



Prudential Annuities Limited

Incorporated and Registered in England and Wales Registered number 2554213
Registered Office 142 Holborn Bars London EC1N 2NH

**Annual FSA Insurance Returns for the year ended
31st December 2004**



(Appendices 1 , 3 , 4 , 6)

Prudential Annuities Limited

Year ended 31st December 2004

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

Global business

Financial year ended **31st December 2004**

Solo solvency calculation

Company
registration
number

GL/UK/CM

Period ended
day month year

Units

R2	2554213	GL	31	12	2004	£000
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	As at end of this financial year	As at end of the previous year
	1	2

Capital resources

Capital resources arising within the long-term insurance fund	11	89902	
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	897273	
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	987175	

Guarantee Fund

Guarantee Fund requirement	21	188552	
Excess (deficiency) of available capital resources to cover guarantee Fund requirement	22	798623	

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	565657	
Resilience capital requirement	32		
Base capital resources requirement	33	2087	
Minimum capital requirement	34	565657	
Excess (deficiency) of available capital resources to cover 50% of MCR	35	704347	
Excess (deficiency) of available capital resources to cover 75% of MCR	36	562933	

Enhanced capital requirement

With-profits insurance capital component	37		
Enhanced capital requirement	38	565657	

Capital resources requirement (CRR)

Capital resources requirement (greater of 34 and 38)	41	565657	
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	421518	

Contingent liabilities

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

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2004**

..... **G M Wood** **Chief Executive**

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

..... **T J W Tookey** **Director**

London 24 March 2005

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

Global business

Financial year ended **31st December 2004**

	Company registration number	GL/UK/CM	Period ended			Units	
			day	month	year		
	R3	2554213	GL	31	12	2004	£000
	General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3		As at the end of the previous year 4		

Core tier one capital

Permanent share capital	11		550000	550000	
Profit and loss account and other reserves	12		801235	801235	
Share premium account	13				
Positive valuation differences	14				
Fund for future appropriations	15				
Core tier one in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		1351235	1351235	

Tier one waivers

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

Other tier one

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

Total tier one capital before deductions (19+24+25+26+27+28)	31		1351235	1351235	
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35		362960	362960	
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37		362960	362960	
Total tier one capital after deductions (31-37)	39		988275	988275	

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

Global business

Financial year ended **31st December 2004**

	Company registration number	GL/UK/CM	Period ended			Units	
			day	month	year		
	R3	2554213	GL	31	12	2004	£000
	General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3			As at the end of the previous year 4	

Tier two capital

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

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

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

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

Global business

Financial year ended **31st December 2004**

	Company registration number	GL/UK/CM	Period ended			Units
			day	month	year	
R3	2554213	GL	31	12	2004	£000
	General insurance Business 1	Long-Term insurance Business 2	Total as at the end of this financial year 3			As at the end of the previous year 4

Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71				
Total capital resources before deductions (39+69+71)	72		988275	988275	
Inadmissible assets other than intangibles and own shares	73		1100	1100	
Assets in excess of market risk and counterparty limits	74				
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76				
Total deductions of ineligible surplus	77				
Total capital resources after deductions (72-73-74-76-77)	79		987175	987175	

Available capital resources for PRU tests

Available capital resources for guarantee fund requirement	81		987175	987175	
Available capital resources for 50% MCR requirement	82		987175	987175	
Available capital resources for 75% MCR requirement	83		987175	987175	

Financial engineering adjustments

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

Analysis of admissible assets

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2004**

Category of assets **Total other than long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R13	2554213	GL	31	12	2004	£000	1
				day	month	year			
Investments				As at the end of this financial year			As at the end of the previous year		
				1			2		
Land and buildings				11					
Investments in group undertakings and participating interests	UK insurance business dependants	Shares	21						
		Debt securities issued by, and loans to, dependants	22						
	Other insurance dependants	Shares	23						
		Debt securities issued by, and loans to, dependants	24						
	Non-insurance dependants	Shares	25						
		Debt securities issued by, and loans to, dependants	26						
	Other group undertakings and participating interests	Shares	27						
		Debt securities issued by, and loans to, group undertakings	28						
		Participating interests	29						
		Debt securities issued by, and loans to, undertakings in which the insurer has a participating interest	30						
Total sheet 1 (11 to 30)				39					

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

Global business

Financial year ended **31st December 2004**Category of assets **Total other than long term business assets**

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R13	2554213	GL	31	12	2004	£000	1
Investments (continued)				As at the end of this financial year		As at the end of the previous year		
Deposits with ceding undertakings				1		2		
Assets held to cover linked liabilities								
Other financial investments	Equity shares		41					
	Other shares and other variable yield securities		42					
	Holdings in collective investment schemes		43		1107			
	Rights under derivative contracts		44		627			
	Debt securities and other fixed income securities	Fixed interest	Approved securities	45	499656	464115		
			Other	46	110423	73398		
		Variable interest	Approved securities	47	61661	50443		
			Other	48	204763	207410		
	Participation in investment pools		49					
	Loans secured by mortgages		50					
	Other loans	Loans to public or local authorities and nationalised industries or undertakings		51				
		Loans secured by policies of insurance issued by the company		52				
		Other		53				
	Deposits with approved credit institutions and approved financial institutions	Withdrawal subject to a time restriction of one month or less		54	24652	4970		
		Withdrawal subject to a time restriction of more than one month		55				
	Other		56					
Deposits with ceding undertakings		57						
Assets held to match linked liabilities	Index linked		58					
	Property linked		59					
Reinsurers' share of technical provisions	Provision for unearned premiums		60					
	Claims outstanding		61					
	Provision for unexpired risks		62					
	Other		63					
Total sheet 2 (41 to 63)			69	902889	800336			

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

Global business

Financial year ended **31st December 2004**Category of assets **Total other than long term business assets**

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R13	2554213	GL	31	12	2004	£000	1
Debtors								
Other assets								
						As at the end of this financial year		As at the end of the previous year
						1		2
Debtors arising out of direct insurance operations	Policyholders			71				
	Intermediaries			72				
Salvage and subrogation recoveries				73				
Debtors arising out of reinsurance operations	Due from ceding insurers and intermediaries under reinsurance business accepted			74				
	Due from reinsurers and intermediaries under reinsurance contracts ceded			75				
Other debtors	Due from dependants	Due in 12 months or less after the end of the financial year		76				
		Due more than 12 months after the end of the financial year		77				
	Other	Due in 12 months or less after the end of the financial year		78				129
		Due more than 12 months after the end of the financial year		79				
Tangible assets			80					
Cash at bank and in hand	Deposits not subject to time restriction on withdrawal, with approved credit institutions and approved financial institutions and local authorities			81		1616		51297
	Cash in hand			82				
Other assets (particulars to be specified by way of supplementary note)				83				
Prepayments and accrued income	Accrued interest and rent			84		8126		6097
	Deferred acquisition costs			85				
	Other prepayments and accrued income			86				
Deductions from the aggregate value of assets			87					
Total sheet 3 (71 to 86 less 87)			88			9742		57523
Grand total of admissible assets after deduction of market risk and counterparty limits (39+69+88)			89			912631		857859
Reconciliation to asset values determined in accordance with the insurance accounts rules								
Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)			91			912631		857859
Assets in excess of market and counterparty limits			92					
Capital resources requirement deduction for subsidiary undertakings which are insurance undertakings			93					
Other differences in the valuation of assets (other than for assets not valued above)			94					
Other inadmissible assets			95			1100		
Total assets determined in accordance with the <i>insurance accounts rules</i> (91 to 95)			99			913731		857859
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance			100					

Analysis of admissible assets

Name of insurer **Prudential Annuities Limited**
 Global business
 Financial year ended **31st December 2004**
 Category of assets **Total long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R13	2554213	GL	31	12	2004	£000	10
					day	month	year		
Investments					As at the end of this financial year		As at the end of the previous year		
					1		2		
Land and buildings					11	294391		280438	
Investments in group undertakings and participating interests	UK insurance business dependants	Shares			21				
		Debt securities issued by, and loans to, dependants			22				
	Other insurance dependants	Shares			23				
		Debt securities issued by, and loans to, dependants			24				
	Non-insurance dependants	Shares			25				
		Debt securities issued by, and loans to, dependants			26				
	Other group undertakings and participating interests	Shares			27				
		Debt securities issued by, and loans to, group undertakings			28				
		Participating interests			29				
		Debt securities issued by, and loans to, undertakings in which the insurer has a participating interest			30				
Total sheet 1 (11 to 30)					39	294391		280438	

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

Global business

Financial year ended **31st December 2004**Category of assets **Total long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets		
		R13	2554213	GL	31	12	2004	£000	10	
				day	month	year				
Investments (continued)				As at the end of this financial year			As at the end of the previous year			
Deposits with ceding undertakings				1			2			
Assets held to cover linked liabilities										
Other financial investments	Equity shares			41						
	Other shares and other variable yield securities			42		8			8	
	Holdings in collective investment schemes			43		53227				
	Rights under derivative contracts			44		118117			76064	
	Debt securities and other fixed income securities	Fixed interest	Approved securities	45		2757948			2624089	
			Other	46		8345828			8041245	
		Variable interest	Approved securities	47						
			Other	48		41171				44277
	Participation in investment pools			49						
	Loans secured by mortgages			50		250606			271232	
	Other loans	Loans to public or local authorities and nationalised industries or undertakings		51		516			4728	
		Loans secured by policies of insurance issued by the company		52						
		Other		53		54726			51087	
	Deposits with approved credit institutions and approved financial institutions	Withdrawal subject to a time restriction of one month or less		54		113985			43140	
		Withdrawal subject to a time restriction of more than one month		55						
Other			56							
Deposits with ceding undertakings			57							
Assets held to match linked liabilities	Index linked		58		2056247			1953437		
	Property linked		59							
Reinsurers' share of technical provisions	Provision for unearned premiums		60							
	Claims outstanding		61							
	Provision for unexpired risks		62							
	Other		63							
Total sheet 2 (41 to 63)			69		13792379			13109307		

