THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Year ended 31 December 2003

Supplementary Notes to the Forms

APPENDIX 9.1

0901 Section 68 (Insurance Companies Act 1982) Orders modifying 1996 Regulation provisions continued under transitional arrangements

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

(906) An Order modifying The Insurance Companies (Accounts and Statements) Regulations 1996 was issued on 16 January 1997 by the Secretary of State with the consent of the Company. The Order permits the Company when completing Forms 20 to 35 to include premiums relating to business accepted in the Netherlands net of local cessions for accident or underwriting years from 1984 to 1995. The section 68 Order under the Insurance Companies Act 1982 continues to have effect under the transitional arrangements set out in the Supervision manual. The Insurance Companies (Accounts and Statements) Regulations 1996 has now been replaced by the Interim Prudential Sourcebook for Insurers.

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 Regulation 13 of The Insurance Companies (Accounts and Statements) Regulation 1996 has been replaced by Rule 9.19 of the Interim Prudential Sourcebook for Insurers.

0903 Section 68 (Insurance Companies Act 1982) orders continued under transitional arrangements

The Secretary of State, on the application of a related company, Prudential (AN) Limited (formerly Prudential Holborn Pensions Limited), issued to the related company on 15 December 1989 an Order under section 68 of the Insurance Companies Act 1982 (as amended) directing that section 31(2)(c) of the Insurance Companies Act 1982 (as amended) shall not apply to the related company's reassurance agreement with the Company. The section 68 Order under the Insurance Companies Act 1982 continues to have effect under the transitional arrangements set out in the Supervision manual. Section 31(2)(c) of the Insurance Companies Act 1982 has been replaced by Rule 3.4 of the Interim Prudential Sourcebook for Insurers.

The Secretary of State, on the application of a related company, Prudential Holborn Life Limited, issued to the related company on 11 April 1991 an Order under section 68 of the Insurance Companies Act 1982 (as amended) directing that section 31(2)(c) of the Insurance Companies Act 1982 (as amended) shall not apply to the related company's reassurance agreement with the Company. The section 68 Order under the Insurance Companies Act 1982 continues to have effect under the transitional arrangements set out in the Supervision manual. Section 31(2)(c) of the

Insurance Companies Act 1982 has been replaced by Rule 3.4 of the Interim Prudential Sourcebook for Insurers.

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 (as amended) directing that section 31 of the Insurance Companies Act 1982 (as amended) should not apply to the Company in respect of transactions entered into by the Company with Prudential Annuities Limited pursuant to a reassurance agreement dated 1 August 1992. The section 68 Order under the Insurance Companies Act 1982 continues to have effect under the transitional arrangements set out in the supervision manual. Section 31 of the Insurance Companies Act 1982 has been replaced by Rule 3.4 of the Interim Prudential Sourcebook of Insurers.

0904 Application of Section 148 Waiver

The FSA, on the application of the Company, made a direction under section 148 of the Financial Services and Markets Act 2000 in December 2002. The effect of the direction is to reduce the level of detail reported in Forms 23, 24, 25, 31 and 32 (by showing all business as written in prior years), and to exclude Forms 28, 29, 34, 37, 38 and 39, in the Company's return to the FSA, in respect of the Company's UK Commercial lines general insurance business, which has been in run off since 31 December 1992, allowing the Company various reporting concessions in respect of its annual returns for the financial years ended 31 December 2002 and 2003.

The FSA, on the application of the Company, issued directions in March 2003 and August 2003 under section 148 of the Financial Services and Markets Act 2000. These directions applied for the periods from 14 March to 30 June and from 15 August to 30 November 2003 respectively and had the effect of modifying rules 5.9, 5.10, 5.11, 5.16 and 5.17 relating to the calculation of the mathematical reserves.

9A01 Details of other financing arrangements

Not included in lines 14 to 18 is an arrangement with Swiss Re Life and Health Limited to provide financing for Mortgage Protection contracts. The amount to be repaid is a proportion of each premium received in respect of this business. The payment of a proportion of each future premium to the reinsurer has been allowed for when calculating the mathematical reserves.

If a policy lapses then a further repayment equal to the amount of any intermediary commission clawback due also becomes payable.

9A02 Differences arising on financial reinsurance

Included in line 15 are contingent liabilities that arise from the financial reassurance agreements with European Reinsurance Company of Zurich and Swiss Re Life and Health Limited in respect of unit linked business written by M&G Life Assurance Company Limited and M&G Pensions and Annuity Company Limited.

At the time of the transfer of business from M&G Life Assurance Company Limited and M&G Pensions and Annuity Company Limited to Scottish Amicable Life plc the receiving company took credit, via a reduction in unit-linked liabilities, for the value of certain future margins which are expected to arise on the transferred business. The reinsurance treaty covers the risk of these margins not arising as a result of worse lapse or mortality experience than expected. The treaty is divided between European Reinsurance Company of Zurich which has a 98% share and Swiss Re Life and Health Limited which has the remaining 2% share.

The reinsurance offset at 31 December 2003, which is the reduction in liabilities as at the valuation date under the reinsurance treaty, was £48.5m (31 December 2002 £47.9m). The Company held deposited back assets equal to this amount. As margins arise on the reinsured business they are used to reduce the amount of the reinsurance. The Company then repays the deposited back assets. Under the reinsurance treaty it is possible that, in certain circumstances, additional contingent liabilities may arise which would not be included in Form 14. As at 31 December 2003 the amount of such contingent liabilities was £nil (31 December 2002 £23.6m).

The commutation value of this arrangement is £48.5m (2002 £73.1m). There is no reinsurance offset.

1001 Reconciliation of net assets to the accounts

	2003 £000	2002 £000
Total assets per Form 13 line 99	2,250,723	2,916,101
Total liabilities per Form 15 line 59	526,089	1,084,744
Net assets per Return	1,724,634	1,831,357
Net assets held within the long-term business fund Included in Form 14	464,867	552,467
Deficit on valuation of certain overseas insurance subsidiaries included at line 22 in Form 15	30,587	70,700
Total	2,220,088	2,454,524
Net assets per Companies Act accounts	£2,220m	£2,455m

1002 Net assets - other movements

Other movements shown at line 65 relate to:	2003 £000	2002 £000
Adjustment for movement in net assets held within the long-term business fund	87,600	(5,112)
Decrease/(increase) in deficit on valuation of certain overseas insurance subsidiaries included at line 22 of Form 15.	40,113	(40,575)
Total	127,713	(45,687)

1102 Reinsurance recoverable

The amount on line 30 differs from the corresponding amounts on the Appendix 9.2 Forms by £1,273k due to brought forward balances being retranslated at 2003 rates of exchange.

1202 Claims paid

The amount on line 21 differs from the corresponding amounts on the Appendix 9.2 Forms by £1,342k due to prior years' claims being retranslated at 2003 rates of exchange.

1301 Aggregate value of certain investments

The other than long-term business fund held units of beneficial interest in collective investment schemes with an aggregate value of £11m. There are no unlisted investments, no listed investments which are not readily realisable, and no reversionary interests or remainders in property other than land or buildings in the other than long-term funds.

