

Prudential Retirement Income Limited

Incorporated and registered in Scotland Registered number 47842
Registered Office PO Box 25, Craigforth, Stirling, FK9 4UE

**Annual FSA Insurance Returns for the year ended
31st December 2003**

(Appendices 1, 3, 4, 6)

Prudential Retirement Income Limited

Year ended 31st December 2003

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Statement of solvencyName of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2003**

R9	Company registration number 47842	GL/UK/CM GL	Period ended			Units £000
			day	month	year	
	As at the end of this financial year 1	As at the end of the previous year 2	31	12	2003	
			Source			
			Form	Line	Column	

GENERAL INSURANCE BUSINESS**Available assets**

Other than long term insurance business assets allocated towards general insurance business required minimum margin	11			See instructions 1 and 2		
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Required minimum margin

Required minimum margin for general insurance business	12			12	49	
Excess (deficiency) of available assets over the required minimum margin (11-12)	13					

LONG TERM INSURANCE BUSINESS**Available assets**

Long term insurance business admissible assets	21	3208632	2414572	10	11	
towards long term insurance business required minimum margin	22	155174	160681	See instructions 1 and 3		
Total mathematical reserves (after distribution of surplus)	23	3188901	2398349	See instruction 4		
Other insurance and non-insurance liabilities	24	9731	16223	See instruction 5		
Available assets for long term insurance business required minimum margin (21+22-23-24)	25	165174	160681			

Implicit Items admitted under Rule 2.10(5) as modified

Future profits	31					
Zillmerising	32					
Hidden reserves	33					

Total of available assets and implicit items (25+31+32+33)	34	165174	160681			
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Required minimum margin

Required minimum margin for long term insurance business	41	127556	95934	60	69	
Explicit required minimum margin (1/6 x 41, or minimum guarantee fund if greater)	42	21259	15989			
Excess (deficiency) of available assets over explicit required minimum margin (25-42)	43	143915	144692			
Excess (deficiency) of available assets and implicit items over the required minimum margin (34-41)	44	37618	64747			

CONTINGENT LIABILITIES

Quantifiable contingent liabilities in respect of other than long term insurance business as shown in a supplementary note to Form 15	51			See instruction 6		
Quantifiable contingent liabilities in respect of long term insurance business as shown in a supplementary note to Form 14	52			See instruction 6		

Covering sheet to Form 9

Name of insure **Prudential Retirement Income Limited**
Global business

Financial year **31st December 2003**

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

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

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

London 24 March 2004

Analysis of the effect of financial engineering on long-term available assetsName of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2003**Company
registration
number

GL/UK/CM

Period ended
day month year

Units

	R9A	47842	GL	31	12	2003	£000
		As at the end of this financial year	As at the end of the previous year	Source			
		1	2				
Required minimum margin for long term insurance business	11	127556	95934	See instruction 2			
Excess (deficiency) of available assets and implicit items over the required minimum margin	12	37618	64747	See instruction 3			
Total of available assets and implicit items (11+12)	13	165174	160681				

Analysed as follows:

Value of implicit items	14			See instruction 5		
Financial reinsurance - ceded	15			See instruction 6		
Financial reinsurance - accepted	16			See instruction 7		
Outstanding contingent loans	17			See instruction 8		
Any other charges on future profits	18			See instruction 9		
Sum of financial engineering adjustments (14+15-16+17+18)	19					

Other assets (13-19)	20	165174	160681			
Total available assets and implicit items (19+20)	21	165174	160681			

Statement of net assets

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2003**

	Company registration number	GL/UK/CM	Period ended			Units
	R10	47842	GL	day	month	year
	As at the end of this financial year	As at the end of the previous year	Source			
	1	2	Form	Line	Column	
Long term insurance business - admissible assets	11	3208632	2414572	13	89	1
Long term insurance business - liabilities and margins	12	3208632	2414572	14	59	1