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

Global business

Financial year ended **31st December 2004**Category of assets **Total long term business assets**

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R13	2554213	GL	31	12	2004	£000	10
Debtors							As at the end of this financial year	As at the end of the previous year
Other assets							1	2
Debtors arising out of direct insurance operations	Policyholders			71		190		202
	Intermediaries			72				
Salvage and subrogation recoveries				73				
Debtors arising out of reinsurance operations	Due from ceding insurers and intermediaries under reinsurance business accepted			74		1166		13994
	Due from reinsurers and intermediaries under reinsurance contracts ceded			75				
Other debtors	Due from dependants	Due in 12 months or less after the end of the financial year		76				
		Due more than 12 months after the end of the financial year		77				
	Other	Due in 12 months or less after the end of the financial year		78		5791		6659
		Due more than 12 months after the end of the financial year		79				
Tangible assets			80					
Cash at bank and in hand	Deposits not subject to time restriction on withdrawal, with approved credit institutions and approved financial institutions and local authorities			81		33814		
	Cash in hand			82				
Other assets (particulars to be specified by way of supplementary note)				83				
Prepayments and accrued income	Accrued interest and rent			84		204799		194946
	Deferred acquisition costs			85				
	Other prepayments and accrued income			86		22706		24035
Deductions from the aggregate value of assets				87				
Total sheet 3 (71 to 86 less 87)				88		268466		239836
Grand total of admissible assets after deduction of market risk and counterparty limits (39+69+88)				89		14355236		13629581
Reconciliation to asset values determined in accordance with the insurance accounts rules								
Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)				91		14355236		13629581
Assets in excess of market and counterparty limits				92				
Capital resources requirement deduction for subsidiary undertakings which are insurance undertakings				93				
Other differences in the valuation of assets (other than for assets not valued above)				94				4882
Other inadmissible assets				95				
Total assets determined in accordance with the <i>insurance accounts rules</i> (91 to 95)				99		14355236		13634463
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance				100				

Long term insurance business liabilities and marginsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2004**Category of assets **Total long term business assets**

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets
			day	month	year		
R14	2554213	GL	31	12	2004	£000	10
			As at the end of this financial year 1	As at the end of the previous year 2			Source
Mathematical reserves, after distribution of surplus	11	14141806	13488950				See Instruction 2
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12						See Instruction 3
Balance of surplus/(valuation deficit)	13	50000	50000				See Instruction 4
Long term insurance business fund carried forward (11 to 13)	14	14191806	13538950				See Instruction 5
Claims outstanding which had fallen due for payment before the end of the financial year	Gross amount	15	16528	13051			
	Reinsurers' share	16					
	Net (15-16)	17	16528	13051			
Provisions for other risks and charges	Taxation	21					
	Other	22					
Deposits received from reinsurers	23						
Creditors and other liabilities	Arising out of insurance operations	Direct insurance business	31		3288		
		Reinsurance accepted	32		1		
		Reinsurance ceded	33				
	Debenture loans	Secured	34				
		Unsecured	35				
	Amounts owed to credit institutions	36		27218			
	Other creditors	Taxation	37	5070	5287		
		Other	38	99794	39912		
Accruals and deferred income	39	2136	1874				
Provision for "reasonably foreseeable adverse variations"	41						
Total other insurance and non-insurance liabilities (17 to 41)	49	123528	90631				
Excess of the value of net admissible assets	51	39902				See Instruction 6	
Total liabilities and margins	59	14355236	13629581				
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	1650	1495				
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62						
Amount of any additional mathematical reserves included in line 51 which have been taken into account in the appointed actuary's certificate	63					See Instruction 7	

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

Global business

Financial year ended **31st December 2004**

		Company registration number	GL/UK/CM	Period ended			Units		
		R15	2554213	GL	31	12	2004	£000	
				day month year					
				As at the end of this financial year 1			As at the end of the previous year 2		
Technical provisions (gross amount)	Provision for unearned premiums			11					
	Claims outstanding			12					
	Provision for unexpired risks			13					
	Equalisation provisions	Credit business			14				
		Other than credit business			15				
	Other			16					
Total (11 to 16)				19					
Provisions for other risks and charges	Taxation			21					
	Other			22					
Deposits received from reinsurers				31					
Creditors	Arising out of insurance operations	Direct insurance business			41				
		Reinsurance accepted			42				
		Reinsurance ceded			43				
	Debenture loans	Secured			44				
		Unsecured			45				
	Amounts owed to credit institutions				46				
	Other creditors	Taxation			47	13647		10778	
		Recommended dividend			48				
		Other			49	1711		1522	
Accruals and deferred income				51					
Total (19 to 51)				59	15358		12300		
Provision for "reasonably foreseeable adverse variations"				61					
Cumulative preference share capital				62					
Subordinated loan capital				63					
Total (59 to 63)				69	15358		12300		
Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance				71					

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

Global business

Financial year ended **31st December 2004**

		Company registration number	GL/UK/CM	Period ended			Units	
				day	month	year		
		R16	2554213	GL	31	12	2004	£000
		This financial year		Previous year		Source		
		1		2		<	>	?
Transfer (to)/from the general insurance business technical account	From Form 20	11				20 . 59		
	Equalisation provisions	12						
Transfer from the long term insurance business revenue account		13			49413	40 . 26		
Investment income	Income	14	42318		35072			
	Value re-adjustments on investments	15	27893					
	Gains on the realisation of investments	16	4404		11857			
Investment charges	Investment management charges, including interest	17	839		496			
	Value re-adjustments on investments	18			5460			
	Loss on the realisation of investments	19						
Allocated investment return transferred to the general insurance business technical account		20				20 . 51		
Other income and charges (particulars to be specified by way of supplementary note)		21	(280)		(255)			
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)		29	73496		90131			
Tax on profit or loss on ordinary activities		31	20682		27450			
Profit or loss on ordinary activities after tax (29-31)		39	52814		62681			
Extraordinary profit or loss (particulars to be specified by way of supplementary note)		41						
Tax on extraordinary profit or loss		42						
Other taxes not shown under the preceding items		43						
Profit or loss for the financial year (39+41-(42+43))		49	52814		62681			
Dividends (paid and proposed)		51						
Profit or loss retained for the financial year (49-51)		59	52814		62681			

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

Global business

Insurance Business **Other than long term**Financial year ended **31st December 2004**Category of assets **Total other than long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R17	2554213	GL	31	12	2004	£000	1
		As at the end of this financial year			As at the end of the previous year				
		Assets 1	Liabilities 2	Assets 3	Liabilities 4				
Derivative contracts									
Futures contracts	Fixed-interest securities	11							
	Equity shares	12							
	Land	13							
	Currencies	14							
	Other	15							
Options	Fixed-interest securities	21							
	Equity shares	22							
	Land	23							
	Currencies	24							
	Other	25							
Contracts for differences	Fixed-interest securities	31							
	Equity shares	32							
	Land	33							
	Currencies	34							
	Other	35	627	563				1487	
Adjustments for variation margin		41							
Total (11 to 41)		49	627	563				1487	

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

Global business

Insurance Business **Long term**Financial year ended **31st December 2004**Category of assets **Total long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R17	2554213	GL	31	12	2004	£000	10
		As at the end of this financial year			As at the end of the previous year				
		Assets 1	Liabilities 2	Assets 3	Liabilities 4				
Derivative contracts									
Futures contracts	Fixed-interest securities	11							
	Equity shares	12							
	Land	13							
	Currencies	14							
	Other	15							
Options	Fixed-interest securities	21							
	Equity shares	22							
	Land	23							
	Currencies	24							
	Other	25							
Contracts for differences	Fixed-interest securities	31							
	Equity shares	32							
	Land	33							
	Currencies	34	46682	3138	20886	2449			
	Other	35	71435	41527	55178	35865			
Adjustments for variation margin		41							
Total (11 to 41)		49	118117	44665	76064	38314			

Long term insurance business : Revenue accountName of insurer **Prudential Annuities Limited**

Global business

Ordinary insurance business

Financial year ended **31st December 2004**Name and number of fund/Summary **Summary**

	Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/Summary	No of part of Fund
			day	month	year				
R40	2554213	GL	31	12	2004	£000	OB	99	0
Items to be shown net of reinsurance ceded						The financial year	Previous year		
						1	2		
Earned premiums					11	363786	836764		
Investment income receivable before deduction of tax					12	817207	795837		
Increase (decrease) in the value of non-linked assets brought into account					13	413931	201946		
Increase (decrease) in the value of linked assets					14				
Other income					15				
Total income (11 to 15)					19	1594924	1834547		
Claims incurred					21	910548	879546		
Expenses payable					22	31520	38797		
Interest payable before deduction of tax					23		7		
Taxation					24				
Other expenditure					25				
Transfer to (from) non technical account					26		49413		
Total expenditure (21 to 26)					29	942068	967763		
Increase (decrease) in fund in financial year (19-29)					39	652856	866784		
Fund brought forward					49	13538950	12672166		
Fund carried forward (39+49)					59	14191806	13538950		

Long term insurance business : Revenue accountName of insurer **Prudential Annuities Limited**

Global business

Ordinary insurance business

Financial year ended **31st December 2004**Name and number of fund/Summary **Ordinary Branch Long Term 1**

	Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/ Summary	No of part of Fund
			day	month	year				
R40	2554213	GL	31	12	2004	£000	OB	1	0
Items to be shown net of reinsurance ceded						The financial year	Previous year		
						1	2		
Earned premiums						11	363786	836764	
Investment income receivable before deduction of tax						12	817207	795837	
Increase (decrease) in the value of non-linked assets brought into account						13	413931	201946	
Increase (decrease) in the value of linked assets						14			
Other income						15			
Total income (11 to 15)						19	1594924	1834547	
Claims incurred						21	910548	879546	
Expenses payable						22	31520	38797	
Interest payable before deduction of tax						23		7	
Taxation						24			
Other expenditure						25			
Transfer to (from) non technical account						26		49413	
Total expenditure (21 to 26)						29	942068	967763	
Increase (decrease) in fund in financial year (19-29)						39	652856	866784	
Fund brought forward						49	13538950	12672166	
Fund carried forward (39+49)						59	14191806	13538950	