1302 Aggregate value of hybrid securities

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

1304 Use of set off

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

1305 Counterparty limits

Under the Company's investment guidelines, the maximum permitted exposure to any one counterparty is set at 5% of the business amount, with the exception of short-term deposits with approved credit institutions, where the limit for any one institution is 20%. The 5% limit for the other than long-term fund has not been exceeded other than the balance with the holding company Prudential plc which exceeded 5% of the business amount on a number of occasions during the year. The largest balance outstanding was at the start of the year (£499m).

1306 Exposure at the year end to large counterparties

Within the other than long-term business fund the exposure to the holding company Prudential plc of £327m was in excess of 5% of the business amount at the year end.

1307 Secured Obligations

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

1308 Aggregate value of certain investments

The long-term business fund held unlisted investments with an aggregate value of £2,635m and units of beneficial interest in collective investment schemes with an aggregate value of £644m. There are no listed investments which are not readily realisable, and no reversionary interests or remainders in property other than land or buildings in either the long-term or other than long-term funds.

1309 Aggregate value of hybrid securities

The aggregate value of hybrid securities is £3,584m for the long-term business fund.

1310 Use of set off

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

1311 Counterparty limits

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

1312 Exposure at the year end to large counterparties

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

1313 Secured Obligations

At the year-end the Company's long-term business fund had £22.2m of secured obligations to which Para 14 of part 1 of Appendix 4.2 applies.

1314 Tangible lease assets

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

1316 Tangible lease assets

There were tangible lease assets of £0.7m included within line 80 for the long-term business fund.

1318 Acquisition of Scottish Amicable Life Assurance Society

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

The Non-Profit Sub-Fund of the other long-term PAC funds contributed £185m to the purchase cost of SALAS in respect of expected expense synergies. This amount was treated as an asset of a type not valued and included in Form 13 line 95 of the 1997 Return. £160m of this amount represented the value of an agreement with a fellow subsidiary company for the use of Scottish Amicable and Prudential trademarks which is being amortised in the shareholder accounts over a period of 20 years to 30 September 2017 on a basis consistent with the revenue stream from the agreement. Under this basis, the amortisation commenced in the year 2000, when the benefits from the agreement first arose. The remaining £25m related to the estimated net present value of income from current service agreements and is being amortised in the shareholder accounts from 1 January 1998 over a period of 10 years. Accordingly in the 2003 Return, Form 13 line 95 includes the unamortised balance of £151m.

The other than long-term business fund contributed £489.3m to the purchase cost via the Non-Profit Sub-Fund. Admissible assets, after revaluation, of £113.6m were treated as surplus carried forward in the fund and the balance of £375.7m was written off in Form 40 in 1997. In the shareholder accounts, £13.8m of the contribution related to the value of a service agreement which is being amortised on the same basis as the trademarks agreement described above. In addition, goodwill of £328m was recognised which is being amortised from 1 January 1998 over a period of 10 years. Accordingly Form 16, which corresponds to the Company's non-technical account, includes £32.8m in respect of this amortisation (although in the admissible assets reconciliation, this is reversed within Form 10 line 65) and the long-term business Form 13 line 95 of the 2003 Return includes the unamortised balance of £143m.

1319 Transfer of Scottish Amicable Life plc

On 31 December 2002 the business of Scottish Amicable Life plc (SAL) transferred into the Company. The business transferred into the Non-Profit Sub-Fund of the long-term business fund. The transfer of liabilities was reflected in Form 14 (£5,417m). This was matched by a transfer of assets in other technical income on Form 40 Line 15 (£5,357m) with the respective asset categories being increased on Form 13, plus an increase in the value of non-linked assets recognised in the Form 40 of £60m. Under the terms of the scheme of transfer, assets to the value of £160.8m were transferred from the SAL long-term fund into the other than long-term fund of the Company.

1401 Provision for adverse changes

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

1402 Long-term charges, contingent liabilities and guarantees

a) There were no charges over assets.
The company has adopted the provisions of Financial Reporting Standard 19 - Deferred Tax. Full provision has been made.

b) The ordinary long-term business fund held a provision of £2m for potential tax on capital gains in respect of linked business in the ordinary long-term business fund, in line 11 of Form 14. Provision of £1,202m for tax on capital gains in respect of other long-term business has been included in line 21 of Form 14, including £71m in respect of SAIF. These provisions have been determined in accordance with the procedures outlined in section 6 of the Valuation Report for the Ordinary and Industrial Branches in Appendix 9.4 of this Return. The actual provisions and the maximum potential tax are the same.

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

d) The Company has guaranteed up to £17.4m (2002: £17.4m) of a £100m loan issued by the Royal Bank of Scotland to Pension Advisors Support Systems (PASS) to assist independent financial advisors with their review of pension transfers and opt outs. Any amounts payable under this guarantee are recoverable from SAIF.

e) The Company formerly sold guaranteed annuity products in the UK and held a provision of £35m at 31 December 2003, (2002: £46m), within the With-Profits Sub-Fund to honour guarantees on these products. The Company's main exposure to guaranteed annuities in the UK is through SAIF and a provision of £649m was held in SAIF at 31 December 2003, (2002: £744m) to honour annuity and other guarantees. SAIF is a separate sub-fund of the Company's long-term business fund. Accordingly, this provision has no impact on shareholders.

f) Inherited Estate in the With-Profits Sub-Fund.
The long-term fund contains the amount that the company expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital. The amount payable over time to policyholders from the main With-Profit Fund (the With-Profits Sub-Fund) is equal to the policyholders' accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the With-Profits Sub-Fund is called the "inherited estate" and represents the major part of the working capital of the Company's long-term fund which enables the company to support with-profits business by:

- providing the benefits associated with smoothing and guarantees,
- providing investment flexibility for the fund's assets,
- meeting the regulatory capital requirements, which demonstrate solvency,
- absorbing the costs of significant events, such as fundamental change in its long-term business and the cost of providing redress for past mis-selling, subject to such costs not affecting the bonus and investment policies of existing with-profits policyholders. The costs of fundamental change may include investment in new technology, redundancy and restructuring costs, cost overruns on new business and the funding of other appropriate activities related to long-term insurance, including acquisitions.

  The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

The company believes that it would be beneficial if there were greater clarity as to the status of the inherited estate and therefore it has discussed with the Financial Services Authority the principles that would apply to any re-attribution of the inherited estate. No conclusions have been reached. Furthermore, the Company expects that the entire inherited estate will need to be retained within the long-term fund for the foreseeable future to provide working capital and so it has not considered any distribution of the inherited estate to policyholders and shareholders.

g) The FSA issued a report in March 2001 raising concerns regarding Scottish Amicable Life plc (SAL)'s conduct of sales of mortgage endowment products by its appointed representatives and in March 2003 it fined the Company £750,000 in respect of cases where advisers did not place appropriate emphasis on identifying whether a customer was prepared to take the risk that their mortgage might not be repaid at the end of the term. A provision of £25m was made in 2001 in the long-term fund of SAL for cases that might require redress. The business of SAL (including the provision) transferred to the Company at 31 December 2002 and the directors are satisfied that the current provision (£8m) (2002: £21m) continues to be adequate. SAL withdrew from the mortgage endowment product market in April 2001 and disbanded its network of appointed representatives in October 2001. In addition there is a provision of £31m in the closed Scottish Amicable Insurance Fund (SAIF) in respect of mortgage endowments. The establishment of the provision in SAIF has no impact on shareholders. Compensation of £11m was paid in 2003 in respect of mortgage endowment sales in the Company's With-Profits Sub-Fund and consequently a provision of £34m has been established.

h) Contingent liabilities arise in connection with financial reassurance arrangement described in note 9A02 and the Guarantee noted in item (d) above. The total of these is £65.9m.

i) There are no other fundamental uncertainties.

j) There are no other guarantees, indemnities or other contractual commitments effected, other than in the ordinary course of its insurance business, or in respect of related companies.

