272
Add: assets backing the capital resource requirements of dependants	1,149,786
Add: preference shares	1,000
Net assets per Form 3 line 79	26,343,339

0305 Details of other financing arrangements

Not included in lines 91 to 95 is the following: an arrangement with Swiss Re Europe S.A., UK branch provided financing for Prudential Protection contracts. The amount to be repaid is a proportion of the difference between the office premium (net of an allowance for renewal expenses) and the reinsurance premium for the time that the policy remains in force. The payment of a proportion of each future premium to the reinsurer has been allowed for when calculating the mathematical reserves.

0308 Nature of outstanding contingent loans

Included in Line 94 is a contingent liability that arises from a contingent loan arrangement with Prudential Health Holdings Limited. This agreement was entered into on 3 September 2007 and allows The Prudential Assurance Company Limited to borrow from Prudential Health Holdings Limited, sums from time to time in an aggregate amount of up to £250m. The loan amount is unambiguously linked to the emergence of regulatory losses arising in respect of all income and costs associated with selling and underwriting the Flexible Protection Plan and PruProtect Plan. The loan is to be repaid as regulatory surplus arises in the future.

The commutation value of this arrangement is £65.1m.

The Prudential Assurance Company Limited is entitled, if it has given Prudential Health Holdings Limited prior notice to that effect, at any time, to repay any amount of the loan balance.

Included in Line 92 is a contingent liability that arises from a financial reinsurance treaty. This agreement was entered into on 9 August 2013 and provided an advance of £135m to The Prudential Assurance Company Limited. The repayments are linked to the emergence of regulatory surplus on specified lines of business in the Non-Profit Sub-Fund. No repayments were made during 2014. Under the terms of the treaty £31.7m will become due in 2015.

The commutation value of this arrangement including interest is £109.3m.

0310 Details of valuation differences

Other than long-term	2014 £'000
Positive valuation differences in respect of assets where valuation in GENPRU is higher than the firm uses for external reporting purposes being:-	
Mortgages and loans valuation difference including the deferred tax effect	302,417
Total line 14 column 1	302,417

Long-term	2014 £'000
Positive valuation differences in respect of assets where valuation in GENPRU is higher than the firm uses for external reporting purposes being:-	
Mortgages and loans valuation difference	58,464
Positive valuation differences in respect of liabilities where Valuation in GENPRU is lower than the firm uses for external reporting purposes being: -	
Deferred tax on accounts DAC	36,483
Deferred tax on other valuation differences	122,487
Difference in valuation basis for actuarial liabilities	10,510,709
Creditors in respect of contingent loans and financial reassurance accepted	174,368
Negative valuation differences in respect of assets where Valuation in GENPRU is lower than the firm uses for external reporting purposes being:-	
Pension deficit funding net of tax – see note 1405	(32,146)
Total line 14 column 2	10,870,365

0313 Reconciliation of the profit & loss a/c movement to the profit and loss retained on Form 16

Form 3 line 12 column 3 (2014)	8,578,958
Form 3 line 12 column 4 (2013)	4,604,028
Movement in profit & loss a/c per Form 3	3,974,930
Long-term business results retained within the long-term fund	(6,438)
Form 16 line 59 column 1 profit & loss for the year	3,968,492

1105 Differences between Forms 11 & 12 and Forms 22 & 23

On 1 January 2014, the Hong Kong branch business was transferred to two new Hong Kong incorporated Prudential companies; Prudential Hong Kong Limited (PHKL) providing life insurance and Prudential General Insurance Hong Kong Limited (PGHK) providing general insurance. INSPRU 1.1.71R requires recalculation of the gross adjusted premiums and claims amount if there has been a significant change to the business portfolio. Therefore these amounts have been restated in the prior year column of Forms 11 and 12, to exclude the business written by the Hong Kong branch. However comparatives in Forms 22 & 23 have not been restated.

1111 Restatement of prior year figures

On 1 January 2014, the Hong Kong branch business was transferred to two new Hong Kong incorporated Prudential companies; Prudential Hong Kong Limited (PHKL) providing life insurance and Prudential General Insurance Hong Kong Limited (PGHK) providing general insurance. INSPRU 1.1.71R requires recalculation of the gross adjusted premiums amount and the gross adjusted claims amount if there has been a significant change to the business portfolio. Therefore these amounts have been restated in the prior year column of Form 11, to exclude the business written by the Hong Kong branch.

1202 Restatement of prior year figures

On 1 January 2014, the Hong Kong branch business was transferred to two new Hong Kong incorporated Prudential companies; Prudential Hong Kong Limited (PHKL) providing life insurance and Prudential General Insurance Hong Kong Limited (PGHK) providing general insurance. INSPRU 1.1.71R requires recalculation of the gross adjusted claims amount if there has been a significant change to the business portfolio. Therefore this amount has been restated in the prior year column of Form 12, to exclude the business written by the Hong Kong branch.

1301 Aggregate value of certain investments

There are no units held in collective investment schemes, no unlisted investments, no listed investments which are not readily realisable, and no reversionary interests or remainders in property other than land or buildings in the other than long-term funds.

1302 Aggregate value of hybrid securities

The aggregate value of hybrid securities is nil for the other than long-term business fund.

1304 Use of set off

Amounts have been set off to the extent permitted by generally accepted accounting principles.

1305 Counterparty limits

Under the Company's investment guidelines, the maximum permitted exposure to any one counterparty is set at 5% of the business amount, with the exception of short-term deposits with approved credit institutions, where the limit for any one institution is 20%. The 5% limit for the other than long-term fund has not been exceeded.

1306 Exposure at the year end to large counterparties

There were no exposures in excess of 5% of the relevant business amount within the other than long-term business fund at the year-end.

1307 Secured Obligations

No secured obligations were held by the other than long-term fund.

1308 Aggregate value of certain investments

The long-term business fund held unlisted investments with an aggregate value of £3,756m and units of beneficial interest in collective investment schemes with an aggregate value of £962m. There are no listed investments which are not readily realisable, and no reversionary interests or remainders in property other than land or buildings in the long-term fund.

1309 Aggregate value of hybrid securities

The aggregate value of hybrid securities is £1,799m for the long-term business fund.

1310 Use of set off

Amounts have been set off to the extent permitted by generally accepted accounting principles.

1312 Exposure at the year end to large counterparties

There were no exposures in excess of 5% of the relevant business amount within the long-term business fund at the year-end.

1313 Secured Obligations

At the year end the Company's long-term business fund had an exposure of £1,148m to secured obligations to which para 14 of part 1 of Appendix 4.2 applies.

1314 Tangible lease assets

No tangible lease assets are included for the other than long-term business fund.

1316 Tangible lease assets

No tangible lease assets are included for the long-term business fund.

1318 Particulars of other assets adjustments

The amount in line 101 is made up of the following:

Long-term assets:

	£'000
Long-term assets netted off with liabilities	77,774
Total Line 101 (long-term)	77,774

1319 Counterparty limits

Under the Company's investment guidelines, the maximum permitted exposure to any one counterparty is set at 5% of the business amount, with the exception of short-term deposits with approved credit institutions, where the limit for any one institution is 20%. During the year the 5% limit for the long-term fund was not exceeded.

1323 Acquisition of Scottish Amicable Life Assurance Society

In 1997 the business of Scottish Amicable Life Assurance Society (SALAS) was transferred to the Company. In effecting the transfer, a separate sub-fund, the Scottish Amicable Insurance Fund (SAIF) was established within the Company's long-term fund. This sub-fund contains all the with-profits business and all other pension business that was transferred from SALAS and is closed to new business. As separate assets are managed for SAIF, separate Forms 13, 14 and 17 have been prepared for that fund.

1401 Provision for "reasonably foreseeable adverse variations"

No provision has been made for reasonably foreseeable adverse variations as all contracts are strictly covered by assets.

1402 Long-term charges, contingent liabilities, guarantees and commitments

a) There were no charges over assets.

b) The Company has adopted the provisions of Financial Reporting Standard 19 - Deferred Tax. Full provision has been made.

c) The ordinary long-term business fund held a provision of £0.3m for potential tax on capital gains in respect of linked business in the ordinary long-term business fund, in line 11 of Form 14. Provision of £703m for tax on capital gains in respect of other long-term business has been included in line 21 of Form 14, including

£44m in respect of SAIF. These provisions have been determined in accordance with the procedures outlined in paragraph 3 of the Valuation Report in Appendix 9.4 of this Return. The actual provisions and the maximum potential tax are the same.

c) The Company has contingent liabilities in respect of insurance and other agreements entered into in the normal course of business and in respect of litigation arising therefrom.

d) The Company used to sell guaranteed annuity products in the UK and held a technical provision of £79m at December 31 2014, (2013: £68m), within the With-Profits Sub-Fund to honour guarantees on these products. The Company's main exposure to guaranteed annuities in the UK is through SAIF and a technical provision of £828m was held in SAIF at 31 December 2014, (2013: £710m) to honour the guarantees.

e) Inherited Estate in the With-Profits Sub-Fund.
The assets of the with-profits sub-fund (WPSF) within the long-term fund of the Company comprise the amounts that it expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital. The amount payable over time to policyholders from the WPSF is equal to the policyholders' accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the WPSF is called the 'inherited estate' and has accumulated over many years from various sources.

The inherited estate, as working capital, enables the Company to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund's assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

f) Historically, in common with several other UK insurance companies, the Company used to sell low-cost endowment products related to repayment of residential mortgages. At sale, the initial sum assured is set at a level such that the projected benefits, including an estimate of the annual bonus receivable over the life of the policy, would equal or exceed the mortgage debt. The FSA (the UK regulator at the time) was concerned that the maturity value of some of these products would be less than the mortgage debt because of a decrease in expected future investment returns since these products were sold. The FSA (the UK regulator at the time) worked with insurance companies to devise a programme whereby the companies write to customers indicating whether they may have a possible shortfall and outline the actions that the customers can take to prevent this possibility. This programme remains in place following the change in the regulatory regime.

The Company is exposed to mortgage endowment products in respect of policies issued by Scottish Amicable Life plc (SAL) and policies issued by Scottish Amicable

Life Assurance Society (SALAS) and transferred into the Scottish Amicable Insurance Fund (SAIF). Technical provisions of £1m in the Non-Profit Sub-Fund and £6m in SAIF were held at 31 December 2014 to cover potential compensation in respect of mortgage endowment product mis-selling claims. As SAIF is a separate sub-fund of the Company's long-term business fund, wholly attributable to the policyholders of the fund, this provision has no impact on shareholders.

In addition, the Company's main with-profits fund paid compensation of £0.6m in respect of mortgage endowment products mis-selling claims in the year ended 31 December 2014 and held a provision of £17m at 31 December 2014, in respect of further compensation. This provision has no impact on the Company's profit before tax.

g) Contingent liabilities arise in connection with the contingent loan and financial reinsurance arrangements described in note 0308. The total of these is £174.4m.

h) There are no other fundamental uncertainties.

i) There are no other guarantees, indemnities or other contractual commitments effected, other than in the ordinary course of its insurance business, or in respect of related companies. The Company is however, and in the future may be, subject to legal actions and disputes in the ordinary course of its business. Whilst the outcome of such matters cannot be predicted with certainty, the directors believe that the ultimate outcome of such litigation will not have a material adverse effect on the Company's financial condition and results.

1405 Particulars of other adjustments

The amount in line 74 is made up of the following:	£000
Difference in valuation basis for actuarial liabilities	10,510,709
Pension deficit funding (note 1)	(32,146)
Creditors in respect of contingent loan	174,368
Deferred tax on other valuation differences	122,487
Long-term liabilities netted off with assets	77,774
Total Line 74	10,853,192

Note 1 - The pensions surplus in the statutory accounts is the actual pensions surplus for the Company's main schemes. The amount provided for in the PRA returns is the deficit reduction amount i.e. the additional funding (net of tax) that will be required to be paid into those schemes by the Company over the following five year period, for the purpose of reducing the firm's defined benefit liability. The deficit shown at line 22 of the With-Profits Sub-Fund Form 14 is £29.9m and the deficit shown at line 22 of the SAIF Form 14 is £2.2m. The surplus in the statutory accounts is £15.0m and is included in line 93 of the With-Profits Sub-Fund Form 13. The net difference between the PRA returns (£32.1m) deficit and the accounts £15.0m surplus is therefore £47.1m.

1407 Provision for deferred tax

The provision for deferred tax on line 21 was negative for the Non-Profit Sub-Fund. However overall the balance for the long-term fund was a liability. A right of set off exists with the counterparty and the disclosure is considered appropriate. Reclassification of the provision as an asset would have incorrectly grossed up Forms 13 and 14 and created a reconciling difference with the financial statements.

1501 Provision for "reasonably foreseeable adverse variations"

There is no provision for reasonably foreseeable adverse variations as all contracts are strictly covered by assets.

1502 Other than long-term charges, contingent liabilities and guarantees

a) There were no charges over assets.

b) The potential tax on capital gains in respect of the other than long-term business assets shown on Form 15 is nil.

c) Under the terms of the Company's arrangements with the Prudential Group's main UK bank, the bank has a right of set-off between credit balances (other than those of long-term business funds) and all overdrawn balances of those group undertakings with similar arrangements.

d) The Company has contingent liabilities in respect of insurance and other agreements entered into in the normal course of business and in respect of litigation arising therefrom.

e) The pensions review by the Financial Services Authority (FSA), the UK insurance regulator at the time, of past sales of personal pension policies required all UK life insurance companies to review their cases of potential mis-selling and record a provision for the estimated costs. The Company met the requirement of the FSA (the UK insurance regulator at the time) to issue offers to all cases by 30 June 2002. Provisions in respect of the costs associated with the review have been included in the change in long-term technical provisions in Form 40 line 13. The directors believe that, based on current information, the provision, together with future investment return on the assets backing the provision, will be adequate to cover the costs of pension mis-selling including administration costs. Such provision represents the best estimate of probable costs and expenses. However, there can be no assurance that the current provision level will not need to be increased.
The costs associated with the pension mis-selling review have been met from the inherited estate. Accordingly, these costs have not been charged to the asset shares used in the determination of policyholder bonus rates. Hence policyholders' payout values have been unaffected by pension mis-selling.
In 1998, the Company stated that deducting mis-selling costs from the inherited estate would not impact its bonus or investment policy and it gave an assurance that if this unlikely event were to occur, it would make available support to the fund from shareholder resources for as long as the situation continued, so as to ensure that policyholders were not disadvantaged. The assurance was designed to protect both existing policyholders at the date it was announced, and

policyholders who subsequently purchased policies while the pension mis-selling review was continuing.

This review was completed on 30 June 2002. The assurance will continue to apply to any policy in force at 31 December 2003, both for premiums paid before 1 January 2004, and for subsequent regular premiums (including future fixed, retail price index or salary related increases and Department of Work and Pensions rebate business). The assurance has not applied to new business since 1 January 2004. New business in this context consists of new policies, new members to existing pension schemes plus regular and single premium top-ups, transfers and switches to existing arrangements. The maximum amount of capital support available under the terms of the assurance will reduce over time.

The bonus and investment policy for each type of with-profits policy is the same irrespective of whether or not the assurance applies. Hence removal of the assurance for new business has had no impact on policyholder returns.

Prudential plc and the Company have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by Prudential plc (including in the scenarios referred to in Pension Mis-selling Review above). While it is considered unlikely that such support will be required, the arrangements are intended to provide additional comfort to the Company and its policyholders.

f) The Polish branch became operational in March 2013. The Company's inherited estate is contributing to the costs of establishing the branch. The inherited estate is expected to recoup this funding over time from charges levied, however, if experience is not as expected there is an obligation of the Company's shareholder funds to ensure the inherited estate will be repaid in full with interest. The maximum amount of support that could be required at 31 December 2014 is £51m.

g) There is an obligation of the Company's shareholder funds to support Prudential Financial Planning Ltd, another group company, which became operational in 2013. Part of the acquisition costs incurred in the early years of operation are to be spread over five years to reflect the period over which the benefit, in terms of sales, would arise. Where the initial funding is provided by the Company's with-profits fund, it is subject to support from the shareholder funds that in the event of a closure during this period, the amortisation will be reversed and the shareholder fund will reimburse the consequent estate drain. The maximum amount of support that could be required at 31 December 2014 is £24m.

h) On 1 January 2014, the Hong Kong branch business was transferred to two new Hong Kong incorporated Prudential companies; Prudential Hong Kong Limited (PHKL) providing life insurance and Prudential General Insurance Hong Kong Limited (PGHK) providing general insurance. Both companies are wholly owned subsidiaries of the Company. Following the transfer a series of intra-group capital support arrangements have been put in place:

<u>New Business Support Commitment:</u>

For a period of three years from the transfer date capital support shall be provided from the Company's shareholders' fund to its with-profits fund to enable it to maintain the expectations of its with-profits policyholders as if the assets of the inherited estate had not been transferred to the new business sub-fund of PHKL. The maximum amount of support available is £270m. In the event that the

Company has to provide capital support under this arrangement, Prudential plc shall, in turn, provide capital support to the Company to the extent that there are insufficient assets in the Company's shareholders' fund for it to provide the capital support required by the with-profits fund.

PHKL Pension Mis-selling Costs Assurance:

The PHKL shareholder fund will provide capital support to enable PHKL to satisfy its obligations to manage its in-force sub-fund as if the Company's pension mis-selling costs had not been deducted from the PHKL inherited estate The Company, in turn, will provide capital support from its shareholders' fund to PHKL to the extent that there are insufficient assets in the PHKL shareholders' fund to enable PHKL to support its obligations to its in-force sub-fund.

Capital Support from Prudential plc:

Prudential plc will also provide capital support as necessary to PHKL and PGHK to support new business growth and to maintain solvency. These support arrangements meet a condition set by the Hong Kong regulator (amongst other matters) for its approval of the domestication of the Hong Kong branch.

i) As a proprietary insurance company, the Company is liable to meet its obligations to policyholders even if the assets of the long-term funds are insufficient to do so. The assets, represented by the unallocated surplus of with-profits funds, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers ('the excess assets') in the long-term funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Company's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the long-term funds to provide financial support.

j) The Company has agreed to guarantee the funding obligation that Prudential Distribution Limited (PDL), a service company within the Prudential Group and principal employer, and other participating employers have to the Scottish Amicable Pension Scheme. The funding obligation arises from the deficit in this pension scheme. Payment under the guarantee would be exercised should PDL fail to meet its funding obligation. The guarantee expires on 1 September 2018.

k) During 2014 the Company has put in place an arrangement to formalise circumstances in which capital support would be made available to Prudential Retirement Income Limited (PRIL). The drawdown of support would be triggered by a breach of pre-specified solvency conditions in PRIL on a Pillar I and Pillar II basis.

l) There are no other fundamental uncertainties.

1503 Dividend on Cumulative Preference Shares

A dividend on cumulative preference shares of £nil had accrued at 31 December 2014.

1507 Particulars of other adjustments

The amount in line 83 is made up of the following:	£000
Deferred tax on lifetime mortgages	(87,526)
No negative equity guarantee on lifetime mortgages	16,530
Total line 83	(70,996

1601 Basis of foreign currency conversion

Foreign currency revenue transactions have generally been translated at average exchange rates for the year.

1602 Restatement of brought forward balances

Brought forward balances in the Return denominated in foreign currencies have been retranslated at 2014 rates of exchange.

1603 Other income and charges

	£000
Transfer to closure provision for operations in run-off	64
Commission received on sale of general insurance products	24,205
Shareholder expenses incurred on overseas subsidiaries	(13,280)
Expenses incurred on acquisition of equity release business from another group company	(6,381)
Share based payments	148
Other items	(7,128)
Total line 21	(2,372)

Operations in run-off include the former UK general insurance broker and commercial, London Market, marine and aviation and overseas agencies business which the Company ceased writing between 1990 and 1992, and the UK general insurance personal lines business.

1612 Sale of investment in associate

On 14 November 2014 the Company sold its 25% equity stake in the PruHealth and PruProtect joint venture to Discovery Group Europe Limited for £155m. The profit on disposal of £61m is included in line 16 of Form 16.

1701 Variation margins

No excess variation margin has been received. A variation margin of £55m has been included in line 38 of Form 14 of the long-term business fund. No variation margin is included in respect of the other than long-term business fund.

1702	Quasi-derivatives

Convertible securities of £451m, with the features of a quasi-derivative, have been included in line 46 of the Long-term Form 13.

1901	Adjustment to future policy related liabilities

Line 49 column 1 of the Defined Charge Participating Sub-Fund is negative due to an adjustment required to ensure that the working capital (line 68 column 1) is zero.

APPENDIX 9.2

20Aa Details of risk categories

No contracts of insurance were allocated under Rule 9.14B.

20Ab Death or injury to passenger risk categories

No such contracts were entered into.

20Ad Details of claims made policies

No amount reported on Form 20A contains both claims made policies and policies that are not claims made.

20Ae Amount of facultative business included under category 002

All business included under category 002 relates to direct business.

20Aj Date of last new contracts of general insurance business

Category	No.	Date of last new contract
Medical Insurance	111	31 December 2013
Healthcare cash plans	112	31 December 2013
Travel	113	31 December 2013
Personal accident or sickness	114	31 December 2013
Private motor – comprehensive	121	31 December 2013
Private motor – non-comprehensive	122	31 December 2013
House and domestic all risks	160	31 December 2013
Other personal financial loss	187	31 December 2013
Commercial vehicle (non-fleet)	222	31 December 2013
Commercial property	261	31 December 2013
Consequential loss	262	31 December 2013
Contractors or engineering all risks	263	31 December 2013
Employers liability	271	31 December 2013
Professional indemnity	272	31 December 2013
Public and products liability	273	31 December 2013
Fidelity and contract guarantee	281	31 December 2013
Total primary and facultative goods in transit	350	31 December 2013

2007 Material connected party transactions

The payment of a 2014 interim dividend of £410m to the holding company (Prudential plc). The dividend was settled by a transfer of cash.

The issue of two loans during the year totalling £98m to the holding company (Prudential plc).

The repayment of a loan of £79m from the Company to the wholly owned subsidiary Prudential Retirement Income Limited.

The partial repayment of two loans totalling £11m from the wholly owned subsidiary Prudential Retirement Income Limited to the Company.

The repayment of a loan of £108m from the wholly owned subsidiary Prudential Retirement Income Limited.

The issue of two loans totalling £8m from the wholly owned subsidiary Prudential Financial Services Limited.

2012 Business transfers – out

On 1 January 2014, the Hong Kong branch business was transferred to two new Hong Kong incorporated Prudential companies; Prudential Hong Kong Limited (PHKL) providing life insurance and Prudential General Insurance Hong Kong Limited (PGHK) providing general insurance. Both companies are wholly owned subsidiaries of the Company.

2100 Form 21

Form 21 has not been submitted as all entries, including comparatives, would be blank.

2202 Claims management expenses

Claims management expenses comprise internal and external costs directly attributable to claims negotiation and settlement and indirect costs incurred in respect of maintaining a claims settlement function. Claims management expenses carried forward are based on the level of outstanding claims. The expense ratios applied to outstanding claims are determined separately for motor and non-motor accounting classes. Lower ratios are applied to the reported outstanding claims to allow for claims expenses, which have already been paid on these claims.

APPENDIX 9.3

4002 Other income and expenditure in the long-term business revenue accounts (£000)

	WPSF	NPSF	SAIF	DCPSF	Consolidation	Summary
Other income						
Transfer in respect of support assets	9,255				(9,255)	-
Annual management charges received from DCPSF /NPSF	13,536	30,480	10,817		(54,833)	-
Rebate from the fund manager	4,367	45				4,412
Cost of capital charge received from another group company	4,042					4,042
Reinsurance profit share		937				937
Adviser charge received from another group company	4,623	2,849				7,472
Transfer of assets from the WPSF				47,877	(47,877)	-
Total	35,823	34,311	10,817	47,877	(111,965)	16,863
Other expenditure						
Transfer in respect of support assets			9,255		(9,255)	-
Annual management charges paid to the NPSF/WPSF/SAIF		13,790		41,043	(54,833)	-
Annual management charge paid to another group company		26,276		6,069		32,345
Contingent loan repayments		5,459				5,459
Financial reinsurance repayments		31,700				31,700
Transfer of assets to the DCPSF	47,877				(47,877)	-
Total	47,877	77,225	9,255	47,112	(111,965)	69,504

Notes:

1. The transfer in respect of support assets reflects 1% of the Capital Support Fund paid by SAIF to the With-Profits Sub-Fund.

4004 Business transfers

Business transfers – in

On 1 October 2014 the business of Prudential Annuities Limited transferred into the Company following a Part VII Transfer under the Financial Services and Markets Act 2000.

Business transfers – out

On 1 January 2014, all of the Hong Kong branch business was transferred to two new Hong Kong incorporated Prudential companies; Prudential Hong Kong Limited (PHKL) providing life insurance and Prudential General Insurance Hong Kong Limited (PGHK) providing general insurance. Both companies are wholly owned subsidiaries of the Company. This has been presented in Line 32 of the Non-Profit Sub-Fund Form 40, with the balance shown representing the transfer out of the 2013 Hong Kong fund (line 59) being £2,302m which includes a retained surplus of £123m. Line 32 of the With-Profits Sub-Fund Form 40 represents the transfer out of the 2013 Hong Kong fund (line 59) being £6,249m along with a transfer from the estate of £1,734m.