Long term insurance business : Analysis of premiums and expensesName of insurer **Prudential Annuities Limited**

Global business

Ordinary insurance business

Financial year ended **31st December 2004**Name and number of fund/Summary **Summary**

		Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/Summary	No of part of Fund	
		R41	2554213	GL	31	12	2004	£000	OB	99	0
					Gross		Payable to or recoverable from reinsurers	Net of reinsurance (1-2)			
					1		2	3			
Earned premiums in the financial year	Life assurance and general annuity contracts	Single premium		11							
		Regular premium		12							
	Pension business contracts	Single premium		13		363786			363786		
		Regular premium		14							
	Permanent health contracts	Single premium		15							
		Regular premium		16							
	Other contracts	Single premium		17							
		Regular premium		18							
	Total premiums	Single premium		19		363786			363786		
		Regular premium		29							
Total premiums at lines 19 and 29 attributable to	UK contracts		31		363786			363786			
	Overseas contracts		32								
Expenses payable in the financial year	Commission payable in connection with acquisition of business			41		8			8		
	Other commission payable			42							
	Management expenses in connection with acquisition of business			43		3676			3676		
	Management expenses in connection with maintenance of business			44		25407			25407		
	Other management expenses			45		2429			2429		
	Total expenses (41 to 45)			49		31520			31520		
	Total expenses at line 49 attributable to	UK contracts		51		31520			31520		
Overseas contracts		52									

Long term insurance business : Analysis of premiums and expensesName of insurer **Prudential Annuities Limited**

Global business

Ordinary insurance business

Financial year ended **31st December 2004**Name and number of fund/Summary **Ordinary Branch Long Term 1**

	Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/Summary	No of part of Fund	
			day	month	year					
	R41	2554213	GL	31	12	2004	£000	OB	1	0
						Gross	Payable to or recoverable from reinsurers	Net of reinsurance (1-2)		
						1	2	3		
Earned premiums in the financial year	Life assurance and general annuity contracts	Single premium	11							
		Regular premium	12							
	Pension business contracts	Single premium	13			363786			363786	
		Regular premium	14							
	Permanent health contracts	Single premium	15							
		Regular premium	16							
	Other contracts	Single premium	17							
		Regular premium	18							
	Total premiums	Single premium	19			363786			363786	
		Regular premium	29							
Total premiums at lines 19 and 29 attributable to	UK contracts	31			363786			363786		
	Overseas contracts	32								
Expenses payable in the financial year	Commission payable in connection with acquisition of business		41			8			8	
	Other commission payable		42							
	Management expenses in connection with acquisition of business		43			3676			3676	
	Management expenses in connection with maintenance of business		44			25407			25407	
	Other management expenses		45			2429			2429	
	Total expenses (41 to 45)		49			31520			31520	
	Total expenses at line 49 attributable to	UK contracts	51			31520			31520	
		Overseas contracts	52							

Long term insurance business : Analysis of claimsName of insurer **Prudential Annuities Limited**

Global business

Ordinary insurance business

Financial year ended **31st December 2004**Name and number of fund/Summary **Summary**

		Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/Summary	No of part of Fund	
		R42	2554213	GL	31	12	2004	£000	OB	99	0
Claims incurred in the financial year					Gross		Recoverable from reinsurers	Net of reinsurance (1-2)			
					1	2	3				
Life assurance and annuity contracts	On death	11									
	By way of lump sums on maturity	12									
	By way of annuity payments	13									
	By way of payments arising from other insured events	14									
	On surrender or partial surrender	15									
	Total life assurance and annuity claims (11 to 15)	19									
Pension business contracts	On death	21			1190				1190		
	By way of lump sums on vesting	22			3636					3636	
	By way of vested annuity payments	23			902290		210			902080	
	On surrender or partial surrender	24			3642					3642	
	Total pension business claims (21 to 24)	29			910758		210			910548	
Permanent health contracts	By way of lump sums	31									
	By way of periodical payments	32									
	Total permanent health claims (31+32)	39									
Other contracts	By way of lump sums	41									
	By way of periodical payments	42									
	Total claims (41+42)	49									
Total claims (19+29+39+49)		59			910758		210			910548	
Total claims at line 59 attributable to	UK contracts	61			910758		210			910548	
	Overseas contracts	62									

Long term insurance business : Analysis of claimsName of insurer **Prudential Annuities Limited**

Global business

Ordinary insurance business

Financial year ended **31st December 2004**Name and number of fund/Summary **Ordinary Branch Long Term 1**

		Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/Summary	No of part of Fund	
		R42	2554213	GL	31	12	2004	£000	OB	1	0
Claims incurred in the financial year					Gross		Recoverable from reinsurers	Net of reinsurance (1-2)			
					1		2	3			
Life assurance and annuity contracts	On death	11									
	By way of lump sums on maturity	12									
	By way of annuity payments	13									
	By way of payments arising from other insured events	14									
	On surrender or partial surrender	15									
	Total life assurance and annuity claims (11 to 15)	19									
Pension business contracts	On death	21			1190				1190		
	By way of lump sums on vesting	22			3636				3636		
	By way of vested annuity payments	23			902290		210		902080		
	On surrender or partial surrender	24			3642				3642		
	Total pension business claims (21 to 24)	29			910758		210		910548		
Permanent health contracts	By way of lump sums	31									
	By way of periodical payments	32									
	Total permanent health claims (31+32)	39									
Other contracts	By way of lump sums	41									
	By way of periodical payments	42									
	Total claims (41+42)	49									
Total claims (19+29+39+49)		59			910758		210		910548		
Total claims at line 59 attributable to	UK contracts	61			910758		210		910548		
	Overseas contracts	62									

Long term insurance business : Summary of changes in ordinary long term businessName of insurer **Prudential Annuities Limited**

Global business

United Kingdom business

Non-linked

Financial year ended **31st December 2004**

	Company registration number	GL/UK/CM	Period ended			Units	UK/OS	NL/LN	
			day	month	year				
	R46	2554213	GL	31	12	2004	£000	UK	NL
	Life assurance and general annuity		Pensions business		Permanent health		Other business		
	No of contracts	Annual premiums	No of contracts	Annual premiums	No of contracts	Annual premiums	No of contracts	Annual premiums	
	1	2	3	4	5	6	7	8	
In force at beginning of year	11		604839						
New business and increases	12		24554						
Net transfers and other alterations 'on'	13		711						
Total 'on' (12+13)	19		25265						
Deaths	21		14135						
Other insured events	22								
Maturities	23								
Surrenders	24								
Forfeitures	25								
Conversions to paid-up policies for reduced benefits	26								
Net transfers, expiries and other alterations 'off'	27		1075						
Total 'off' (21 to 27)	29		15210						
In force at end of year (11+19-29)	39		614894						

Long term insurance business : Summary of changes in ordinary long term businessName of insurer **Prudential Annuities Limited**

Global business

United Kingdom business

Linked

Financial year ended **31st December 2004**

		Company registration number		GL/UK/CM	Period ended			Units	UK/OS	NL/LN
		R46	2554213		GL	day	month			
		Life assurance and general annuity		Pensions business		Permanent health		Other business		
		No of contracts	Annual premiums	No of contracts	Annual premiums	No of contracts	Annual premiums	No of contracts	Annual premiums	
		1	2	3	4	5	6	7	8	
In force at beginning of year	11			35007						
New business and increases	12			1540						
Net transfers and other alterations 'on'	13			205						
Total 'on' (12+13)	19			1745						
Deaths	21			1820						
Other insured events	22									
Maturities	23									
Surrenders	24									
Forfeitures	25									
Conversions to paid-up policies for reduced benefits	26									
Net transfers, expiries and other alterations 'off'	27			416						
Total 'off' (21 to 27)	29			2236						
In force at end of year (11+19-29)	39			34516						

Long term insurance business : Analysis of new ordinary long term business

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2004**Company
registration
number

GL/UK/CM

Period ended

day month year

Units

R47	2554213	GL	31	12	2004	£000
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Type of insurance 1	Single premium contracts			Regular premium contracts		
	No of contracts 2	Premiums 3	Sums assured, annuities per annum or other measures of benefit 4	No of contracts 5	Annual premiums 6	Sums assured, annuities per annum or other measures of benefit 7
UK DIRECT WRITTEN INSURANCE BUSINESS						
Pension Insurance Business						
Non-Linked Non-Profit Policies						
Annuity in payment	1237	10066	507 pa			
Group deferred annuity	1	507	25 pa			
Sub total: Non-Linked Non-Profit Policies	1238	10573	532 pa			
Index Linked Contracts						
Annuity in payment	996	3542	331 pa			
Group deferred annuity		1196				
Sub total: Index Linked Contracts	996	4738	331 pa			
Total: Pension Insurance Business	2234	15311	863 pa			
Total: UK Direct Written Insurance Business	2234	15311	863 pa			

Long term insurance business : Analysis of new ordinary long term business

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2004**Company
registration
number

GL/UK/CM

Period ended

day month year

Units

R47	2554213	GL	31	12	2004	£000
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Type of insurance 1	Single premium contracts			Regular premium contracts		
	No of contracts 2	Premiums 3	Sums assured, annuities per annum or other measures of benefit 4	No of contracts 5	Annual premiums 6	Sums assured, annuities per annum or other measures of benefit 7
UK REINSURANCE ACCEPTED						
Pension Insurance Business						
Non-Linked Non-Profit Policies						
Annuity in payment	23317	343069	24079 pa			
Group deferred annuity	1	114	7 pa			
Sub total: Non-Linked Non-Profit Policies	23318	343183	24086 pa			
Index Linked Contracts						
Annuity in payment	544	5283	755 pa			
Deferred annuities		9	1 pa			
Sub total: Index Linked Contracts	544	5292	756 pa			
Total: Pension Insurance Business	23862	348475	24842 pa			
Total: UK Reinsurance Accepted	23862	348475	24842 pa			

Long term insurance business : Expected income from admissible assets not held to match liabilities in respect of linked benefits