1404 Provision for deferred tax

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

1501 Provision for adverse changes

A provision of £21m has been made for adverse changes on two swap contracts.

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

a) There were no charges over assets.

b) The potential tax on capital gains in respect of the other than long-term business assets shown on Form 13 is nil.

c) Under the terms of the Company's arrangements with the Prudential Group's main UK bank, the bank has a right of set-off between credit balances (other than those of long-term business funds) and all overdrawn balances of those group undertakings with similar arrangements. The Company also has contingent liabilities in respect of insurance and other agreements entered into in the normal course of business and in respect of litigation arising therefrom.

d) Provisions in respect of the costs associated with the pensions mis-selling review have been included in the long-term technical provision. The directors believe that, based on current information, the pension mis-selling provision, together with future investment return on the assets backing the provision, will be adequate to cover the costs of pension mis-selling as well as the costs and expenses of the Company's pension review unit established to identify and settle such cases. Such provision presents the best estimate of probable costs and expenses. However, there can be no assurance that the current provision level will not need to be increased.

The calculation of the pension mis-selling provision is dependent upon a number of assumptions and requirements provided by the FSA. The costs associated with the pensions mis-selling review have been met from the inherited estate. Given the strength of the with-profits fund, the directors believe that charging the costs to the inherited estate will not have an adverse effect on the level of bonuses paid to policyholders or on their reasonable expectations. In the unlikely event of this proving not to be the case, an appropriate contribution to the with-profits fund would be made from the shareholders' funds.

e) There are no other fundamental uncertainties.

1503 Dividend on Cumulative Preference Shares

A dividend on cumulative preference shares of £30,362 had accrued at 31 December 2003.

1504 Deficit in valuation of insurance undertakings

An amount of £30,587k has been included in line 22 of Form 15 in respect of a deficit on the valuation of certain overseas insurance undertakings.

1601 Basis of foreign currency conversion

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

1602 Restatement of brought forward balances

Brought forward balances in the Return denominated in foreign currencies have been retranslated at 2003 rates of exchange.

1603 Other income and charges

	2003 £000	2002 £000
Transfer from Scottish Amicable Life plc	-	160,800
Other long-term business (losses) profits	(40,913)	32,532
Amortisation of goodwill	(32,800)	(32,800)
Amortisation of licence fee	(414)	(414)
Transfer in respect of closure provision for discontinued operations	(7,558)	(7,589)
Corporate expenditure	(270)	(867)
Profit on the sale of the UK general business operations	-	321,609
Profit on the sale of the Company's investment in the Malaysia Life operation	-	92,492
Loss on the sale of the Company's investment In the Thailand Life Operation	(30,527)	-
Loss on the sale of Scottish Amicable Unit trust Managers Limited (a dependant of the Company)	(4,297)	-
Other items	5,515	(8,737)
Total	(111,264)	557,026

Following the Part VII transfer under the Financial Services and Markets Act 2000 of the long term insurance business of Scottish Amicable Life plc to the Company, a transfer of assets was made to the other than long term fund of the Company.

Other long-term business profits relate to profits that are retained within the long-term business fund.

Goodwill of £328m arose on the purchase of Scottish Amicable Life Assurance Society and is being amortised from 1 January 1998 over a period of 10 years.

Discontinued operations include the former UK general insurance broker and commercial, London Market, marine and aviation and overseas agencies business which the Company ceased writing between 1990 and 1992, and the UK general insurance personal lines business. There is a contingency within other creditors in respect of these operations.

1700 Total Other Than Long Term Business Assets Analysis of derivative contracts

This Form has been omitted because all entries would be blank.

1701 Variation margins

No excess variation margin has been received. A variation margin of £36m has been included in line 38 of Form 14 of the long-term business fund. No variation margin is included in respect of the other than long-term business fund.

APPENDIX 9.2

2003 Analysis of premiums by accounting class

Accident year accounting

	Gross premiums Written (£000)			Reinsurers' share of gross Premiums written (£000)		
Class	UK	Overseas	Total	UK	Overseas	Total
1	(17)	10,550	10,533	(17)	3,600	3,583
2	(909)	1,051	142	(909)	156	(753)
5	-	255	255	-	142	142
6	(2,656)	3,026	370	(2,656)	891	(1,765)
7	-	3,425	3,425	-	603	603
8	(438)	1,000	562	(437)	500	63
Total	(4,020)	19,307	15,287	(4,019)	5,892	1,873

Underwriting year accounting

	Gross premiums Written (£000)			Reinsurers' share of gross Premiums written (£000)		
Class	UK	Overseas	Total	UK	Overseas	Total
3	10	-	10	20	-	20
4	24	-	24	24	-	24
5	2	-	2	-	-	-
10	28	-	28	-	-	-
Total	64	-	64	44	-	44

2007 Material connected party transactions

(i) The payment of the two 2003 interim dividends of £273m and £100m and two loans totalling £499m to the holding company (Prudential plc).

(ii) The transfer of a subsidiary company in Thailand to a fellow subsidiary Prudential Corporation Holdings Limited at achieved profit value of £16m.

(iii) The transfer of a subsidiary company in The Philippines to a fellow subsidiary Prudential Corporation Holdings Limited at cost of 20m.

(iv) The transfer of a subsidiary company, Scottish Amicable Unit Trust Managers Limited to a fellow subsidiary Prudential Corporation Holdings Limited at zero value.

(v) The transfer in of a subsidiary company Prudential Retirement Income Limited from a fellow subsidiary Prudential Corporation Holdings Limited at cost of £255m.

2008 General Insurance Business

In November 2001, the Company agreed to transfer its UK general business operations to Winterthur Swiss Insurance Company and Churchill Management Limited, its UK subsidiary. On 31 December 2001 the insurance liabilities of the business were almost wholly reassured with related cash transfer, to Winterthur. The sale of the business was completed on 4 January 2002 for a consideration of £353m. After allowing for the costs of the sale and other related items, the profit on sale recorded in the 2002 results was £322m before tax.

2102 Provision for unearned premiums

Unearned premiums continue to be calculated on a daily basis to give a strict day by day apportionment.

2202 Claims management expenses

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

2204 Acquisition expenses

Acquisition costs comprise fixed and variable costs arising from the completion of an insurance contract including commission, sales related bonuses, initial processing costs, underwriting costs, marketing costs and a proportion of customer servicing costs based on time allocation. Other overhead costs are included in administrative expenses. Acquisition costs are deferred and released on a 24th's basis to approximate the method used to recognise earned premiums.

2407 Analysis of MAT classes

Advantage has been taken of the concession set out in Guidance Note 9.1 not to provide analysis by underwriting year for the MAT classes.