Other than Long term insurance business - admissible assets	21	157047	160916	13	89	1
Other than Long term insurance business - liabilities	22	1873	235	15	69	1
Net admissible assets (21-22)	23	155174	160681			
Other assets allowed to be taken into account in covering the required minimum margin	Unpaid amounts (including share premium) on partly paid shares	24				
	Supplementary contributions for a mutual carrying on general insurance business	25				
Liabilities allowed to be left out of account in covering the required minimum margin	Subordinated loan capital	26				
	Cumulative preference share capital	27				
Available assets (23 to 27)	29	155174	160681			

Represented by:

Paid up share capital (other than cumulative preference share capital)	51	235700	225700			
Amounts included in lines 24 to 27 above	52					
Amounts representing the balance of net assets	56	(80526)	(65019)			
Total (51 to 56) and equal to line 29 above	59	155174	160681			

Movement of balance of net assets for solvency purposes - as per line 56

Balance brought forward at the beginning of the financial year	61	(65019)	(34083)	10	56	2
Retained profit/(loss) for the financial year	62	(15607)	(30736)	16	59	1
Movement in asset valuation differences	63	100	(200)	See instruction 2		
Decrease/(increase) in the provision for adverse changes	64			See instruction 3		
Other movements (particulars to be specified by way of supplementary note)	65					
Balance carried forward at the end of the financial year (61 to 65)	69	(80526)	(65019)			

Analysis of admissible assets

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2003**

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

			Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			R13	47842	GL	31	12	2003	£000	1
								As at the end of this financial year	As at the end of the previous year	
								1	2	
Investments										
Land and buildings						11				
Investments in group undertakings and participating interests	UK insurance business dependants	Shares	21							
		Debt securities issued by, and loans to, dependants	22							
	Other insurance dependants	Shares	23							
		Debt securities issued by, and loans to, dependants	24							
	Non-insurance dependants	Shares	25							
		Debt securities issued by, and loans to, dependants	26							
	Other group undertakings and participating interests	Shares	27							
		Debt securities issued by, and loans to, group undertakings	28							
		Participating interests	29							
		Debt securities issued by, and loans to, undertakings in which the company has a participating interest	30							
Total sheet 1 (11 to 30)						39				

Analysis of admissible assets

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2003**

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

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets
				day	month	year		
R13		47842	GL	31	12	2003	£000	1
Investments (continued)							As at the end of this financial year	As at the end of the previous year
Deposits with ceding undertakings							1	2
Assets held to cover linked liabilities								
Other financial investments	Equity shares				41			
	Other shares and other variable yield securities				42			
	Holdings in collective investment schemes				43			
	Rights under derivative contracts				44	836		
	Debt securities and other fixed income securities	Fixed interest	Approved securities		45	48098	77836	
			Other		46	56139	31113	
		Variable interest	Approved securities		47	27463	19801	
			Other		48	18634	16629	
	Participation in investment pools				49			
	Loans secured by mortgages				50			
	Other loans	Loans to public or local authorities and nationalised industries or undertakings				51		
		Loans secured by policies of insurance issued by the company				52		
		Other				53		
	Deposits with approved credit institutions and approved financial institutions	Withdrawal subject to a time restriction of one month or less				54	1140	457
		Withdrawal subject to a time restriction of more than one month				55		
Other				56				
Deposits with ceding undertakings				57				
Assets held to match linked liabilities	Index linked				58			
	Property linked				59			
Reinsurers' share of technical provisions	Provision for unearned premiums				60			
	Claims outstanding				61			
	Provision for unexpired risks				62			
	Other				63			
Total sheet 2 (41 to 63)				69	152310	145836		