4006 Apportionment of income and expenses of the long-term business

The Company's long-term business fund comprises four separately managed sub-funds, namely the Scottish Amicable Insurance Fund (SAIF), Defined Charge Participating Sub-Fund (DCPSF), With-Profits Sub-Fund (WPSF) and Non-Profit Sub-Fund (NPSF), with separate pools of assets.

1 Scottish Amicable Insurance Fund

a) Investment income is determined by the assets held.

b) The increase or decrease in the value of assets is determined by the assets held.

c) Expenses are charged in accordance with the provisions under the Scheme of Transfer.

d) The tax charge is determined on the equivalent of a mutual office basis as provided under the Scheme of Transfer.

2&3 Defined Charge Participating Sub-Fund and Non-Profit Sub-Fund

a) Investment income is determined by the assets held.

b) Expenses which are incurred directly are charged to the revenue account. In addition for the Non-Profit Sub-Fund other expenses are allocated having regard to such measures as business volumes or time spent as considered necessary.

c) The tax charge is incurred directly and charged to the revenue account.

4 With-Profits Sub-Fund

a) A single pool of assets is maintained in respect of the With-Profits Sub-Fund which comprises two separate elements, these being the ordinary (other) and ordinary (pensions). Investment income and investment expenses are apportioned between the two elements of the fund on a mean fund basis.

b) The increase or decrease in value of non-linked assets brought into account by way of transfer from investment and revaluation reserves and allocated to the ordinary (other) and ordinary (pensions) elements is apportioned so as to maintain reasonable compatibility in the amounts payable to the respective policyholders.

c) Expenses (except investment expenses which are apportioned on a mean fund basis) which are incurred directly for the purpose of an element of the fund are allocated to that element. Other expenses are allocated having regard to such measures as business volumes or time spent as considered appropriate.

d) The tax charge is allocated directly to the three elements of the fund to the extent that the charge can be separately identified. The balance of the charge is apportioned using a mean fund basis or a derivative thereof.

4008 Statement on provision of management services

a) The Company was provided with management services by M&G Investment Management Limited, Silverfleet Capital Limited, Prudential Services Limited, Prudential UK Services Limited, M&G Real Estate Limited, PPM America Inc, Eastspring Investments (Singapore) Limited, Prudential Distribution Limited and Prudential Polska sp.z o.o., Aztec Financial Services (UK) Limited and Prudential Financial Planning Limited.

b) The Company seconded employees to provide management and other services throughout the year to Prudential Pensions Limited, Prudential Holborn Life Limited, Prudential Annuities Limited, Prudential Retirement Income Limited, Prudential Health Holdings Limited, Prudential Lifetime Mortgages Limited, and Prudential Distribution Limited.

4012 Consolidation adjustment to income and expenses

Lines 12 and 22 of the summary form 40 include a consolidation adjustment of £24m to remove the license fee paid from the NPSF to the WPSF.

4101 Refund of reinsurance

Line 18 of the With-Profits Sub-Fund Form 41 column 2 is negative due to a reinsurance premium paid to the Hong Kong subsidiaries following the transfer of Hong Kong branch business.

4302 Reinsurance commission

Line 41 of the With–Profits Form 43 column 2 is negative as it includes an amount of £6.8m in respect of reinsurance commission for business reinsured to another group company.

4303 Refund of investment management expenses

Line 44 of the Defined Charge Participating sub-fund Form 43 column 3 includes a refund of investment management expenses of £2m.

4304 Consolidation adjustment to income and expenses

Line 13 of the Summary form 43 includes a consolidation adjustment of £24m to remove the license fee paid from the NPSF to the WPSF.

4401 Basis of valuation of assets

The assets have principally been valued at a bid price. Funds closed to new business have been valued on a bid basis.

4502 Business transfers out

On 1 January 2014, the Hong Kong branch business was transferred to two new Hong Kong incorporated Prudential companies; Prudential Hong Kong Limited (PHKL) providing life insurance and Prudential General Insurance Hong Kong Limited (PGHK) providing general insurance. Both companies are wholly owned subsidiaries of the Company. The transfer out of internal linked funds is reported in line 26 of form 45.

4701 Number of group schemes for which there is no member count

Product Code	Product description	Number of Schemes
735	Group money purchase pensions property linked	5

4702 Approximations used on Form 47

For some group pension policies, the split of the amount of new business premium for product codes 535 and 735 is estimated from the premiums for in force policies.

4802 Assets where the payment of interest is in default

There are 38 assets in the WPSF, 5 in the NPSF and 19 in SAIF where the payment of interest is in default. The expected interest from these assets has been reduced to nil.

4803 Securities that may be redeemed over a period

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 anytime.

4806 Assets used to calculate investment returns

The returns shown in lines 21-29 column 5 are those arising on assets backing the UK asset shares in each of SAIF, WPSF and DCPSF.

4807 Investment returns

The returns shown in lines 32 and 33 column 5 are before investment costs and, for the WPSF and SAIF, exclude any allocation to asset shares arising from surplus on non-profit business.

4901 Credit rating agency

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

5101 Number of group schemes for which there is no member count

Product Code	Product description	Number of Schemes
165	Conventional deferred annuity with-profits	38
175	Group conventional deferred annuity with-profits	2522
390	Deferred annuity non-profit	2067
425	Group income protection claims in payment	5

5104 Approximations used in apportioning between product codes on Form 51

For UK protection policies that can include;

- term and decreasing term assurance
- accelerated or stand-alone critical illness insurance by guaranteed or reviewable premiums
- income protection insurance by guaranteed or reviewable premiums
- annual office premiums are estimated from the reinsurance premiums. Mathematical reserves are then estimated from this split of office premiums.

5105 Double counting of policies

14,054 UK Pension non-profit immediate and deferred annuities were double counted in Forms 51 and 54.

5201 Number of group schemes for which there is no member count

Product Code	Product description	Number of schemes
535	Group money purchase pensions UWP	61

5204 Approximations used in apportioning between product codes on Form 52

Prudential Investment Bonds with both regular and single premiums invested have been included in product code 505.

5301 Number of group schemes for which there is no member count

Product Code	Product description	Number of schemes
735	Group money purchase pensions property linked	144
755	Trustee Investment Plan	35

5304 Approximations used in apportioning between product codes on Form 53

For M&G Personal Security policies included in product codes 700 and 710, the current death benefit and the other liabilities are split in proportion to the value of units.

5405 Double counting of policies

14,054 UK Pension non-profit immediate and deferred annuities were double counted in Forms 51 and 54.

5601 Credit rating agency

Credit ratings used on Form 56 are the second best of three external rating agencies, namely Fitch, Standard & Poor's and Moody's.

5602 Other assets

Other assets contain deposits with Prudential Retirement Income Limited and Prudential Annuities Limited.

5701 Negative mathematical reserves

Negative reserves, net of reinsurance, (-£321m) are held for PruProtect Plan. These negative reserves, and the positive cashflows expected to repay them, are offset against positive reserves required to fund negative cashflows emerging from certain annuity policies.

5702 Waiver

(1388495) The FSA (the UK insurance regulator at the time), on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in September 2011. 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 expired on 31 March 2014.

(1735909) The PRA, on the application of the firm, made a direction under Section 138A of FSMA in February 2014. 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 01 April 2016 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 1388495 which expired on 31 March 2014.

Asset yields before risk adjustment and the yields adjusted for risk shown in Form 57 as required by waiver 1735909 (effective from 1 April 2014, see note *0101*), are as follows:

SubFund	Product group	Risk adjusted yield on matching assets (Form 57 column 5)	Corresponding asset yield
NPSF	UK Pension Form 51 NP immediate annuities (direct written)	3.02%	3.59%
	UK Pension Form 51 NP immediate and deferred annuities (reassurance accepted)	2.93%	3.54%
WPSF	UK Pension Form 51 NP immediate and deferred annuities	2.65%	3.44%

5801 Other bonuses

Line 44 of the With-Profits Sub-Fund Form 58 includes the cost of final (terminal) bonus in the following year on conventional with-profits whole life and endowment assurances in the ordinary and industrial branches and on conventional with-profits deferred annuities. These bonuses are declared out of surplus arising at the valuation date and not declared in anticipation of surplus arising subsequently.

5811 Balance brought forward

Line 31 of the Non-Profit Sub-Fund Form 58 does not agree to the equivalent balance per the prior year regulatory return. The difference reflects the transfer out of £123m of retained surplus to Prudential Hong Kong Limited on 1 January 2014 as part of the business transfer described further in Note *4004*.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Year ended 31 December 2014

Statement of information pursuant to Rule 9.25 of the Interim Prudential Sourcebook for Insurers

Rule 9.25: Additional information on general insurance business major treaty reinsurers

Proportional Treaty Reinsurance

Name of Reinsurer	Premiums Payable (£000)	Amount due to Company (£000)	Anticipated Recovery from Reinsurer (£000)
Swiss Reinsurance Company Ltd Mythenquai 50/60 8022 Zurich Switzerland	-	-	-

Notes:

1. Premiums include amounts payable to companies connected with the reinsurer.
2. The Company was not connected at any time in the year with the above reinsurer.
3. No deposits were received from the above reinsurer.

Statement of information pursuant to Rule 9.26 of the Interim Prudential Sourcebook for Insurers

Rule 9.26: Additional information on general insurance business major facultative reinsurers

The Company had no major facultative reinsurers in the year.

Statement of information pursuant to Rule 9.27 of the Interim Prudential Sourcebook for Insurers

Rule 9.27: Information on general insurance business major reinsurance cedants

The Company had no major cedants in the year.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Year ended 31 December 2014

Statement of additional information on general insurance business ceded pursuant to Rules 9.32, 9.32A and 9.32B of the Interim Prudential Sourcebook for Insurers

The objective of the Company's general business reinsurance strategy is to minimise the risk of significant adverse movements in the general business result and hence to protect shareholder value. This is achieved by the transfer of exposure risk to reinsurers at cost-effective rates. Cover is purchased in excess of a retention level that is set as low as is economically attainable and, where appropriate, in programme sizes above that level. Cover is placed across worldwide markets with reinsurers whose selection and capacity allocations are determined by security ratings supplemented by market knowledge and input from reinsurance brokers. There is no co-reinsurance.

The policies purchased are quota share treaties which include a significant transfer of risk to the reinsurer.

None of the policies contain the features detailed in Rule 9.32B(5).

The Company has taken into account the effect of any agreements, correspondence (including side-letters) or understandings that amend or modify the contracts or their operation when considering whether a contract of insurance meets one or both of the conditions in rule 9.32A(2).

The Company is satisfied that there are no contracts of insurance under which general insurance has been ceded by the insurer where –

(a) the value placed on future payments in respect of the contract is not commensurate with the economic value provided by that contract, after taking account of the level of risk transferred; or
(b) there are terms or foreseeable contingencies (other than the insured event) that have the potential to affect materially the value placed on the contract in the Company's balance sheet at, or any time after, the end of the financial year in question.

The Company is also satisfied that there are no financing arrangements which include terms for:

(a) the transfer of assets to the insurer, the creation of a debt to the insurer or the transfer from the insurer to another party of liabilities to policyholders; and
(b) either an obligation for the insurer to return some or all of such assets, a provision for the diminution of such debt or a provision for the recapture of such liabilities, in each case, in specified circumstances.

On 31 December 2001 the Company transferred its UK personal lines liabilities to Churchill Insurance Company, subsequently acquired by the Royal Bank of Scotland Group (RBS). The policies transferred left no net retention to the Company. Prudential branded new business policies are underwritten by UK Insurance Ltd.

During 2005 the Company entered into a Solvent Scheme of Arrangement under Section 425 of the Companies Act 1985, in respect of certain closed Marine and London Market business.
All claims lodged by creditors by the Scheme submission date have now been settled, and related provisions released. In accordance with the terms of the Scheme claims notified after the final claims submission date are not valid.

On 30th June 2010 the Company entered into a 100% quota share reinsurance agreement with Swiss Reinsurance Company Ltd in respect of its UK commercial lines general insurance business in run-off. The effective date of the agreement is 1 January 2010.

Details of the Company's maximum probable loss (net of reinsurance) for each business category are set out below:

Risk category	No.	Any one risk/event £'000
Private motor-comprehensive	121	-
Private motor-non-comprehensive	122	-
Household and domestic all risks	160	-
Consequential loss	262	-
Employers liability	271	-
Public and products liability	273	-

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Returns for the year ended 31 December 2014

Statement required by Rule 9.29 of the Interim Prudential Sourcebook

(a) Investment guidelines

As requested by Rule 9.29 of the Interim Prudential Sourcebook, the investment guidelines for the use of derivative contracts in the long-term fund 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 currency risk, 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 are required to be covered.
- all derivative contracts must satisfy the definition of approved under the various Prudential Sourcebooks.
- the maximum allowable exposure to counterparties should not be exceeded.
- only certain permitted exchanges and contracts can be used.

(iii) The company has used a number of derivative instruments; principally exchange traded futures and options, over-the-counter derivatives (including total return swaps, interest rate swaps, credit default swaps, currency swaps & equity options), warrants and currency forwards. The company has also used redeemable convertible corporate bonds. These bonds have not been categorised as derivative contracts as the derivative element is minimal and have therefore not been reported on form 17. The total value of these bonds on the long-term form 13 is £448,901K.

(b) Derivatives where exercise is unlikely.

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

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

Long-term funds

The largest exposure during the year to out of the money call options and warrant was £3,903K. The largest exposure during the year to out of the money put options was (£4,764,782K).

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

Long-term funds

A small portion of the swaps market value (£2,761K) relating to a commercial mortgage loan (CML) deal are inadmissible, as they have not been traded with an approved counterparty'

Other Than Long-term funds

PAC has several derivative positions (OTC equity index forwards) that are wholly inadmissible due to nature of the underlying asset. The current inadmissible value is (£87,233K). These have been reported in the Form 17 as liabilities.

(i) Consideration for granting rights under derivative contracts

Long-term funds

No rights under derivative contracts have been granted.

Other Than Long-term funds

No rights under derivative contracts have been granted.

Statement of information pursuant to Rule 9.30 of the Interim Prudential Sourcebook for Insurers

Rule 9.30 of the Interim Prudential Sourcebook for Insurers: Additional information on shareholder controllers

Throughout the year Prudential plc held all the shares of the Company and controlled the whole of the voting power.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Year ended 31 December 2014

Statement of information on the actuary who has been appointed to perform the with-profits actuary function pursuant to Rule 9.36 of the Interim Prudential Sourcebook for Insurers

In accordance with Rule 9.36 of the above sourcebook, R G Myers was the with-profits actuary of the Company throughout 2014 and has provided the following information:

(a) The actuary held no shares of Prudential plc (the Company's parent undertaking) and no shares of any other group companies. The actuary has no pensions benefit provided by Prudential companies.

(b) The actuary has no policies of insurance with the Prudential companies.

(c) The aggregate amount of remuneration, bonuses and the value of other benefits under the actuary's contract of employment with Prudential Distribution Limited for the year to 31 December 2014 was £303,770 (2013: £347,618).

The particulars of this statement were provided to the Company by R G Myers at the Company's request.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Global Business

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

Financial year ended 31 December 2014

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 waivers as detailed in supplementary note 0101 issued under section 138 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 as well as the provisions of IPRU(INS), GENPRU and INSPRU;

   (ii) from the beginning of financial year in question until 19 June 2014, the insurer has complied in all material respects with the requirements of PRIN;

   (iii) from 19 June 2014 until the end of the financial year in question, the insurer has complied in all material respects with the Fundamental Rules; and

   (iv) 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 the with-profits fund has been managed in accordance with the Principles and Practice of Financial Management, as established, maintained and recorded under COBS 20.3; and

(d) that we have, in preparing the return, taken and paid due regard to-

(i) advice in preparing the return from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R; and

(ii) advice from every actuary appointed by the insurer to perform the with-profits actuary function in accordance with SUP 4.3.16R

J Hunt Chief Executive	H A Hussain Director	N A Nicandrou Director

30 March 2015

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Global business
Financial year ended 31 December 2014

Independent auditor's report to the Directors pursuant to 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 Prudential Regulation Authority ("PRA") under section 137G of the Financial Services and Markets Act 2000:

- Forms 1 to 3, 11 to 23, 31 to 32, 36 to 38, 40 to 45, 48, 49, 56, 58 and 60, (including the supplementary notes) on pages 1 to 114, 125 to 134, 196, 201 to 205 and 212 to 235 ('the Forms');
- the statements required by IPRU(INS) rules 9.25, 9.26, 9.27 and 9.29 on pages 236 and 239 to 240 ('the Statements'); and
- the valuation reports required by IPRU(INS) rule 9.31(a)(i) and 9.31(b) ('the valuation reports'); and

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

- Forms 46, 47, 50 to 55, 57, 59A and 59B (including the supplementary notes) on pages 115 to 124, 135 to 195, 197 to 200 and 206 to 211;
- the statements required by IPRU(INS) rules 9.30, 9.32, 9.32A, 9.32B and 9.36 on pages 237 to 238 and 241 to 242;
- the certificate required by IPRU(INS) rule 9.34(1) on pages 243 to 244 ('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 PRA, to enable the PRA 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 PRA of its regulatory functions in respect of the insurer, conferred on the PRA by or under the Financial Services and Markets Act 2000. Our work (including our examination) has been undertaken so that we might state to the insurer's directors, as a body, those matters we are required to state to them in an auditor's report issued pursuant to IPRU(INS) rule 9.35 and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the insurer and the insurer's directors as a body, for our work (including our examination), for this report, or for the opinions we have formed.

Respective responsibilities of the Company and its auditors

The insurer is responsible for the preparation of an annual return (including the Forms, the Statements and the valuation reports) under the provisions of the Rules. The requirements of the Rules have been modified by waivers issued under section 138A of the Financial Services and Markets Act 2000 and orders granted under section 68 of the Insurance Companies Act 1982 which continue to have effect as referred to in supplementary note 0101 on pages 213 to 215. 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 and 1.3.

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 and 1.3.

Robert Lewis

Robert Lewis
For and on behalf of KPMG LLP, Senior Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
30th March 2015

The Prudential Assurance Company Limited

Annual PRA Insurance Returns for the year ended 31 December 2014

(Appendix 9.4 valuation report)

The Prudential Assurance Company Limited is registered in England and Wales.
Registered office at Laurence Pountney Hill, London EC4R 0HH. Registered number 15454.
Authorised and regulated by the PRA.

Contents

VALUATION REPORT ON THE PRUDENTIAL ASSURANCE COMPANY LIMITED AS AT 31 DECEMBER 2014

Structure of the long term business

1. Overview

The Prudential Assurance Company Limited (**PAC**) carries on Ordinary Branch and Industrial Branch business within its long-term fund. The Industrial Branch was closed to new business on 1 January 1995.

The long-term business of Scottish Amicable Life Assurance Society (**SALAS**) was transferred into PAC on 1 October 1997, and the long term business of Scottish Amicable Life plc (**SAL**) was transferred into PAC on 31 December 2002. The business transferred from SAL itself included business previously transferred into SAL from M&G Life Assurance Company Limited (M&G Life) and M&G Pensions and Annuity Company Limited (M&G Pensions). The long-term business of Prudential (AN) Limited (**PANL**) and Prudential Holborn Life Limited (**PHL**) was transferred into PAC on 31 October 2010. On 1 January 2014, the business of PAC's Hong Kong branch was transferred into two subsidiary companies incorporated in Hong Kong: the long-term business was transferred to Prudential Hong Kong Limited (**PHKL**) and the general insurance business was transferred to Prudential General Insurance Hong King Limited (**PGHK**). Both PHKL and PGHK are subsidiaries of PAC's shareholder fund. The long-term business of Prudential Annuities Limited (**PAL**) was transferred into PAC on 1 October 2014.

The long term business is contained within the following four sub-funds:

(a) Non-Profit Sub-Fund (**NPSF**)

(b) Scottish Amicable Insurance Fund (**SAIF**)

(c) Defined Charge Participating Sub-Fund (**DCPSF**)

(d) With-Profits Sub-Fund (**WPSF**)

2. Non-Profit Sub-Fund

The business in this sub-fund comprises:

(1) Long term sickness and accident business, namely the permanent health business written directly by PAC in respect of which the directors have determined that profits should accrue 100% to shareholders.

(2) The protection and linked business written directly by PAC, including linked business issued in France and business issued in Poland, in respect of which the directors have determined that profits should accrue 100% to shareholders.

(3) The loan protection business transferred into PAC from SAL on 31 December 2002 and such business subsequently written directly by PAC, in respect of which the directors have determined that profits should accrue 100% to shareholders.

(4) Defined Charge Participating business issued by PAC in France, and Defined Charge Participating business reassured into PAC by Prudential International Assurance plc (PIA) and Canada Life (Europe) Assurance Ltd, excluding the accumulated investment content of premiums paid, which is transferred to the DCPSF (see 4(1) below).

(5) The with-profits, non-participating and linked business (including internal linked funds) transferred into PAC from SAL on 31 December 2002 and any new premiums arising on those products, excluding Prudential Protection business written between 1 January 2003 and 25 July 2004 and the accumulated with-profits premiums which are held in the WPSF (see 5(1) and 5(3) below).

(6) Reassurance of 20% of the liabilities in respect of non-profit annuity business in Prudential Retirement Income Limited (**PRIL**).

(7) The with-profits bond, non-profit annuity and linked pensions business written by PANL and the linked life business (including internal linked funds) written by PHL which were transferred into PAC on 31 October 2010 and any new premiums arising on those products, excluding the accumulated with-profits premiums which are held in the WPSF (see 5(4) below).

All profits from this business in the NPSF accrue 100% to shareholders.

(8) PruProtect business is administered and distributed by Prudential Health Services Limited (PHSL) on behalf of PAC. Profits from this business are passed to PruHealth Holdings Ltd (PHHL), the parent company of PHSL, from the PAC shareholder fund under a white-label agreement. Until November 2014, PHHL was 25% owned by PAC and 75% by Discovery Group Europe Limited. In November 2014, PAC sold its 25% stake in PHHL. The existing PruProtect business will be temporarily retained by PAC and will continue to operate under the terms of the white label agreement. New business will continue to be written by PAC for a transitional period.

3. Scottish Amicable Insurance Fund

PAC acquired the business of Scottish Amicable Life Assurance Society (**SALAS**) on 1 October 1997. As a consequence a closed sub-fund SAIF and a memorandum account within the WPSF, the Scottish Amicable Account (**SAA**), were created. SAIF contains the pensions business, annuities and traditional with-profits life business transferred from SALAS and the accumulated investment content of with-profits business in SAA.

All profits in SAIF accrue to holders of with-profits contracts in SAIF and SAA.

The accumulated investment content of linked premiums is invested in the linked funds that were transferred from SAL to the NPSF on 31 December 2002.

The WPSF provides financial support to SAIF through a memorandum account, the Scottish Amicable Capital Fund (**SACF**), some of which may be drawn upon in adverse investment conditions to support the smoothing of bonuses within SAIF. No such drawings have yet been necessary. The WPSF receives an annual charge from SAIF for providing this financial support.

4. Defined Charge Participating Sub-Fund

The business in this sub-fund comprises:

(1) The accumulated investment content of premiums paid in respect of the Defined Charge Participating with-profits business issued in France, and the Defined Charge Participating with-profits business reassured into PAC from Prudential International Assurance plc and Canada Life (Europe) Assurance Ltd.

A bonus smoothing account is maintained in the WPSF so that whenever a claim payment is made from the DCPSF any excess of the claim amount over the policy's underlying asset share is transferred from the WPSF to the DCPSF and any shortfall is transferred from the DCPSF to the WPSF. It is intended that these smoothing transfers should generate neither profit nor loss to either fund over the long term.

(2) With-profits annuities transferred from Equitable Life Assurance Society to PAC on 31 December 2007. A separate bonus smoothing account for this business is also maintained in the WPSF. It is intended that transfers to and from this account should generate no net gain or loss to either the WPSF or DCPSF over the long term.

All profits in this fund accrue to policyholders in the DCPSF.

Structure of the long term business (continued)

5. With-Profits Sub-Fund

The WPSF contains all other long term business, comprising:

(1) With-profits, non-participating and linked business (other than the categories defined above) written directly by PAC. This includes the Prudential Protection business written between 1 January 2003 and 25 July 2004.

(2) With-profits, non-participating and linked life business transferred to SAA from SALAS, excluding the accumulated investment content of with-profits premiums, which is held in SAIF, and also excluding the accumulated investment content of linked premiums, which is invested in the linked funds transferred from SAL to the NPSF on 31 December 2002.

(3) The accumulated with-profits premiums in respect of business transferred into the NPSF from SAL on 31 December 2002 and any new premiums arising on those products.

(4) The accumulated with-profits premiums in respect of business transferred into the NPSF from PANL on 31 October 2010 and any new premiums arising on those products.

(5) The non-profit annuity business written by Prudential Annuities Limited, which was transferred into PAC on 1 October 2014.

Divisible profits from this business accrue to both shareholders and with-profits policyholders in the WPSF (other than with-profits policyholders in SAA who share in the profits of SAIF).

Transfers not exceeding 5% of divisible profits may be made to a common contingency fund. Not less than 90% of the remainder is allocated to the with-profits policyholders, and the balance to shareholders.

6. Reinsurance of annuity business

(1) Some of the non-profit and index-linked annuities in payment issued by PAC are ceded to PRIL. Most of the non-profit annuities in payment written in SAIF are ceded to PRIL.

(2) PAC insures a proportion of the liabilities in respect of the non-profit annuity business in PRIL under a quota share arrangement effected on 31 December 2008. With effect from 31 December 2014, the percentage of liabilities reinsured was increased from 15% to 20%. The reinsurance arrangement includes deposit back of reserves with PRIL.