2506 Analysis of MAT classes

Advantage has been taken of the concession set out in Guidance Note 9.1 not to provide analysis by underwriting year for the MAT classes.

2600 Analysis of net claims and premiums

This Form has been omitted because all entries would be blank.

2700 Analysis of gross claims and premiums

This Form has been omitted because all entries would be blank.

3001 Basis for determining yield from admissible assets covering discounted provisions

The yield is calculated in accordance with instruction 4 to the Form. Where a stock has two redemption dates and the price at the year end is greater than the early redemption value, the earlier redemption date is used to calculate the gross redemption yield.

3003 Adjustment for discounting

To take account of the extended settlement period, discounting has been applied to asbestosis and pollution claims of discontinued general business operations reported in the marine, aviation and London Market funds. The discount rates are 3.5% for London Market and 4% for Marine.
The settlement periods for London Market are 13 years for asbestosis, 9 years for pollution claims and 2 years for other health hazard claims.The settlement periods for Marine are 11 years for asbestosis, 5 years for pollution and 5 years for other health hazard claims.

APPENDIX 9.3

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

	Industrial Branch	Ordinary Branch					Ordinary Branch
		WPSF					
		Other	Pensions	NPSF	SAIF	DCPSF	Summary
Other income							
Transfer in respect of support assets	837	7,536	8,374				15,910
Rebate from the fund manager		262		372			634
Return of unclaimed compensation payments for SALAS policyholders					11,458		11,458
Compensation payment from the NPSF to the WPSF for the transfer of annuity business			2,548				2,548
Compensation payment from the NPSF to the WPSF for the MPP business written up to 31.12.02.		22,210					22,210
Financial reassurance receipt		5,527		693			6,220
Total	837	35,535	10,922	1,065	11,458		58,980
Other expenditure							
Transfer in respect of support assets					16,747		16,747
Compensation payment from the NPSF to the WPSF for the transfer of annuity business				2,548			2,548
Compensation payment from the NPSF to the WPSF for the MPP business written up to 31.12.02.				22,210			22,210
Financial reassurance payment		464		34,402			34,866
Total		464		59,160	16,747		76,371

Notes:

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

4006 & *4007* Apportionment of income and expenses of the long-term business

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

1 Scottish Amicable Insurance Fund

a) Investment income is determined by the assets held.

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

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

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

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

a) Investment income is determined by the assets held.

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

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

4 With-Profits Sub-Fund

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

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

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

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

4008 Statement on provision of management services

a) The Company was provided with management services by M&G Investment Management Limited, PPM Ventures Limited, Prudential Services Limited, Prudential Financial Services Limited, Prudential UK Services Limited, St Helen’s Trust Limited, Prudential Property Investments Managers Limited, PPM America Inc and PAM Singapore.

b) The Company seconded employees to provide management and other services throughout the year to Prudential Pensions Limited, Prudential Holborn Life Limited, Prudential (AN) Limited (formerly Prudential Holborn Pensions Limited), Prudential Annuities Limited, Prudential Pensions Administration Limited, Prudential Staff Pension Scheme, Prudential Financial Services Limited, Prudential Logistics Limited, Prudential Leasing Services Limited, Prudential Retirement Income Limited and Prudential Group Pensions Limited.

All the companies mentioned above are subsidiaries or fellow subsidiaries of the Company.

4301 Basis of valuation of assets

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

APPENDIX 9.4

The following notes are included for completeness. They relate to Forms which are included in a separate document 'Appendix 9.4 Annual FSA Insurance Returns for the year ended 31 December 2003'.

4601 Actual number of contracts

Rider benefits are included in the number of contracts. As a result, the combined numbers of contracts shown on the forms exceed the actual numbers by:

	United Kingdom	Overseas
Non-linked	1,482,772	762,919
Linked	275,236	69,358

Contracts issued as a cluster of identical policies have been counted as one contract, and not as the number of such policies.

In previous years' returns, most rider benefits were excluded from the number of contracts. The resulting increase in the reported number of contracts has been included in row 13 of Forms 46.

4602 Group business

The number of group contracts in force was:

	United Kingdom			Overseas	
	WPSF	SAIF	NPSF	WPSF	NPSF
Non-linked	41,986	374	39	911	
Linked	1,644	368	595		1

A pension purchased for a member of a group scheme is reported as a non-group contract.

46A01 Section 68 order modifying 1996 Regulations provisions

The Treasury issued to the Company in November 1999 an Order under section 68 of the Insurance Companies Act 1982 modifying the provisions of paragraph 17 of Schedule 4 to The Insurance Companies (Accounts and Statements) Regulations 1996 so that the Company is not required to submit a separate Form 46A in respect of its industrial assurance business written in Northern Ireland. Under the post-N2 grand-fathering provisions, this order is covered by section 148 of the Financial Services and Markets Act 2000 and modifies the provisions of IPRU (INS) Appendix 9.4.

4701 Sums assured

Some accumulating with-profits and property-linked contracts have no clearly defined benefit. For these products, the entries in columns 4 and 7 are the amounts of single premium or new annual premium as appropriate.

4801 Accrued interest

The amounts of accrued interest included in the value of admissible assets are:

	WPSF	SAIF	DCPSF	NPSF	Total
	£000	£000	£000	£000	£000
Fixed interest - approved	29,318	12,594		3,344	45,256
- other	288,868	80,832	1,161	9,480	380,341
Variable yield - approved	34			18	52
- other	8,665	2,136		39	10,840

5101 Valuation interest rates

Code letters in column 2 have the following meanings:

(a) The rate of interest in deferment is 5.00% for deferred annuities in the WPSF Other and WPSF Pensions sub-funds and 4.5% for FlexiPension (Series1) in the SAIF sub-fund. These rates are then reduced by 0.35% to allow for future improvement in mortality in possession. The rate of interest in possession is 4.50% for deferred annuities and 4.2% for FlexiPension (Series 1).

(b) The valuation interest rate in deferment is reduced by 0.35% to allow for future improvement in mortality in possession. In addition to deferred annuities, this reduction is used in assessing the provision for guaranteed annuity options on certain endowment assurances in SAIF.