Name of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2004**

Category of assets **Total long term business assets**

Type of asset	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R48	2554213	GL	31	12	2004	£000	10
			Value of admissible assets as shown on Form 13 1		Expected income from admissible assets 2		Yield % 3	
Land and buildings		11	294391		18245		5.66	
Fixed interest securities	Approved securities	12	2799780		148613		4.76	
	Other	13	8503918		525330		5.75	
Variable interest and variable yield securities (excluding items shown at line 16)	Approved securities	14						
	Other	15	41983		2404		5.96	
Equity shares and holdings in collective investment schemes		16	53227		1112		2.09	
Loans secured by mortgages		17	252584		18048		5.85	
All other assets	Producing income	18	325703		9572		4.45	
	Not producing income	19	27403					
Total (11 to 19)		29	12298989		723324		5.45	

Long term insurance business : Analysis of admissible fixed interest and variable interest and variable yield securities not held to match liabilities in respect of linked benefitsName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2004**Category of assets **Total long term business assets**Company
registration
number

GL/UK/CM

Period ended

day month year

Units

Category
of assets

R49	2554213	GL	31	12	2004	£000	10
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Redemption period in years			Value of admissible assets as shown on Form 13 1	Gross redemption yield % 2	Value of admissible higher yielding assets 3		Value of admissible assets as shown on Form 13 4	Gross redemption yield % 5	Value of admissible higher yielding assets 6
One year or less	11	Fixed interest approved securities				Variable interest and variable yield approved securities excluding equities			
More than one year but not more than five years	12		56890	5.02	3398				
More than five years but not more than ten years	13		87138	4.85					
More than ten years but not more than fifteen years	14		380021	5.11					
More than fifteen years but not more than twenty years	15		551395	4.84					
More than twenty years but not more than twenty five years	16		952983	4.74					
More than twenty five years	17		578410	4.65					
Irredeemable	18		192943	4.67					
Total (11 to 18)	19		2799780	4.76	3398				
One year or less	21	Other fixed interest securities	21962	4.86	395	Other variable interest and variable yield securities excluding equities			
More than one year but not more than five years	22		229594	5.71	12362				
More than five years but not more than ten years	23		819520	5.74	16322				
More than ten years but not more than fifteen years	24		1140333	5.71	46747				
More than fifteen years but not more than twenty years	25		1943328	5.83	128167		41983	5.96	
More than twenty years but not more than twenty five years	26		1660817	5.84	80524				
More than twenty five years	27		2197208	5.46	13291				
Irredeemable	28		491156	6.35					
Total (21 to 28)	29		8503918	5.75	297808	41983	5.96		

PRUDENTIAL ANNUITIES LIMITED

Appendix 9.4

Valuation Report on Prudential Annuities Limited as at 31 December 2004

1. Date of investigation

The investigation relates to 31 December 2004.

2. Date of previous investigation

The previous investigation related to 31 December 2003.

3. Conformity with PRU 7.3.10R

The valuation of long term insurance business liabilities is in conformity with PRU 7.3.10R of the Integrated Prudential Sourcebook.

4. Description of non-linked contracts

(1) (c) Categories of in force non-linked business are as follows:

i) Annuities in payment

These are non-profit annuities, written on either a single life or joint life and last survivor basis, which provide a level series of payments throughout the life of the annuitant(s), reducing where appropriate on the death of the first life, or incorporate a provision for payments to increase annually at a guaranteed rate. The annuity may incorporate a minimum guaranteed period of payment and may be enhanced where the policyholder suffers from a range of medical conditions that have an adverse impact on life expectancy.

ii) Deferred annuities

These are non-profit deferred annuities, written on either a single life or joint life and last survivor basis, which are either single premium or fully paid-up contracts. Benefits are expressed as amounts of deferred annuity per annum payable at retirement. The benefit at retirement may be a level series of payments throughout the life of the annuitant(s), reducing where appropriate on the death of the first life, or incorporate a provision for payments to increase annually at a guaranteed rate. The annuity may incorporate a minimum guaranteed period of payment starting at retirement. On death before the end of the deferred period, a lump sum or dependant's annuity may be payable.

Valuation Report as at 31 December 2004 (continued)

5. Description of linked contracts.

(1) (a) RPI-linked annuities.

(b) These contracts are classified as: United Kingdom pensions business; Business is written directly, and reinsurance is accepted and ceded. Non-profit annuities in payment and in deferment.

(c) These are all single premium contracts.

(d) These are non-profit annuities, written on either a single life or joint life and last survivor basis, which provide a series of payments throughout the life of the annuitant(s), reducing where appropriate on the death of the first life, and which are revalued, annually, in line with the Retail Price Index. In some cases the annuity may incorporate a minimum guaranteed period of payment, the revaluation may have a maximum and/or minimum percentage increase, and the annuity may be enhanced where the policyholder suffers from a range of medical conditions that have an adverse impact on life expectancy.

One bulk scheme written by the company includes annuities in payment and deferred annuities, where the benefits are as described above and in 6(1)(h)(2). This scheme also includes a surplus account, termed the Annuity Credit Fund (ACF), can be used to uplift members' benefits in line with annuity rates that were in force at the date the scheme was sold. This benefit has been valued in line with the main scheme benefits.

(e) There are no guaranteed investment returns other than those implicit in the guaranteed annuity benefit.

(f) The guaranteed annuity benefit is calculated incorporating an allowance for initial and renewal expenses and commission.

(g) Not applicable.

(h) Not applicable.

(i) See (d) above.

(j) None.

(k) The contract was open to new business during the year to the valuation date.

(l) Not applicable.

(2) No linked contract contains a with-profits option.

Valuation Report as at 31 December 2004 (continued)

- (3) Not applicable.
- (4) Not applicable.
- (5) Not applicable.
- (6) Not applicable.

6. Valuation principles and methods

- (1) The mathematical reserve for annuities in payment is the present value of the annuities.

The mathematical reserve for RPI-linked annuities is, in general, determined without an explicit allowance for future increases in annuity payments, which is consistent with the treatment of the matching assets. The treatment of RPI-linked annuities which are subject to maximum and/or minimum percentage annual increases is described in 6(1)(h) below.

The mathematical reserve for non-profit deferred annuities is the present value of the annuity secured to date.

In particular, the following principles have been observed:

- (a) Derivative contracts held as at 31 December 2004 comprised:
 - i) Contracts to swap US dollars for UK sterling LIBOR plus a fixed margin;
 - ii) Contracts to swap UK sterling LIBOR for fixed UK sterling;
 - iii) Contracts to swap fixed UK sterling for UK sterling LIBOR
 - iv) Contracts to swap fixed US dollars for fixed UK sterling
 - v) Contracts to swap fixed US dollars for US dollar LIBOR
 - vi) Contracts to swap US dollar LIBOR for UK sterling LIBOR
 - vii) A contract to swap fixed euros for fixed UK sterling
 - viii) Contracts to swap future income increasing at a fixed rate each year for income varying in line with changes in RPI/LPI (RPI subject to minimum and maximum increases)
 - ix) A contract to swap future floating UK sterling LIBOR for UK inflation linked cashflows

The effect of the contracts under i), iv), v) and vi) is to convert cashflows from US dollar denominated bonds into fixed UK sterling cashflows.

The effect of the contracts under iii) combined with contracts under ii) is to lengthen the duration of fixed UK sterling cashflows.

The effect of the contract under vii) is to convert cashflows from euro denominated bonds into UK sterling cashflows.

Valuation Report as at 31 December 2004 (continued)

The effect of the contract under viii) is to convert fixed UK sterling cashflows into RPI linked UK sterling cashflows.

The effect of the contract under ix) is to convert future UK LIBOR sterling cashflows into inflation linked UK sterling cashflows.

The cashflows involved in these arrangements were included in the aggregate cashflows from the portfolio, to give the aggregate yield on the portfolio. This is in accordance with a waiver under section 148 of the Financial Services and Markets Act 2000 which was originally issued in December 1995 as a section 68 order under the Insurance Companies Act 1982.

- (b) Not applicable.
- (c) The net premium method has not been used.
- (d) There are no contracts where negative values could arise.
- (e) No reserve for future bonuses is required.
- (f) No provision for any prospective liability for tax on unrealised capital gains has been included in the mathematical reserves since the Company transacts pension business only and no capital gains tax liability is expected to arise.
- (g) Not applicable.
- (h) As described in 5(1)(d), some RPI-linked annuities are subject to maximum and minimum percentage increases. These fall into the following categories:
 - (1) RPI-linked annuities subject to a minimum annual increase of 0% and a maximum annual increase of 5%. For valuation purposes these are treated as being identical to normal RPI-linked annuities.
 - (2) RPI-linked annuities subject to a minimum annual increase of 2.5% and a maximum annual increase of 5%. For valuation purposes these are treated as annuities with fixed 5% annual increases.
 - (3) RPI-linked annuities subject to a minimum annual increase of 4% and a maximum annual increase of 8.5%. For valuation purposes these are treated as annuities with fixed 8.5% annual increases.
 - (4) RPI-linked annuities subject to a minimum annual increase of 3%. For valuation purposes these are treated as annuities with fixed 6% annual increases.

Valuation Report as at 31 December 2004 (continued)

Although valued as fixed annuities, the annuities described under (2), (3) and (4) are included in these returns as linked business. Thus, in particular, Form 56 includes sufficient fixed interest assets to match the corresponding liabilities.

The company has also written deferred annuities where benefits include revaluation in deferment in line with RPI, followed by fixed escalations in payment. The revaluation in deferment is generally subject to a minimum annual increase of 0% and a maximum annual increase of 5%. For valuation purposes these are treated as annuities with fixed 5% annual revaluation throughout the deferred period followed by the actual fixed escalation in payment. These annuities are included in these returns as non-linked business.

- (i) A cashflow mismatch reserve of £154.1m was held to allow for the reinvestment and liquidity risk that exists to the extent that the assets and liabilities of the company are not exactly matched. This reserve was set at a level which was sufficient to ensure that it covered the results of projecting:
 - (i) the risk adjusted cashflows of the assets backing the liabilities, and;
 - (ii) the future liability payments on the valuation assumptions.