(3) PAC reinsures certain annuity business to PHKL under a quota share arrangement effected on 1 January 2014. The reinsurance arrangement includes a deposit back of reserves with PAC.

VALUATION REPORT

1. Introduction

1.(1) The investigation relates to 31 December 2014.

1.(2) The previous investigation related to 31 December 2013.

1.(3) No interim valuations have been carried out for the purposes of IPRU(INS) 9.4 since 31 December 2013.

2. Product range

(a) New products

The following new products were launched during the year.

PRU Serious Illness Rider
This is a Polish Zloty (PLN) denominated rider sold in conjunction with PRU Protect and PRU Child / PRU Pension / PRU Savings. It is a five year renewable product with premiums payable throughout the term. A lump sum – expressed as a proportion of the sum assured – is payable in the event that the life insured suffers an illness from the list of qualifying illnesses, with the possibility of multiple claim payments arising from the same policy. The lump sum payable is dependent on the type and level of severity of the illness. In theory, benefits totalling 350% of the sum assured could be paid from a single policy.

PRU Disability Rider
This is a Polish Zloty (PLN) denominated rider sold in conjunction with PRU Protect and PRU Child / PRU Pension / PRU Savings. It is a five year renewable product with premiums payable throughout the term. The policy pays a lump sum in the event that the life insured suffers a qualifying disability. The lump sum is expressed as a percentage of the Sum Assured (10% - 100%) dependent on the severity of the disability. Multiple claim payments could be made from the same policy. Once 100% of the Sum Assured has been paid then the rider terminates.

PRU WOP on Serious Illness
This is a Polish Zloty (PLN) denominated rider sold in conjunction with PRU Protect and PRU Child / PRU Pension / PRU Savings. It is a five year renewable product with premiums payable throughout the term. Premiums are waived in the event that the life insured suffers a qualifying condition that would trigger at least a claim payment of 50% of the sum assured under the Serious Illness rider.

PRU WOP on Disability
This is a Polish Zloty (PLN) denominated rider sold in conjunction with PRU Protect and PRU Child / PRU Pension / PRU Savings. It is a five year renewable product with premiums payable throughout the term. Premiums are waived in the event that the life insured suffers a qualifying Serious Illness that would trigger at least a claim payment of 50% of the sum assured under the Disability rider.

Lifestyle Care Cover
Lifestyle Care Cover provides a lump sum benefit on the death of the insured or if the insured is unable to look after themselves. The assessment of whether the insured can look after themselves is based on the failure to perform activities of daily living. Cover lasts for the whole of the insured's life and up to £250,000 of cover can be provided at outset. The cover can remain level or increase in line with the Retail Prices Index. The product is a pure protection contract and there is no cash-in value at any time.

2. Product range (continued)

<u>Mortgage Plus Plan</u>
The Mortgage Plus Plan provides a lump sum benefit on death or diagnosis of a terminal illness to help pay the outstanding amount of a mortgage. Cover may remain level over the term of the plan or decrease in line with the outstanding balance on a repayment mortgage. The plan automatically includes Mortgage Incapacity Cover. This provides a monthly benefit for up to 24 months if the insured suffers from a specified illness and, as a result of the illness, is unable to work. Serious Illness Cover for the insured and their children can also be added. Serious Illness Cover provides a lump sum benefit if the insured or their child suffers from a specified list of serious illness. Cover can be provided for a term of up to 50 years and until age 70.

<u>Short Term Income Protection Cover</u>
Short Term Income Protection Cover provides a monthly benefit for up to 24 months if the insured becomes incapacitated due to illness or injury and, as a result, is unable to work. The insured can claim multiple times for periods of up to 24 months if they suffer from unrelated conditions. Cover is provided up to age 70 and for terms of up to 54 years.

(b) Products withdrawn

No products were withdrawn during 2014.

(c) New bonus series

No new bonus series were added during the year.

(d) Changes to options or guarantees under existing products

<u>Income Choice Annuity</u>

The charges for guarantees in relation to new business written during 2014 were updated to reflect changes to product terms and market conditions, as follows:

Start Date	Guarantee Charge p.a
1 January 2014 – 5 April 2014	0.29%
6 April 2014 – 18 May 2014	0.35%
19 May 2014 – 14 December 2014	0.52%
15 December 2014 – 31 December 2014	0.72%

<u>Prudential International Investment Bond, Prudential Investment Plan, Flexible Retirement Plan, Trustee Investment Plan</u>

Changes to the available terms for guarantee charges were made to both the PruFund Protected Growth and the PruFund Protected Cautious Funds during the year, as set out in the tables below:

<u>PruFund Protected Cautious Fund</u>

	Guarantee Charge p.a				
Start Date	6 year term	7 year term	8 year term	9 year term	10 year term
1 January 2014 – 20 August 2014	N/A	N/A	0.60%	0.45%	0.35%
21 August 2014 – 31 December 2014	1.00%	0.75%	0.60%	0.45%	0.35%

2. Product range (continued)

PruFund Protected Growth Fund

	Guarantee Charge p.a		
Start Date	8 year term	9 year term	10 year term
1 January 2014 – 20 August 2014	N/A	N/A	0.50%
21 August 2014 – 31 December 2014	1.00%	0.85%	0.50%

(e) With-profits sub-funds

The With-Profits Sub-Fund and the Defined Charge Participating Sub-Fund are both open to new with-profits business.
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The Scottish Amicable Insurance Fund is closed to new business except by increment.

3. Discretionary charges and benefits

3.(1) Market value reduction

Market value reductions have been applied throughout 2014. The policy years of entry to which market value reductions were applied during 2014 are summarised below:

Product	**Policy years of entry**
SAIF	1988-1990, 1992, 1994-1997
SAL pensions	2002, 2005 – 2009, 2011 - 2014
Prudence Bond	1993, 1996, 1998, 2000, 2002 - 2008, 2012- 2014
PSA/PIB	2007
Personal Pensions	1988 – 1994, 2012, 2014
Corporate Pensions	1973 - 2014
International Prudence Bond	2001, 2002, 2003

For the Corporate Pensions business noted above not every policy year within the range of products offered will have a market value reduction applied.

3.(2) Reviewable protection policies

There was a review of premium rates for PruProtect Life and PruProtect Essentials plans written in 2009. For plans written between 1 January and 30 April 2009 with annual in force premiums of £65,000, premiums were reduced by an average of 7% for these plans in 2014. For plans written between 1 May and 31 December 2009 with annual in force premiums of £335,000, no change to premium was required.

3.(3) Non-profit deposit administration benefits

There are no non-profit deposit administration contracts.

3.(4) Service charges on linked policies

Policy/member fees increased by 3.2% in 2014 for those linked products where the fees increase in line with Retail Prices Index (RPI) inflation, based on the increase in RPI from September 2012 to September 2013.

3.(5) Benefit charges on linked policies

There have been no changes to benefit charges on linked policies during the financial year.

3. Discretionary charges and benefits (continued)

3.(6) Unit management charges and notional charges on accumulating with-profits policies

For accumulating with-profits business, changes to notional charges are shown in the table below:

	Reserves £m	New charge %	Old charge %
Prudence Bond – Pre Mk9 and Establishment Charge new business and top ups to this business up to 30/09/02	5,175	0.752	0.722
Prudence Bond – Top ups to pre Mk7 and all Establishment Charge options made between 01/10/02 and 06/11/11, inclusive	423	0.902	0.872
Prudence Bond – Top-ups to pre Mk7 and to all Establishment Charge options paid on or after 07/11/11		1.102	1.072
Prudence Bond – Mk9 and post Mk9 new business written and Mk7 and post Mk7 top ups made between 01/10/02 and 06/11/11, inclusive	325	1.002	0.972
Prudence Bond – Post Mk 9 new business and Mk7 and post Mk 7 top ups and made on or after 07/11/11	73	1.202	1.172
Prudence Bond – Pre NIC3 new business and top ups to pre NIC3 up to 30/09/02	271	1.052	1.022
Prudence Bond – All NIC new business (NIC3 and post NIC3) and all NIC top ups made between 01/10/02 and 06/11/11, inclusive	1,170	1.302	1.272
Prudence Bond – All NIC new business (post NIC3) and all NIC top ups made on or after 07/11/11	428	1.502	1.472
Prospects Bond - All business written between 06/10/03 and 06/11/11, inclusive	29	1.702	1.672
Prospects Bond – All business written on or after 07/11/11		1.902	1.872
Ex-PANL Bond	33	1.302	1.272
Prudential Investment Plan - All business written up to 06/11/11 inclusive	41	0.902	0.872
Prudential Investment Plan - All business written on or after 07/11/11	513	1.102	1.072
Prudential Investment Bond (PIB) and Prudence Savings Account (PSA)	2,479	0.940*	0.970*

* These are the charges for the upper tier (funds above £6k). The mid tier charges are 1% higher.

The notional charges for all UK pensions business and DCPSF policies were unchanged.

3. Discretionary charges and benefits (continued)

3.(7) Unit pricing of internal linked funds

(a) Business written and retained by PAC

The company operates its internal linked funds on a forward pricing basis. The daily unit prices used for the allocation of units to and deallocation of units from policies are calculated by a valuation of the internal linked funds. The valuation point of each fund is 12 noon. The allocation and deallocation of units is carried out once the unit prices are available. The unit prices for a fund are determined using either a creation price basis or a cancellation price basis, depending on the net cash flow position of the fund. Creation of asset units is carried out at the creation price, which is based on the purchase cost of the underlying assets plus any associated costs. Cancellation of asset units is carried out at the cancellation price, which is based on the sale value of the underlying assets of the fund less any associated costs.

Other

The unit pricing methods for those pensions contracts where the linked liabilities are wholly reassured to Prudential Pensions Limited (PPL) are described in PPL's regulatory returns.

(b) Unit pricing bases are determined at fund level, so all policies invested in the same fund have the same basis applied.

(c) The price used for collective investment schemes and similar assets is the latest valuation at mid-day (except for the Jupiter Merlin funds which use the prior day mid day valuation); deals placed before mid-day receive that price.

3.(8) Capital gains tax deductions from internal linked funds

Tax deductions are made on net realised gains as they arise, as well as for net unrealised gains on directly held assets. For holdings in collective investment schemes, allowance is made for the spreading over seven years of deemed disposals of net unrealised gains. Withdrawals from the fund for the payment of tax are made quarterly, the same frequency at which the Company makes payments to HM Revenue and Customs.

Each unit fund is treated in principle as though it were a stand-alone taxable entity, so no credit is given for a net loss position, but no carry-back of losses is applied. Instead, credit is given for losses that would fall into a fund's actual tax computation in a future year to the extent that they do not exceed the gains taxed in that particular year.

Allowance is made in determining the tax charge and provision for the time delay until the assets are assumed to be sold (for unrealised gains and losses) and between the date of calculation of the provision and the tax payment being made.

The tax rates applied in 2014 were as shown in 3.(9) below.

3.(9) Capital gains tax provisions for internal linked funds

Linked contracts in France

The funds are not subject to capital gains tax.

3. Discretionary charges and benefits (continued)

Other business written by PAC – life business

As described in 3.(8) above, in determining the price of units in the internal linked funds relating to life business, the value of assets is adjusted by a provision to reflect, on a fund by fund basis, the capital gains tax on indexed gains on the assets held within the funds. On certain funds some credit has been given in respect of chargeable losses. The provision for tax is calculated on a daily basis allowing for the movement in unrealised gains, after any indexation, and losses, using a tax rate reflecting the expected tax payable by the Company as these gains and losses are realised. For investments in non-loan relationship unit trusts and OEICs, the tax rate used allows for the deemed disposal of the investments at the end of the year and the spreading of the tax payable over 7 years.

The mathematical reserves make allowance for the losses for which no credit is currently given but are carried forward and offset against future gains or deemed disposals in future years.

The following percentages were deducted or provided for during the year:

	Realised gains/losses	Unrealised gains/losses
Equities and properties	20%	17% to 18.5%
Unit trusts and OEICS	20%	15% to 20%
Gilts and bonds	20%	20%

For policies linked directly to unit trusts, a terminal deduction from benefits payable to policyholders is made in respect of any past or potential liabilities to corporation tax on chargeable gains relating to the units allocated to the policy.

Other business written by PAC – pensions business

The funds are not subject to capital gains tax.

3.(10) Discounts and commission on buying and selling units

Linked contracts in France

The company receives rebate commission of 0.6% per annum of funds under management from the Réactif and Carmignac external unit-linked funds. Corresponding rebate commission of 0.4% and 0.3% respectively is payable to distributing agents. Policyholders do not benefit from this rebate.

Business written by PAC

For investment in unit trusts and OEICs the Company receives a discount equal to the managers' initial charge. The internal linked funds also benefit from the rebate of the annual management charge. All of the benefits of annual management charge rebates are passed on to policyholders.

In some cases, for business formerly written in PHL, where investments are in Prudential Unit Trusts, a fund management charge is included in the price of the fund. In such cases Prudential Unit Trusts rebate the fund management charge deducted from the unit trusts. The full rebate is credited to the respective linked funds with the deduction for investment management expenses being met by non linked funds.

Other

The unit pricing methods for those pensions contracts where the linked liabilities are wholly reassured to PPL are described in PPL's regulatory returns.

4. Valuation methods and bases (other than for special reserves)

4.(1) Valuation methods

Unless specified to the contrary in 4.(1).6, the following valuation methods apply.

4.(1).1 The mathematical reserve for assurances and annuities reported in Form 51 is the difference between the present value of the benefits and the present value of the future valuation net premiums (a net premium valuation method). Policies where negative reserves could arise have been valued individually and the mathematical reserves increased to zero so that no policy is treated as an asset. Otherwise, contracts with a common attained age and number of years to run to maturity or premium cessation are grouped together.

4.(1).2 The mathematical reserve for accumulating with-profits business, except PruFund, is the lower of:

(a) the accumulated fund, or the value at the bid price of the notional number of units allocated to policyholders, in both cases excluding final bonus, and

(b) the surrender or transfer value which, having regard to the duty to treat customers fairly, would be payable at the valuation date,

or, if greater, the value of the guaranteed liabilities, excluding final bonus, calculated on a gross premium bonus reserve method making no allowance for future annual bonus interest.

The comparison of the accumulated fund or value of units allocated, the surrender or transfer value and the bonus reserve liability is carried out on a policy-by-policy basis.

For contracts where actuarial funding is used, the value of the units is net of the present value of future annual establishment charges, recurrent management charges or additional management charges that are used to recoup initial expenses.

For contracts where initial expenses are recouped by an annual cancellation of units allocated in the first year, the number of units valued is reduced appropriately. In cases where a higher benefit would be payable on early death, due allowance has been made.

The surrender or transfer value is taken as the accumulated fund, including final bonus and less a market value reduction where appropriate, at the valuation date, less any explicit charge that would apply on immediate surrender.

Section 32 Buy Out contracts include a specific provision for the Guaranteed Minimum Pension.

4.(1).3 The mathematical reserve for PruFund, including PruFund as a Fund Link, business is the higher of:

(a) the unsmoothed fund value after deduction of surrender penalties, plus a reserve for accrued shareholder transfers, and

(b) a prospective valuation of all future cashflows, assuming no future growth in the unsmoothed fund value as this is not guaranteed,

plus a reserve for the guarantee on PruFund Protected funds, which is determined stochastically.

The comparison of the unsmoothed fund value and the prospective valuation of future cash-flows is carried out on a policy-by-policy basis.

4.(1).4 The mathematical reserve for property-linked contracts is the unit liability together with a non-unit liability (a “sterling reserve”) to cover expenses, mortality, morbidity, options and guarantees and, where appropriate, capital gains tax.

4. Valuation methods and bases (continued)

The unit liability is based on the value at the date of valuation of the units allocated to policyholders. For contracts where actuarial funding is used, the value of the units is net of the present value of future annual establishment charges, recurrent management charges or additional management charges that are used to recoup initial expenses.

A non-unit liability for mortality and expenses is determined for each policy using a discounted cash flow method. For UK property-linked contracts in the NPSF the non-unit liability provides only for attributable expenses and an additional reserve for non-attributable expenses is calculated at a homogeneous risk group level as described in section 6.(6). The total non-unit liability is adequate on the valuation basis to ensure that any future negative cash flows which would otherwise arise are eliminated, including ensuring that the reserve for an individual policy both currently and at any future date is at least equal to the surrender value. Provision is also made for tax on capital gains, for outstanding premiums and, where relevant, for premiums received in respect of policies not yet accepted.

4.(1).5 The mathematical reserve for inflation-linked annuities is, in general, determined without an explicit allowance for future increases in annuity payments, which is consistent with the treatment of the matching assets. The treatment of inflation-linked annuities which are subject to maximum and/or minimum percentage increases, is as follows:

(a) Inflation-linked annuities subject to a minimum annual increase of 0% and a maximum annual increase of 5% are, for valuation purposes, treated as being identical to normal inflation-linked annuities.

(b) Inflation-linked annuities subject to a minimum annual increase of 0% and a maximum annual increase of 12% are, for valuation purposes, treated as being identical to normal inflation-linked annuities.

(c) 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.

(d) 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.

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

(f) Inflation-linked annuities subject to a minimum annual increase of 3% and a maximum annual increase of 5% are, for valuation purposes, treated as annuities with fixed 5% annual increases. They are, however included in these returns as linked business.

(g) 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. This business is reported on Form 51 as non-linked business.

4. Valuation methods and bases (continued)

4.(1).6 Exceptions to the above:

Mathematical reserves for with-profits whole life assurances issued by the Company before 1978 are calculated on the assumption that each policy is converted on its next anniversary to an endowment assurance maturing after ten years, this being the most onerous option.

Specific provision is made for guaranteed early maturity options under Flexidowment and certain other miscellaneous assurances and deferred annuities in SAIF, and for early maturity options and annuity options under Flexipension (Series 1) contracts, by valuing them at the earliest maturity option date and holding additional reserves for maturity options thereafter.

Specific provision is made for guaranteed cash options under pension assurance and pure endowment contracts in SAIF by valuing the greater of the cash option and the present value of the annuity benefit.

Prudential Protection policies sold from 1 August 2000 and PruProtect Plan are valued using a gross premium valuation method. For policies written in the NPSF, prudent lapse assumptions are allowed for in reserve calculations. Policies are valued individually. Negative mathematical reserves for Prudential Protection policies are increased to zero so that no policy is treated as an asset. The negative mathematical reserves held for PruProtect Plan business, and the positive cashflows expected to repay them, are offset against positive reserves required to fund negative cashflows emerging from NPSF annuity policies.

Mortgage Protection (Home Protect/Synergy Protect) policies are valued using a gross premium valuation method with no allowance for lapses. Any negative mathematical reserves are increased to zero.

For conventional non-profit business written in Poland, policies are valued using a gross premium valuation method with a prudent allowance for lapses. Any negative mathematical reserves are increased to zero.

For UK protection business changes to the tax regime were introduced from 1 January 2013. Prior to this date all protection business was taxed on an "I-E" basis and this basis still applies to policies written up to 31 December 2012. In valuing business taxed on an "I-E" basis explicit allowance is made for policyholder tax.

However, protection business written from 1 January 2013 is instead taxed on a profits basis at the shareholders' tax rate. For business written on a profits basis, no allowance for tax is required, as no tax will be payable if the valuation assumptions are borne out in practice. As a consequence, the valuation interest rates are gross of tax for protection policies written from 1 January 2013 onwards.

Individual permanent health insurances are valued using the claims inception and disability annuity (CIDA) gross premium method.

The mathematical reserve for some individual deferred annuities is the accumulation of the premiums paid at the greater of a rate of interest guaranteed at the date of issue and a concessionary rate of interest declared for each year. The concessionary rates are the interest rates used in determining the benefits payable.

For non-profit immediate annuities and some deferred annuities the mathematical reserve is the value of future annuity payments plus the value of future expenses, allowing for expense inflation.

For deferred annuities where benefits include revaluation in deferment in line with RPI, followed by fixed escalation in payment, the revaluation in deferment is generally subject to a minimum annual increase of 0% and a maximum annual increase of 5%. For valuation purposes these are treated as annuities with fixed 5% annual revaluation throughout the remaining deferred period followed by the actual fixed escalation in payment.

4. Valuation methods and bases (continued)

For single premium loan protection policies the reserve is the sum of the unearned premium reserve, any accrued profit commission and reserves for claims incurred but not reported and claims in payment. The unearned premium is net of initial commission but gross of all other loadings for expenses and profit. For the life and critical illness elements of loan protection business, a reserve is held to provide for the reduction of future tax relief on commission where premiums would be rebated based on prudent assumptions for future policy lapses. As the schemes are now in run-off, minimum reserving methodologies are applied to mitigate the reduction in the pooling effect.

For linked life annuities transferred from M&G Pensions, the reserve is taken as the number of units payable per annum multiplied by an annuity factor and by the valuation unit price.

Policy reserves equal to the claim value are held for Industrial Branch whole life and endowment assurances where the policy benefit has not been claimed in the 15 years following the maturity date or (for whole life policies) the policy anniversary after age 90. The policy reserves for endowment assurances also include interest between the maturity date and the valuation date.

4.(2) Valuation interest rates

Valuation interest rates are reported in the tables in Appendix 1.

The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in September 2011. 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.

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.

4.(3) Risk-adjustments to yields

4.(3).1 Fixed interest securities

Yields have been adjusted to allow for the risk of default on fixed interest securities (other than approved securities assessed as risk-free by the firm's investment manager).

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

4. Valuation methods and bases (continued)

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 historical cumulative defaults, reduced to allow for the expected recovery of capital and subject to a minimum margin over best estimate of 50%.

The assumed default rates for each category of credit rating and level of security, in basis points per annum, are set out below:

Term to Redemption	Seniority	AAA	AA	A	BBB	BB	B and lower
0 to 10 years	Senior Secured	7.4	7.4	10.2	23.4	95.5	234.2
	Senior Unsecured	16.2	16.2	22.4	51.4	210.2	515.3
	Subordinated	23.6	23.6	32.5	74.8	305.8	749.5
10 to 20 years	Senior Secured	5.6	5.7	13.3	28.6	97.5	189.8
	Senior Unsecured	12.3	12.6	29.3	62.9	214.5	417.5
	Subordinated	17.9	18.3	42.6	91.5	312.0	607.2
20 to 30 years	Senior Secured	4.0	9.6	18.7	31.4	93.0	158.4
	Senior Unsecured	8.9	21.1	41.1	69.0	204.5	348.4
	Subordinated	12.9	30.7	59.7	100.4	297.5	506.7
Over 30 years	Senior Secured	3.7	11.5	20.6	31.8	93.0	158.4
	Senior Unsecured	8.1	25.4	45.3	69.9	204.5	348.4
	Subordinated	11.7	36.9	66.0	101.6	297.5	506.7

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.

Aggregate yields on the backing assets have been adjusted by the rates shown in the table below to allow for potential credit risk within the bond portfolios. Further implicit margins for prudence are held in the difference between the risk adjusted yields and the relevant valuation interest rates.

Sub-Fund	Credit risk adjustment (in basis points)
With-Profits Sub-Fund - non-profit annuities (former PAL business)	79
With-Profits Sub-Fund – other	98
SAIF	95
Defined Charge Participating Sub-Fund	168
Non-Profit Sub-Fund - direct written annuities	57
Non-Profit Sub-Fund - annuities accepted from PRIL	61
Non-Profit Sub-Fund – other	79

4.(3).2 Property

Yields on individual properties were subjected to a cap equal to the risk-adjusted yield on the Merrill Lynch over 10 years corporate bond index. The risk adjustment was calculated by applying the methodology described in 4.(3).1 to the constituents of the index.

4. Valuation methods and bases (continued)

4.(3).3 UK equities

Yields on individual equities were subjected to a cap equal to 90% of the yield on the Merrill Lynch over 10 years corporate bond index less a risk adjustment calculated by applying the methodology in 4.(3).1 to the constituents of the index.

4.(3).4 Overseas equities

Yields on individual equities were subjected to the same cap used for property.

4.(4) Mortality rates

Mortality rates are reported in the tables in Appendix 2.

Specimen expectations of life for deferred and immediate annuities are shown in the table in Appendix 3.

4.(5) Morbidity rates

Morbidity rates are shown in Appendix 4.

4.(6) Valuation expense bases

Expense assumptions except for the DCPSF are shown in Appendix 5. Expenses for UK life products (with the exception of protection business written from 1 January 2013) are assumed to attract tax relief at 20%.

A third party administers the accumulating with-profits business in the DCPSF and the renewal expenses allowed for in the valuation are based on the actual tariff in the service agreement. The expenses for with-profits annuities in the DCPSF are met by the NPSF.

4.(7) Unit growth and inflation rates

4.(7).1 Unit growth rates for linked business before management charges (net of tax for UK life business)

	31 December 2014	**31 December 2013**
	%	%
UK – Life	4.00	4.40
UK – Pensions	5.00	5.50
Overseas – other	5.00	5.00

4.(7).2 Expense inflation assumptions and future increases in policy charges

	31 December 2014	**31 December 2013**
	% per annum	% per annum
UK policyholder–backed business - non-profit annuities	3.50	4.00
UK policyholder–backed business - other	5.50	4.00
UK NPSF business	3.50	4.00
Overseas business	3.50	3.50

4. Valuation methods and bases (continued)

4.(8) Future bonus rates

For unitised with-profits business the future annual bonus rates are assumed to be the higher of zero and any guaranteed rate.