5102 Valuation mortality tables

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

A AM92 or AF92 Ult both rated up 1 year
B AM92 or AF92 Ult both rated up 1 year plus one third of projection R6A of the Institute of Actuaries AIDS Working Party Bulletin No. 5
C AM92 Ult rated down 3 years for men and 7 years for women
AM92 Ult rated down 3 years for men and 8 years for women
E AM92 or AF92 Ult both rated down 3 years
F AM92 or AF92 Ult both rated down 3 years plus, for men only, one third of projection R6A of the Institute of Actuaries AIDS Working Party Bulletin No. 5

G AM92 Ult rated up 1 year for men and down 3 years for women

H 75% of PMA92 c=2004 or 68% of PFA92 c=2004
I 102% PMA92 (U=2004) mcf 2% / 84% PFA92 (U=2004) mc
J IM80 c=2010 or IF80 c=2010 both rated down 5 years
K Mortality: AM92 Ult rated down 3 years for men and 7 years for women
Claims inception: CMIR12 rated for 1987-94 experience in CMIR15 and 18 plus 50% margin

Claims termination: CMIR12 rated for 1991-94 experience in CMIR 18 plus 10% margin
For women, liabilities are calculated on this basis then increased by 50%
L Combined mortality and critical illness incidence rates for MPCIC, specimens of which are given in paragraph 7(2) of the valuation report for ordinary branch life, pensions and linked business
M Critical illness and total and permanent disability benefit incidence rates for Hong Kong, specimens of which are given in paragraph 7(2) of the valuation report for ordinary branch life, pensions and linked business
N Critical illness incidence rates, specimens of which are given in paragraph 7(2) of the valuation report for long term sickness and accident business
O 1978 population statistics for England & Wales (men and women separately) and AM92 ultimate mortality (rated up 1 year for men and down 3 years for women)

P 1978 population fatal accident statistics for England & Wales (combined rates determined as 60% male and 40% female experience), and A1967-70 ultimate mortality rated up 1 year

Q 85% of AM80 or AF80 Ult
R 102% PMA92 (U=2004) mcf 2% + 2 years to age / 84% PFA92 (U=2004) mc + 2 years to age
S 78% of PMA92 c=2004 or 70% of PFA92 c=2004

If two letters are shown, the first applies to mortality in deferment and the second to mortality in possession.

For I and R the CMIR17 improvement factors from 1992 to 2004 are applied to PMA92 and PFA92 mortality tables. Future improvement factors from 2005 onwards are in line with the medium cohort projection (Working paper 1: An interim basis for adjusting the '92' series mortality projections for cohort effects published by the CMI mortality subcommittee in 2002). Male improvement factors are subject to a minimum improvement of 2% in any year. In the table entries above, “mc” refers to medium cohort improvement factors and “mcf 2%” refers to a floor of 2%.

5103 Provision for annuity payment expenses

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:

(c)	2%
(d)	4%
(e)	5%
(f)	£25.80 per annum per policy, inflating at 3.5% per annum.
(g)	£16.00 per annum per policy, inflating at 3.5% per annum.

5104 Actual number of contracts

The reported numbers of UK and overseas assurances exceeds the actual numbers by 1,350,701 and 762,919 respectively because of the inclusion of rider benefits attached to policies.

5201 Valuation interest rates

The valuation interest rates for FSA personal pensions review guarantees, shown as *(h)* in column 2, are 5.85% in deferment and 4.20% in possession, both inclusive of 3.00% per annum increases in the retail prices index. In deferment, allowance is made where appropriate for salaries to increase by 2.5% per annum in excess of RPI and by a further 1% per annum up to age 50.

5202 Valuation mortality tables

See note 5102.

5203 Actual number of contracts

The number of contracts which contain both accumulating with-profits and property-linked benefits is included in column 4 of both Forms 52 and 53. As a result, the combined number of contracts shown on these forms exceeds the actual number by 132,071 for UK contracts and 2,810 for overseas contracts.

Prudence Bond contracts with both Optimum Return and Optimum Bonus with-profits units are included in the number of contracts in both categories on Form 52. As a result, the reported number of contracts exceeds the actual number by 2,085.

5301 Valuation rates of interest

The interest rate, inflation and fund growth assumptions used to calculate the non-unit reserves are stated in paragraph 9(a) of the ordinary branch valuation report.

5302 Valuation mortality tables

See note 5102. AM80/AF80 Ultimate is used for Capital Units allocated to former M&G contracts.

5303 Actual number of contracts

The reported number of UK contracts exceeds the actual number by 275,236 because of the inclusion of 273,527 rider benefits attached to policies and 1,709 Prudential Inheritance Bond policies which include both whole life and endowment assurance benefits.

5304 Contracts with both property- and index-linked benefits

There are no contracts with both property- and index-linked benefits.

5305 Reinsurance of unit liabilities

The unit liability for most property-linked contracts is wholly reinsured with subsidiaries of the Company or other authorised insurers. The reinsurer is indicated in column 10 of Forms 53 by the following abbreviations:

BGIPM Barclays Global Investors Pension Management Limited

DAML&P Deutsche Asset Management Life and Pensions Limited

L&MMF London and Manchester (Managed Funds) Ltd

MLAC Mercury Life Assurance Company Limited

PHL Prudential Holborn Life Limited

PANL Prudential (AN) Limited

PPL Prudential Pensions Limited

SLAC Standard Life Assurance Company Ltd.

The difference between columns 11 and 12 indicates the extent to which credit is taken for an element of actuarial funding.

5401 Valuation mortality tables

See note 5102

5501 Reinsurance of unit liabilities

Where unit liabilities are wholly reinsured, the reinsurer is indicated in column 2 using the same abbreviations as in note 5305.

5502 Reconciliation of Form 55 to Form 13

	£m
Form 55 Internal Linked Funds column 7	5,832
Form 55 Directly Held Assets column 7	68
Form 55 total column 7	5,900
less	
Value of surplus units including amounts deposited back	98
Provision for capital gains tax	0
Total	98
Total	5,802
Form 13 line 59	5,901
Less overseas	99
UK	5,802

5503 Reconciliation of Form 55 to Form 53

	£ m
Form 55 Internal Linked Funds column 8 less column 9	5,783
Form 55 Directly Held Assets column 8 less column 9	69
Form 55 total column 8 less column 9	5,852
less	
Amounts deposited back	50
Total	5,802
Form 53 column 12	5,802

5601 Guaranteed Peak Bond

The Company has purchased a customised package of assets from a large financial institution which exactly matches the unit liability for the Guaranteed Peak Bond issued by Scottish Amicable Life plc. This package is described as Guaranteed Peak Bond on Form 56.

5701 Contracts covered by the "balance" form

The mathematical reserves included in line 33 of the balance form for SAIF are those for:

UK non-profit life assurances valued at 3.2% per annum

UK permanent health insurance valued at either 3.0% or 4.0% per annum

Overseas life assurance business valued at 0% per annum

Overseas permanent health insurance valued at 3.75% per annum and

additional reserves.

The mathematical reserves included in line 33 of the balance form for the WPSF are those for:

all non-profit assurances, annuities and permanent health insurance including the non-unit liabilities for property-linked business,

with-profits annuities in payment,

all with-profits business issued in Hong Kong and Malta and

additional reserves.

The mathematical reserves included in line 33 of the balance form for the NPSF are those for:

UK non-profit life assurances valued at 3% per annum,

UK permanent health insurance valued at 3% per annum,

overseas permanent health insurance valued at 3.75 % per annum and

additional reserves which include, in particular, £25 million in respect of mismatching.

No mathematical reserves are included in the balance form for the DCPSF.

For all funds, these reserves are less than 10% of the total reserves reported on Forms 51-54 plus the cost of bonus allocated to policyholders at 31 December 2002 reported on Form 58 less the unit liabilities on Forms 53 and 54.

In addition to these reserves, line 33 on each balance form includes the total other liabilities shown in Form 14 line 49 (which in turn include any provision for prospective liability for tax on unrealised gains), and (in column 1 only) the resilience reserves. The resilience reserves are £720 million in SAIF, £420 million in the WPSF and £22 million in the DCPSF. In the NPSF a resilience reserve of £47m has been included in Form 58.