In any year where asset income exceeds liability outgo, the excess is assumed to be invested in a cash asset, and this cash asset is assumed to accumulate at 97.5% of the maximum reinvestment rate specified in PRU 4.2.45R. In any year when asset income is insufficient to meet liabilities, the cash reserve is used to meet the shortfall. In the event that the cash reserve is reduced to zero, then the shortfall is assumed to be borrowed at a rate 2% higher than the maximum reinvestment rate.

- (j) The mathematical reserves include £5.5m in respect of counterparty risks in connection with derivative contracts. The reserve is assessed based on counterparty exposure limits and arrangements for the use of collateral allowing for defaults in line with AA rated senior unsecured stock over the maximum outstanding term for each counterparty.

The additional reserves include an allowance for general contingencies.

- (2) Not applicable.

7. Interest, mortality bases, resilience, etc.

- (1) See Forms 51 and 54 and the notes to these forms. Enhanced annuities are valued using the tables specified in note 5101, but include a policy specific age adjustment to the mortality table used.
- (2) The mortality tables used are published tables.

Valuation Report as at 31 December 2004 (continued)

- (3) All business is written in the UK and UK-based mortality tables have been used.
- (4) Annuities are generally valued using a percentage of the 92 series (year of birth) tables for annuitants and pensioners. In order to allow for mortality improvement, the CMIR 17 mortality improvement factors are applied up to and including 2004. Future improvement factors are applied from 2005, and for males are in line with 100% of the CMI medium cohort projections, subject to future improvement factors being not less than 1.25% p.a. For females, future improvement factors are in line with 75% of the CMI medium cohort projections, subject to future improvement factors not being less than 0.75% p.a. For some annuity contracts in deferment, a calendar year table was used; for these contracts a further deduction of 0.35% from the valuation rate of interest has been made during the deferred period, to allow for expected mortality improvements prior to vesting.
- (5) No allowance is made or reserve is held, in addition to the assumptions in 7 (4) above, in respect of possible changes in the incidence of disease or development in medical science.
- (6) The most onerous scenario under PRU 4.2.16R was:
 - (i) a fall in property values of 20% plus a fall in rental income of 10%.
 - (ii) a fall in yield on all fixed interest securities of 0.92%, which is the percentage point fall equal to 20% of the long-term gilt yield at the valuation date.

In addition to the scenarios specified in PRU 4.2.16R, this test also included an immediate fall of 25% in the real yield on index-linked bonds.

The effect of the swap contracts described in 6(1)(a)(iii) is to produce RPI / LPI linked sterling cashflows, and the scenarios have been tested against the aggregate yield of the non linked assets and the associated swap contract.

As the effect of the derivatives described in 6 (1) (a) i) and iv) is to produce fixed UK sterling cashflows, irrespective of future exchange rates, the scenarios have been tested against the aggregate yield of the US dollar assets and their associated derivatives, using the methodology of the 148 waiver (originally issued as a section 68 order in December 1995).

Similarly, the effect of the swap contracts described in 6 (1) (a) viii) is to produce RPI / LPI linked sterling cashflows, and the scenarios have been tested against the aggregate yield of the non linked assets and their associated swap contracts.

Valuation Report as at 31 December 2004 (continued)

- (7) There were no significant territories at the valuation date.
- (8) In respect of the scenario described under (6) above;
 - (a) No resilience capital requirement was necessary.
 - (b) The increase in the aggregate amount of the long-term insurance liabilities was £1,497.8m.
 - (c) The increase in the aggregate amount of assets backing these liabilities was £1,512.6m.
- (9) Liabilities are all in sterling. There are some US dollar and euro denominated assets; these assets with their associated derivatives produce income in UK sterling. See 6(1)(a) for details.

8. Valuation of non linked business

- (a) Not applicable.
- (b) See Form 51.
- (c) Not applicable.
- (d) Not applicable.

9. Valuation of linked business

- (a) See Form 54 and 6 (1) above.
- (b) A reserve equal to the present value of future expenses as described in paragraph 10(1) below.

10. Expenses

- (1) The expense reserve held was calculated by applying the percentage expense loadings, as specified in note 5101, to the annual annuity amount.

These percentages are broadly equivalent to a per policy expense loading of £25 p.a. for immediate annuities and deferred annuities in payment, £5p.a. for deferred annuities during the deferred period and an expense inflation assumption of 3.5% p.a.

Valuation Report as at 31 December 2004 (continued)

Investment management expenses are allowed for by deducting 0.1% from the valuation rates of interest. The valuation rates of interest in Forms 51, 54 and 57 (and the asset yields in Forms 48 and 57) are shown before this deduction.

Outgo on property maintenance costs and leases is allowed for directly in the valuation rates of interest used (and the asset yields shown in Forms 48 and 57 are shown after this deduction).

- (2) Based on the annualised annuity amounts in payment and deferment at 31 December 2004, the amount released to meet renewal expenses in 2005 will be £16.1m. In addition, £14m will be released to meet investment management expenses (excluding outgo on property maintenance costs and leases).
- (3) New business premium rates incorporate a charge to cover acquisition and set-up costs. The annuity loadings in 10 (1) are calculated without assuming any contribution from the loadings in new business written after the valuation date.
- (4) An allowance for expenses arising from closure to new business, if closure occurred twelve months after the valuation date, has been compared with the margins in expense loadings arising from the in force business. As the costs are covered by the margins, no additional reserve is required.

11. Currency matching

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

12. Reinsurance

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

13. to 16. Not applicable.

17. Changes in long term business

See Form 46.

Group non-profit deferred annuities are not included in Form 46. These consist of 1,369 schemes covering an estimated 66,381 lives, and 15,597 individual arrangements for non-linked contracts and 11,191 individual arrangements for linked contracts at 31 December 2004.

18. New business

See Form 47

Valuation Report as at 31 December 2004 (continued)

19. Assets covering long term liabilities

- (1) See Forms 48 and 49. The yield shown for land and buildings in line 11 of Form 48 is net of expected outgo on management fees, maintenance costs and leases. This treatment is consistent with that adopted on Form 57. Similarly in Form 40 the outgo on property maintenance costs and leases is deducted from investment income.
- (2) Changes in the amounts reported on Form 48 at 31 December 2003 which would result from the exercise of rights or obligations under derivative contracts or contracts having the effect of derivative contracts (assuming that options would be exercised only if it would be prudent to do so) are as follows:

Form 48	Column 1 £000's	Column 2 £000's	Column 3 %
Line 18	(44,664)	3,258	0.88
Line 29	(44,664)	3,258	0.03

- (3) Corresponding changes which would result from the exercise of all rights or obligations under derivative contracts, or contracts having the effect of derivative contracts are as follows:

Form 48	Column 1 £000's	Column 2 £000's	Column 3 %
Line 18	(44,664)	3,258	0.88
Line 29	(44,664)	3,258	0.03

- (4) The maximum changes to the amounts if the conditions in (2) and (3) above had applied at any time during the year as follows:

Form 48	Column 1 Conditions noted in (2) £000's	Column 1 Conditions noted in (3) £000's
Line 18	(28,180)	(28,180)

20. Valuation Summaries

See Forms 51 and 54.

On Form 54 the figures shown in column 7 are the amounts of annuity per annum in payment; the figures in columns 11 and 12 are the total net liability including allowance for future mortality and expenses.

21. Matching Rectangle

- (1) See Form 57.

Valuation Report as at 31 December 2004 (continued)

- (2) Aggregate yields have been adjusted by 0.50% and 0.35% to allow for potential defaults within the fixed interest and RPI-linked portfolios respectively.

The default allowance is 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 34 year period, produces mean default rates according to credit quality and term to redemption. Volatility is also analysed and standard deviations of the rates for each credit quality are provided.

In the event of default it may be possible to recover some capital, especially if the loan is secured. The allowance for recovery (or partial recovery) of the loan varies according to the level of security and the following recovery rates are assumed:

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

To calculate the overall default provision, the corporate bond portfolio is broken down according to credit rating and level of security. The default rate for each category is assumed to be 150% of the appropriate mean default rate plus two standard deviations, reduced by the expected recovery. The derived default rates for each category are set out below:

Default rates – basis points per annum:

Seniority	AAA	AA	A	BBB	BB	B and lower
First Mortgage Debenture/ Senior Secured	3.3	11.5	14.3	40.5	157.3	444.3
Senior Unsecured	7.0	24.8	31.5	88.8	345.8	978.3
Subordinated Debt	10.5	36.3	45.8	129.3	502.3	1422.5

The overall default assumption is increased, if necessary, so that it is not less than our investment manager's independently assessed estimate of the credit risk premium.

Regard is also paid to the yield differential between corporate and government bonds, and prevailing economic circumstances. Additional allowance for counterparty risks in connection with derivative contracts is included in the reserve described in 6(1)(j).

Valuation Report as at 31 December 2004 (continued)

The yields shown in Form 48 column 3 were calculated using the method of the section 148 waiver (the December 1995 section 68 order). The aggregate yields on the portfolio using the method of the section 148 waiver were also used to derive the valuation rates of interest in Form 57.

- (3) The yield on property is the lower of the current rental yield and the “redemption yield”, which is the interest rate at which the market value equates with the present value of future rental income and the disposal value, in accordance with the section 148 waiver (previously issued as a section 68 order in December 1995). No allowance is made for any non-contractual increases in rental income. As an allowance for the risk of falls in value the disposal value is taken as 75% of the current market value. In Form 57 a further deduction is made to allow for the risk of default of rent. This deduction is the same as for fixed interest investments, as described in 21(2) above.

22. Valuation results

See Form 58.

23. Long-term insurance capital requirement

See Form 60.