4.(9) Lapse, surrender and paid-up assumptions

Prudent discontinuance assumptions are used in the NPSF, for some protection assurances on Form 51 and linked assurances and pensions on Form 53.

Product		Average lapse / surrender / paid-up rate for the policy years			
		1 - 5 %	6 - 10 %	11 - 15 %	16 - 20 %
Level term	lapse	17.0	13.5	5.6	4.9
Decreasing term	lapse	17.1	13.5	5.6	4.9
Accelerated critical illness	lapse	17.1	13.6	5.6	4.9
Income protection	lapse	17.6	14.2	5.6	4.9
UL savings endowment	surrender	4.9	4.8	4.8	4.7
UL target cash endowment	surrender	4.0	4.0	4.0	3.5
UL bond	surrender	3.3	9.6	8.0	6.0
	automatic withdrawals	100% of current experience			
UL individual pension regular premium	PUP	10.8	10.2	8.0	8.0
UL individual pension regular premium	surrender	6.8	6.8	6.8	6.8
UL group pension regular premium	PUP	14.4	14.4	14.4	14.4
UL group pension regular premium	surrender	4.8	4.8	4.8	4.8
UL individual pension single premium	surrender	6.4	6.2	6.2	6.2

4.(10) Other material assumptions

There are no other material assumptions.

4.(11) Derivatives

In determining the long-term liabilities, allowance has been made for derivative contracts and contracts or assets having the effect of derivative contracts, by adjusting the existing assets attributed to the long-term business to reflect the underlying investment exposure.

SAIF and the WPSF hold US dollar/sterling, euro/sterling and yen/sterling currency forwards in connection with fixed interest securities denominated in those currencies. Taken in aggregate these combinations of currency forwards and fixed interest securities could be considered to be sterling assets and, as such, the yields should be comparable with sterling yields. To achieve this, the yields on the US dollar, euro and yen assets are reduced if the corresponding risk-free yield curve exceeds the sterling risk-free yield curve.

4.(12) Effect of change in methodology

There have been no changes made to the mathematical reserve methodology at the current valuation date as a result of the changes to the INSPRU rules at 31 December 2006.

5. Options and guarantees

5.(1) Guaranteed annuity rate options

(a) The mathematical reserves for guaranteed annuity options are calculated assuming a 100% take-up of available options, and are determined as follows:

<u>Group cash accumulation contracts</u>

For valuation purposes, it is assumed, in line with current practice, that if the guaranteed rates are higher than current rates on the valuation date, the guarantee will be revised with 6 months' notice from the next scheme renewal date. As a result, it is assumed that retirements for at most a further 18 months will be subject to the guarantee prior to its amendment. Any additional amount of annuity payable as a result of the guarantee is calculated assuming that the recent profile of retirements (age, sex and purchase money) continues. The resulting annuity is valued on the basis used for non-profit group deferred annuities.

<u>EPP Mark 1</u>

The fund in respect of the first 5 years' premiums for each scheme is calculated. The additional amount of annuity payable as a result of the guarantee is then calculated by age groups assuming that the recent profile of retirements by age and sex continues (all assumed to be at an age at which a guarantee applies). The distribution of long-term interest rates at retirement was provided by the economic scenario generator used to derive market-consistent returns for use in the Peak 2 valuation and market consistent valuation interest rates appropriate to each scenario were used in deferment.

<u>SAIF products</u>

Guaranteed annuity options apply to the following products:

- Flexipension (Series 1 and Series 2)
- Series 1 and Series 2 Pension contracts written up to and including 26 July 2000 as increments to Flexipension (Series 1) contracts
- Individual Endowment/Pure Endowment - Series 1 and Series 2
- Individual Pension Account

For accumulating with-profits and linked business, an additional reserve is calculated by projecting the existing unit reserve with future premiums to the selected retirement date, and calculating the present value of the excess of the annuity guarantee over the projected fund value. The value of the annuity guarantee at retirement is calculated assuming a mortality basis in possession of 40.2% PMA92/46% PFA92 (c=2004) and a valuation interest rate of 2.5% p.a. in possession. For linked business, the projected fund is calculated assuming a fund growth rate of 7.125% (i.e. 8.0% less an annual management charge). The excess of the annuity guarantee over the projected fund value is discounted at 4.5% per annum. For accumulating with-profits business, no future bonus is allowed for. The projected fund is calculated assuming a fund growth rate of 4.0% (representing the 4.0% guarantee on SAIF pension policies). The present value of the excess of the annuity guarantee over the projected fund value is calculated at a discount rate of 0.65%. This discount rate in deferment has been reduced by 0.6% to allow for mortality improvement in deferment. The valuation interest rate (before the 0.6% reduction for mortality improvement) is 1.25% in deferment.

5. Options and guarantees (continued)

For conventional business, the benefit included in the net premium reserve is the greater of the cash benefit and the value of the annuity guarantee. The mortality basis in deferment is 90% AM92/AF92 + 1 for individual endowment/pure endowment and 80% AM92/AF92 + 1 for Flexipension (Series 1), and in possession is 84.6% PCMA00/77.5% PCFA00. A description of the PCXA00 tables is included in Appendix 2. The valuation interest rate is 1.75% in deferment and 2.50% in possession.

The adequacy of the reserve has been verified using stochastic modelling.

If the policyholder selects to take the guaranteed annuity option at retirement then the annuity in payment is written in the NPSF. An additional reserve of £61m is held to cover the cost of transferring the annuity in payment to the NPSF.

An additional expense reserve of £49m is held to meet the cost of administering the future annuities in payment under the guaranteed annuity options in SAIF.

(b) See the table on the following page.

5. Options and guarantees (continued)

Table 5.(1)(b) – Guaranteed annuity rate options

Product name	Basic reserve £m	Spread of outstanding durations	Guarantee reserve £m	Guaranteed annuity rate % for a male aged 65	Are increments permitted?	Form of the annuity	Retirement ages
WPSF							
Group cash accumulation	318	0 – 18 months	12	6.22	No	Single life, monthly in advance, guaranteed for 5 years	50 – 70
Executive Pension Plan Mark 1	113	0 – 35 yrs	31	10.29	Yes – in first 5 yrs of scheme	Single life, monthly in advance, without guarantee	60 – 70 (M) 55 – 70 (F)
SAIF							
Flexipension	480	0 – 40 yrs; average 10 yrs	646	10.90	No	Single life, yearly in arrears, without guarantee	60 - 75
Individual Endowment/Pure Endowment	93	0 – 40 yrs; average 10 yrs	93	10.00	No	Single life, monthly in advance, guaranteed for 5 years	60 – 70 (M) 55 – 70 (F)
Individual Pension Account	52	0 – 40 yrs; average 10 yrs	37	10.00	No	Single life, monthly in advance, guaranteed for 5 years	60 – 70 (M) 55 – 70 (F)

If the form of annuity taken is different to that shown in the table, by concession an actuarially equivalent rate is given.

5. Options and guarantees (continued)

5.(2) Guaranteed surrender values and guaranteed unit-linked maturity values

(a) There are no guaranteed unit-linked maturity values. The methods and bases used for guaranteed surrender values were as follows.

PruFund Investment Plan

This is a single premium whole life accumulating with-profits contract written in the WPSF.

At the fifth anniversary of a premium payment, the smoothed fund value is increased by the value of additional units credited, if necessary, to give a total value equal to the guaranteed minimum fund value (the initial premium adjusted for withdrawals). Policies sold up to 25 July 2005 received this guarantee for no extra cost. Between that date and 12 October 2008, policyholders choosing the guarantee pay an additional annual management charge for 5 years.

Policyholders who invested between 13 October 2008 and 22 February 2010 have the option, at the fifth anniversary, to rollover their guarantee into a new 5 year guarantee (with the amount guaranteed equal to the fifth anniversary fund value). At this point the amount charged for the guarantee can be changed.

The reserve for the guarantee was set using stochastic simulations and is 0.5% of the current fund value.

PruFund as a Fund Link

This is a fund choice for Flexible Investment Plan, Prudential Investment Plan, Flexible Retirement Plan and Trustee Investment Plan written in the WPSF and International Prudence Bond reassured into the DCPSF.

At the selected guarantee date, the smoothed fund value is increased by the value of additional units credited, if necessary, to give a total value equal to the guaranteed minimum fund value (the initial premium adjusted for allocation rates and withdrawals). Policyholders investing in the fund pay an additional annual management charge for the selected guarantee term.

Policyholders who invested between 13 October 2008 and specified dates in 2009 and 2010, which vary by contract, have the option, at the fifth anniversary, to rollover their guarantee into a new 10 year guarantee (with the amount guaranteed equal to the fifth anniversary fund value). At this point the amount charged for the guarantee can be changed.

The reserve for the guarantee was set using stochastic simulations and ranges between 0.5% and 1.5% of the current fund value for life business, between 0.5% and 1.0% for pensions business and is 3.0% for International Prudence Bond business.

Prudential Europe Vie

This is a single premium whole life accumulating with-profits contract denominated in Euros and written as overseas life assurance business in the DCPSF.

The surrender value at any time is guaranteed to be no less than 75% of the initial investment, net of the initial charge, after allowing for any partial surrender and withdrawals made.

As at 31 December 2014, the basic policy reserves exceeded the minimum guaranteed surrender values to the extent that no additional reserve was considered necessary.

5. Options and guarantees (continued)

5.(2).(b) Guaranteed surrender values and unit-linked maturity values

Product name	Basic reserve £m	Spread of outstanding durations	Guarantee reserve £m	Guaranteed amount	MVA free conditions	In force premiums £m	Are increments permitted?
WPSF							
PruFund Investment Plan	1,035	0 – 5 yrs	1	Fund increased to initial premium (adjusted for withdrawals) after 5 years	N/A	812	No
PruFund as a Fund Link – Flexible Investment Plan	4,663	0– 8.25 yrs	20	Fund increased to initial premium (adjusted for withdrawals) at selected guarantee date	N/A	4,040	No
PruFund as a Fund Link – Prudential Investment Plan	3,206	0– 10 yrs	6	Fund increased to initial premium (adjusted for withdrawals) at selected guarantee date	N/A	3,026	No
PruFund as a Fund Link – Flexible Retirement Plan & Trustee Investment Plan	1,533	0– 10 yrs	2	Fund increased to initial premium (adjusted for withdrawals) at selected guarantee date	N/A	1,399	No
DCPSF							
Prudential Europe Vie	44	Whole life	-	£22m	Regular withdrawals up to 5% per annum	35	Yes
PruFund as a Fund Link - International Prudence Bond	397	0 - 10 years	12	Fund increased to initial premium (adjusted for withdrawals) at selected guarantee date	N/A	361	No

5. Options and guarantees (continued)

5.(3) Guaranteed insurability options

(a) There are a number of insurability options for which no additional reserve is considered necessary due to margins in the valuation mortality/morbidity bases. These options are:

Amicable Savings Plan

Extension Option allows the term of the plan to be extended by a period of at least ten years from the original maturity date.

Home Purchaser

Mortgage Alteration Option provides a limited facility, subject to conditions, to increase the life cover at ordinary rates of premium for the amount of any increase to the loan. If the term of the loan is also increasing, the term of the existing plan may also be extended to match the maturity date of the new plan.

Maximum Investment Plan and Flexible Investment Plan (Ex M&G Life)

Maximum Investment Plans have an option at maturity to extend the term for a further ten years or to convert to a whole life assurance with a nominal premium. Flexible Investment Plans have an option to extend the premium paying term.

Investment Mortgage Plan (Ex M&G Life)

There is an option to increase the sum assured without medical evidence if the policyholder increases his or her mortgage.

Personal Security Plan (Ex M&G Life)

Most policies have an option to increase the benefits each year in line with RPI without medical evidence either to age 65 or throughout life. Benefits other than Keyman Disability Benefit may also be increased by up to 20% without medical evidence on marriage, house purchase or birth of children. On some policies the death benefit can be increased without medical evidence following changes in Inheritance Tax legislation. If any of these options are exercised the Company recommends an appropriate increase in premium.

Prudential Protection

Policies issued at ordinary rates include an option to increase cover without evidence of health in the event of mortgage increase, marriage, childbirth or adoption. The option can be exercised only before the life assured's 50th birthday and within 3 months of the event occurring.

Prufund: Protection Plan

If the original policy was issued on normal terms, a new policy may be effected without evidence of health every 5 years before the attainment of age 50 for a sum assured of up to 50% of the sum assured under the original policy at the time each option is exercised. The option lapses if it is not exercised in whole or part. The new policy may be a with-profits whole life or endowment assurance.

Prufund: Savings Plan

At the end of the premium payment term, premiums may be continued for a further 10 years. Under Series 1 plans there is also an option after 10 years to continue the policy for a further 10 years without further payment of premiums.

5. Options and guarantees (continued)

Permanent Health Insurance

On payment of an additional premium, individual permanent health insurance policies issued in the United Kingdom between January 1982 and July 1988 carry an option to increase the original benefit by up to 25% (subject to the total benefit being no greater than 75% of earnings) on every fifth policy anniversary without medical evidence. This option cannot be exercised whilst incapacitated or within 10 years of the termination date of the policy.

Series A & Premier Pensions plans with Waiver Benefit or Comprehensive Waiver Benefit

Long Term Care Double Cover benefit entitles the plan holder to buy a Long Term Care Bond from Prudential International (or another contract approved by the PAC Actuary as a reasonable equivalent) at ordinary rates at retirement. Personal Pension and Group Personal Pension Plan holders with Waiver Benefit may increase the contributions covered by the benefit with no additional underwriting provided the increased contribution is no more than twice the previous contribution.

Mortgage Protection (Home Protect)

Policies issued at ordinary rates may include an option to increase cover without evidence of health in the event of mortgage increase, marriage, childbirth or adoption. The option can be exercised only before the life assured's 50th birthday and within 3 months of the event occurring. The increase can be up to 50% of the benefit for the mortgage option or 25% for the other options both subject to maxima of £150,000 (life and critical illness) or £1,000 per month (premium waiver and mortgage payment benefits).

Mortgage Protection (Ex M&G Life)

There are options for each life to continue cover for a further 5 years up to a date specified at the outset of the original cover, and, if the life assured increases his mortgage, to increase the benefit by the lower of 50% of the increase or £50,000 on rates in force at the time. Neither option requires medical evidence. Two schemes incorporate options for each life to add Critical Illness, Waiver of Contribution and PHI benefits. These options are offered subject to provision of satisfactory medical evidence.

PruProtect Plan

The Guaranteed Insurability Benefit gives the planholder the option to increase Life Cover, Serious Illness Cover, Disability Cover or Income Protection Cover under certain circumstances without providing any evidence of health. Any increase in cover is subject to the applicable maximum cover limits.

Other

Some UK policies issued between September 1975 and April 1984 contain an option, in return for an additional premium, to effect further assurances without evidence of health.

Some assurance policies contain options to effect further assurances without evidence of health at specific ages, on marriage or on the adoption or birth of a child.

Some assurance policies issued between October 1973 and July 1979 on the life of a parent or guardian for the benefit of a child contain an option to permit the child, after attaining a specified age, to effect a whole life or endowment assurance without evidence of health for a sum assured not exceeding four times that of the original policy. On the marriage of a female child, the option may be exercised on her husband's life if he is under age 45.

5. Options and guarantees (continued)

Some individual level temporary assurance policies contain an option, in return for an additional premium, to convert wholly or partially to a whole life or endowment assurance for a sum assured not exceeding the original sum assured.

Some individual temporary assurance policies contain an option to renew the assurance every 5 or 10 years without evidence of health subject to a maximum age at renewal of 55. The sum assured under this option may be increased by up to one half of the sum assured remaining at the end of the 5 or 10 year period. There is also an alternative option to convert at the end of the term to any other Ordinary Branch single life assurance, for a sum assured of up to 150% of that under the temporary assurance policy.

Under a few group life assurance policies, premium rates are guaranteed for employees in respect of current levels of sum assured. Group life assurance premium rates are generally guaranteed for 2 or 3 years.

Employees leaving group pension schemes, where it has not been possible to remove the option, may replace any temporary life assurance cover with an individual assurance at the relevant rates of premium then in force, based on the original underwriting decision. The continuation option was withdrawn for new schemes during 1988.

(b) Conversion and renewal options where the total sum assured exceeds £1bn are as follows:

Product name	In force premiums (£m)	Sum assured (£m)	Description of option	Guarantee Reserve (£m)
Personal Pension Life Cover	3.4	1,107	If a member becomes ineligible to continue premiums under a Pensions Term Assurance, they have an option for one month to maintain life cover with a replacement policy, issued without further medical evidence, which has term and sum assured no greater than those under the Scheme benefit when it was cancelled. Any extra premiums on the original policy will also apply on the replacement policy.	Implicit in the basic reserve

5.(4) Other guarantees and options

5.(4).1 FSA personal pensions review

The mathematical reserve for guarantees issued under the FSA personal pensions review is calculated by valuing the pension scheme benefits to which the policyholder would otherwise have been entitled and subtracting the value of the personal pension policy. Where relevant, each policyholder is assumed to be in a scheme providing an RPI-linked pension of two thirds of final earnings after 40 years' service with a 50% continuation to a surviving spouse and equivalent death-in-service benefits.

Stochastic modelling is used to calculate the reserves for these guarantees. The distributions of investment returns over the remaining period to retirement and long-term interest rates at retirement were provided by the economic scenario generator used to derive market-consistent returns for use in the Peak 2 valuation. In deferment, allowance is made where appropriate for salaries to increase by 2% per annum in excess of RPI.

The basic policy reserve held at 31 December 2014 was £267m and the guarantee reserve was £400m.

5.(4).2 Guaranteed Minimum Pensions (GMPs) under Section 32 contracts

Under early versions of Section 32 contracts, some or all of the GMP was secured by a non-profit

5. Options and guarantees (continued)

deferred annuity. Those benefits are valued using the methodology described in paragraph 4.(1).1. Any remaining GMP was covered by the excess premium not required to purchase the non-profit deferred annuity and this was invested in a cash accumulation or with-profits fund.

Under later versions of Section 32 contracts, the whole of the GMP was covered by the with-profits fund.

The reserves for that part of the GMP covered by the with-profits fund have been calculated using stochastic modelling. The distributions of investment returns over the remaining period to retirement and long-term interest rates at retirement were provided by the economic scenario generator used to derive market-consistent returns for use in the Peak 2 valuation.

The guarantee reserve for a small number of accumulating with-profits contracts (ex-SAL and SAIF) was calculated by a deterministic method, being the excess value on a policy-by-policy basis of the GMP liability (allowing for revaluation) over the basic policy reserve. The GMP liability is valued at a discount rate of 2.60% for ex-SAL and 1.25% for SAIF , with increases in National Average Earnings capped at 5% per annum for all SAIF and early ex-SAL contract versions.

The total basic reserve for Section 32 contracts is £163m and the guarantee reserve was £335m.

5.(4).3 Home Purchaser (Second Series)

Home Purchaser (Second Series) is a mortgage endowment product written in SAIF, for which the company has undertaken to guarantee that the maturity value will be no less than the original target amount if the experienced investment growth rate is greater than or equal to the growth rate assumption selected by the investor at outset.

The guarantee reserve is calculated based on a sample of policies by projecting policy benefits to maturity and discounting any shortfall against the mortgage amount at a valuation rate of 1.5%. The benefits were projected to maturity using a range of future investment returns and a return of 5.5% p.a. was chosen as a prudent assumption.

The basic reserve for these policies is £402m and the guarantee reserve is £2m.

5.(4).4 Cash Fund

The PAC (ex-SAL) Net Cash Fund and the PAC (ex-SAL) Exempt Cash Fund provide a guarantee that the price of both initial and accumulation units will not decrease.

The guarantee reserve is calculated by projecting cash returns in a range of scenarios (using an economic scenario generator) and estimating the future annual guarantee costs in each scenario as the excess of the annual management charge over the cash return. The estimated guarantee costs are discounted and averaged over the range of scenarios.

The basic reserve for policies invested in these funds is £425m and the guarantee reserve is £12m.

5.(4).5 Early Retirement Option

Within one defined benefits pensions scheme in the WPSF (the scheme was originally written in PAL and has now been transferred to the WPSF), a number of policyholders are entitled to start drawing their benefits before reaching the scheme's Normal Retirement Age without having their benefits reduced. Additional mathematical reserves are held based on the assumption that all of the policyholders will exercise this option at the earliest possible date.

The basic reserve for policies invested in these funds is £844m and the guarantee reserve is £19m.

6. Expense reserves

6.(1) Expense loadings of £448 million, grossed up for tax, are expected to arise during the 12 months from the valuation date. This comprises £245 million of explicit and £203 million of implicit loadings.

The following table shows a breakdown of the expense loadings by homogeneous risk group where some expenses are treated as non-attributable and total expense loadings for products where all expenses are treated as attributable.

Homogeneous risk group	Implicit allowances	Explicit allowance (investment)	Explicit allowance (other)	Non-attributable expenses	Total
	£m	£m	£m	£m	£m
Individual unit-linked life single premium business		6.2	1.2	2.7	10.0
Individual unit-linked life regular premium business		1.6	0.4	0.9	2.9
Individual unit-linked pensions single premium business		4.9	0.7	1.6	7.3
Group unit-linked pensions single premium business		0.5	0.2	0.4	1.1
Individual unit-linked pensions regular premium business		3.9	1.4	3.2	8.4
Group unit-linked pensions regular premium business		0.3	0.1	0.3	0.7
Stakeholder		7.6	2.0	11.5	21.0
All expenses attributable	262.6	50.3	142.9	-	455.8
Total	262.6	75.3	149.0	20.6	507.3

6.(2) Implicit allowances are calculated as follows:

- For contracts valued using the net premium method, 90% of the excess of office over net premiums for Ordinary Branch with-profits contracts and 100% of the excess for Industrial Branch with-profits contracts and all non-profit contracts.
- A margin between the risk-adjusted yields on assets in the WPSF and DCPSF (0.064% for non-profit annuities in payment, 0.193% otherwise) and the NPSF (0.057% for direct written annuities in payment, 0.059% for annuities accepted from PRIL, 0.1% otherwise) and that required to support the valuation interest rates to cover fund management expenses.
- A margin in property yields to cover maintenance costs and leases.

6.(3) Maintenance expenses shown at line 14 of Form 43 are £509 million. These include investment expenses in respect of Peak 1 surplus assets (£46m), one-off items and exceptional expenses. The expense loadings in 6.(1) exceed the maintenance expenses at line 14 of Form 43 by an appropriate margin for prudence, after adjusting for these items.

6.(4) A new business expense over-run reserve of £4 million is held in the NPSF. The reserve is calculated on a prudent basis as the excess, if any, of the present value of expenses and commission expected to arise in respect of business written in the 12 months following the valuation date over the present value of the charges available to cover such expenses.

6. Expense reserves (continued)

6.(5) In the first instance, expense reserves are calculated on the assumption that Prudential's UK insurance operations will continue to write new business indefinitely and hence that there will be no loss of economies of scale.

For business valued by the net premium method, under which there is no explicit allowance for expenses, the need for a maintenance expense overrun reserve is tested by comparing the present value of the allowances described in sub-paragraph 6.(2) above with the present value of the expenses and commission expected to be incurred over the remaining lifetime of the business. The calculation of the value of future expenses allows for inflation of 5.50% for WPSF and SAIF business, excluding the non-profit annuity business, and 3.50% p.a. for NPSF business and the non-profit annuity business of the with-profits subfunds. An additional reserve is held if the present value of expenses and commission exceeds the present value of the expense allowances. At 31 December 2014, a reserve of £35 million is held in the WPSF and £39 million in SAIF.

For all other business, the expense loadings over the remaining lifetime of the contracts in force at the valuation date are included in the reserves reported in Forms 50.

In order to allow for the possibility that the firm will cease to transact new business twelve months after the valuation date, all expense provisions are recalculated on the assumption that, over a two year period, unit costs would be reduced by 20%. Thereafter, the unit costs are increased to allow for the loss of economies of scale that would arise as the in-force business runs off. The expenses for all business lines are capped at the point that aggregate expenses are projected to have doubled in real terms after closure. This methodology reflects an assumption that, with much higher unit costs, and a much lower volume of in-force business, the fixed costs would be more aggressively reduced, or the administration of the business would be outsourced.

In addition the costs associated with closing to new business, such as redundancy payments and the costs of terminating management agreements, are estimated. If the sum of the closed fund expense reserves and termination costs exceed the open fund expense reserve, then the excess is held as an additional reserve, to the extent that this excess cannot be offset by projected surplus on prudent assumptions from existing business. At 31 December 2014, an additional reserve of £452 million is held in the WPSF, £32 million in SAIF, and £53 million in the NPSF.

6.(6) An additional reserve of £19.9 million is held in the NPSF to cover non-attributable expenses. The additional reserve for each homogeneous risk group is calculated as the present value of all future expenses less charges, subject to a maximum of the non-attributable expenses, for the policies in that homogeneous risk group. All future charges and expenses are projected allowing for lapses on a prudent basis. Any future valuation strain is removed at the homogeneous risk group level.

The following table shows the reserve for each homogeneous risk group.

Homogeneous risk group	**Additional reserve £m**
Individual unit-linked life single premium business	1.6
Individual unit-linked life regular premium business	3.0
Individual unit-linked pensions single premium business	-
Group unit-linked pensions single premium business	-
Individual unit-linked pensions regular premium business	-
Group unit-linked pensions regular premium business	-
Stakeholder	15.3
Total	19.9

7. Mismatching reserves

7.(1) and (2)

An analysis of the mathematical reserves (other than liabilities for property-linked benefits) and backing assets by currency is as follows:

Currency of liability	Mathematical reserves (excl. property-linked) in £m	% of reserves	Value of backing assets in currency:	
			£	Other
£	84,914	98.9	84,914	-
Other	975	1.1	-	975
Total	85,889	100	84,914	975

7.(3) No reserve is held for currency mismatching.