5801 Profit on disposal of shares

In addition to the surplus carried forward unappropriated in the NPSF Form 58, there is also an amount included in line 51 of the NPSF Form 14 which is beneficially owned by the Company's Other Than Long Term Business Fund. This amount relates principally to the profit on disposal of the fund's holding of shares in St James's Place Capital.

5802 Percentage of surplus allocated to policyholders

In 1996, the Company adopted an accounting convention for converting other currencies to sterling under which revenue items, including the distribution to shareholders, are converted at the average exchange rate for the year, while the allocation to policyholders is converted at the year end rate. As a consequence of this practice, Form 58 for the With-Profits Sub-Fund: Other shows that in 2003 and 2002 slightly less than 90% of the declared surplus was allocated to policyholders. When expressed in currency, all allocations to policyholders are not less than 90% of the declared surplus as required by the Company's articles of association.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Year ended 31 December 2003

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

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

Name of Reinsurer	Type of Reinsurance	Premiums Payable (£000)	Amount due to Company (£000)	Anticipated Recovery from Reinsurer (£000)
Winterthur Swiss Insurance Co Ltd General Guissan Strasse 40 PO Box 357 CH-8401, Parsifal Switzerland	Proportional	(4,018)	-	9,214
Swiss Reinsurance Co Ltd 61/F Central Plaza 18 Harbour Road Wanchai Hong Kong	Non-proportional Proportional	140 341	-	-
China Reinsurance Co (HK) Ltd 29A United Centre 95 Queensway Admiralty Hong Kong	Non-proportional	140	-	-
Munich Reinsurance Company 11/F Fairmont House 8 Cotton Tree Drive Central Hong Kong	Non-Proportional	62	-	-
The Toa Reinsurance Co Ltd Room 801 8th floor, Admiralty Centre, Tower 1 18 Harcourt Road Hong Kong	Non-Proportional	202	-	-
SCOR Reinsurance Co (Asia) Ltd Room 1603-07, Shui On Centre 6-8 Harbour Road Wanchai Hong Kong	Non-Proportional	40	-	-

AXA Reinsurance Asia Suite 4903, 49/F Central Plaza 18 Harbour Rd Wanchai Hong Kong	Non-Proportional	77	-	-
Partner Reinsurance Co Ltd 3706 Sun Hung Kai Centre 30 Harbour Rd Wanchai Hong Kong	Non-Proportional	78	-	-
Hannover Ruckversicherungs-AG Karl-Wiechert-Allee 50 D-30625 Hannover Germany	Non-Proportional	13	-	-
Sompo Japan Reinsurance Co. Ltd. Room 1908 Lincoln House, Taikoo Place 979 King's Road, Island East Hong Kong	Non-Proportional	20	-	-
BUPA (Asia) Limited Unit 402-407, 4th Floor DCH Commercial Centre 25 Westlands Rd., Quarry Bay Hong Kong.	Proportional	2,777	-	-
Sirius International Insurance Corporation 24 Raffles Place #10-01/02 Clifford Centre SINGAPORE 048621	Non-Proportional	18	-	-
GE Frankona Reinsurance A/S Suite 1004-9, 10/F., CITIC Tower 1 Tim Mei Avenue, Central Hong Kong	Non-Proportional	140	-	-

Notes:

1. Premiums include amounts payable to companies connected with the reinsurer.

2. The Company was not connected at any time in the year with any of the above reinsurers.

3. No deposits were received from any of the above reinsurers.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Year ended 31 December 2003

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

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

The Company had no major facultative reinsurers in the year.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Year ended 31 December 2003

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

Rule 9.27: Information on general insurance business major reinsurance cedants

The Company had no major cedants in the year.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Returns for the year ended 31 December 2003

Statement required by Rule 9.29 of the Interim Prudential Sourcebook for Insurers

(a) Investment guidelines

As requested by Rule 9.29 of the Interim Prudential Sourcebook for Insurers, 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 Interim Prudential Sourcebook for Insurers (Volume One: Rules)
- the maximum allowable exposure to counterparties should not be exceeded.
- only certain permitted exchanges and contracts can be used.

(iii) The Company has used a number of derivative instruments principally exchange traded futures and options, over the counter options & swaptions, warrants and currency forwards. The Company has also used redeemable convertible corporate bonds. These bonds have not been categorised as derivative contracts as the derivative element is minimal and have therefore not been reported on form 17. The total value of these bonds on the long-term form 13 is £334m. There is no exposure to convertible bonds in the other than long-term funds at the year end.

(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.

Long-term funds

The fund continues to hold receiver swaptions to partially hedge the guaranteed annuity liabilities of the ring fenced Scottish Amicable Insurance Fund. The position pays out if long term interest rates continue to fall. However long dated rates are expected to rise and exercise by the fund is considered unlikely.

The fund holds a series of short equity index and single stock options for the purpose of taking views on implied volatility of equities relative to their actual expected volatility. The fund is designed to achieve a high absolute return with modest volatility and low correlation to other assets in the fund. Each option is covered, traded on a permitted exchange, and is highly liquid.

Other than long-term funds

During 2003 no such contracts were used.

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

Long-term funds

The largest exposure during the year to put options was £45m and to call options was (£63m)

Other than long-term funds

During 2003 no such contracts were used.

(d) Effect on form 13 at 31 December 2003 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 41;	£421m
Form 13 line 44;	(£615m)
Form 13 line 54;	£138m
Form 13 line 78;	£16m

Other than long-term funds

Form 13 line 54	(£21m)

(e) Effect on form 13 at 31 December 2003 of exercising all derivatives. Decreases are shown in brackets.

Long-term funds

Form 13 line 41;	£414m
Form 13 line 44;	(£715m)
Form 13 line 54	£139m
Form 13 line 78;	£16m

Other than long-term funds

Form 13 line 54	(£21m)

(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		Other than long-term funds	
Form 13 line 41;	(£635m)	Form 13 line 54	(£24m)
Form 13 line 44;	(£124m)		
Form 13 line 45;	£709m		
Form 13 line 54;	£1,043m		
Form 13 line 78;	(£24m)		

Conditions noted in (e)

Long-term funds		Other than long-term funds	
Form 13 line 41;	(£618m)	Form 13 line 54	(£24m)
Form 13 line 44;	(£234m)		
Form 13 line 45;	£709m		
Form 13 line 54;	£1,034m		
Form 13 line 78;	£24m		

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 £282m.

Under foreseeable market conditions this would increase to £388m. The maximum loss at any other time during the year would have been £282m.

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

Long-term funds

No such derivatives were held.

Other than long-term funds

There were two uncovered swaps that created a provision for adverse change at the end of the year of £21m. The maximum provision during the year would have been £24m.

(i) Consideration for granting rights under derivative contracts

Long-term funds

The total consideration received for granting rights under derivative contracts totalled £46m.

Other than long-term funds

No rights under derivative contracts have been granted.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Year ended 31 December 2003

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

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

Throughout the year Prudential plc held either directly or through a wholly owned Subsidiary all the shares of the Company and controlled the whole of the voting power.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Year ended 31 December 2003

Statement of additional information on general insurance business ceded pursuant to Rule 9.32 of the Interim Prudential Sourcebook for Insurers

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

On 31 December 2001 the Company transferred its personal lines General Insurance liabilities to Winterthur Swiss Insurance Company. The policies transferred left no net retention to the Company. From January 2003, Prudential branded new business policies were underwritten by Winterthur/Churchill. Prudential policies renewing in 2003 were underwritten in the name of Winterthur/Churchill. For further details see note 2008 and additional information given under Rule 9.25.