Analysis of admissible assets

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2003**

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

	Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
			day	month	year			
	R13	47842	GL	31	12	2003	£000	1
Debtors							As at the end of this financial year	As at the end of the previous year
Other assets							1	2
Debtors arising out of direct insurance operations	Policyholders					71		
	Intermediaries					72		
Salvage and subrogation recoveries						73		
Debtors arising out of reinsurance operations	Due from ceding insurers and intermediaries under reinsurance business accepted					74		
	Due from reinsurers and intermediaries under reinsurance contracts ceded					75		
Other debtors	Due from dependants	Due in 12 months or less after the end of the financial year					76	
		Due more than 12 months after the end of the financial year					77	
	Other	Due in 12 months or less after the end of the financial year					78	2187
		Due more than 12 months after the end of the financial year					79	
Tangible assets						80		
Cash at bank and in hand	Deposits not subject to time restriction on withdrawal, with approved credit institutions and approved financial institutions and local authorities					81	676	7535
	Cash in hand					82		
Other assets (particulars to be specified by way of supplementary note)						83		
Prepayments and accrued income	Accrued interest and rent					84	1874	2071
	Deferred acquisition costs					85		
	Other prepayments and accrued income					86		
Deductions (under rules 4.14(2)(b) and 4.14(3)) from the aggregate value of assets						87		
Total sheet 3 (71 to 86 less 87)						88	4737	15080
Grand total of admissible assets (39+69+88)						89	157047	160916

Reconciliation to asset values determined in accordance with the insurance accounts rules

Total admissible assets (as per line 89 above)	91	157047	160916
Total assets in excess of the admissibility limits of Appendix 4.2 (as valued in accordance with those Rules before applying admissibility limits)	92		
Solvency margin deduction for subsidiary undertakings which are insurance undertakings	93		
Other differences in the valuation of assets (other than for assets not valued above)	94		
Assets of a type not valued above, (as valued in accordance with the insurance accounts rules)	95	100	200
Total assets determined in accordance with the insurance accounts rules (91 to 95)	99	157147	161116
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	100		1

Analysis of admissible assets

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2003**

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

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R13	47842	GL	31	12	2003	£000	10
								As at the end of this financial year	As at the end of the previous year
								1	2
Investments									
Land and buildings					11		90089	63477	
Investments in group undertakings and participating interests	UK insurance business dependants	Shares	21						
		Debt securities issued by, and loans to, dependants	22						
	Other insurance dependants	Shares	23						
		Debt securities issued by, and loans to, dependants	24						
	Non-insurance dependants	Shares	25						
		Debt securities issued by, and loans to, dependants	26						
	Other group undertakings and participating interests	Shares	27						
		Debt securities issued by, and loans to, group undertakings	28						
		Participating interests	29						
		Debt securities issued by, and loans to, undertakings in which the company has a participating interest	30						
Total sheet 1 (11 to 30)					39		90089	63477	

Analysis of admissible assets

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2003**

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

		Company registration number	GL/UK/CM	Period ended day month year			Units	Category of assets	
		R13	47842	GL	31	12	2003	£000	10
Investments (continued)							As at the end of this financial year	As at the end of the previous year	
Deposits with ceding undertakings							1	2	
Assets held to cover linked liabilities									
Other financial investments	Equity shares				41				
	Other shares and other variable yield securities				42				
	Holdings in collective investment schemes				43				
	Rights under derivative contracts				44		205	107	
	Debt securities and other fixed income securities	Fixed interest	Approved securities		45		894657	696821	
			Other		46		1253549	899404	
		Variable interest	Approved securities		47		6037		
			Other		48		25691	9443	
	Participation in investment pools				49				
	Loans secured by mortgages				50		13053	4291	
	Other loans	Loans to public or local authorities and nationalised industries or undertakings				51			
		Loans secured by policies of insurance issued by the company				52			
		Other				53		4859	3894
	Deposits with approved credit institutions and approved financial institutions	Withdrawal subject to a time restriction of one month or less				54		5319	
		Withdrawal subject to a time restriction of more than one month				55			
	Other				56				
Deposits with ceding undertakings				57					
Assets held to match linked liabilities	Index linked				58		862429	694181	
	Property linked				59				
Reinsurers' share of technical provisions	Provision for unearned premiums				60				
	Claims outstanding				61				
	Provision for unexpired risks				62				
	Other				63				
Total sheet 2 (41 to 63)					69		3065799	2308141	