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

Name of insurer **Prudential Annuities Limited**

Global business

United Kingdom business

Financial year ended **31st December 2004**Type of business **Pension Insurance Business**Category of surplus **11: Global Business (Issued in the United Kingdom)**Company
registration
number

GL/UK/CM

Period ended
day month year

Units

UK/OS

Type of
businessCategory
of surplus

		R51	2554213	GL	31	12	2004	£000	UK	Pens	11
Type of insurance or name of contract 1	Valuation basis		No of contracts 4	Amount of sums assured or annuities per annum, including vested reversionary bonuses 5	Amount of annual premiums		Proportion of office premiums reserved for expenses and profits 8	Value of sums assured or annuities per annum, including vested reversionary bonuses 9	Value of annual premiums		Amount of mathematical reserves 12
	Rate of interest 2	Mortality or morbidity table 3			Office premiums 6	Net premiums 7			Office premiums 10	Net premiums 11	
DIRECT WRITTEN INSURANCE BUSINESS											
Non-Profit Policies											
Annuity in payment:Individual	4.83	A (a)	47433	167508 pa				2555172			2555172
Annuity in payment:Group	4.83	B (a)	22575	27975 pa				469507			469507
Deferred annuity:Group	4.83	D (b)	670	1666 pa				26123			26123
Deferred annuity:Group	4.83	C (b)	13571	28640 pa				446963			446963
Mismatching reserves								34934			34934
Additional reserves								35543			35543
Sub total: Non-Profit Policies			84249	225789 pa				3568242			3568242
Sub total: Direct Written Insurance Business			84249	225789 pa				3568242			3568242
REASSURANCE ACCEPTED											
Non-Profit Policies											
Annuity in payment:Individual	4.83	A (a)	544886	603727 pa				8160323			8160323
Deferred annuity:Group	4.83	D (b)	2515	14748 pa				129454			129454
Deferred annuity:Group	4.83	C (b)	209	800 pa				7546			7546
Miscellaneous deferred annuity	4.83	E (b)	1	1 pa				14			14
Mismatching reserve								82973			82973

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

Name of insurer **Prudential Annuities Limited**

Global business

United Kingdom business

Financial year ended **31st December 2004**Type of business **Pension Insurance Business**Category of surplus **11: Global Business (Issued in the United Kingdom)**Company
registration
number

GL/UK/CM

Period ended
day month year

Units

UK/OS

Type of
businessCategory
of surplus

		R51	2554213	GL	31	12	2004	£000	UK	Pens	11
Type of insurance or name of contract 1	Valuation basis		No of contracts 4	Amount of sums assured or annuities per annum, including vested reversionary bonuses 5	Amount of annual premiums		Proportion of office premiums reserved for expenses and profits 8	Value of sums assured or annuities per annum, including vested reversionary bonuses 9	Value of annual premiums		Amount of mathematical reserves 12
	Rate of interest 2	Mortality or morbidity table 3			Office premiums 6	Net premiums 7			Office premiums 10	Net premiums 11	
Additional reserve								85846			85846
Other reserves								1000			1000
Sub total: Non-Profit Policies			547611	619276 pa				8467156			8467156
Sub total: Reassurance Accepted			547611	619276 pa				8467156			8467156
REASSURANCE CEDED											
Non-Profit Policies											
Deduct reinsurance ceded			6	281 pa				4360			4360
Sub total: Non-Profit Policies			6	281 pa				4360			4360
Sub total: Reassurance Ceded			6	281 pa				4360			4360
Net total: Pension Insurance Business			631860	844784 pa				12031038			12031038
Net total: United Kingdom Insurance Business			631860	844784 pa				12031038			12031038

Long term insurance business : Valuation summary of index linked contracts

Name of insurer **Prudential Annuities Limited**

Global business

United Kingdom business

Financial year ended **31st December 2004**Type of business **Pension Insurance Business**Category of surplus **11: Global Business (Issued in the United Kingdom)**Company
registration
number

GL/UK/CM

Period ended
day month year

Units

UK/OS

Type of
businessCategory
of surplus

R54	2554213	GL	31	12	2004	£000	UK	Pens	11
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Name of contract	Valuation basis		No of contracts	Amount of sums assured or annuities per annum, including vested reversionary bonuses			Amount of annual premiums		Name of index link	Investment liability		Other liabilities		Amount of mathematical reserves
	Rate of interest	Mortality or morbidity table		Guaranteed on death	Current on death/current payable per annum	Guaranteed on maturity	Office premiums	Net premiums		Current benefit value	Discounted value	Mortality and expenses	Options and guarantees other than investment performance guarantees	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
DIRECT WRITTEN INSURANCE BUSINESS Non-Profit Policies														
Annuity in payment: Individual	1.79	A (a)	8101		24365 pa				Retail prices index	425866	425866			425866
Annuity in payment: Group	1.79	B (a)	12501		27416 pa				Retail prices index	448038	448038			448038
Annuity in payment: Group	4.83	B (a)	7129		17420 pa				Retail prices index	311366	311366			311366
Deferred annuity: Group	1.79	C (b)	5994		17589 pa				Retail prices index	149229	149229			149229
Deferred annuity: Group	4.83	C (b)	4901		13857 pa				Retail prices index	279461	279461			279461
Mismatching reserves														27337
Additional reserves														14335
Sub total: Non-Profit Policies			38626		100647 pa					1613960	1613960			1655632
Sub total: Direct Written Insurance Business			38626		100647 pa					1613960	1613960			1655632
REASSURANCE ACCEPTED Non-Profit Policies														
Annuity in payment: Individual	1.79	A (a)	6785		27063 pa				Retail prices index	438800	438800			438800

Long term insurance business : Valuation summary of index linked contracts

Name of insurer **Prudential Annuities Limited**

Global business

United Kingdom business

Financial year ended **31st December 2004**Type of business **Pension Insurance Business**Category of surplus **11: Global Business (Issued in the United Kingdom)**Company
registration
number

GL/UK/CM

Period ended
day month year

Units

UK/OS

Type of
businessCategory
of surplus

R54	2554213	GL	31	12	2004	£000	UK	Pens	11
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Name of contract 1	Valuation basis		No of contracts 4	Amount of sums assured or annuities per annum, including vested reversionary bonuses			Amount of annual premiums		Name of index link 10	Investment liability		Other liabilities		Amount of mathematical reserves 15
	Rate of interest 2	Mortality or morbidity table 3		Guaranteed on death 5	Current on death/current payable per annum 6	Guaranteed on maturity 7	Office premiums 8	Net premiums 9		Current benefit value 11	Discounted value 12	Mortality and expenses 13	Options and guarantees other than investment performance guarantees 14	
Deferred annuity:Group	1.79	C (b)	296		430 pa				Retail prices index	5455	5455			5455
Mismatching reserve														8885
Additional reserve														3964
Sub total: Non-Profit Policies			7081		27493 pa					444255	444255			457104
Sub total: Reassurance Accepted			7081		27493 pa					444255	444255			457104
REASSURANCE CEDED Non-Profit Policies														
Deduct reinsurances			32		263 pa				Retail prices index	1968	1968			1968
Sub total: Non-Profit Policies			32		263 pa					1968	1968			1968
Sub total: Reassurance Ceded			32		263 pa					1968	1968			1968
Net total: Pension Insurance Business			45707		127877 pa					2056247	2056247			2110768
Net total: United Kingdom Insurance Business			45707		127877 pa					2056247	2056247			2110768

Long term insurance business : Analysis of assets and liabilities matching investment liabilities in respect of index linked benefits

Name of insurer **Prudential Annuities Limited**

Global business

United Kingdom business

Financial year ended **31st December 2004**

Category of surplus **11: Global Business (Issued in the United Kingdom)**

	Company registration number	GL/UK/CM	Period ended			Units	UK/OS	Category of Surplus	
			day	month	year				
	R56	2554213	GL	31	12	2004	£000	UK	11
Type of assets and liabilities	Name of index link			Value of assets or liabilities		Gross derivative value			
	1			2		3			
Land and buildings	RPI			11109					
Rights under derivative contracts	RPI			25174					
Government and public body non-linked bonds	RPI			146658					
Corporate non-linked bonds	RPI			606445					
Government and public body index linked bonds	RPI			160570					
Corporate index linked bonds	RPI			1052794					
Public or local authority and nationalised industry loan	RPI			19					
Loans secured by mortgages	RPI			9458					
Other loans	RPI			2065					
Deposits with approved credit institutions	RPI			8744					
Other debtors	RPI			448					
Cash at bank and in hand	RPI			7234					
Accrued interest and rent	RPI			25529					

Long term insurance business : Analysis of assets and liabilities matching investment liabilities in respect of index linked benefitsName of insurer **Prudential Annuities Limited**

Global business

United Kingdom business

Financial year ended **31st December 2004**Category of surplus **11: Global Business (Issued in the United Kingdom)**

	Company registration number	GL/UK/CM	Period ended			Units	UK/OS	Category of Surplus	
			day	month	year				
	R56	2554213	GL	31	12	2004	£000	UK	11
Type of assets and liabilities	Name of index link			Value of assets or liabilities		Gross derivative value			
	1			2		3			
Sub total assets				2056247					
Sub total liabilities									
Sub total net assets				2056247					
Total assets				2056247					
Total liabilities									
Net total assets				2056247					

Long-term insurance business - analysis of valuation interest rates

Name of insurer **Prudential Annuities Limited**Financial year ended **31st December 2004**Category of surplus **11: Global Business (Issued in the United Kingdom)**

Product group	Company registration number	GL/UK/CM	Period ended			Units	Category of surplus	
			day	month	year			
	R57	2554213	GL	31	12	2004	£000	11
	1	2	3	4		5		
Form 51: Immediate and deferred annuities		11790742					4.83	4.96
Form 51: Other reserves		240296						4.96
Form 54: Immediate and deferred annuities		1465420					1.79	1.84
Form 54: Immediate and deferred annuities with linked benefits, but on a higher fixed benefit basis		590827					4.83	4.96
Form 54: Other reserves		54521						1.84
Total: 11: Global Business (Issued in the United Kingdom)		14141806						

Long term insurance business : Valuation result and distribution of surplusName of insurer **Prudential Annuities Limited**

Global business

Financial year ended **31st December 2004**Company
registration
number

GL/UK/CM

Period ended

Units

Category
of surplus

Category of surplus

11: Global Business (Issued in the United Kingdom)**R58****2554213****GL****31****12****2004****£000****11**