There has been no change to the policy to cover until expiry the major risks of its discontinued Marine and London Market business. No policies are expected to be exhausted by claims that have been incurred. At the end of 2003, there were no reinsurers that had ceased to pay claims.

Policies were purchased to protect the exposures of its small Hong Kong branch operation. Details of these policies are set out below.

Type of business	Type of cover	Period of cover	Policy limits
1. Accident and health 1. Transport 2. Property 8. Miscellaneous and Pecuniary loss	Hong Kong Accident Surplus	1/1/03 – 31/12/03	Reinsurers potential liability: £2,356,000 in excess of £157,000
1. Accident and health	Hong Kong Accident Catastrophe Excess of Loss 1st Layer 2nd Layer	1/1/03 – 31/12/03	Reinsurers potential liability: £1,021,000 in excess of £157,000 £1,964,000 in excess of £1,178,000
2. Motor 7. Third party liability	Hong Kong Motor and Liability Excess of Loss 1st Layer 2nd Layer 3rd Layer 4th Layer 5th Layer	1/1/03 – 31/12/03	Reinsurers potential liability: £236,000 in excess of £157,000 £785,000 in excess of £393,000 £1,178,000 in excess of £1,178,000 £5,498,000 in excess of £2,356,000 Unlimited in excess of £7,854,000

Type of business	Type of cover	Period of cover	Policy limits
5. Transport	Hong Kong Marine Cargo Combined Quota Share And Surplus	1/1/03 – 31/12/03	Reinsurers potential liability: Quota share £32,000 in excess of £47,000 Surplus £785,000 in excess of £47,000
6. Property 8. Miscellaneous and Pecuniary loss	Hong Kong Fire Surplus	1/1/03 – 31/12/03	Reinsurers potential liability: £3,534,000 in excess of £236,000
6. Property	Hong Kong Property Combined Quota Share And Surplus	1/1/03 – 31/12/03	Reinsurers potential liability: Quota share £377,000 in excess of £94,000 Surplus £1,414,000 in excess of £94,000
6. Property	Hong Kong Fire Catastrophe Excess of Loss 1st Layer 2nd Layer 3rd Layer	1/1/03 – 31/12/03	Reinsurers potential liability: £550,000 in excess of £236,000 £786,000 in excess of £786,000 £2,356,000 in excess of £1,572,000
8. Miscellaneous and Pecuniary loss	Hong Kong Bond Quota Share	1/1/03 – 31/12/03	Reinsurers potential liability: £177,000 in excess of £59,000

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

Business Category	From any one contract £000	From all such contracts £000
Accident and health	157	157
Motor	157	157
Marine	500	500
Transport	47	47
Property	236	236
Third party liability	500	500
Miscellaneous and pecuniary loss	59	59

The Split of reinsurance premiums (as shown on forms 21 and 24) for each accounting class by facultative and non-facultative reinsurance is set out below:

	Accounting class	Facultative £000	Non-facultative £000	Total £000
1	Accident and health	536	3,047	3,583
2	Motor		(753)	(753)
3	Aviation		20	20
4	Marine		24	24
5	Transport	20	122	142
6	Property	419	(2,184)	(1,765)
7	Third party liability	48	555	603
8	Miscellaneous and pecuniary loss	148	(85)	63
	Total	1,171	746	1,917

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Year ended 31 December 2003

Statement of information on the appointed actuary pursuant to Rule 9.36 of the Interim Prudential Sourcebook for Insurers

In accordance with Rule 9.36 of the above sourcebook, David Belsham, the appointed actuary of the Company, was requested to furnish and has provided the following information:

(a) (i) He had an interest in 56,085 and 56,188 shares in the share capital of the holding company, Prudential plc, at the beginning and at the end of the year respectively.

(ii) He had an interest under the Prudential Restricted Share Plan in shares in Prudential plc held in trust, representing the maximum award that could be made if performance requirements of the Plan were met, of 34,262 and 47,748 shares at the beginning and at the end of the year respectively. During the year no shares were released to him but under the 2003 Scheme 23,251 shares were conditionally awarded to him.

(iii) He held the following options granted under the Prudential Savings-Related Share Option Scheme to subscribe for shares in Prudential plc:

Number of Shares	Exercise Price	Exercise Dates
5,866	280p	Between June 2008 and December 2008

(iv) He also had an interest in 1,410 shares in Egg plc, a subsidiary of Prudential plc, both at the beginning and the end of the year.

(b) He was interested in the following life and general insurance policies issued by the Company:

(i) Three endowment assurance with-profits policies maturing between 2009 and 2011 with participating sums assured totalling £18,720, non-participating minimum death benefits of £48,000 and annual premiums of £776.

(ii) Two temporary assurance without-profits policies expiring in 2011 with sums assured totalling £202,000 and annual premiums of £457.

(iii) A home insurance policy covering buildings, household contents, travel and personal effects and a motor insurance policy (now underwritten by Churchill).

(c) His total remuneration for the year was £256,581.

(d) He is a member of the Prudential Staff Pension Scheme and contributions in respect of the year were paid by the Company.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Year ended 31 December 2003

Appointed Actuary's Certificate pursuant of Rule 9.34(b) of the Interim Prudential Sourcebook for Insurers

I certify that:

(a) (i) In my opinion, proper records have been kept by the Company adequate for the purpose of the valuation of the liabilities of its long-term insurance business;

(ii) The mathematical reserves as shown in Form 14, together with a provision of £3,142m for mismatching also shown in Form 14 (such provision being part of the excess of the value of admissible assets representing the long-term insurance business funds over the amounts of those funds shown in that Form) and a provision of £1,202m, for potential tax on capital gains as mentioned in note 1402 on page 156 constitute proper provision at 31 December 2003 for the liabilities (other than liabilities which had fallen due before 31 December 2003) arising under or in connection with contracts for long-term insurance business, including the increase in those liabilities arising from the distribution of surplus as a result of the investigation as at 31 December 2003 into the financial condition of the long-term insurance business;

(iii) For the purposes of sub-paragraph (ii) above, the liabilities have been assessed in accordance with the Determination of Liabilities Rules in the context of assets valued in accordance with the Valuation of Assets Rules, as shown in Form 13;

(iv) The valuation complies with the guidance notes issued by the Faculty and Institute of Actuaries "GN1 (version 6.1): The Prudential Supervision in the UK Long-Term Insurance Business" dated 1 September 2003 and "GN8 (version 7.0): Additional Guidance on Valuation of Long-Term Insurance Business" dated 30 December 2002; and

(v) In my opinion, premiums for contracts entered into during the financial year and the income earned thereon are sufficient, on reasonable actuarial assumptions and taking into account the other financial resources of the Company that are available for the purpose, to enable the Company to meet its commitments in respect of those contracts and, in particular, to establish adequate mathematical reserves; and

(b) The amount of the required minimum margin applicable to the Company's long-term insurance business immediately following 31 December 2003 (including the amount resulting from the increase in liabilities arising from the distribution of surplus as a result of the investigation into the financial condition of the long-term insurance business) is £2,810m.