7.(4) to (6) Not applicable for a realistic firm.

7.(7) Reserves totalling £203m (£118m in the WPSF and £85m in the NPSF) were held in respect of the test for cashflow mismatching under INSPRU 1.1.34R(2).

This reserve was set at a level that was sufficient to ensure that it covered the result 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 33 basis points per annum for both directly written and reinsurance accepted business in the NPSF and 37 basis points per annum for non-profit annuity (former PAL) business in the WPSF.

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% 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. 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.

8. Other special reserves

Other special reserves in excess of £10 million are as follows:

Reserves totalling £24 million (£17 million in the WPSF, £6 million in SAIF and £1 million in the NPSF) are held to cover the potential costs of compensating policyholders, and the associated expenses, in respect of complaints about mortgage endowment policies. The reserves are calculated by making prudent assumptions about the number of future complaints received, the proportion of these where compensation will be paid, and the average amount of compensation.

Reserves totalling £98 million (£53 million in the WPSF, £24 million in SAIF and £21million in the NPSF) are held to cover potential additional liabilities in respect of systems and administration errors. The methods used to calculate the reserves vary depending on the nature of the error and take into account data sources alternative to policy valuation systems.

Reserves totalling £54 million (£35 million in the WPSF, £6 million in SAIF and £13 million in the NPSF) are held in respect of the UK life insurance operation's share of additional contributions expected to be required to fund future defined benefits in the Prudential Staff Pension Scheme and the Scottish Amicable Pension Scheme, taking into account the expected run-off of the schemes' membership.

Reserves totalling £649 million (£540 million in the WPSF, £32 million in SAIF, £15 million in DCPSF and £62 million in the NPSF) are held to cover general contingencies, taking into account an internal assessment of operational risk.

A reserve of £25million is held in the NPSF for the tax credit on losses in the unit-linked funds which will be carried forward and offset against gains in future years.

A reserve of £36 million is held for the Prudential Personal Retirement Plan (PPRP), a conventional with-profits deferred annuity product written in the WPSF, in respect of any additional cost of policyholders retiring later than age 65, taking into account current late retirement enhancement factors and a prudent assessment of the distribution of late retirements by age and sex.

Reserves totalling £24 million (£12 million in the WPSF and £12 million in the NPSF) are held to cover potential deflation losses.

9. Reinsurance

(1) No premiums were paid in 2014 in respect of reinsurance business ceded on a facultative basis to reinsurers not authorised to carry on business in the United Kingdom.

(2) The reinsurance treaties shown in the table below meet the PRA criteria for being reported in this section and were in force as at 31 December 2014.

9. Reinsurance (continued)

UK Reinsurance treaties:

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
BlackRock Life Ltd	Linked benefits under GPP3, GPP4, MPP3, stakeholder pensions and the Company Pension Transfer Plan (Bulk Section 32 Buy-Out) where the member has chosen to invest in BlackRock's funds, on a 100% quota share basis. The assets under this treaty are covered by a pari passu charge.	62	Open	17,702	Nil
Aberdeen Asset Management PLC	Linked benefits under unit linked pension contracts where the member has chosen to invest in AAM's funds, on a 100% quota share basis. The assets under this treaty are covered by a pari passu charge.	2,251	Open	36,055	Nil
Munich Reinsurance Company UK Life Branch	Life, critical illness and disability cover sold through arrangements with NDF Administration Limited and Synergy Financial Products Limited. This treaty also includes a financing arrangement. (i) Financing payments to the reinsurer are a proportion of the reinsurance premium in benefit years three, four, five and six for all in-force benefits. If a policy exits then payments to the reinsurer cease. The total amount paid to the reinsurer in respect of an individual policy is independent of the amount originally advanced by the reinsurer and depends on how long each policy remains in force. There is therefore no undischarged obligation. Allowance has been made for the repayment of this financing in calculating the level of the reserves required.	1,959	Closed	2,995	Mortality benefits and critical illness (per life) 33.33% up to £50,000 Nil above £50,000 Sickness and accident (per life per month) 33.33% up to £625 Nil above £625
Prudential Pensions Limited *	United Kingdom linked benefits under Group AVC, MPP2, GPP1/2/3/4, SHP and PTP contracts on a 100% quota share basis. This is to a member of the Prudential Group and is covered by a pari passu charge on assets.	451,175	Open	4,306,970	Nil
Prudential Retirement Income Limited *	Two related treaties for annuity liabilities for relevant annuities originally issued by P(AN)L. One covers annuities written from 1 July 2004 to 25 November 2004 and the other covers annuities written after 25 November 2004. Under the terms of the agreement Prudential Retirement Income Limited will meet the liability of the Company to pay the benefits due under the reassured policies. This business is covered by a pari passu charge on assets.	568	Open	14,891	Nil

9. Reinsurance (continued)

UK Reinsurance treaties:

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Prudential Retirement Income Limited *	Two related treaties for annuity liabilities for relevant annuities issued by PAC. One covers annuities written from 1 July 2004 to 25 November 2004 and the other covers annuities written after 25 November 2004. Under the terms of the agreement Prudential Retirement Income Limited will meet the liability of the Company to pay the benefits due under the reassured policies. This business is covered by a pari passu charge on assets.	410,448	Open	8,639,262	Nil
Prudential Retirement Income Limited *	Two related treaties for annuity liabilities for relevant annuities issued by the Scottish Amicable Insurance Fund (SAIF). One covers annuities written before 1 January 2006. The other covers annuities written from 1 January 2006 onwards.	18,670	Open	468,500	Nil
Suffolk Life Annuities Limited	Self-Invested Personal Pension (SIPP) option under the Flexible Retirement Plan policy.	12,993	Open	59,572	Nil
Swiss Re Europe S.A., UK branch	Reinsurance of all linked business written before 29 November 1994, originally written by Prudential Holborn Life or reinsured into it from PAC, excluding benefits linked to real property assets, on a 50% quota share basis.	116	Closed	109,051	50% of first £25,000
Swiss Re Europe S.A., UK branch	Two treaties covering unit-linked bond business on a quota share basis. For certain Flexible Bonds linked to the Extra Yield fund, 89% of all unit-linked liabilities are reinsured. For Managed Income Bonds linked to Managed Income (Series A) units, 90% of all unit-linked liabilities are reinsured. For Managed Income Bonds linked to Managed Income (Series B) units, 25% of all unit-linked liabilities are reinsured.	Nil	Closed	46,075	11% 10% 75%

9. Reinsurance (continued)

UK Reinsurance treaties:

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Swiss Re Europe S.A., UK branch	Four treaties covering Prudential Protection business over different periods on a quota share basis. The financing agreements with Swiss Re detailed below are connected to this business.	6,851	Closed	33,696	Mortality Benefits only (per life) 10% up to £50,000 Nil above £50,000 Mortality plus Critical Illness and stand alone Critical Illness Benefits (per life) 10% up to £50,000 Nil above £50,000 Mortgage Payment Benefits (per life per annum) 25% up to £5,000 Nil above £5,000 Waiver of Premium Benefits (per life per annum) 25% up to £5,000 Nil above £5,000

9. Reinsurance (continued)

UK Reinsurance treaties:

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Swiss Re Europe S.A., UK branch	Two financing arrangements in respect of acquisition costs incurred in writing Prudential Protection contracts with a policy proposal date: • prior to 31 December 2002, an acceptance date in 2002 and a policy issue date prior to 31 March 2003 • in the range 6 May 2002 to 30 June 2003, a policy issue date in the range 1 January 2003 to 31 December 2003 (i) Payments to the reinsurer are a proportion of the difference between the office premium and the reinsurance premium net of an allowance for renewal expenses for the time that the policy remains in force. If a policy lapses or becomes a mortality or morbidity claim at any time then payments to the reinsurer cease. The total amount paid to the reinsurer in respect of an individual policy is independent of the amount originally advanced by the reinsurer and depends on how long each policy remains in force. There is therefore no undischarged obligation. (ii) Allowance has been made for the repayment of this financing in calculating the level of the reserves required for these contracts.	1,624	Closed	-	N/A
Hannover Re UK	Risk reinsurance of all benefits written after 1 March 2010, other than IPC and Unemployment Cover, under the Flexible Protection and PruProtect Plans on a 75% level, 25% risk premium quota share plus surplus basis (including Hannover Germany's surplus).	37,657	Open	118,799	Mortality, Serious Illness and Disability Cover (lower limits apply to certain products) 50% up to £150,000 Nil above £150,000 Waiver of Premium 50% up to £15,000 p.a. Nil above £15,000 p.a.

9. Reinsurance (continued)

UK Reinsurance treaties:

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Hannover Rück SE	Financing and risk reassurance arrangement in respect of Flexible Protection and PruProtect Plans. (i) Payments to the reinsurer are a proportion of the office premium for the time that the policy remains in force. If a policy lapses within the initial commission period the Company pays the reinsurer a proportion of the amount of the indemnity commission that can be clawed back at that time. If a policy lapses outside of the initial commission period or exits due to a mortality claim at any time then payments to the reinsurer cease. The total amount paid to the reinsurer in respect of an individual policy is independent of the amount originally advanced by the reinsurer and depends on how long each policy remains in force. There is therefore no undischarged obligation. (ii) Allowance has been made for the repayment of this financing in calculating the level of the reserves required for these contracts.	1,400	Closed	8,695	N/A
Prudential Hong Kong Ltd *	Quota share reinsurance of a portion of non-profit annuity business in the WPSF to the new HK company, PHKL, following domestication.	1,373,283	Open	1,363,315	89.57% of the former PAL annuities.

Note: where appropriate, negative reserves have been set to zero.

9. Reinsurance (continued)

(g) There are deposit back arrangements under:

The reinsurance treaty with Hannover Re UK where the amount of the deposit-back as at the valuation date was £61.8m.
The reinsurance treaty with Prudential Hong Kong Ltd where the amount of the deposit-back as at the valuation date was £1,474.0m

There were no other deposit back arrangements under the above treaties.

(i) There are no "undischarged obligations of the insurer". Premiums are payable only if the gross business remains in force.

(l) All of the above companies are authorised to carry on insurance business in the United Kingdom.

(m) An asterisk (*) denotes companies connected to the cedant.

(n) In general the treaties are exposed to the credit risk of the reinsurers, against which a reserve is held.

(o) The net liability includes no allowance for the refund of any reinsurance commission.

(p) Indicated where relevant in the 'Nature of Cover' sections above.

10. Reversionary (or annual) bonus

Table 1 SAIF

Bonus series	Mathematical reserves	Annual bonus rate for 2014	Annual bonus rate for 2013	UWP unit price increase during the year	Guaranteed bonus rate during the year
	£m	%	%	%	%
Principal	461	0.80/1.50	0.80/1.50		
Flexidowment (Second Series)	134	0.70/1.70	0.70/1.70		
Net With Profits Fund 1	696	2.00/2.00	2.00/2.00		
Flexipension (First Series)	428	0.25/0.50	0.25/0.50		
Superannuation (Second Series)	91	0.25/0.50	0.25/0.50		
Group	165	0.50	0.50		
Exempt With Profits Funds 1	57	4.00	4.00	4.00	4.00
Exempt With Profits Funds 2	1,042	4.00	4.00	4.00	4.00
Exempt With Profits Funds 3A*	1,004	4.00	4.00	4.00*	4.00*
Exempt With Profits Funds 3B*	407	4.00	4.00	4.00*	4.00*

* Bonus rate for investments made after 1 January 2006 is 2.00%. Guaranteed bonus applies to pre 2006 investments only.

10. Reversionary (or annual) bonus (continued)

Table 2 WPSF - UK and, where appropriate, Guernsey, Jersey, and Isle of Man

Bonus series	Mathematical reserves	Annual bonus rate for		UWP unit price increase during the year	Guaranteed bonus rate during the year
		2014	2013		
	£m	%	%	%	%
With-profits Industrial Branch assurances issued before 1 July 1988	973	1.10/2.30	1.10/2.30		
Other conventional with-profits assurances	1,207	1.20/2.50	1.20/2.50		
Individual with-profits deferred annuities	4,578	0.10/0.25	0.10/0.25		
UWP life assurance bonds					
Prudence Bond – optimum return	7,531	2.00	2.00	2.00	
Prospects Bond – optimum return	17	1.60	1.60	1.60	
Prudence Bond – optimum bonus	922	2.75	2.75	2.75	
Prospects Bond – optimum bonus	12	2.35	2.35	2.35	
Prudential Investment Bond (accounts £6,000 and over)	2,479	2.00	2.00	2.00	
Prudential Investment Bond (accounts under £6,000)		1.00	1.00	1.00	
Group cash accumulation (defined benefit) with a 4.75% guarantee	87	-	-	4.75	4.75
Group cash accumulation (defined benefit) with a 2.5% guarantee	117	-	-	2.50	2.50
Group cash accumulation (defined benefit) with a 0.01% guarantee	113	1.24	1.24	1.25	0.01
Other group cash accumulation with a 4.75% guarantee	438	-	-	4.75	4.75
Other group cash accumulation with a 2.5% guarantee	1,149	-	-	2.50	2.50
Other group cash accumulation with a 0.01% guarantee	1,507	1.74	1.74	1.75	0.01

10. Reversionary (or annual) bonus (continued)

Table 2 WPSF - UK and, where appropriate, Guernsey, Jersey, and Isle of Man (continued)

Bonus series	Mathematical reserves	Annual bonus rate for		UWP unit price increase during the year	Guaranteed bonus rate during the year
		2014	2013		
	£m	%	%	%	%
Flexible Retirement Income Account	40	0.25	0.25	0.25	
Individual UWP pensions other than FRIA	11,688	2.00	2.00	2.00	
Pension Savings Plan	99	1.25	1.25	1.25	
Group UWP pensions	1,218	2.25	2.25	2.25	
Group UWP pensions with GMP guarantee	43	1.25	1.25	1.25	
With-profits pensions annuities in payment	1,845	0.25	0.25	0.25	
PCRS/PCPS annuities in payment	74	0.50	0.50		
Former SAL products					
Net With Profits Fund 2	214	1.75/1.75	1.75/1.75	1.75/1.75	
Exempt With Profits Funds 5 and 6	126	2.125	2.125	2.125	
Exempt With Profits Funds 7 and 8	221	2.00	2.00	2.00	
Exempt With Profits Funds 9 and 10 (or C and C2)	132	2.00	2.00	2.00	
Exempt With Profits Fund 13 (F)	100	1.75	1.75	1.75	
Exempt With Profits Fund 14 (G)	227	1.55	1.55	1.55	

10. Reversionary (or annual) bonus (continued)

Table 3 DCPSF

Bonus series	Mathematical reserves	Annual bonus rate for		UWP unit price increase during the year	Guaranteed bonus rate during the year
		2014	2013		
	£m	%	%	%	%
Contracts expressed in euro					
Issued in France	39	2.25	2.25	2.25	
External reinsurance accepted	308	3.10	3.10	3.10	
International Prudence Bond	404	2.00	2.00	2.00	
Contracts expressed in sterling	457	2.50	2.50	2.50	
Contracts expressed in US dollars	81	2.00	2.00	2.00	
With-profits annuity business transferred from Equitable Life Assurance Society	1,015	0.00	0.00		

Appendix 1 - Valuation Interest Rates

Product Group	2014	2013
	%	%
With-Profits Sub-Fund		
UK Life – Conventional With-Profits	1.75	2.50
UK Life – Conventional Non-Profit	2.25	3.00
UK Life – Unitised With-Profits	0.95	1.60
UK Life – Unit-linked	2.25	3.00
UK Pensions – Conventional With-Profits deferred annuities	2.50	3.50
UK Pensions – Conventional Non-Profit deferred annuities	2.75	4.00
UK Pensions – Unit-linked	2.75	4.00
UK Pensions - Deposit Administration with 4.75% guarantee	2.50	3.75
UK Pensions - Deposit Administration with 2.5% guarantee	2.25	3.25
UK Pensions - Deposit Administration with 0% guarantee	1.50	2.00
UK Pensions – Unitised With-Profits	1.50	2.00
UK Pensions – Conventional With-Profits individual deferred annuities	2.50	3.50
UK Pensions – Conventional With-Profits group deferred annuities	2.50	3.00
UK Pensions – Conventional Non-Profit group deferred annuities	2.75	4.00
UK Pensions – Non-Profit immediate annuities (fixed)	2.75	4.00
UK Pensions – Non-Profit immediate annuities (index-linked)	1.00	1.00
UK Pensions – Immediate annuities recaptured from PAL (fixed)	2.52	3.43
UK Pensions – Immediate annuities recaptured from PAL (index-linked)	(0.62)	0.66
UK Pensions - Immediate annuities reinsured from PAL (fixed)	2.52	3.69
UK Pensions - Immediate annuities reinsured from PAL (index-linked)	(0.62)	0.00
UK Pensions - With-Profits immediate annuity (except Income Choice Annuity)	0.00	0.00
UK Pensions - With-Profits immediate annuity (Income Choice Annuity)	1.00	1.00
Scottish Amicable Insurance Fund		
UK Life – Conventional With-Profits	0.75	1.75
UK Life – Conventional Non-Profit	1.50	2.25
UK Life – Unitised With-Profits	1.00	1.50
UK Pensions – Conventional With-Profits individual deferred annuities	1.75	3.00
UK Pensions – Conventional With-Profits group deferred annuities	2.00	3.00
UK Pensions – Conventional Non-Profit deferred annuities	1.00	2.75
UK Pensions – Unit-linked	2.25	3.25
UK Pensions – Unitised With-Profits	1.25	2.25
UK Pensions – Conventional With-Profits endowments (Flexipension)	1.75	3.00
UK Pensions – Non-Profit term assurance	1.00	2.75
UK Pensions – Guaranteed annuity options	2.50	3.25
UK Pensions – Non-Profit immediate annuity	2.80	3.42

Appendix 1 - Valuation interest rates (continued)

Product Group	**2014**	**2013**
	%	%
Non-Profit Sub-Fund		
UK Life – Term assurance (excluding PruProtect)	2.10	2.50
UK Life – Term assurance (PruProtect) – written before 1 January 2013	2.32/3.65	3.00/4.55
UK Life – Term assurance (PruProtect) – written on or after 1 January	2.9/3.65	3.20/4.55
UK Life – Unit-linked	2.10	2.50
UK Pensions – Conventional Non-Profit	2.60	3.25
UK Pensions – Unit-linked	2.60	3.50
UK Pensions – Non-Profit immediate annuity	2.89	3.78
UK Permanent Health Insurance	2.65	3.25

For PruProtect, the first rate of interest is used when total reserves are positive and the second rate when total reserves are negative. Valuation interest rates shown for UK Life business (other than PruProtect business written on or after 1 January 2013) are net of tax.

Product Group	**2014**	**2013**
	%	%
Defined Charge Participating Sub-Fund		
UK Pensions – Immediate annuities	1.50	2.25
Overseas Life - offshore bond - sterling currency	1.50	2.00
Overseas Life - offshore bond – euro currency	1.85	1.90
Overseas Life - offshore bond - US$ currency	1.95	2.00
Overseas Pensions – Unitised With-Profits immediate annuities from Canada Life	1.85	1.90

Appendix 2 - Valuation Mortality Bases

Product Group	2014	2013
Industrial Branch assurances	A1967/70 rated up 1 year	A1967/70 rated up 1 year
UK Life WPSF - Conventional With-Profits	85% AM92 / AF92 both rated up 1 year	AM92 / AF92 both rated up 1 year
UK Life WPSF - AWP assurances: Prudence Bond / PruFund	90% AM92 / AF92 both rated up 1 year	AM92 / AF92 both rated up 1 year
UK Life WPSF - AWP assurances: Other except those issued by SAL or SALAS	70% AM92 / AF92 both rated up 1 year	AM92 / AF92 both rated up 1 year
UK Pensions WPSF - Term assurance, group deposit administration	75% AM92 / AF92 both rated up 1 year	AM92 / AF92 both rated up 1 year
UK Pensions WPSF - Term assurance sold by DSF	80% AM92 / AF92 both rated up 1 year	AM92 / AF92 both rated up 1 year
UK Life NPSF - PruProtect	115% of AM/AF92 both rated up 1 year plus 1/3 AIDS 'R6A' for both males and females	115% of AM/AF92 both rated up 1 year plus 1/3 AIDS 'R6A' for both males and females
UK Life WPSF & NPSF - Other Conventional Non-Profit (excluding Prudential Protection)	AM92 / AF92 both rated up 1 year	AM92 / AF92 both rated up 1 year
UK Life - AWP and linked Home Purchaser	85% AM80 / 85% AF80	85% AM80 / 85% AF80
UK Pensions WPSF - Conventional With-Profits Individual business	90% AM92 / AF92 rated down 3 years	AM92 rated down 3 years for men and down 7 years for women
UK Pensions WPSF - Conventional With-Profits Group business	AM92 / AF92 both rated down 4 years	AM92 / AF92 both rated down 4 years
UK Pensions issued by M&G, SAL or SALAS	90% AM92 / AF92 both rated up 1 year plus 1/3 AIDS 'R6A' for both males and females	AM92 / AF92 both rated up 1 year plus 1/3 AIDS 'R6A' for both males and females
UK Pensions WPSF – Other AWP Individual & Group business	95% AM92 / AF92 both rated up 1 year	AM92 rated up 1 year for men and down 3 years for women
UK Pensions WPSF – Unit Linked	95% AM92 / AF92 rated up 1 year	AM92 rated up 1 year for men and down 3 years for women
UK Life - assurances issued by M&G, SAL or SALAS (including Prudential Protection in WPSF)	AM92 / AF92 both rated up 1 year plus 1/3 AIDS 'R6A' for both males and females	AM92 / AF92 both rated up 1 year plus 1/3 AIDS 'R6A' for both males and females
UK Pensions SAIF - Flexipension (Series 1)	80% AM92 / AF92 both rated up 1 year	AM92 / AF92 both rated down 4 years
UK Life NPSF - Prudential Protection	110% of AM/AF92 both rated up 1 year plus 1/3 AIDS 'R6A' for both males and females	110% of AM/AF92 both rated up 1 year plus 1/3 AIDS 'R6A' for both males and females
UK Pensions NPSF - Prufund,PruTrust	AM92 / AF92 both rated down 3 years	AM92 / AF92 both rated down 3 years
UK Pensions NPSF – Unit Linked (except those issued by SAL) & PHL	95% AM92 / AF92 rated up 1 year	AM92 rated up 1 year for men and down 3 years for women

Appendix 2 - Valuation mortality bases (continued)

Product Group	**2014**	**2013**
UK Pensions WPSF - group deferred annuities in deferment NPSF- group deferred annuities in deferment, accepted from PRIL SAIF Conventional Group Deferred Annuities	AM92 / AF92 both rated down 4 years	AM92 / AF92 both rated down 4 years
UK Pensions WPSF - Deferred annuities	Modified 94.5% PCMA00 Modified 83.6% PCFA00	Modified 102% PCMA00 Modified 86.6% PCFA00
UK Pensions WPSF & NPSF – Annuities in payment (both individual & deferred in possession)	Modified 99% PCMA00 Modified 89% PCFA00	Modified 99% PCMA00 Modified 89% PCFA00
UK Pensions WPSF – With-profits Immediate Annuities	Modified 69% PCMA00 Modified 65% PCFA00	Modified 69% PCMA00 Modified 65% PCFA00
UK Pensions SAIF - deferred annuities in payment	Modified 84.6% PCMA00 Modified 77.5% PCFA00	Modified 84.6% PCMA00 Modified 77.5% PCFA00
UK Pensions NPSF – individual annuities in payment SAIF – annuities reassured to NPSF	Modified 84.4% PCMA00 Modified 77.5% PCFA00	Modified 84.6% PCMA00 Modified 77.5% PCFA00
UK Pensions WPSF & NPSF – group immediate & deferred annuities reassured to PRIL	Modified 95.0% PCMA00 Modified 97.9% PCFA00	Modified 95.8% PCMA00 Modified 97.4% PCFA00
UK Pensions NPSF - FRIA	Modified 78% PCMA00 Modified 71% PCFA00	Modified 66% PCMA00 Modified 63% PCFA00
UK Pensions WPSF, SAIF & NPSF - individual annuities in payment reassured to/from PRIL	Modified 91.2% PCMA00 Modified 84.3% PCFA00	Modified 91.1% PCMA00 Modified 84.0% PCFA00
UK Pensions WPSF –group deferred annuities in payment (DAPA)	Modified 93% PCMA00 Modified 101% PCFA00	Modified 93% PCMA00 Modified 101% PCFA00
UK Pensions WPSF –group deferred annuities in payment (GPDA)	Modified 126.7% PNMA00 Modified 134.4% PNFA00	Modified 126% PNMA00 Modified 117% PNFA00
UK Pensions SAIF Deferred Annuities	40.2% PMA92 c2004 46% PFA92 c2004	42% PMA92 c2004 47% PFA92 c2004
UK Pensions & Overseas DCPSF – With-profit Immediate Annuities	Modified 79% PCMA00 Modified 68% PCFA00	Modified 79% PCMA00 Modified 68% PCFA00
Overseas DCPSF - Prudential Vie	102.5% TD8890 / TV8890 both rated down 3 years	102.5% TD8890 / TV8890 both rated down 3 years
Overseas DCPSF – other UWP business	AM92 / AF92	AM92 / AF92

Appendix 2 - Valuation mortality bases (continued)

Annuity mortality bases used at 31 December 2014 (and 31 December 2013)

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 2012 mortality model (unchanged from the 31 December 2013 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 2012 mortality model (unchanged from the 31 December 2013 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);

(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); and

(c) zeroizes the negative cohort improvement feature for years of birth on or after 1948.