Valuation result	Fund carried forward		11	14191806
	Bonus payments made to policyholders in anticipation of a surplus		12	
	Transfers out of fund/ parts of fund	Transfer to non-technical account	13	
		Transfer to other funds/parts of funds	14	
	Net transfer out of funds/parts of funds (13+14)		15	
	Total (11+12+15)		16	14191806
	Mathematical reserves for accumulating with profit policies		17	
	Mathematical reserves for other non linked contracts		18	12031038
	Mathematical reserves for property linked contracts		19	
	Mathematical reserves for index linked contracts		20	2110768
	Total (17 to 20)		21	14141806
Surplus including contingency and other reserves held towards the solvency margin (deficiency) (16-21)		29	50000	
Composition of surplus	Balance of surplus brought forward unappropriated from last valuation		31	50000
	Transfers into fund/part of fund	Transfer from non-technical account	32	
		Transfer from other funds/parts of fund	33	
	Net transfer into fund/part of fund (32+33)		34	
	Surplus arising since the last valuation		35	
Total (31+34+35)		39	50000	
Distribution of surplus	Bonus payments made to policyholders in anticipation of a surplus		41	
	Allocated to policyholders by way of	Cash bonuses	42	
		Reversionary bonuses	43	
		Other bonuses	44	
		Premium reductions	45	
	Total allocated to policyholders (41 to 45)		46	
	Net transfer out of fund/part of fund		47	
	Total distributed surplus (46+47)		48	
	Balance of surplus (including contingency and other reserves held towards the solvency margin) carried forward unappropriated		49	50000
Total (48+49)		59	50000	
Percentage of distributed surplus allocated to policyholders of fund/part of fund			61	
Corresponding percentage at three immediately previous valuations	Latest	(year of valuation 2003)	62	
	Earlier	(year of valuation 2002)	63	
	Earliest	(year of valuation 2001)	64	

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

Global business

Financial year ended **31st December 2004**Company
registration
number

GL/UK/CM

Period ended
day month year

Units

	R60	2554213	GL	31	12	2004	£000
	LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Reinsurance factor	LTICR Financial year	LTICR Previous year	
	1	2	3	4	5	6	

Insurance death risk capital component

Classes I, II and IX	11	0.1%					
Classes I, II and IX	12	0.15%			0.0000		
Classes I, II and IX	13	0.3%					
Classes III, VII and VIII	14	0.3%			0.0000		
Total	15						

Insurance health risk capital component

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

Classes I, II and IX	31	1%	12035398	12031038	0.9996	120306	
Classes III, VII and VIII (investment risk)	32	1%	2112736	2110768	0.9991	21108	
Classes III, VII and VIII (expenses fixed 5 yrs +)	33	1%			0.0000		
Classes III, VII and VIII (other)	34	25%					
Class IV	35	1%			0.0000		
Class V	36	1%					
Class VI	37	1%			0.0000		
Total	38					141414	

Insurance market risk capital component

Classes I, II and IX	41	3%	12035398	12031038	0.9996	360918	
Classes III, VII and VIII (investment risk)	42	3%	2112736	2110768	0.9991	63325	
Classes III, VII and VIII (expenses fixed 5 yrs +)	43	0%					
Classes III, VII and VIII (other)	44	0%					
Class IV	45	3%			0.0000		
Class V	46	0%					
Class VI	47	3%			0.0000		
Total	48		14148134	14141806		424243	

Long term insurance capital requirement	51					565657	
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PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2004

Supplementary notes to the returns

Form 2

***0201* Section 148 waivers and Section 68 orders**

- (a) The Secretary of State, on the application of the Company, made an order on 1 August 1992 pursuant to section 68 of the Insurance Companies Act 1982 directing that section 31 of the Insurance Companies Act 1982 should not apply to the Company in respect of transactions entered into by the Company with The Prudential Assurance Company Limited, Prudential (AN) Limited and Prudential Pensions Limited pursuant to the reinsurance agreements dated 1 August 1992.
- (b) The Secretary of State, on the application of the Company, issued to the Company in December 1995 an Order under section 68 of the Insurance Companies Act 1982 requiring the Company to calculate the rates of interest to be used in calculating the present value of future payments by or to the Company on the aggregate yield basis defined as that rate of interest which equates the discounted value of the aggregate cash flows on the relevant asset portfolio with the total market value of that portfolio.
- (c) The FSA, on the application of the Company, made a direction under section 148 of the Financial Services and Markets Act 2000 in December 2004 for the period 31 December 2004 to 30 September 2005. The effect of the direction is to allow the firm to not apply paragraphs (2) and (3) of PRU 4.3.36R to the stock lending transactions entered into between the firm and Euroclear Bank SA/NV, which are made pursuant to the Euroclear Bank Securities Lending and Borrowing Program.

The Section 68 orders granted in December 1995 and August 1992 under the Insurance Companies Act 1982 continued to have effect under the transitional arrangements set out in the Supervision Manual. Section 31(2)(c) of the Insurance Companies Act 1982 was replaced by Rule 3.4 of the Interim Prudential Sourcebook for Insurers. Rule 3.4 ceased to have effect on implementation of the Integrated Prudential Sourcebook for Insurers on 31 December 2004 and there is no equivalent requirement within the Integrated Sourcebook.

Supplementary notes to the returns (continued)

Form 3

0301 Reconciliation of net admissible assets to total capital resources

	2004 £'000s
Line 89 on Form 13 (OLTB)	912,631
Line 89 on Form 13 (LTB)	14,355,236
Line 11 on Form 14	(14,141,806)
Line 49 on Form 14	(123,528)
Line 69 on Form 15	(15,358)
Line 79 on Form 3	<u>987,175</u>

0308 Valuation differences

	2004 £'000s
<i>Positive valuation differences where liabilities are lower than in the shareholder accounts</i>	
Deferred tax held on additional reserves and valuation differences	172,655
<i>Negative valuation differences where liabilities are higher than in the shareholder accounts</i>	
Additional reserves held in long term fund	(535,615)
Line 35 on Form 3	<u>(362,960)</u>

Form 13

Notes 1301 to 1306 apply to the other than long term business fund.

1301 The Company held £77m in unlisted securities.

1302 The Company held £33m in hybrid securities.

1304 Amounts due to or from the Company have been set off to the extent permitted by generally accepted accounting principles.

1305 The maximum permitted exposure to any one counterparty other than short term deposits with an approved credit institution is set at 5% of the long term business amount. Maximum permitted exposure to any one approved credit institution is set at 20%. There were no breaches of these limits during the year.

1306 No counterparty exposure at the year end exceeded 5% of the long term business amount. Counterparty limits set were not exceeded during the year.

Supplementary notes to the returns (continued)

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

- *1308* The Company held £1,132m in unlisted securities.
- *1309* The Company held £1,317m in hybrid securities.
- *1310* Amounts due to or from the Company have been set off to the extent permitted by generally accepted accounting principles.
- *1311* The maximum permitted exposure to any one counterparty has been set in accordance with the counterparty limits detailed in the Prudential Sourcebook. Therefore exposures to non-approved counterparties have been restricted to a maximum of 5% of the business amount. No counterparty exposure during the year exceeded these limits.
- *1312* No counterparty exposure at the year end exceeded 5% of the long term business amount.

Form 14

- *1401* The long term fund held a number of interest rate and foreign currency swaps and foreign currency futures, during the year. The swaps involved the exchange of cash flows and not the underlying principal amount. No provision for adverse change is required, as all derivatives that impose an obligation on the fund are strictly covered.
- *1402*
 - (a) There were no charges attributable to the long term business assets.
 - (b) The long term fund does not attract tax, and therefore no provision, potential or otherwise, has been made for any liability to tax which might arise if the company disposed of its assets at the values stated in this return.
 - (c) There were no contingent liabilities at the year end.
 - (d) There were no guarantees, indemnities or other contractual commitments other than in the ordinary course of insurance business and in respect of related companies.

Form 15

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

Supplementary notes to the returns (continued)

- *1502* (a) There were no charges attributable to the other than long term business assets.
- (b) The total potential liability to taxation on capital gains which might arise if the company disposed of its assets was £1,400k. Full provision has been made at the year end.
- (c) There were no contingent liabilities at the year end.
- (d) There were no guarantees, indemnities or other contractual commitments other than in the ordinary course of insurance business and in respect of related companies.

Form 16

- *1601* Revenue account items are translated at rates ruling on the transaction date.
- *1603* Balances in line 21 relate to management expenses.

Form 40

- *4008* Management services are provided to the Company for day to day administration from The Prudential Assurance Company Ltd, M&G Investment Management Ltd, Prudential Property Investment Managers Ltd, PPM America Inc., Prudential UK Services Limited and Prudential Services Ltd, all being group companies.
- *4009* The Company has a reinsurance agreement with a related company, The Prudential Assurance Company Limited, in respect of non-participating approved annuity contracts. Included in earned premiums for the year is an amount of £347m received under this reinsurance agreement. The reinsurance agreement was drawn up under normal commercial terms which reflect the level of business transacted with the Company.

Also included within claims incurred is an amount of £627m arising from claims under this reinsurance agreement.

The liabilities included in the return, relating to this business amount to £8,071m at the year end.

Form 48

- *4801* The amounts of accrued interest included in the value of admissible assets is:

Line	Description	2004 £'000
12	Fixed interest – approved securities	41,832
13	Fixed interest – unapproved securities	158,090
15	Variable interest – unapproved securities	804
		<u>200,726</u>

These amounts are included in line 84 on Form 13.

Supplementary notes to the returns (continued)

4802 There are six assets where the payment of interest is in default. The expected income from these assets has been reduced to nil.

