

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

Name of insurer **Prudential Pensions Limited**

Global business

Financial year ended **31st December 2002**

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	992726	GL	31	12	2002	£000	10
			Value of admissible assets as shown on Form 13 1		Expected income from admissible assets 2		Yield % 3	
Land and buildings		11						
Fixed interest securities	Approved securities	12	2138		126		4.48	
	Other	13						
Variable interest and variable yield securities (excluding items shown at line 16)	Approved securities	14						
	Other	15						
Equity shares and holdings in collective investment schemes		16						
Loans secured by mortgages		17						
All other assets	Producing income	18	12926		510		3.95	
	Not producing income	19	8983					
Total (11 to 19)		29	24047		636		2.52	

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 benefits

Name of insurer **Prudential Pensions Limited**

Global business

Financial year ended **31st December 2002**

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

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	GL	Period ended			Gross redemption yield % 5	Value of admissible higher yielding assets 6
					day	month	year		
					31	12	2002	£000	10
11									
12									
13									
14	Fixed interest approved securities	4.48		Variable interest and variable yield approved securities excluding equities					
15									
16									
17									
18									
19		2138							
20									
21									
22	Other fixed interest securities								
23									
24									
25									
26									
27									
28									
29									
Total (11 to 28)									

Valuation Report as at 31 December 2002 (cont.)

Appendix 9.4 – Valuation Report as at December 2002

1. The investigation relates to 31 December 2002.
2. The previous investigation related to 31 December 2001.
3. The valuation of long term insurance business liabilities shown in this report conforms with Rule 5.6 of the Interim Prudential Sourcebook for Insurers [IPRU(INS)].
4. Non-linked business arises from annuities purchased under the option available in the linked contracts; see Form 51.
5. (1) Categories of in force linked business are as follows:

A. The Group Investment Linked Plan (GILP)

- (a) The Group Investment Linked Plan (GILP).
- (b) The contract type is: United Kingdom insurance business, pension insurance business, direct insurance business and reinsurance accepted, non-profit policies, group pension.
- (c) Premiums are payable as single premiums.
- (d) The benefits are the realisation values of the units held in the internal linked funds.

Units are surrendered to release cash to provide benefits for members of the pension schemes for which the policyholders are trustees.

Units may also be surrendered on the same terms if premiums are discontinued.

All policies contain an open market option and an option to secure an annuity on the then current annuity rates.

- (e) There are no guaranteed investment returns.
- (f) The charges made by the Company are:

a continuing investment charge of a percentage of the value of units, deducted as 1/365 of the annual amount each day, of:-

Smaller Companies Fund	0.75% p.a.
Balanced Non Property Fund	0.50% p.a.
Specialist UK Equity Fund	0.50% p.a.
Specialist Global Equity Fund	0.40% p.a.
Light Green Fund	0.35% p.a.
All Stocks Corporate Bond Fund	0.30% p.a.
Emerging Markets Fund	0.30% p.a.
Equity Fund	0.30% p.a.
Europe Fund	0.30% p.a.
Global Equity Fund	0.30% p.a.
International Fund	0.30% p.a.
Japan Fund	0.30% p.a.
Long Dated Corporate Bond Fund	0.30% p.a.
North America Fund	0.30% p.a.
Pacific Basin (excluding Japan) Fund	0.30% p.a.
Property Fund	0.30% p.a.
Fixed Interest Fund	0.25% p.a.
Index Linked Fund	0.25% p.a.

Valuation Report as at 31 December 2002 (cont.)

International Bond Fund	0.25% p.a.
Long Term Growth Fund	0.20% p.a.
Mid Term Balanced Fund	0.20% p.a.
Pre-Retirement Fund	0.20% p.a.
UK Equity (Passive) Fund	0.15% p.a.
Europe (Passive) Fund	0.15% p.a.
Global Equity (Passive) Fund	0.15% p.a.
International (Passive) Fund	0.15% p.a.
Japan (Passive) Fund	0.15% p.a.
North America (Passive) Fund	0.15% p.a.
Pacific Markets (Passive) Fund	0.15% p.a.
Cash Fund	0.10% p.a.
Index Linked (Passive) Fund	0.10% p.a.
Long Term Gilt Fund	0.10% p.a.
GEI Fund	0.00% p.a.
Tactical Long Dated Corporate Bond Fund	0.00% p.a.
Tactical Medium Dated Corporate Bond Fund	0.00% p.a.
Tactical Short Dated Corporate Bond Fund	0.00% p.a.

Discretionary Fund and Consensus Fund charges are a weighted average of their constituent sector fund charges. For Discretionary Fund this is between 0.28% and 0.30% p.a. and for Consensus Fund this is between 0.14% and 0.16% p.a.