In practice, some deferred annuities in possession have been valued using percentages of single entry tables based on the 92 series tables for annuitants and pensioners, with calendar year 2004 (improvements in line with CMIR17 until 2004). The percentages have been chosen so that the rates used are equivalent to the double entry tables with future improvement factors as described above. For these deferred annuities, a further deduction from the valuation rate of interest has been made during the deferred period, to allow for expected mortality improvements prior to vesting. The deduction from the valuation interest rate was 0.57% for deferred annuities administered on the GPDA system and 0.60% for all other deferred annuities.

Appendix 3 - Immediate & Deferred Annuities: Expectations of Life at Different Ages

The table below shows the expectations of life at different ages for the mortality tables reported in Appendix 2 used to value annuities in possession.

Basis description	Valuation Date	Life expectancy for annuities in payment		Life expectancy for deferred annuities	
		At 65	At 75	At 65 for current age 45	At 65 for current age 55
Modified 99% PCMA00 Modified 89% PCFA00	31/12/2014	men: 24.9 women: 27.0	men: 15.2 women: 17.2		
	31/12/2013	men: 24.7 women: 26.9	men: 15.1 women: 17.1		
Modified 94.5% PCMA00 Modified 83.6% PCFA00	31/12/2014			men: 29.2 women: 30.3	men: 27.3 women: 29.0
Modified 102% PCMA00 Modified 86.6% PCFA00	31/12/2013			men: 28.3 women: 29.9	men: 26.4 women: 28.5
Modified 93% PCMA00 Modified 101% PCFA00	31/12/2014	men: 25.5 women: 26.0	men: 15.7 women: 16.3	men: 29.3 women: 28.7	men: 27.4 women: 27.3
	31/12/2013	men: 25.3 women: 25.8	men: 15.5 women: 16.1	men: 29.1 women: 28.6	men: 27.2 women: 27.2
Modified 91.2% PCMA00 Modified 84.3% PCFA00	31/12/2014	men: 25.7 women:27.5	men: 15.8 women: 17.6		
Modified 91.1% PCMA00 Modified 84.0% PCFA00	31/12/2013	men: 25.5 women:27.4	men: 15.6 women: 17.5		
Modified 95.0% PCMA00 Modified 97.9% PCFA00	31/12/2014	men: 25.3 women: 26.2	men: 15.5 women: 16.5	men: 29.1 women: 29.0	men: 27.2 women: 27.6
Modified 95.8% PCMA00 Modified 97.4% PCFA00	31/12/2013	men: 25.0 women: 26.1	men: 15.3 women: 16.4	men: 28.8 women: 28.9	men: 27.0 women: 27.5
Modified 84.4% PCMA00 Modified 77.5% PCFA00	31/12/2014	men: 26.4 women: 28.2	men: 16.4 women: 18.3		
Modified 84.6% PCMA00 Modified 77.5% PCFA00	31/12/2013	men: 26.1 women: 28.1	men: 16.2 women: 18.2		
Modified 78.0% PCMA00 Modified 71.0% PCFA00	31/12/2014	men: 27.5 women: 29.4	men: 17.3 women: 19.2		
Modified 66.0% PCMA00 Modified 63.0% PCFA00	31/12/2013	men: 28.9 women: 30.4	men: 18.5 women: 20.1		

Appendix 3 - Immediate and deferred annuities: expectations of life at different ages (continued)

The table below shows the expectations of life at different ages for the mortality tables reported in Appendix 2 used to value annuities in possession.

Basis description	Valuation Date	Life expectancy for annuities in payment		Life expectancy for deferred annuities	
		At 65	At 75	At 65 for current age 45	At 65 for current age 55
Modified 126.7% PCMA00 Modified 134.4% PCFA00	31/12/2014			men: 26.5 women: 26.3	men: 24.6 women: 25.0
Modified 126% PNMA00 Modified 117% PNFA00	31/12/2013			men: 26.6 women: 25.4	men: 24.6 women: 24.4
Modified 69% PCMA00 Modified 65% PCFA00	31/12/2014	men: 28.3 women: 30.0	men: 18.1 women: 19.8		
Modified 69% PCMA00 Modified 65% PCFA00	31/12/2013	men: 28.1 women: 29.7	men: 17.9 women: 19.6		
Modified 79% PCMA00 Modified 68% PCFA00	31/12/2014	men: 27.0 women: 29.4	men: 17.0 women: 19.3		
	31/12/2013	men: 26.8 women: 29.3	men: 16.8 women: 19.2		
Modified 84.6% PCMA00 Modified 77.5% PCFA00	31/12/2014			men: 30.2 women: 31.0	men: 28.3 women: 29.6
	31/12/2013			men: 30.0 women: 30.9	men: 28.1 women: 29.5

Appendix 4 - Morbidity Bases

A4.1 Prudential Protection

The rates were used at both 31 December 2014 and 31 December 2013.

A4.1.1 Life and basic critical illness annual rates per £10,000 sum assured

Age next Birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	8.95	8.95	6.90	6.90
35	14.07	22.08	12.59	12.59
45	29.28	58.03	27.26	27.26
55	80.51	148.44	63.77	80.79

A4.1.2 Top-up critical illness annual rates per £10,000 sum assured

Age next Birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	4.82	4.82	5.68	5.68
35	9.63	14.92	11.64	11.64
45	23.64	46.30	26.42	26.42
55	68.82	125.65	61.57	77.89

For business written after 13 March 2005 the rates are increased by 14% to cover possible future changes in morbidity.

In the NPSF where prudent lapse assumptions are allowed for in the reserve calculations, the rates are increased by 10% to allow for the possibility of selective withdrawals.

A4.2 Benefits attached to Home Purchaser (Series 3) and Amicable Savings Plan

The rates were used at both 31 December 2014 and 31 December 2013.

A4.2.1 Home Purchaser (Series 3) version 2 issued on or after 29 July 1996

Level top-up critical illness annual rates per £10,000 sum assured

Age next birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	3.84	6.29	4.39	7.12
35	8.45	14.01	11.87	19.71
45	35.57	59.50	27.27	45.44
55	83.87	140.44	61.77	103.36

A4.2.2 Home Purchaser (Series 3) other than those above and Amicable Savings Plan

Level critical illness annual rates per £10,000 sum assured

Age next Birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	2.73	4.42	3.38	5.45
35	6.49	10.64	8.43	14.01
45	27.87	46.41	17.77	29.69
55	47.70	79.71	37.34	62.48

Appendix 4 - Morbidity bases (continued)

A4.2 Benefits attached to Home Purchaser (Series 3) and Amicable Savings Plan (continued)

A4.2.3 Home Purchaser (Series 3)

Decreasing top-up annual critical illness annual rates per £10,000 sum assured

Age next Birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	4.14	6.79	4.74	7.68
35	9.11	15.11	12.80	21.26
45	38.36	64.17	29.41	49.00
55	90.45	151.46	66.61	111.47

A4.2.4 Home Purchaser (Series 3) and Amicable Savings Plan

Total and permanent disability annual rates per £10,000 sum assured

Age next Birthday	Basic	Version 2 Level top-up	Version 2 Decreasing top-up
25	0.78	0.98	1.06
35	0.91	0.86	0.92
45	2.33	2.20	2.38
55	7.91	8.69	9.37

A4.2.5 Home Purchaser (Series 3)

Annual mortgage interest benefit rates per £1,200 annual benefit without critical illness, occupation classes 1, 2 and 3, deferred period 6 months

Men

Age Next Birthday	Policy Term Remaining				
	5	10	15	20	25
25	2.88	3.84	4.44	4.68	4.68
35	4.44	6.24	7.20	7.44	7.56
45	11.52	16.32	18.72		
55	36.36				

Women

Age Next Birthday	Policy Term Remaining				
	5	10	15	20	25
25	4.32	5.88	6.72	6.96	6.96
35	6.72	9.36	10.80	11.04	11.40
45	17.16	24.48	27.96		
55	54.48				

No recovery rates are shown as claim inception and recovery are not modelled. Instead an inception annuity approach based on rates from the reinsurer is used. The rates therefore allow implicitly for both the probability of a claim and the expected length of the claim.

Appendix 4 - Morbidity bases (continued)

A4.3 PruProtect

Rates vary by duration - the rates shown are as at duration 0. Rates are also different for reviewable policies, whole of life policies, policies where life cover is not accelerated by serious illness cover and where child serious illness cover is excluded.

The rates were used at both 31 December 2014 and 31 December 2013.

A4.3.1 PruProtect Primary Serious Illness Cover

Life and basic critical illness rates per £10,000 sum assured

Age next Birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	3.90	6.03	3.23	4.77
35	6.17	12.12	8.13	10.86
45	11.64	26.24	15.04	22.38
55	32.21	70.42	30.61	53.19

Top up critical illness rates per £10,000 sum assured

Age next Birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	4.08	7.08	3.12	4.44
35	7.20	13.67	9.72	12.71
45	13.91	31.51	17.51	24.81
55	33.43	73.31	35.82	59.48

A4.3.2 PruProtect Comprehensive Serious Illness Cover

Life and basic critical illness rates per £10,000 sum assured

Age next Birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	4.74	7.83	4.06	6.21
35	7.49	15.11	9.33	13.14
45	13.31	30.43	16.48	25.02
55	35.45	78.42	32.05	56.77

Top up critical illness rates per £10,000 sum assured

Age next Birthday	Men		Women	
	Non Smoker	Smoker	Non Smoker	Smoker
25	5.16	9.48	3.84	5.88
35	9.12	17.75	11.39	15.59
45	16.55	37.97	19.18	28.04
55	37.38	83.20	37.85	64.13

Appendix 5 - Valuation Expense Bases

A5.1 WPSF

Product code(s)	Product Name	31 December 2014		31 December 2013	
		Maintenance Expenses	Investment Expenses	Maintenance Expenses	Investment Expenses
		£ per annum	basis points pa	£ per annum	basis points pa
325, 330, 340 to 355, 360 and 385	Term assurance, critical illness and income protection	53.57	10.0	37.29	10.0
400	Annuity	19.77	6.4	18.71	5.7
500	UWP bond	46.75	19.3	47.82	17.6
510	UWP savings endowment	54.83	19.3	49.88	17.6
515	UWP target cash endowment	54.83	19.3	42.46	17.6
525	UWP regular premium pension	48.53	19.3	44.57	17.6
525	UWP single premium pension	46.94	19.3	38.13	17.6
535	UWP group regular premium pension	85.95	19.3	96.34	17.6
535	UWP group single premium pension	79.02	19.3	62.41	17.6
700	UL bond	38.36	25.0	28.86	25.0
715	UL savings endowment	54.83	25.0	42.46	25.0
720	UL target cash endowment	54.83	25.0	42.46	25.0
735	UL group regular premium pension	99.39	25.0	152.70	25.0
735	UL group single premium pension	64.38	25.0	99.04	25.0

UK Conventional contracts are valued using a net premium method, zillmerised for with-profits contracts and unmodified for term assurances. The zillmer adjustment is 3% of sums assured for with-profits life business and 2% of the value of the annuity at retirement for with-profits pensions deferred annuities.

Maintenance expenses are split between charges paid under a third party outsourcing agreement and expenses incurred directly by Prudential. Outsourced charges are as set out in the outsourcing agreement plus a 10% MAD.

Appendix 5 - Valuation expense bases

A5.2 SAIF

Product code(s)	Product Name	31 December 2014		31 December 2013	
		Maintenance Expenses	Investment Expenses	Maintenance Expenses	Investment Expenses
		£ per annum	basis points pa	£ per annum	basis points pa
400	Annuity	41.51	5.9	36.65	5.3
525	UWP regular premium pension	58.52	19.3	45.56	17.6
525	UWP single premium pension	48.32	19.3	40.75	17.6
535	UWP group regular premium pension	197.91	19.3	111.63	17.6
535	UWP group single premium pension	80.98	19.3	74.00	17.6
725	UL regular premium pension	58.52	25.0	45.56	25.0
725	UL single premium pension	48.32	25.0	40.75	25.0
735	UL group regular premium pension	197.91	25.0	111.63	25.0
735	UL group single premium pension	80.98	25.0	74.00	25.0

Conventional contracts are valued using a net premium method, zillmerised for with-profits contracts and unmodified for term assurances. The zillmer adjustment is 3% of sums assured for with-profits life business and 2% for with-profits pensions.

Maintenance expenses are split between charges paid under a third party outsourcing agreement and expenses incurred directly by Prudential. Outsourced charges are as set out in the outsourcing agreement plus a 10% MAD.

Appendix 5 - Valuation expense bases

A5.3 NPSF

Product code(s)	Product Name	31 December 2014		31 December 2013	
		Maintenance Expenses	Investment Expenses	Maintenance Expenses	Investment Expenses
		£ per annum	basis points pa	£ per annum	basis points pa
325, 330, 345, 355, 360 and 365	Term assurance, critical illness and income protection	37.06	10.00	29.25-45.11	10.0
400	Annuity	34.98	5.7	33.36	6.4
700	UL bond	12.04	20.5	11.37	20.5
715	UL savings endowment	12.44	25.0	32.14	15.0
720	UL target cash endowment	12.04	25.0	11.17	25.0
725	UL regular premium pension	17.98	25.0	11.37	25.0
725	UL single premium pension	15.75	25.0	14.18	25.0
735	UL group regular premium pension	43.03	25.0	41.22	25.0
735	UL group single premium pension	26.85	25.0	25.69	25.0

For linked business, the figures are for per-policy attributable expenses only.

Maintenance expenses are split between charges paid under a third party outsourcing agreement and expenses incurred directly by Prudential. Outsourced charges are as set out in the outsourcing agreement plus a 10% MAD, with the exception of PruProtect which currently has a 30% MAD applied.

APPENDIX 9.4A

VALUATION REPORT FOR REALISTIC VALUATION OF THE PRUDENTIAL ASSURANCE COMPANY LIMITED AS AT 31 DECEMBER 2014

Throughout this document the abbreviations "CWP" and "AWP" are used for Conventional With-Profits business and Accumulating With-Profits business respectively.

1. Introduction

(1) The investigation relates to 31 December 2014.

(2) The date of the previous valuation related to 31 December 2013.

(3) A valuation was carried out at 30 June 2014 in accordance with IPRU(INS) rule 9.3A.

2. Assets

(1) The economic assumptions used to determine the value of future profits on non-profit annuity business in the WPSF are shown below. The investment return assumption reflects the yield on the backing assets minus an allowance for credit risk. Separate assumptions are used for fixed annuities and inflation-linked annuities, reflecting the separate asset pools backing them. The rates shown for linked business are real rates.

For the valuation at 31 December 2013, there were separate assumptions for directly written non-profit annuity business and reinsurance accepted from Prudential Annuities Limited (PAL). Following the Part VII transfer of the long term liabilities from PAL to PAC WPSF on 1 October 2014, all of the non-profit annuity business previously in PAL is now held in the WPSF, and the assets backing all of the non-profit annuity business are managed in the same sub-fund within the WPSF.

Description	**WPSF (including business transferred from PAL)**		**WPSF (directly written business)**		**Reinsurance accepted from PAL**	
	31 December 2014		**31 December 2013**		**31 December 2013**	
	Fixed %	**Linked** %	**Fixed** %	**Linked** %	**Fixed** %	**Linked** %
Investment return	2.655	(0.547)	3.575	0.738	3.846	0.056
Less: Investment expenses	0.075	0.075	0.067	0.067	0.067	0.067
Discount rate	2.580	(0.622)	3.508	0.671	3.779	(0.011)
Inflation	3.50	3.50	4.00	4.00	4.00	4.00

The value of future profits on other non-profit business has been valued using the full gilt yield curve. The full gilt yield curve is given in Appendix 9. The other economic assumptions used to value non-profit non-annuity business are as shown below.

Description	**31 December 2014**		**31 December 2013**	
	Gross %	**Net** %	**Gross** %	**Net** %
Investment expenses	0.175	0.140	0.160	0.128
Inflation	3.0	3.0	3.4	3.4

(2) WPSF, SAIF and the DCPSF have no assets valued under INSPRU 1.3.33R(3)(b)(iii).

(3) Not applicable

(4) Not applicable

3. With-profits benefits reserve liabilities

(1) The methods used to calculate the with-profits benefits reserves are as follows:

Business class	Method		With-profits benefits reserves	Future policy related liabilities
WPSF			£m	£m
Ex-Direct Sales Force (DSF) Industrial Branch (IB)	Retrospective*	Individual	1,622	194
DSF CWP Ordinary Branch (OB) assurances	Retrospective*	Individual	1,703	147
DSF PPRP	Retrospective*	Individual	3,134	1,446
DSF AWP Life	Retrospective	Individual	3,078	(9)
DSF AWP Pensions	Retrospective*	Individual	18,442	467
Ex-ISC Pensions	Retrospective*	Individual	972	309
Group Pensions	Retrospective*	Individual	6,624	79
With profit immediate annuities	Retrospective	Individual	5,257	486
Prudence Bond	Retrospective	Individual	11,532	133
PruFund	Retrospective*	Individual	10,168	(7)
Ex-SAL AWP	Retrospective*	Individual	1,268	19
Poland	Retrospective	Individual	(3)	-
Malta	Retrospective	n/a	6	-
Additional reserve	Other	n/a	-	465
Sub-total			**63,803**	**3,729**
SAIF				
CWP	Retrospective	Individual	1,606	118
AWP – Pensions	Retrospective*	Individual	2,779	121
AWP – Life	Retrospective*	Individual	1,006	12
Additional reserve	Other	n/a	3	700
Sub-total			**5,394**	**951**
DCPSF				
PAC France	Retrospective	Individual	42	-
Canada Life (Germany)	Retrospective	Individual	310	-
International Prudential Bond	Retrospective	Individual	2,481	-
With profit immediate annuities	Retrospective	Individual	1,015	-
Other	Other	n/a		11
Sub-total			**3,848**	**11**
Total PAC			**73,045**	**4,692**

* Adjusted as described in section 5

(2) The with-profits benefits reserves and future policy related benefits correspond to the amounts shown in Form 19.

4. With-profits benefits reserves – Retrospective method

(1)(a)&(b) The with-profits benefit reserve for all business is calculated on an individual policy basis.

(1)(c) Not applicable

(2)(a) Not applicable

(2)(b) Not applicable

(3) Directly attributable expenses are allocated to the products or product groups to which they relate. Other expenses are mostly apportioned by reference to such measures as considered appropriate, for example business volumes, time spent, or mean fund (for investment expenses).

(3)(a) The most recent full expense investigation related to 2014.

(3)(b) A full review of the company's cost allocation basis is carried out annually to ensure maintenance of an appropriate allocation of expenses to the with-profits and other parts of the long-term fund. Additional reviews are conducted quarterly.

(3)(c)(i)&(ii) Expense allocation for 2014

Description	**WPSF £m**	**SAIF £m**	**DCPSF £m**
Initial expenses including commission†	102	-	-
Maintenance expenses	146	15	38
Investment management expenses	147	10	-
Total expenses charged to with profits benefit reserve	**395**	**26**	**38**
Total expenses **not** charged to with profits benefit reserve	185	24	-
Total	**580**	**50**	**38**

† Net of any expenses written off to the inherited estate rather than being allocated to asset shares, as described in (3)(c)(iv) below.

The investment expenses shown above exclude those incurred in respect of the assets backing the inherited estate.

For the DCPSF business, explicit charges are specified in the policy and passed to the Non-Profit Sub-Fund, which bears the actual costs incurred.

(3)(c)(iii) Expenses charged to the with-profits benefits reserve are expressed as some or all of an amount per policy, a percentage of premium or sum assured, or a reduction in the investment return, with an allowance for tax relief where appropriate.

(3)(c)(iv) Certain expenses are not charged to the with-profits benefits reserve. In particular:

- Expenses relating to non-profit and unit-linked business.
- Deductions for initial expenses are restricted to the policy-specific charges used when illustrating benefits at the point of sale.
- For the WPSF, expenses associated with the personal pensions mis-selling review are met by the inherited estate rather than asset shares.

- For a number of pension contracts the net impact of deductions has been limited to 1% p.a. since April 2001, though this level of charge is not guaranteed to apply in future.

- Expenses in respect of certain one-off projects are met by the inherited estate rather than asset shares.

(4) The charge for guarantees for With-Profits Immediate Annuities is expressed as a 0.4% p.a. reduction in the investment return credited to the with-profits benefits reserve for business sold since April 2009 and 0.16% for business sold prior to that date.

For the Income Choice Annuity, since April 2010, the guarantee charge applying for new business has been actively reviewed each quarter in response to changing market conditions.

For PruFund policies, the charge for guarantees is also expressed as a reduction in the credited investment return. The charge is set at policy inception and is actively reviewed each quarter for new policies in response to changing market conditions.

For all other WPSF policies, the current charge for guarantees is 2% of asset shares.

For DCPSF policies, excluding PruFund and with-profits annuity business transferred from Equitable Life Assurance Society on 31 December 2007, the charge for guarantees is again expressed as 2% of asset shares.

For PruFund business in the DCPSF, the charge for guarantees is the same as for WPSF PruFund business.

For the with-profits annuity business in the DCPSF that was transferred from the Equitable Life Assurance Society (ELAS), the charge for guarantees is expressed as a 0.50% p.a. reduction in the investment return credited to the with-profits benefit reserve.

For SAIF, two charges were made to asset shares in 2014:

- An annual charge for the cost of guaranteed annuity options of 0.25% of asset shares. This is the maximum amount that the Scottish Amicable Board has currently determined should be charged directly to asset shares for this cost. Any excess of the guaranteed annuity option costs over the charge made reduces the potential surplus available to enhance claim values under the Scheme of Transfer.
- An annual charge for the capital support provided by the Scottish Amicable Capital Fund (SACF) of 0.15% of asset shares.

For the WPSF, SAIF and the DCPSF the level of charges deducted during 2013 and 2014 is shown below:

Fund	**2014 charges £m**	**2013 charges[1] £m**
WPSF	143	198
DCPSF	13	13
SAIF	22	24

(1) During 2013 the WPSF included the Hong Kong branch business that was transferred to PHKL on 1 January 2014.

The with-profits benefits reserves are shown before these charges.

(5) For the WPSF, shareholder transfers are charged to the with-profits benefits reserve. In 2014 the shareholder transfers amounted to £200m.

(6) The table below shows the ratio of claims (excluding deaths) paid over each of the last three years to the asset shares for those policies. The claim values used exclude the cost of guaranteed annuity options and, for SAIF, they exclude enhancements to claim values arising from the distribution of the SAIF inherited estate.

Fund	**2014** **%**	**2013** **%**	**2012** **%**
WPSF	97	100	105
DCPSF	99	100	103
SAIF	95	96	98

(7) The 2014 rates of investment return, before tax and investment management expenses, allocated to the with-profits benefits reserves were as follows:

Fund	**Business**	**Investment return** **%**
WPSF	Prudence Bond Optimum Bonus	9.48
	PruFund Cautious	8.07
	Other	8.31
SAIF	All	7.82
DCPSF	Sterling funds	8.31
	US dollar funds	8.07
	Euro funds	7.21

5. With-profits benefits reserves – Prospective method

With-profits benefits reserves are primarily based on the retrospective asset shares. However a number of adjustments are made on a prospective basis as follows:

- WPSF DSF CWP whole life policies include significant death benefits that are more appropriately valued using expected future bonus rates rather than aggregate asset shares.
- WPSF IB bonus rates are derived from the corresponding OB rates, as opposed to the IB asset shares, in line with the undertaking given in 1988 when the IB and OB assets were merged. At that time, Prudential undertook to declare IB bonuses that were equal to 100% of OB rates for new business issued from July 1988 and at least 90% of OB rates for business issued prior to July 1988. The WPBR for IB business is therefore based on the greater of a bonus reserve valuation approach using the OB bonus rates, and the IB asset shares.
- The Company has restricted the future implicit fund charge on many pension contracts to reflect its intention to restrict charges on personal pensions to stakeholder consistent levels, so restricting its ability to target claim values on the underlying asset shares.
- For some product lines the only asset shares available are charges asset shares (where asset shares have been built up using the charges associated with that product line) rather than expenses asset share (where the actual expenses have been charged). For these product lines, the charges asset shares are adjusted by the present value of future expenses and shareholder transfers less future charges and miscellaneous surplus, in order to ensure that the with-profits benefit reserve reflects the actual liabilities in respect of claims, expenses and shareholder transfers.
- The SAIF asset share liability is increased by the value of the Scottish Amicable Account (SAA) AWP life business, calculated on a charges less expenses basis, that is passed to the WPSF.

A prospective valuation is not performed for any business in the DCPSF.

The non-economic assumptions largely reflect the realistic component of the regulatory basis excluding the margins for adverse deviation (MADs).

(1)(a)(b)&(c) The economic assumptions for the WPSF, SAIF AWP pensions and SAA AWP business are:

	31 December 2014		31 December 2013	
	Gross	**Net**	**Gross**	**Net**
	%	%	%	%
Investment return	5.33	4.69	6.17	5.36
Less: Investment expenses	0.18	0.14	0.16	0.13
Discount rate	5.15	4.55	6.01	5.24
Expense inflation	5.00	5.00	3.40	3.40

The economic assumptions used to value the prospective benefits are the same as those used for European Embedded Value reporting, which represent our best estimate assumptions allowing for prevailing market conditions at the valuation date, thereby complying with INSPRU 1.3.130 R. The discount rates therefore differ from the risk free rates required by 6(4)(a)(iii).