Form 51

5101 The tables of mortality and disability assumed in the valuation are indicated in columns 3 of Forms 51 and 54 by the following code letters:

- A** 96% PMA92 (C=2004) medium cohort improvement table with 1.25% floor / 92% PFA92 (C=2004) + 75% medium cohort improvement table with 0.75% floor
- B** 111% PMA92 (C=2004) medium cohort improvement table with 1.25% floor / 105% PFA92 (C=2004) + 75% medium cohort improvement table with 0.75% floor
- C** AM / AF92 - 4 years (in deferment), 111% PMA92 (C=2004) medium cohort improvement table with 1.25% floor / 105% PFA92 (C=2004) + 75% medium cohort improvement table with 0.75% floor
- D** AM / AF92 - 4 years (in deferment), 88.8% PMA92 (C=2004) / 87.3% PFA92 (C=2004)
- E** Nil (in deferment), 96% PMA92 (C=2004) medium cohort improvement table with 1.25% floor / 92% PFA92 (C=2004) + 75% medium cohort improvement table with 0.75% floor (in possession)

Provision for the cost of paying annuities in possession is generally made by increasing the value of the annuity. The percentage addition to the value of the annuity, or the explicit expense provision per annum, is shown by a code letter in column 3, the meaning of the code letters being as follows:

- a** Expense loading of 2.00%
- b** Expense loading of 4.00%

5102 Annuities included in Forms 51 and 54 are categorised depending on the type of escalation of benefits once an annuity is in payment. Form 51 includes annuities that increase at a guaranteed fixed rate and Form 54 includes annuities where benefits are dependent on changes in RPI. Deferred annuities with revaluation in line with RPI in deferment and fixed increases in payment are included in Form 51.

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2004

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

We certify:

1. (a) that the return has been properly prepared in accordance with the requirements in IPRU(INS) and PRU as modified by a waiver dated December 2004 issued under section 148 of the Financial Services and Markets Act 2000 and the section 68 orders granted in December 1995 and August 1992 which continue to have effect; and:
 - (b) we are satisfied that:
 - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements of SYSC and PRIN as well as the provisions of IPRU(INS) and PRU; and
 - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.
2. (a) that in our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
 - (b) that the mathematical reserves constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;
 - (c) that we have, in preparing the return, taken and paid due regard to advice in preparing the return from the actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.

.....
G M Wood
Chief Executive

.....
D J Belsham
Director

.....
T J W Tookey
Director

24 March 2005

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2004

Report of the auditor to the Directors pursuant to rule 9.35 of the Accounts and Statements Rules.

We have examined the following documents prepared by the Company pursuant to the Accounts and Statements Rules set out in part I and part IV of chapter 9 to the Interim Prudential Sourcebook for Insurers and PRU, the Integrated Prudential Sourcebook, (“the Rules”) made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- Forms 2, 3, 13 to 17, 40 to 42, 48, 49, 56, 58 and 60, (including the supplementary notes) on pages 3 to 55 (‘the Forms’);
- the statement required by rule 9.29 on pages 60 to 62 (‘the Statement’);
- the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report required by rule 9.31(a) (‘the methods and assumptions included in the valuation report’); and

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

- Forms 46, 47, 51, 54 and 57 (including the supplementary notes) on pages 25 to 55;
- the statement required by rules 9.30 on page 63;
- the directors’ certificate signed in accordance with rule 9.34 on page 56 (‘the directors’ certificate’); and
- the valuation report required by rule 9.31 (a) except as set out above; and

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

Respective responsibilities of the Company and its auditors

The Company is responsible for the preparation of an annual return (including the Forms, the statement, the valuation report, the forms and statement not examined by us and the directors' certificate) under the provisions of the Rules. The requirements of the Rules have been modified by a waivers issued under section 148 of the Financial Services and Markets Act 2000 on 31/12/04 and section 68 orders granted in August 1992 and December 1995. Under rule 9.11 the Forms, the Statement, valuation report, the forms and statement not examined by us and the directors' certificate are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules.

The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report, prepared in accordance with rule 9.31 are required to reflect appropriately the requirements of PRU 7.3.

It is our responsibility to form an independent opinion as to whether the Forms, the Statement and the methods and assumptions included in the valuation report meet these requirements, and to report our opinions to you. We also report to you if, in our opinion, the Company has not kept proper accounting records or if 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" and Bulletin 2004/5 issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the Statement, and the methods and assumptions included in the valuation report. The evidence included that previously obtained by us relating to the audit of the financial statements of the Company for the financial year. It also included an assessment of the significant estimates and judgements made by the Company in the preparation of the Forms, the Statement and in determining the methods and assumptions included in the valuation report.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the Statement and the methods and assumptions included in the valuation report are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with rule 9.11.

In accordance with rule 9.35(1A), to the extent that any document, Form, Statement, analysis or report to be examined under rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to 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 and Statements fairly state the information provided on the basis required by the Rules as modified and have been properly prepared in accordance with the provisions of those Rules; and
- ii) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report prepared in accordance with rule 9.31 appropriately reflect the requirements of PRU 7.3.

KPMG Audit Plc
Registered Auditor
London

24 March 2005

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2004

Statement required by Rule 9.29 of the Prudential Sourcebook

(a) Investment guidelines

As requested by Rule 9.29 of the Prudential Sourcebook, the investment guidelines for the use of derivative contracts for both long term and other than long term funds are set out below. These are fully explained in the Company's Investment Management Agreement with its fund managers and are consistent with the investment strategy.

- (i) Derivatives are used for the purpose of efficient portfolio management or to reduce risk, specific examples being to implement tactical asset allocation changes around the strategic benchmark, hedge cash flows, or control the risk profile of an identified strategy.
- (ii) A number of restrictions on the use of derivatives have been agreed with the Company's fund managers and can only be overruled by prior agreement between the two parties:
 - all derivatives that impose obligations on the fund must be strictly covered.
 - all derivative contracts must satisfy the definition of approved under Rule 4.12 of the Prudential Sourcebook (Volume One: Rules)
 - the maximum allowable exposure to counterparties should not be exceeded.
 - only certain permitted exchanges and contracts can be used.
- (iii) During the year the company has used interest rate, currency and inflation-linked swaps in the long term business and interest rate swaps in the other than long term business.

(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

During 2004 no such contracts were used.

- (d) Effect on form 13 at 31 December 2004 of exercising derivatives where it would be prudent to assume options would be exercised. Decreases are shown in brackets**

Long term funds

Form 13 line 44;	(£118,117k)
Form 13 line 58 (Derivatives);	(£29,397k)
Form 13 line 58 (Cash);	£25,174k
Form 13 line 54/55/81;	£73,451k

Other than long term funds

Form 13 line 44;	(£627k)
Form 13 line 54/55/81;	£65k

- (e) Effect on form 13 at 31 December 2004 of exercising all derivatives. Decreases are shown in brackets**

Long term funds

Form 13 line 44;	(£118,117k)
Form 13 line 58 (Derivatives);	(£29,397k)
Form 13 line 58 (Cash);	£25,174k
Form 13 line 54/55/81;	£73,451k

Other than long term funds

Form 13 line 44;	(£627k)
Form 13 line 54/55/81;	£65k

- (f) Effect on form 13 under the conditions noted in (d) and (e) above at any other time during the year. Decreases are shown in brackets**

Conditions noted in (d)

Long term funds

Form 13 line 44;	(£58,759k)
Form 13 line 58 (Derivatives);	(£13,789k)
Form 13 line 58 (Cash);	£12,764k
Form 13 line 54/55/81;	£30,759k

Other than long term funds

Form 13 line 44;	(£1,423k)
Form 13 line 54/55/81;	(£1,488k)

Conditions noted in (e)

Long term funds

Form 13 line 44;	(£58,759k)
Form 13 line 58 (Derivatives);	(£13,789k)
Form 13 line 58 (Cash);	£12,764k
Form 13 line 54/55/81;	£30,759k

Other than long term funds

Form 13 line 44;	(£1,423k)
Form 13 line 54/55/81;	(£1,488k)

The above figures are the maximum impact on the individual line items of exercising derivatives at any time during the year. The maximum impacts for each line will not necessarily occur on the same day.

(g) Maximum exposure

Long term funds

The maximum loss which would have been incurred by the Company on the failure by any one counterparty to fulfil its obligations under derivative contracts at the end of the year was £31,017k.

Under foreseeable market conditions the company's exposure would not increase beyond £32,568k. The maximum loss at any other time during the year was £30,342k.

Other than long term funds

The maximum loss which would have been incurred by the Company on the failure by any one counterparty to fulfil its obligations under derivative contracts at the end of the year was £437k.

Under foreseeable market conditions the company's exposure would not increase beyond £459k as timely actions would be taken by the Investment Manager in line with its collateral management policies to prevent further exposures arising. The maximum loss at any other time during the year was £1,198k.

(h) Derivatives not covered by Paragraph (2) of Rule 4.12 or the definition of a permitted derivative contract in the Prudential Sourcebook.

There were no derivative contracts held during 2004 that did not satisfy the Rule 4.12 requirements of the Prudential Sourcebook.

(i) Consideration for granting rights under derivative contracts

No rights under derivative contracts have been granted.

PRUDENTIAL ANNUITIES LIMITED

Returns for the year ended 31 December 2004

Statement in accordance with Rule 9.30 of the Integrated Prudential Sourcebook

Additional information on shareholder controllers

We confirm that the following is a list of:

- (a) Persons who, to the knowledge of Prudential Annuities Limited (“the Company”), have been, at any time during the year ended 31 December 2004, a shareholder controller of the Company; and
- (b) In the case of each person who was a shareholder controller of the Company at 31 December 2004:
 - (i) the percentage of shares he held at that time in the Company, or in another company of which the Company was a subsidiary undertaking; and
 - (ii) the percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the Company, or another company of which it was a subsidiary undertaking;

in each case, either alone or with any associate or associates.

Persons who, to the knowledge of the Company, have been, at any time during the year ended 31 December 2004, a shareholder controller of the Company.	In the case of each person who was a shareholder controller of the Company at 31 December 2004:	
	The percentage of shares he held at that time in the Company, or in another company of which the Company was a subsidiary undertaking, either alone or (<i>shown separately</i>) with any associate or associates	The percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the Company, or another company of which it was a subsidiary undertaking, either alone or (<i>shown separately</i>) with any associate or associates
The Prudential Assurance Company Limited, being its immediate holding company	100%	100%
Prudential plc, being its ultimate holding company	100%	100%