(investment charges are allowed for in the offer and bid prices)

an annual scheme investment charge of £500

additional services are charged on a cost basis

- (g) The Company may increase these charges at any time upon giving six months notice.
- (h) See (d) above.
- (i) Benefits are determined by reference to the value of internal linked funds. The following funds are available:

Fund

All Stocks Corporate Bond Fund
Balanced Non Property Fund
Cash Fund
Consensus Fund
Discretionary Fund
Emerging Markets Fund
Equity Fund
UK Equity (Passive) Fund
Europe Fund
Europe (Passive) Fund
Fixed Interest Fund
GEI Fund
Global Equity Fund
Global Equity (Passive) Fund
Index Linked Fund
Index Linked (Passive) Fund
International Fund
International (Passive) Fund
International Bond Fund
Japan Fund
Japan (Passive) Fund

Valuation Report as at 31 December 2002 (cont.)

Light Green Fund
Long Dated Corporate Bond Fund
Long Term Gilt Fund
Long Term Growth Fund
Medium Term Balanced Fund
North America Fund
North America (Passive) Fund
Pacific Basin (excluding Japan) Fund
Pacific Markets (Passive) Fund
Pre-Retirement Fund
Property Fund
Smaller Companies Fund
Specialist Global Equity Fund
Specialist UK Equity Fund
Tactical Long Dated Corporate Bond Fund
Tactical Medium Dated Corporate Bond Fund
Tactical Short Dated Corporate Bond Fund

The general nature of the investments of each Prudential Pensions Limited internal linked fund is as follows:

All Stocks Corporate Bond Fund: Predominantly high quality sterling corporate debt, with a longer than average maturity.

Balanced Non Property Fund: Holdings currently in the following funds:

Cash Fund
Emerging Markets Fund
Europe Fund
Fixed Interest Fund
Index Linked Fund
International Bond Fund
Japan Fund
Long Dated Corporate Bond Fund
North America Fund
Pacific Basin (excluding Japan)
Fund
Specialist UK Equity Fund

Cash Fund: Short term money market deposits and instruments.

Consensus Fund: Holdings currently in the following funds:

Cash Fund
Emerging Markets Fund
Europe (Passive) Fund
Index Linked (Passive) Fund
International Bond Fund
Japan (Passive) Fund
Long Term Gilt Fund
North America (Passive) Fund
Pacific Markets (Passive) Fund
Property Fund
UK Equity (Passive) Fund

Discretionary Fund: Holdings currently in the following funds:

Cash Fund
Equity Fund

Valuation Report as at 31 December 2002 (cont.)

	Fixed Interest Fund
	Index Linked Fund
	International Fund
	International Bond Fund
	Light Green Fund
	Long Dated Corporate Bond Fund
	Property Fund
Emerging Markets Fund:	Stocks and shares of companies in South America and South Africa.
Equity Fund:	Stocks and shares of companies in the United Kingdom and investments in the UK Equity (Passive) and Smaller Companies Funds.
UK Equity (Passive) Fund:	Stocks and shares of companies in the United Kingdom.
Europe Fund:	Stocks and shares of European companies and holdings of European currencies.
Europe (Passive) Fund:	Stocks and shares of European companies and holdings of European currencies.
Fixed Interest Fund:	Fixed interest securities issued by the UK and Overseas Governments and UK companies and units of the Long Dated Corporate Bond and All Stocks Corporate Bond Funds.
GEI Fund:	UK listed securities of GEI International plc
Global Equity Fund:	Units of the Equity and International Funds.
Global Equity (Passive) Fund:	Units of the UK Equity (Passive), Europe (Passive), Japan (Passive), North America (Passive), Pacific Markets (Passive) and Emerging Markets Funds.
Index Linked Fund:	UK and Overseas Index linked securities
Index Linked (Passive) Fund:	UK and Overseas Index linked securities.
International Fund:	Stocks and shares of overseas companies and holdings of foreign currencies and investments in the Emerging Markets, Europe, Japan, North America, International (Passive), Pacific Basin (excluding Japan), North America (Passive), Europe (Passive), Japan (Passive) and Pacific Markets (Passive) Funds.
International (Passive) Fund:	Units of the Emerging Markets Fund, Europe (Passive), Japan (Passive), North America (Passive) and Pacific Markets (Passive) Funds.
International Bond Fund:	Fixed interest securities issued by UK and overseas governments and corporations.

Valuation Report as at 31 December 2002 (cont.)

The following funds (Series II) are wholly invested in the GILP funds of the same name (International Equity Fund invests in the GILP International Fund and Retirement Protection Fund invests in the GILP Long Term Gilt Fund). See 5(1)(A)(I) above.

MPP Series II UK Equity (Passive) Fund
MPP Series II Global Equity Fund
MPP Series II Index Linked (Passive) Fund
MPP Series II International Equity Fund
MPP Series II Retirement Protection Fund

The following funds (Series III) are wholly invested in the GILP funds of the same name (International Equity Fund invests in the GILP International Fund, Retirement Protection Fund invests in the GILP Long Term Gilt Fund, Socially Responsible Fund invests in the GILP Light Green Fund and Overseas Passive Fund invests in the GILP International Passive Fund). See 5(1)(A)(I) above.