(1)(d) Future reversionary and terminal bonus rates for WPSF significant product lines are shown in Appendix 8.

(1)(e) Future expense assumptions for significant product lines are shown below

Per policy expenses (year 1)		
Product	**Premium Paying (£)**	**Single Premium / Paid Up (£)**
Prudence Bond	N/A	40.70
CWP Life	46.35	37.13
PPRP	42.16	40.79
Personal Pensions	42.16	40.79
AVCs	101.77	64.87

The expense assumptions are the realistic component of the Peak 1 basis i.e. before the application of the margin for adverse deviation (MAD). The expense inflation assumptions are covered in a later section.

(1)(f) Future persistency assumptions for significant product lines are as follows (using the same format as for paragraph 6.(6)):

Product	**Decrement**	**Average surrender/paid-up rate for the policy years**			
		1-5	6-10	11-15	16-20
CWP savings endowment	surrender	3.50%	5.50%	3.00%	3.00%
CWP target cash endowment	surrender	3.50%	5.50%	3.00%	3.00%
UWP savings endowment	surrender	n/a	n/a	n/a	n/a
UWP target cash endowment	surrender	n/a	n/a	n/a	n/a
UWP bond	surrender	2.90%	7.20%	4.40%	4.00%
UWP bond	automatic withdrawals	0.00%	0.00%	0.00%	0.00%
CWP pension regular premium	PUP	2.20%	2.50%	2.50%	2.50%
CWP pension regular premium	surrender	0.00%	0.00%	0.00%	0.00%
CWP pension single premium	surrender	0.00%	0.00%	0.00%	0.00%
UWP individual pension regular premium	PUP	7.60%	6.00%	4.50%	4.50%
UWP individual pension regular premium	surrender	2.50%	2.50%	2.50%	2.50%
UWP individual pension single premium	surrender	1.50%	1.50%	1.50%	1.50%

6. Cost of guarantees, options and smoothing

(1) Not applicable

(2)(a) For the WPSF and SAIF, the value of guarantees, options and smoothing costs, net of the value of charges for guarantees is determined using market-consistent stochastic models as follows:

- The reserve in the WPSF for guarantees resulting from the personal pension mis-selling review is calculated using the Pension Mis-selling Reserve model.
- The reserve in the WPSF for the guaranteed minimum pensions (GMPs) on Section 32 type products is calculated using the Guaranteed Minimum Pension model.
- For all other business, the Prudential Stochastic Asset Liability Model (PSALM), our in-house model, is used to value product-related guarantees, except for a small volume of guaranteed annuity options (GAOs) in the WPSF, for which the realistic reserve is set equal to the regulatory reserve.

(2)(b)(i)(ii) &(iii) The reserves in respect of the personal pension mis-selling review and GMPs are valued on an individual basis.

All other product-related guarantees are valued using grouped model points. The number of model points and the number of contracts they represent are shown in the table below.

Business	**Valuation model**	**Contracts**	**Model points**
WPSF	PSALM	2,616,781	26,388
SAIF	PSALM	277,386	1,763

The model points used to determine the cost of guarantees and smoothing for the 31 December 2014 valuation were generated from in-force data extracted as at 31 December 2013 and 30 June 2014 for different product lines. These model points were then rolled forward to 31 December 2014.

The Prudential Sourcebook guidance requires that the grouping of policies for valuing the cost of guarantees, options and smoothing should not materially misrepresent the underlying exposure. In particular policies with guarantees “in the money” should not be grouped with policies with guarantees well “out of the money”. (The “moneyness” of guarantees describes the extent to which guarantees are biting for a policy.)

To meet this requirement, policies have been grouped together where they are subject to the same rate of bonus. This has been done by grouping policies separately for:

- major product categories;
- single premium policies, regular premium policies, and paid-up policies;
- separate bonus series, where applicable;
- year of inception;
- year of maturity, where applicable; and
- asset share, where applicable.

To more accurately group specific product lines, a number of additional fields are also used:

- For Prudence Bond: withdrawal option and age;
- For PruFund standalone: age and guarantee period;
- For PruFund as a Fund Link (Bonds and Pensions): age at entry and guarantee type;
- For SAIF, ex-SAL personal pensions and PSA: age and joint life status;
- For Group Pensions: initial allocation, commission type and front-end commission;
- For CWP IB and OB assurances and PPRP deferred annuities: asset share;

For With-Profits Immediate Annuities, the product type, joint life status, age, sex, anticipated bonus rate and guaranteed term have all been used as grouping variables.

For Income Choice Annuities, the joint life status, age, sex, required smoothed return and guaranteed term have all been used as grouping variables.

For ex-ELAS business, the product type, joint life status, age, sex, anticipated bonus rate, guaranteed term, interest rate, and type, have all been used as grouping variables.

Checks were performed to ensure that the model points suitably reflected the underlying data.

The ungrouped policy data and grouped model points were separately projected through the stochastic models. Key revenue and balance sheet items over the projection period were compared to demonstrate that the model points represent the policy data adequately. The key items tested were asset share and cost of guarantee (guaranteed amount less asset share). Other measures included asset share claims, premiums and policy count.

(2)(c) Approximations are necessary in respect of the CWP products where adjustments are made to asset shares, as described in section 5. Although the adjustments are included in the with-profits benefit reserve, the cost of guarantees and smoothing is assessed relative to the unadjusted asset shares. This leads to a small element of double-counting in the liabilities and it is therefore a slightly conservative approach.

(3) The following significant changes have been made to the methods for valuing the costs of guarantees, options and smoothing:

- changes to the modelling of assets, to reflect the PPRP-specific asset-liability matching (ALM) strategy introduced during 2013, and to better model bond assets of different durations and credit ratings (this was required as a result of the shortening in the duration of the WPSF Capital Fund corporate bond portfolio during 2013);

- enhancements to the modelling of PruFund business when assessing whether management actions should be triggered, and an update to the model points used to value new business;

- the updating of model points to allow for adviser charges rather than commission, following the changes introduced by the Retail Distribution Review. In addition, there has been an update to the new business model points in respect of Income Choice Annuity, PruBond and WPSF group pensions business;

- removal of the floor in the cost of terminal bonus calculation for AWP business, which allows the shareholder transfer to reflect a negative terminal bonus when an

MVR is applied to the regular bonus fund, consistent with how the shareholder transfer is calculated in practice; and

- a series of improvements to the application of market stresses within PSALM, particularly the application of stresses to new business.

(4)(a) The following paragraphs describe the approach taken in respect of the options and guarantees valued using the PSALM model. The same asset model is used to generate the investment returns assumed in the Pension Mis-selling Reserve and Guaranteed Minimum Pension models.

(4)(a)(i) For the WPSF and SAIF, the guarantees valued using the full stochastic models include sums assured and projected reversionary bonuses (including any minimum guaranteed rates of reversionary bonus) payable on death, maturity or vesting. For SAIF, guaranteed annuity options are also valued.

The extent to which guarantees are in or out of the money varies greatly across product lines, and by duration in force within each product line. The ratio of reversionary bonus funds to asset shares at 31 December 2014 for separate AWP product lines ranged from 59% to 77%, averaging 67% overall for the WPSF and 70% overall for SAIF business. Projected ratios using the risk-neutral economic basis for most product lines were in the region of 80%, with the exception of PPRP deferred annuity business, for which the ratio of guaranteed benefits to asset shares was in the region of 125%. The majority of the in-force PPRP business was sold during the 1980s, and the guarantees are now heavily in the money, due to reduction in interest rates and improvements in mortality since the business was priced.

(4)(a)(ii) <u>The economic scenario generator</u>

Risk neutral economic scenarios are generated by GeneSIS, which is Prudential's in-house economic scenario generator. The models used for each asset class are as follows:

- Nominal interest rate model

  The interest rate model is a key element of the modelling procedure and is used to drive all the other asset classes. The model chosen for nominal interest rates was a two additive factor Gaussian interest rate model (G2++ model). The model is calibrated using instantaneous nominal forward rates and a set of swaption implied volatilities.

- Equity model

  Equity returns are generated for both domestic equities and overseas equities. These are generated using a lognormal model, subject to three enhancements:

  - the drift of the process is the short rate, taken from the nominal interest rate model described above;
  - the equity volatility in the model is time-dependant, and is determined using a combination of option-implied volatilities and expert opinion; and
  - the process for dividends is designed to be consistent with the current dividend yield and tends to a defined long-term yield level, whilst being constrained by a total return on equities that is consistent with the risk-neutral framework.

- Corporate bond model

  The corporate bond returns are modelled by simulating the return on a risk-free bond, change in spread, expected defaults and a stochastic element representing any residual volatility explained by secondary factors.

- Property model

  Property returns can be decomposed into a fixed income element representing the rental payments plus an additional volatility element which represents the residual value of the property. They are therefore modelled as a corporate bond (the rental payment) and an equity component (the residual value).

- Real interest rate and inflation model

  The real interest rates are modelled by a one factor Hull and White model. The inflation rate is defined as the difference between the nominal and the real interest rate.

<u>Calibration of asset models</u>

The GeneSIS model has been calibrated to the market prices of traded derivative instruments as at 31 December 2014. A calibration is produced for Sterling as it is produced for the business written in the UK.

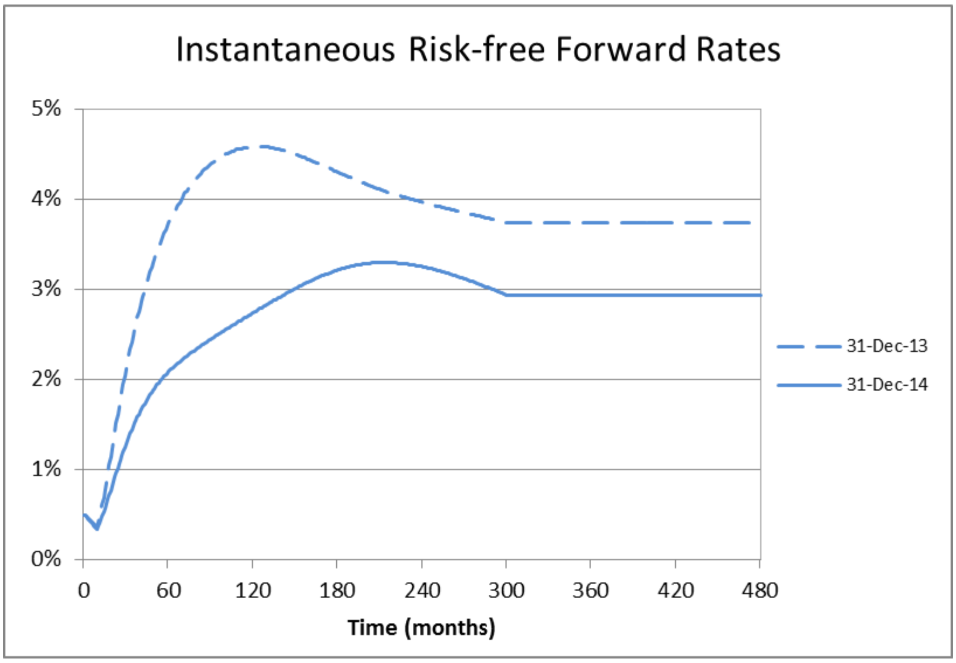
The assumptions used in the calibration are as follows:

- Risk free interest rate

  The yield curve used to calibrate the nominal interest rate model is the risk free yield curve for UK government bond yields.

  A constant forward rate is assumed for durations beyond the last observable market data point. This is 25 years for UK gilts.

  The continuously compounded forward yield curves are shown below:



  A table of the above interest rates is given in Appendix 9.

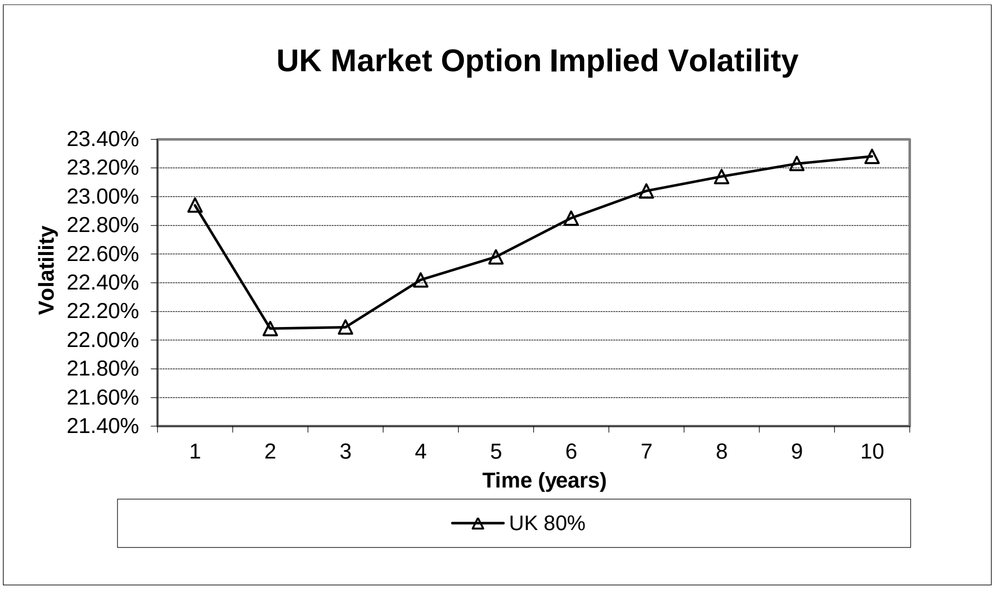
The parameters defining the fluctuation in modelled interest rates around these yield curves are calibrated to ensure that the model replicates market swaption implied volatilities.

- Equity volatility

Market put option implied volatilities for UK equities with exercise dates from 1 to 10 years and a range of strikes were obtained.

The resulting volatility surfaces (based on moneyness and term) were converted into structures dependent only on term through determining an average moneyness of the policy guarantees. The average strike was 80% for the first ten years.

The resulting volatilities are shown in the graph below:



A table of the above volatilities is given in Appendix 10.

For periods over 10 years, no market data is available, so the volatility assumptions are based on internal expert opinion. We have assumed that the forward volatility in year 10 moves linearly towards a long-term volatility level of 20% over a period of five years.

Volatility assumptions are also required for the overseas equity asset class within each calibration. There is no deep and liquid market for put options on a basket of overseas equities. Thus, overseas equity volatility was pegged to that of UK equity to reflect the market data. The peg was set at 90%, reflecting the diversification benefit of overseas equities.

- Corporate bonds

  Spreads and losses are calibrated based on long term views, which are informed by analysis of historical data.

  Three different portfolios of corporate bonds were modelled, denoted 'Bonds 1', 'Bonds 2' and 'Bonds 3'. The annualised residual volatility over the gilt return, after allowing for spreads and losses was determined from historical indices of corporate bond returns.

Portfolio	Credit rating	Duration (years)	Volatility
Bonds 1	BBB	7	4.28%
Bonds 2	A	3	4.02%
Bonds 3	A	10	4.45%

- Property

  Property returns were decomposed into a corporate bond return plus the value of upward only rent increases. Due to scarcity of market data and the serial correlation of published indices, the property parameters were based on expert opinion.

- Real interest rates

  The level of real interest rates is calibrated using real yield data from the Bank of England and current RPI data. The volatility of real interest rates was calibrated using 10 years of historical real forward rates data from the Bank of England and current RPI data.

- Correlations

  Correlations between asset classes have been determined based on internal expert opinion and analysis of historical values.

  The assumed correlations for the key asset classes are as follows.

	Corporate Bonds	**UK Equities**	**OS Equities**	**Property**
Corporate Bonds	100%	40%	30%	20%
UK Equities	40%	100%	75%	40%
OS Equities	30%	75%	100%	30%
Property	20%	40%	30%	100%

(4)(a)(iii) The asset model was used to value the required example options. The same table applies to WPSF and SAIF liabilities. The results are set out in Appendix 6.

(4)(a)(iv) The initial yields assumed for assets backing WPSF and SAIF liabilities are shown below:

	31 December 2014		**31 December 2013**	
	UK %	**Overseas %**	**UK %**	**Overseas %**
Equity	4.65	2.74	3.64	2.47
Property	6.12	N/A	6.89	N/A

All overseas territories are treated together; we do not isolate significant territories within these.

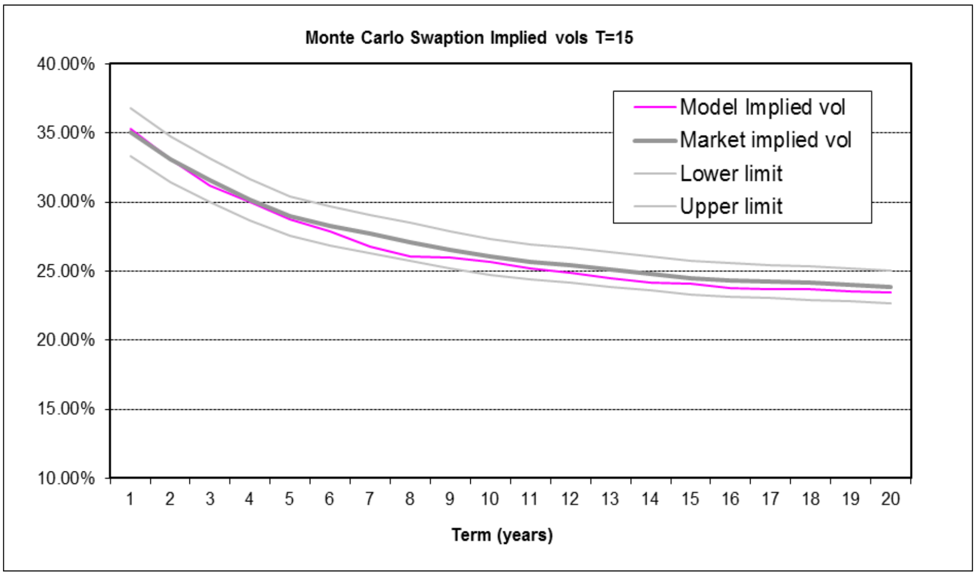
(4)(a)(v) Not applicable

(4)(a)(vi) A table of the outstanding mean durations of reversionary bonus claims for material products is:

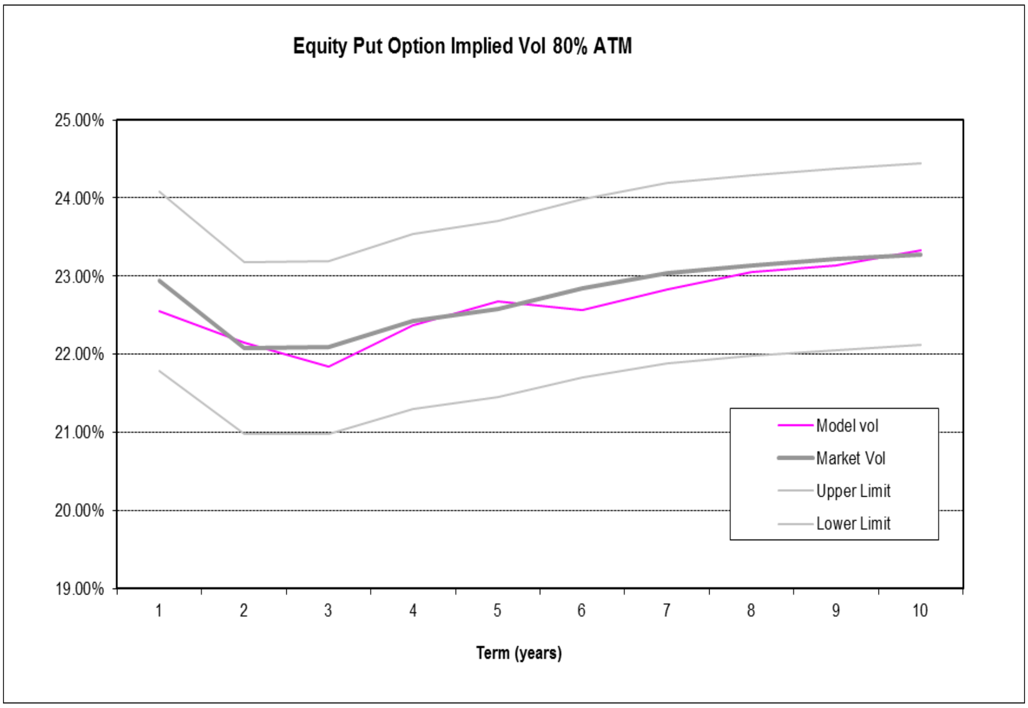
	31 December 2014	
Product	**Proportion of total RB guarantee (%)**	**Duration (Years)**
WPSF Bonds	11	14
WPSF OB/IB	6	11
WPSF Personal Pensions	5	13
WPSF PPRP	46	6
WPSF Group Pensions	2	10
With Profit Annuities	24	19
SAIF	4	10
Total	**99**	**11**

A range of checks were carried out on the output from GeneSIS. The results for the model are shown below and demonstrate that the model is capable of reproducing market prices.

The chart below shows that the Monte Carlo swaption implied volatilities are reasonably similar to the market implied volatilities of the swaptions that are relevant to the liabilities.



The chart below shows that the Monte Carlo equity put options implied volatilities are reasonably similar to the market implied volatilities.



(4)(a)(vii) The model reproduces the current asset values for a wide range of securities, equity options and swaptions when the future income, gains and losses are projected and discounted to the valuation date.

A range of checks are performed on the asset model output for each calibration, including:

- martingale test to check risk neutrality;
- market consistency test of simulated zero coupon bond prices;
- market consistency test of swaption implied volatilities;
- market consistency test of equity put option implied volatilities; and
- reasonableness checks to ensure correlations and long term volatilities reflect targets.

(4)(a)(viii) PSALM projects 5000 scenarios over 40 years. We have demonstrated that this produces statistically credible results, both using statistical theory and empirically by running the model several times on randomly different sets of economic scenarios and demonstrating that the results are materially the same.

(4)(b) Not applicable

(4)(c) Not applicable

(5)(a) Modelled management decisions are consistent with the Principles and Practices of Financial Management (PPFM) available to the public, and with the Financial Condition Reports submitted annually to the PAC Board. Details are given below.

The cost of guarantees, options and smoothing is very sensitive to the bonus, MVR and investment policies that the company will employ under varying investment conditions, and the stochastic modelling incorporates several management actions to protect the fund in adverse investment scenarios.

In practice, a range of management actions would be considered at any time of stress. The actions taken would depend on the economic outlook and the financial position of the fund at that time. The stochastic model cannot reflect all possible actions and so it includes assumptions to broadly reflect the likely decisions. The assumptions made, as described below, are therefore indicative of the actions that might be taken in practice.

The trigger points for management actions in PSALM are expressed in terms of the realistic solvency ratio, which is broadly equivalent to the Pillar I Peak 2 solvency ratio excluding the risk capital margin.

Two ratios are calculated, either including or excluding the cost of personal pension mis-selling costs (accumulated past and potential future costs, run-off in line with relevant policy asset shares) as an additional notional asset. The appropriate ratio is applied when deriving management actions in order to ensure that PAC's bonus and investment policy remain unaffected by the charging of personal pension mis-selling costs to the inherited estate in the WPSF.

Paragraphs (5)(a)(i) to (5)(a)(xiv) below set out the key management actions assumed.

(5)(a)(i) Reversionary bonuses (RB)

The following rules are assumed for WPSF business:

- The initial RB rates are shown in Appendix 7.
- When the solvency ratio (including the cost of personal pension mis-selling) is at or above 7%, RB rates are determined by comparing the projected terminal bonus level with the theoretical terminal bonus level that would be consistent with targeting RB rates on 60% of expected future investment returns, net of charges. RB rates are increased if the projected terminal bonus level is too high or decreased if the projected terminal bonus level is too low, compared with a target range.
- If (on the RB declaration month) the solvency level is below 7%, then RB rates are reduced by 50%. If solvency recovers back above 7% then RB rates are assumed to revert back to the full level.

The following additional rules are assumed for SAIF business:

- The calculated RB rates (i.e. determined by projecting the terminal bonus level) are assumed to apply when the solvency ratio (including the cost of personal pension mis-selling) is at or above 10.5%.
- If (on the RB declaration month) the solvency ratio is below 7%, SAIF RB rates are assumed to reduce by 90%. Between 10.5% and 7% solvency ratio, SAIF RB rates are reduced linearly. When the solvency ratio rises above 10.5%, RB rates return to the full level.
- If the WPSF RB rates have been cut by 50%, the SAIF RB rates derived above are also assumed to reduce by a further 50%.

(5)(a)(ii) Smoothing rules

Smoothing costs are determined in line with expected company practice to the extent that this can be modelled (given the practical constraints of stochastic modelling).

The stochastic asset liability model does not hold specific final bonus rates; instead the approach used is to determine:

- the opening claim values by applying a ratio of claim value to asset share to each model point asset share, and

- all future claim values as equal to asset shares, subject to the smoothing of claim values and the reversionary bonus underpin (where applicable).

The claim value between year ends is determined by accumulating the previous year-end smoothed claim value at a rate of return equal to the risk-free rate plus a risk premium (which is the weighted average of the risk premiums for each asset class). The risk premiums are set to the levels shown below, based on expert opinion of the long term levels for each asset class.