31 March 2004

David Belsham
Appointed Actuary

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Year ended 31 December 2003

Directors' Certificate pursuant to Rule 9.34(a) of the Interim Prudential Sourcebook for Insurers

We certify that:

1. (a) In relation to the part of the Return comprising Forms 9, 9A, 10 to 17, 20 to 25, 30 to 33, 35 to 38, 40 to 45 (and the supplementary notes thereto) and the statements required by rules 9.25 to 9.27, 9.29, 9.30 and 9.32 that

    (i) the Return has been prepared in accordance with the Accounts and Statements Rules as modified by the waivers issued under section 148 of the Financial Services and Markets Act 2000 and Section 68 of the Insurance Companies Act 1982, which continue to have effect, as referred to in supplementary notes 0901, 0903 and 0904 on pages 151 and 152.

    (ii) proper accounting records have been maintained and adequate information has been obtained by the insurer; and

    (iii) an appropriate system of control has been established and maintained by the insurer over its transactions and records;

   (b) Reasonable enquiries have been made by the insurer for the purpose of determining whether any person and any body corporate are connected for the purposes of rules 9.25, 9.26 and 9.27.

   (c) That proper records have been maintained and adequate information obtained by the insurer for the purpose of the declaration by rule 9.39 of PRU(INS).

   (d) In respect of the insurers business which is not excluded by rule 7.6, the assets held throughout the financial year enabled the insurer to comply with rules 7.1 to 7.5 (matching and localisation) and

   (e) In relation to the statement required by rule 9.36

    (i) that for the purpose of preparing the statement, proper accounts and records have been maintained; and

    (ii) that the information given has been ascertained in conformity with that rule.

2. The margin of solvency for long term business and for general business required by rule 2.1 have been maintained throughout the financial year.

3. (a) The requirements of rules 3.1 to 3.4 have been fully complied with and in particular that, subject to the provisions of rule 3.2(2) to (4) and rule 3.3, assets attributable to long-term insurance business, the income arising therefrom, the proceeds of any realisation of such assets and any other income or proceeds allocated to the long-term insurance business fund have not been applied otherwise than for the purpose of the long-term insurance business.

(b) Any amount payable from or receivable by the long-term business fund in respect of services rendered by or to any other business carried on by the insurer or by a person who, for the purposes of rule 3.4, is connected with it or is a subordinate company of it has been determined and where appropriate apportioned on terms which are believed to be no less than fair to the fund, and any exchange of assets representing the fund for other assets of the insurer has been made at fair market value;

(c) No guarantees have been given by the insurer of the performance by a related company of a contract binding on the related company which would fall to be met by the long-term business fund;

(d) The investment policy and practice of the insurer in respect of internal linked funds maintained during the financial year was consistent with representations made to policyholders and potential policyholders of the Insurer;

(e) The Return in respect of long-term business is not distorted by agreements with any other company carrying on insurance business with which the insurer has financial, commercial or administrative links or by any arrangements which could affect the apportionment of expenses and income; and

(f) The insurer has complied fully with the requirements of rule 3.5.

4. (a) The systems of control established and maintained by the insurer in respect of its business complied at the end of the financial year with the following published guidance:

(i) Guidance Note P1 - Systems and controls over investments (and counterparty exposure) of insurance companies with particular reference to the use of derivatives;

(ii) Guidance Note P2 - Controls over general business claims provisions; and

(iii) Guidance Notes for Insurance and Retail Products (issued by the Joint Money Laundering Steering Group);

and it is reasonable to believe that those systems continued to so comply subsequently and will continue to so comply in future; and

(b) The Return has been prepared in accordance with the following published guidance:

(i) Guidance Note 4.1 - Guidance for insurance companies and auditors on the Valuation of Assets Regulations;

(ii) Guidance Note 4.2 - The use of derivatives in insurance funds; and

(iii) Guidance Note 9.1 - The preparation of annual returns.

Mark Wood Chief Executive	Tim Tookey Director	David Belsham Director

31 March 2004

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Year ended 31 December 2003

Report of the auditors to the directors pursuant to Rule 9.35 of the Interim Prudential Sourcebook for Insurers

We have examined the following documents prepared by the Company pursuant to the Accounts and Statements Rules set out in part 1 of chapter 9 to the FSA's Interim Prudential Sourcebook for Insurers (the Rules) made by The Financial Services Authority under section 138 of the Financial Services and Markets Act 2000.

- Forms 9, 9A, 10 to 17, 20 to 25, 30 to 33, 35 to 38 and 40 to 45, including the supplementary notes thereto ('the Forms');
- The statements required by rules 9.25, 9.26, 9.27 and 9.29 on pages 172 to 178 ('the Statements'); and
- The certificate signed in accordance with rule 9.34(a) on pages 186 to 188 ('the Certificate').

In the case of the Certificate, our examination did not extend to:

(a) Paragraph 1 in relation to the statements required by rules 9.30, 9.32 and 9.36 concerning shareholder controllers, general business ceded and information on the Appointed Actuary;
(b) Paragraph 3(d) concerning the investment policy and practice of internal linked funds, required by paragraph 4 (d) of Appendix 9.6; and
(c) Paragraph 4(a) in so far as it relates to controls with respect to Money Laundering.

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, Statements and Certificate) under the provisions of the Rules. The requirements of the Rules have been modified by waivers issued under section 148 of the Financial Services and Markets Act 2000 and orders granted under Section 68 of the Insurance Companies Act 1982 which continue to have effect as referred to in supplementary notes 0901, 0903 and 0904 on pages 151 and 152. Under Rule 9.11, the Forms and Statements are required to be prepared in the manner specified by the Regulations and to state fairly the information provided on the basis required by the Rules.

It is our responsibility to form an independent opinion as to whether the Forms and Statements meet these requirements and, in the case of the Certificate, whether it was or was not unreasonable for the persons giving the Certificate to have made the statements therein, and to report our opinions to you. Our responsibilities as independent auditors, are established in the United Kingdom, by statute, the Auditing Practices Board and by our profession's ethical guidance.

Bases of opinions

We conducted our work in accordance with Practice Note 20 ' The audit of Insurers in the United Kingdom' 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 and Statements. The evidence included that previously obtained by us relating to the audit of the financial statements of the Company for the financial year on which we reported on 19 March 2004. It also included an assessment of the significant estimates and judgements made by the Company in the preparation of the Forms and Statements.

We planned and performed our audit 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 and Statements are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with rule 9.11.

In the case of the Certificate, the work performed involved a review of the procedures undertaken by the signatories to enable them to make the statements therein, and does not extend to an evaluation of the effectiveness of the Company’s internal control systems.

In giving our opinion we have relied on the certificate of the Appointed Actuary on page 185 with respect to the mathematical reserves and the required minimum margin.

Opinions

In our opinion:

(a) 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

(b) According to the information and explanations received by us:

    (i) The Certificate has been properly prepared in accordance with the provisions of the Rules; and
    (ii) It was not unreasonable for the persons giving the Certificate to have made the statements therein.

KPMG Audit Plc
Registered Auditor
London

31 March 2004