MPP Series III Cash Fund
MPP Series III Discretionary Fund
MPP Series III Equity Fund
MPP Series III Fixed Interest Fund
MPP Series III Index Linked Fund
MPP Series III International Bond Fund
MPP Series III Property Fund
MPP Series III UK Equity (Passive) Fund
MPP Series III Global Equity Fund
MPP Series III Index Linked (Passive) Fund
MPP Series III International Equity Fund
MPP Series III Retirement Protection Fund
MPP Series III All Stocks Corporate Bond Fund
MPP Series III Global Equity Passive Fund
MPP Series III Socially Responsible Fund
MPP Series III UK Smaller Companies Fund
MPP Series III UK Specialist Equity Fund
MPP Series III Long Term Growth Fund
MPP Series III Pre Retirement Fund
MPP Series III Overseas Passive Fund

- (j) None.
 - (k) The contract was open to new business during the year to the valuation date.
 - (l) There were no increases to the rates of charge applied to the existing contracts during the reporting period.
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- (2) No linked contract contains a with-profits option.
 - (3) Not applicable.

Valuation Report as at 31 December 2002 (cont.)

(4) *Points applicable to each of the groups of internal linked funds are as follows:*

The creation price is the cash cost of purchasing an identical portfolio of assets to that in the unit fund including all the costs that would be incurred in purchasing such assets, divided by the number of units in existence. The cancellation price is the cash amount for which the assets of the unit fund can be sold net of all costs that would be incurred in disposing of the assets, divided by the number of units in existence.

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

GILP Funds

The business is currently administered on either a weekly or daily dealing platform. It is intended that all business will be moved to the new daily dealing platform over time. Both platforms take a continuous equity approach to unit pricing, i.e. units are created in the linked funds at the creation price, and liquidated in the linked funds at the cancellation price.

Weekly Platform

For the Discretionary and Global Equity Funds units are allocated to policyholders on a 'matched' basis as follows: if there are no matching transactions, then purchases are carried out at the creation price, and sales at the cancellation price. To the extent that there are both sales and purchases, the current practice is to match these transactions; purchases will be made at the normal offer price and sales will be made at a concessionary bid price (typically 100% of the offer price, where this is higher than the standard bid price). For all other funds, units are allocated to policyholders at the offer price, and sold at the bid price. Where there are both sales and purchases, transactions are matched where possible.

Daily Platform

The "Swinging single pricing" approach is used. If the net cashflow on the day is positive, all transactions are at the offer price. If the net cashflow on the day is negative, all transactions are at the cancellation (bid/bid) price.

Unit prices are calculated daily and transactions in these funds are carried out at the next available price (i.e. on a forward pricing basis).

MPP Funds

MPP Funds are 100% invested in units of the GILP Funds at the daily pricing of the GILP funds. Purchases of GILP fund units are made at the creation price of the GILP fund, and sales at the cancellation price. Creation and cancellation prices are determined daily by reference to the appropriate GILP price.

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

Pru-Link Funds

Valuation Report as at 31 December 2002 (cont.)

The Pru-Link Managed Fund is wholly invested in units of the MPP Discretionary Fund. The Pru-Link Cash Fund is wholly invested in units of the MPP Cash Fund. Creation and cancellation prices are determined once a week by reference to the appropriate MPP price. Transactions are carried out at the next available price (i.e. on a forward pricing basis). Pru-Link Funds buy and sell MPP units at the current MPP bid price. No further adjustments are made for buying or selling expenses.

A smoothed equity approach is taken to unit pricing. This is different to the approach adopted for GILP funds. Units are allocated to policyholders at the offer price and deallocated at the bid price. While the trend in the number of units in the underlying unit fund (which is taken to be the MPP funds as a whole) is believed to be upward, the bid price is the creation price. While the trend in the number of units is believed to be downward, the bid price is the cancellation price. Where the trend is unclear or changing the bid price may be between the creation price and the cancellation price. The offer price is then set equal to the bid price plus the initial charge plus a rounding adjustment not exceeding 0.1p. (The initial charge was removed on 1 April 2001).

- (5) No provision for tax on realised or unrealised capital gains is required, as only pension business is written.
- (6) Not applicable.
- 6. (1) The mathematical reserve for non-linked business (annuities in payment) is the present value of the benefits with provision for the expenses of payment. The mathematical reserve for linked business consists of the unit liability together with a non unit liability. A discounted cashflow method of valuation is used to determine the non-unit liability.

In particular the following principles have been observed:

- (a) No derivatives were held outside of the internal linked funds.
- (b) No allowance has been made for increasing fund management charges, however, the Company reserves the right to do so after the appropriate period of notice and to a level consistent with industry practice.
- (c) The net premium method has not been used.
- (d) Negative values have been eliminated from the liability. Additionally, all negative values which would arise at future valuations using the current basis projected forward have also been eliminated.
- (e) No reserve for future bonuses is required.
- (f) No reserve for tax on unrealised capital gains is required, as only pension business is written
- (g) No reserve for investment performance guarantees is held as the only investment performance guarantee is that the unit price of the Pru-Link Cash Fund will not go down. Units of this fund are ultimately invested in units of the GILP Cash Fund, where the practice is to invest only in short term assets.
- (h) An additional reserve of £2,065,000 is held in respect of:

	£
Resilience (Rule 5.17(b))	600,000
Cashflow Mismatching (Rule 5.17(a))	470,000
Other contingencies	<u>995,000</u>
Total	2,065,000