Asset Class	**Risk Premium % p.a.**
UK equities	3.25
Overseas equities	3.25
Corporate bonds	1.75
Property	2.50
Cash	(0.50)

In the RCM scenario, the risk-free rate reduces in line with the interest rate event.
The yearly reviews adjust the claim value towards the asset share, as follows:

- If the claim value (before the application of smoothing) is within +/-10% of the target asset share, the smoothed claim value is set equal to the target asset share,
- If the claim value (before the application of smoothing) is outside +/-10% but within +/-20% of the target asset share, the smoothed claim value is moved 10% (of the asset share) closer to the asset share,
- If the claim value (before the application of smoothing) is outside +/-20% but within +/-33% of the target asset share, the smoothed claim value is moved to +/-10% of the asset share,
- If the claim value (before the application of smoothing) is outside +/-33% of the target asset share, the smoothed claim value is moved two thirds of the way to the target asset share.

With-profit immediate annuities, including the ex-ELAS annuities, are constrained such that the year-on-year change in total annuity lies within the range -5% to 11% (before application of the Anticipated Bonus Rate). For Income Choice Annuity business, the year-on-year change in the smoothed annuity is constrained to lie within the range -4% to 12% (before application of the Required Smooth Return).

For PruFund business the model applies the actual rules for smoothed fund price movements. If the smoothed fund price is more than 5% different from the net asset value per unit at a quarter end date then it is moved half-way towards the net asset value per unit. At other times, if the smoothed fund price is more than 10% different from the net asset value per unit then it is moved to 2.5% above or below the net asset value per unit.

In addition to the modelling assumptions described above, smoothing is suspended if the solvency ratio (including the cost of personal pension mis-selling) is less than 6%. That is, for non-annuity business, claim values on maturity or death are set equal to the greater of the guaranteed benefit and the asset share; for other decrements, claim values are set equal to the asset share. For annuity business, there is no limit to the fall in the smoothed annuity when smoothing is suspended. The solvency check is carried out monthly for AWP business and annually for CWP and annuity business, to reflect practical constraints on when claim values can be revised.

The smoothing rules modelled for SAIF are the same as those used for the WPSF.

(5)(a)(iii) Market value reductions (MVRs)

It is assumed that the MVR-free limit to be applied to all AWP business in the sixth and subsequent policy years varies according to the solvency ratio (including the cost of personal pension mis-selling), as follows:

- when the solvency ratio is above 7%, the MVR-free limit is £25,000.
- when the solvency ratio is between 6% and 7%, the MVR-free limit is £10,000.
- when the solvency ratio is below 6%, the MVR-free limit is zero.
- once the MVR-free limit has fallen to £10,000 or zero it does not return to £25,000 until the solvency ratio is at least 10%.

For personal pensions, our current practice is to apply a reducing scale of MVRs on early retirement within six years of the selected retirement date. Reduced MVRs are also reduced to zero on Prudence Bond and PSA by the later of age 85 and in-force duration of 15 years. In both cases, it is assumed that reduced MVRs would be applied only if the solvency ratio (including the cost of personal pension mis-selling) is at or above 7%. When the solvency ratio is below 7%, full MVRs are assumed to be applied.

It is assumed that the maximum MVR for standard policies (as a percentage of the pre-MVR claim value) is capped at 15%, providing the solvency ratio (including the cost of personal pension mis-selling) is at or above 6%. When the solvency ratio is below 6%, the MVR is not capped.

(5)(a)(iv) Frequency of bonus declarations

Bonus declarations are made annually in the modelling. Additional mid-year declarations for AWP business only are made if both:

- the solvency ratio (including the cost of personal pension mis-selling) is less than or equal to 10%, and
- the claim value to asset share ratio is either greater than 125% or less than 75%.

(5)(a)(v) Asset re-balancing and switching

Under "normal" investment conditions the equity backing ratios (EBRs) of the WPSF asset shares (excluding PruFund cautious) and SAIF asset shares are managed as follows:

- the EBR of each fund is allowed to drift in line with investment returns as long as it is within a +/- 5% band around the long term strategic target EBR;
- if the EBR of either fund falls outside this range, it is rebalanced to the long term target by switching between UK equities and bonds at a rate of 2% per month. Rebalancing incurs an investment expense of 1% of the amount rebalanced.

The EBR of the PruFund Cautious asset shares moves in proportion to that of the other WPSF asset shares.

In addition to rebalancing, asset switching (pro rata from UK and overseas equities into corporate bonds) is triggered when the solvency ratio (including the cost of personal pension mis-selling) falls below 6%. The amounts to be switched are determined as follows:

- When the solvency ratio is at or above 6%, UK and overseas equities are assumed to remain at their long-term benchmark proportions (if switching has not yet taken place). If switching has already taken place in the model, switching from corporate bonds back into equities (in order to return to the long-term benchmark) can only occur when the solvency ratio rises above 7%.

- When the solvency ratio falls below 3.5%, UK and overseas equities are assumed to be fully switched into corporate bonds.
- When the solvency ratio is between 6% and 3.5%, the required switch amount is determined by linear interpolation between the limits specified above.

The maximum amount that can be switched in any month is 2% of total assets. Switching incurs an investment expense of 1% of the amount switched.

(5)(a)(vi) Tax on shareholders' transfers

If the solvency ratio (excluding the cost of personal pension mis-selling) is above 6%, tax on shareholders' transfers is assumed to be paid from the WPSF inherited estate. If the solvency ratio (excluding the cost of personal pension mis-selling) falls below 6%, tax on shareholders' transfers is assumed to be paid from shareholders' funds.

(5)(a)(vii) Operation of SAIF

PSALM contains rules to model the SAIF Principles of Financial Management. As well as the rules set out above, this includes:

- recalculating the bonus smoothing charge or allocation applied to SAIF asset shares, with the intention of reducing the balance of the bonus smoothing account to zero over the remaining lifetime of the business;
- recalculating the enhancement factor applied to SAIF asset shares, with the intention of distributing all SAIF assets (including future profits arising in SAIF) to SAIF policyholders over the remaining lifetime of the business; and
- merging SAIF into the WPSF when SAIF assets (including the bonus smoothing account but excluding SACF) fall below £1bn, increased in line with RPI from the date of commencement of the Scottish Amicable scheme (1997).

(5)(b) The proportion of equities and level of reversionary bonus rates projected by PSALM after 5 and 10 years, assuming various specific rates of return, are shown below.

(i) Based on forward rates derived from the risk free interest rate curve

Year	**Rate of return**	**Equity proportion**		**Proportion of initial RB rate**			
		WPSF	**SAIF**	**WPSF Life**	**WPSF Pensions**	**SAIF Life**	**SAIF Pensions**
	%	%	%	%	%	%	%
Current	N/A	47	47	100	100	100	100
5 years	1.22	44	47	100	138	100	100
10 years	1.83	43	43	100	138	100	-

(ii) Based on forward rates plus 17.5% of the long-term gilt yield

Year	**Rate of return**	**Equity proportion**		**Proportion of initial RB rate**			
		WPSF	**SAIF**	**WPSF Life**	**WPSF Pensions**	**SAIF Life**	**SAIF Pensions**
	%	%	%	%	%	%	%
Current	N/A	47	48	100	100	100	100
5 years	1.61	45	48	100	150	100	100
10 years	2.22	43	43	100	150	100	25

(iii) Based on forward rates less 17.5% of the long-term gilt yield

Year	Rate of return	Equity proportion		Proportion of initial RB rate			
		WPSF	SAIF	WPSF Life	WPSF Pensions	SAIF Life	SAIF Pensions
	%	%	%	%	%	%	%
Current	N/A	46	47	100	100	100	100
5 years	0.83	44	47	100	125	100	100
10 years	1.44	42	42	100	125	100	13

The initial reversionary bonus rates are shown in Appendix 7.

(6) A summary of the decrement assumptions is shown in the table below:

Product	Decrement	Average surrender/paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
CWP savings endowment	surrender	3.15%	4.95%	2.70%	2.70%
CWP target cash endowment	surrender	3.15%	4.95%	2.70%	2.70%
UWP savings endowment	surrender	n/a	n/a	n/a	n/a
UWP target cash endowment	surrender	n/a	n/a	n/a	n/a
UWP bond	surrender	2.61%	6.48%	3.96%	3.60%
UWP bond	automatic withdrawals	0.00%	0.00%	0.00%	0.00%
CWP pension regular premium	PUP	1.98%	2.25%	2.25%	2.25%
CWP pension regular premium	surrender	0.00%	0.00%	0.00%	0.00%
CWP pension single premium	surrender	0.00%	0.00%	0.00%	0.00%
UWP individual pension regular premium	PUP	6.84%	5.40%	4.05%	4.05%
UWP individual pension regular premium	surrender	2.25%	2.25%	2.25%	2.25%
UWP individual pension single premium	surrender	1.35%	1.35%	1.35%	1.35%

For SAIF guaranteed annuity options, modelled in PSALM, no decrements are assumed in deferment and 10% of the annuity is assumed to be taken as cash (i.e. the guarantee cost applies only to the remaining 90%).

(7) It is assumed that in extreme adverse market scenarios, the collective actions of policyholders would serve to increase the costs of guarantees and smoothing. This is modelled by assuming that decrement rates will be 10% lower than our current best estimate. The same assumptions are used in both the base valuation and the RCM.

7. Financing costs

Not applicable

8. Other long-term insurance liabilities

No liabilities are shown at line 46 of Form 19. Liabilities shown at line 47 of Form 19 are as follows:

With-profits fund	Description	Amount
		£m
WPSF	Tax payable from the inherited estate in respect of future shareholder transfers from the fund	327
	Pensions mis-selling liabilities	328
	Contingency reserve	200
	SACF capital support fees receivable from SAIF	(43)
	Capital support fees receivable from DCPSF	(48)
	Reserve for compensation in respect of complaints on mortgage endowment policies	13
	Other	50
SAIF	SACF capital support fees payable to the WPSF	43
	Prior year guaranteed annuity premiums provision	-
	Data integrity reserve	16
	Reserve for compensation in respect of complaints on mortgage endowment policies	4
	Other	7
DCPSF	Charges payable to the WPSF	138
	Other	11

9. Realistic current liabilities

The realistic current liabilities shown at line 51 of Form 19 are the same as the regulatory current liabilities (Form 18 line 22) except that the realistic current liabilities exclude the cash bonuses which had not been paid to policyholders at the valuation date. These are included within the asset shares in the Pillar I, Peak 2 valuation.

The reconciliation of realistic to regulatory current liabilities is shown below:

	WPSF £m	SAIF £m	DCPSF £m
Realistic current liabilities (Form 19 line 51)	4,541	350	8
Current liabilities (Form 14 line 49)	4,541	350	8
Unpaid cash bonus (Form 14 line 12)	-	-	-
Regulatory current liabilities (Form 18 line 22)	4,541	350	8

10. Risk capital margin

(a) The risk capital margin is £940m for the WPSF, £49m for SAIF and zero for the DCPSF.

This has been calculated assuming:

(i) a percentage change in market values, in accordance with INSPRU 1.3.68R, of 20.0% for equities and 12.5% for real estate. The assumed percentage changes for each significant territory were the same as for United Kingdom assets. A fall in market values is the more onerous.

(ii) a change in the yields of United Kingdom fixed interest securities, in accordance with INSPRU 1.3.68R of 39 bps. For significant territories, the required change in yields is 42 bps for the United States and 16 bps for the member states of the European Union that have adopted the Euro as their official currency ("the Eurozone"). A fall in yields is the more onerous. On materiality grounds, a fall of 39 bps has been applied for all currencies.

The assumed long-term gilt yields or nearest equivalent are shown below:

Territory	Long-term gilt yield in base valuation %	Long-term gilt yield in RCM %
UK	2.19	1.80
USA	2.37	1.98
Eurozone	0.89	0.50

(iii) in respect of credit risk, average changes in spreads and consequent changes in asset values as follows:

- for bonds, a credit stress in accordance with INSPRU 1.3.84R. The average increases in spreads and corresponding reductions in asset values for all bonds in each asset pool are shown below.

Asset pool	**Increase in spread bps**	**Fall in value %**
WPSF asset shares (excluding PruFund Cautious)	117	7.1%
WPSF PruFund Cautious asset shares	112	6.6%
WPSF other assets	67	3.0%
SAIF asset shares	115	6.6%
SAIF other assets	81	7.3%

- for debts, it is assumed that asset values fall in line with bonds as described above.
- no allowance is made for reinsurance credit risk as the volume of reinsured with-profits business is immaterial.
- no change is assumed for non-reinsurance financing agreements. These are not considered to present a significant credit risk.
- for other debtors reported in lines 78 and 79 of Form 13, it is assumed that asset values fall in line with bonds as described above.

(iv) the impact of the persistency risk scenario is equivalent to an increase in the realistic value of liabilities of 0.0% for the WPSF and 0.9% for SAIF.

(v) that any change in asset values in (iii) is independent of the change in liability values in (iv).

(b) In the risk capital margin calculation the management actions assumed are the same as those set out in 6.(5)(a). There are no changes to other assumptions.

(c) (i) The assets allocated to support the WPBR, FPRL and the reserve for unrealised capital gains reflect the actual mix of the assets backing these liabilities. Current assets are used to support current liabilities. The RCM is backed by surplus fixed interest assets.

(ii) None of the assets held to cover the risk capital margin are outside the fund.

11. Tax

The treatment of tax is set out below.

(i) The investment returns credited to the with-profits benefits reserves include an allowance for tax deducted during 2014 at the rates shown below. Further adjustments may be made from time to time to bring the tax charged to asset shares into line with the aggregate tax actually paid and expected to be paid in the future.

(ii) The future policy related liabilities include allowance for tax on future investment returns and tax relief on expenses at current rates of tax allowing for any likely deferral of tax on capital gains, as shown in the table below.

(iii) The realistic current liabilities include the regulatory reserve for unrealised capital gains.

Source	**Tax Rate**
Franked Investment Income	0.0%
Unfranked Investment Income	20.0%
Capital Gains	20.0%
Initial Expense Relief	15.0%
Renewal Expense Relief	20.0%
Shareholder Transfers (gross business)	25.0%
Shareholder Transfers (net business)	0.0%

12. Derivatives

The WPSF and SAIF held the following major positions in derivative contracts at the valuation date:

- Equity index and fixed income futures. Positions are used either to reflect tactical asset allocation (short term) views around the strategic (long term) benchmark, or as a partial hedge for the WPSF cost of guarantees.
- Equity index options, as a partial hedge for the WPSF cost of guarantees.
- Forward currency contracts and swaps, primarily to hedge currency risk arising from overseas asset exposures.
- Fixed income derivatives positions to better match the liabilities.
- Inflation swaps to match the profile of inflation linked liabilities.
- Index and single name credit default swaps to increase or decrease credit exposure.

13. Analysis of change in working capital

	WPSF £m	SAIF £m
Working capital as at 31 December 2013	8,009	-
Hong Kong transfer from PAC to PHKL	(1,112)	-
Working capital as at 1 January 2014	6,896	-
Reversal of zeroisation for closed funds	-	76
Working capital at 1 January 2014 prior to zeroisation	6,896	76
New business	(107)	-
Emerging experience:		
Claims (smoothing and guarantees)	258	(5)
Expenses	(41)	(7)
Investment return on asset shares	305	(19)
Investment return on other assets	1,156	150
Changes in valuation methods and assumptions:		
Model enhancements	(196)	12
Changes in non-economic assumptions	(91)	(6)
Changes in economic assumptions	(1,255)	(239)
Management actions:		
Changes in asset mix	(92)	1
Non-profit business	344	-
Distribution of inherited estate	-	(22)
Prior year guaranteed annuity premiums provision	-	24
Other factors	(104)	43
Unattributed	86	20
Working capital at 31 December 2014 prior to zeroisation	7,159	28
Zeroisation for closed funds	-	(28)
Closing working capital	7,159	-

14. Optional disclosure

Not applicable

Appendix 6: Values of specified assets

This appendix relates to paragraph 6(4)(a)(iii).

	Asset type	K = 0.75			
	n	5	15	25	35
	Annualised compound equivalent of the risk free rate assumed for the period	1.23%	2.25%	2.65%	2.74%
1	Risk-free zero coupon bond	940,789	716,368	519,535	386,668
2	FTSE All Share Index (p=1)	76,712	193,009	269,431	340,577
3	FTSE All Share Index (p=0.8)	73,329	167,326	213,882	254,157
4	Property (p=1)	32,092	108,505	180,478	251,387
5	Property (p=0.8)	29,893	88,465	134,168	176,786
6	15 year risk free zero coupon bonds (p=1)	6,648	10,639	13,002	22,987
7	15 year risk free zero coupon bonds (p=0.8)	5,837	5,394	3,837	5,016
8	15 year corporate bonds (p=1)	15,551	34,075	51,238	72,184
9	15 year corporate bonds (p=0.8)	14,134	23,517	27,797	33,416
10	Portfolio of 65% FTSE All Share and 35% property (p=1)	44,482	136,778	204,819	273,960
11	Portfolio of 65% FTSE All Share and 35% property (p=0.8)	41,853	114,727	155,930	196,656
12	Portfolio of 65% FTSE All Share and 35% 15 risk free zero coupon bonds (p=1)	30,529	98,250	150,571	208,442
13	Portfolio of 65% FTSE All Share and 35% 15 risk free zero coupon bonds (p=0.8)	28,337	79,049	108,348	140,369
14	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	13,921	53,475	92,889	143,964
15	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	12,559	39,467	59,230	87,201
		L = 15			
16	Receiver swaptions	26.00%	18.27%	14.83%	11.18%

	Asset type	K = 1			
	n	5	15	25	35
	Annualised compound equivalent of the risk free rate assumed for the period	1.23%	2.25%	2.65%	2.74%
1	Risk-free zero coupon bond	x	x	x	x
2	FTSE All Share Index (p=1)	199,434	346,616	440,026	522,798
3	FTSE All Share Index (p=0.8)	192,298	304,758	354,568	396,492
4	Property (p=1)	134,877	243,130	332,465	417,132
5	Property (p=0.8)	128,151	204,567	254,866	301,228
6	15 year risk free zero coupon bonds (p=1)	81,570	94,114	99,418	120,138
7	15 year risk free zero coupon bonds (p=0.8)	75,144	62,682	44,645	44,116
8	15 year corporate bonds (p=1)	102,648	137,586	162,031	191,456
9	15 year corporate bonds (p=0.8)	96,137	103,453	99,757	103,704
10	Portfolio of 65% FTSE All Share and 35% property (p=1)	154,414	277,323	361,964	444,307
11	Portfolio of 65% FTSE All Share and 35% property (p=0.8)	147,520	237,785	282,002	325,526
12	Portfolio of 65% FTSE All Share and 35% 15 risk free zero coupon bonds (p=1)	132,298	228,269	294,819	365,618
13	Portfolio of 65% FTSE All Share and 35% 15 risk free zero coupon bonds (p=0.8)	125,578	190,591	220,412	255,061
14	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	100,493	168,155	223,524	288,454
15	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	93,973	132,388	153,775	185,339
		L = 20			
16	Receiver swaptions	31.37%	22.55%	18.09%	13.62%

	Asset type	K = 1.5			
	n	5	15	25	35
	Annualised compound equivalent of the risk free rate assumed for the period	1.23%	2.25%	2.65%	2.74%
1	Risk-free zero coupon bond	x	x	x	x
2	FTSE All Share Index (p=1)	570,251	722,132	828,538	922,773
3	FTSE All Share Index (p=0.8)	554,818	645,000	681,678	713,260
4	Property (p=1)	524,053	616,417	709,996	802,762
5	Property (p=0.8)	507,551	537,596	564,350	597,994
6	15 year risk free zero coupon bonds (p=1)	503,207	506,816	505,608	513,490
7	15 year risk free zero coupon bonds (p=0.8)	485,451	414,693	336,881	289,585
8	15 year corporate bonds (p=1)	507,588	526,077	537,313	560,140
9	15 year corporate bonds (p=0.8)	490,365	440,378	384,738	355,572
10	Portfolio of 65% FTSE All Share and 35% property (p=1)	535,737	646,579	742,267	833,658
11	Portfolio of 65% FTSE All Share and 35% property (p=0.8)	519,663	569,300	596,803	628,053
12	Portfolio of 65% FTSE All Share and 35% 15 risk free zero coupon bonds (p=1)	520,136	598,447	667,113	741,547
13	Portfolio of 65% FTSE All Share and 35% 15 risk free zero coupon bonds (p=0.8)	503,580	519,673	522,326	541,102
14	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)	506,626	549,384	598,220	663,106
15	Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)	489,317	466,457	449,233	460,316
		L = 25			
16	Receiver swaptions	36.42%	26.25%	20.94%	15.76%

Appendix 7: Initial reversionary bonus rates in stochastic valuation

This appendix relates to paragraph 6(5)(a)(i).

	RB rates **%**
<u>Life & Pensions</u>	
PSA/PIB	2.0
Personal Pensions	2.0
OB assurances	1.2/2.5
IB assurances	1.1/2.3
PPRP	0.10/0.25
<u>Annuities</u>	
WPIA	0.25
Ex-ELAS	0.00
<u>Corporate</u>	
Unitised	2.25
DC Cash Accumulation	1.75[1]
DB Cash Accumulation	1.25[1]
AVC Cash Accumulation	1.75[1]
Pension Savings Plan	1.25
<u>IFA</u>	
Prudence Bond	
- Standard	2.00
- High RB	2.75
Prudential Pensions	2.00
SAL Life	1.75
SAL Pensions	2.13
<u>SAIF</u>	
Principal Endowment	0.8/1.5
Flexipension (series 1)	0.7/1.7
Life	2.0
Pensions – Funds 3 & 4	2.0

[1] *Subject to a guarantee of 4.75%, 2.50% for certain earlier business*

Where two rates are shown, the first is the rate of RB added to the original sum assured and the second is the rate of RB added to existing RB.

Appendix 8: Bonus rates

The tables below show the Reversionary Bonus (RB) rates and the Terminal Bonus (TB) as a proportion of the Sum Assured. This appendix relates to paragraph 5(1)(d).

OB Assurances

RB Rates				
	2014 Actual	2015	2016	Ultimate
RB on SA	1.20%	1.20%	1.20%	1.20%
RB on RB	2.50%	2.50%	2.50%	2.50%

TB as a proportion of Sum Assured					
Term	2014	2015	2016	2017	2018
10	18%	21%	22%	22%	23%
15	39%	44%	46%	40%	38%
20	45%	48%	50%	54%	57%
25	69%	74%	72%	64%	63%
30	69%	74%	74%	67%	72%

PPRP Regular Premium

RB Rates				
	2014	2015	2016	Ultimate
RB on SA	0.10%	0.10%	0.10%	0.10%
RB on RB	0.25%	0.25%	0.25%	0.25%

TB as a proportion of Sum Assured					
Term	2014	2015	2016	2017	2018
10	18%	15%	15%	21%	13%
15	0%	0%	35%	34%	29%
20	0%	0%	0%	0%	0%
25	4%	0%	0%	0%	0%
30	6%	0%	0%	0%	0%

PPRP Single Premium

RB Rates				
	2014	2015	2016	Ultimate
RB on SA	0.10%	0.10%	0.10%	0.10%
RB on RB	0.25%	0.25%	0.25%	0.25%

TB as a proportion of Sum Assured					
Term	2014	2015	2016	2017	2018
10	35%	28%	21%	25%	26%
15	0%	0%	49%	61%	53%
20	11%	0%	0%	0%	0%
25	4%	0%	0%	0%	17%
30	25%	4%	0%	0%	0%

PP Regular Premium

RB Rates				
	2014 Actual	2015	2016	Ultimate
RB rate	2.00%	2.00%	2.00%	2.00%

TB as a proportion of Sum Assured					
Term	2014	2015	2016	2017	2018
10	13%	15%	16%	16%	15%
15	18%	21%	23%	23%	22%

Appendix 9: Forward rates

The table below shows the instantaneous risk-free forward rates used to calibrate the nominal interest rate model. This appendix relates to paragraph 6(4)(a)(ii).

Year	Sterling	
	31 Dec 2014 %	31 Dec 2013 %
0	0.50	0.50
1	0.45	0.54
2	1.02	1.61
3	1.52	2.56
4	1.86	3.25
5	2.09	3.74
6	2.25	4.08
7	2.39	4.31
8	2.51	4.47
9	2.63	4.56
10	2.74	4.59
11	2.86	4.58
12	2.96	4.54
13	3.06	4.47
14	3.15	4.39
15	3.22	4.31
16	3.27	4.22
17	3.30	4.15
18	3.30	4.08
19	3.29	4.02
20	3.26	3.97
21	3.21	3.92
22	3.15	3.88
23	3.09	3.83
24	3.02	3.79
25	2.94	3.75
26	2.94	3.75
27	2.94	3.75
28	2.94	3.75
29	2.94	3.75
30	2.94	3.75
31	2.94	3.75
32	2.94	3.75
33	2.94	3.75
34	2.94	3.75
35	2.94	3.75
36	2.94	3.75
37	2.94	3.75
38	2.94	3.75
39	2.94	3.75
40	2.94	3.75

Appendix 10: Equity volatilities

The table below shows the Sterling, equity volatilities used in the GeneSIS asset model calibration. This appendix relates to paragraph 6(4)(a)(ii).

Year	Sterling
1	22.94%
2	22.08%
3	22.09%
4	22.42%
5	22.58%
6	22.85%
7	23.04%
8	23.14%
9	23.23%
10	23.28%