Analysis of admissible assets

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2003**

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

		Company registration number	GL/UK/CM	Period ended day month year			Units	Category of assets	
		R13	47842	GL	31	12	2003	£000	10
Debtors							As at the end of this financial year	As at the end of the previous year	
Other assets							1	2	
Debtors arising out of direct insurance operations	Policyholders				71		866	6399	
	Intermediaries				72				
Salvage and subrogation recoveries					73				
Debtors arising out of reinsurance operations	Due from ceding insurers and intermediaries under reinsurance business accepted				74				
	Due from reinsurers and intermediaries under reinsurance contracts ceded				75				
Other debtors	Due from dependants	Due in 12 months or less after the end of the financial year			76				
		Due more than 12 months after the end of the financial year			77				
	Other	Due in 12 months or less after the end of the financial year			78		265	2146	
		Due more than 12 months after the end of the financial year			79				
Tangible assets					80				
Cash at bank and in hand	Deposits not subject to time restriction on withdrawal, with approved credit institutions and approved financial institutions and local authorities				81		14122	7161	
	Cash in hand				82				
Other assets (particulars to be specified by way of supplementary note)					83				
Prepayments and accrued income	Accrued interest and rent				84		37491	27248	
	Deferred acquisition costs				85				
	Other prepayments and accrued income				86				
Deductions (under rules 4.14(2)(b) and 4.14(3)) from the aggregate value of assets					87				
Total sheet 3 (71 to 86 less 87)					88		52744	42954	
Grand total of admissible assets (39+69+88)					89		3208632	2414572	

Reconciliation to asset values determined in accordance with the insurance accounts rules

Total admissible assets (as per line 89 above)	91	3208632	2414572
Total assets in excess of the admissibility limits of Appendix 4.2 (as valued in accordance with those Rules before applying admissibility limits)	92		
Solvency margin deduction for subsidiary undertakings which are insurance undertakings	93		
Other differences in the valuation of assets (other than for assets not valued above)	94	1371	994
Assets of a type not valued above, (as valued in accordance with the insurance accounts rules)	95		
Total assets determined in accordance with the insurance accounts rules (91 to 95)	99	3210003	2415566
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	100		1048

Long term insurance business liabilities and margins

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2003**Category of assets **Total long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
				day	month	year			
		R14	47842	GL	31	12	2003	£000	10
				As at the end of this financial year 1		As at the end of the previous year 2			Source
Mathematical reserves, after distribution of surplus		11		3188901		2398349			See Instruction 2
Cash bonuses which had not been paid to policyholders prior to the end of the financial year		12							See Instruction 3
Balance of surplus/(valuation deficit)		13		10000					See Instruction 4
Long term insurance business fund carried forward (11 to 13)		14		3198901		2398349			See Instruction 5
Claims outstanding which had fallen due for payment before the end of the financial year	Gross amount	15		747					
	Reinsurers' share	16							
	Net (15-16)	17		747					
Provisions for other risks and charges	Taxation	21							
	Other	22							
Deposits received from reinsurers		23							
Creditors and other liabilities	Arising out of insurance operations	Direct insurance business	31	1963		3994			
		Reinsurance accepted	32						
		Reinsurance ceded	33						
	Debenture loans	Secured	34						
		Unsecured	35						
	Amounts owed to credit institutions		36						
	Other creditors	Taxation	37		2334		1015		
		Other	38		3596		10135		
Accruals and deferred income		39		1091		1079			
Provision for adverse changes (calculated in accordance with rule 5.3)		41							
Total other insurance and non-insurance liabilities(17 to 41)		49		9731		16223			
Excess of the value of net admissible assets		51							See Instruction 6
Total liabilities and margins		59		3208632		2414572			

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61		1997		900		
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62						

Amount of any additional mathematical reserves included in line 51 which have been taken into account in the appointed actuary's certificate	63						See Instruction 7
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Liabilities (other than long term insurance business)Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2003**

		Company registration number	GL/UK/CM	Period ended			Units	
		R15	47842	GL	31	12	2003	£000
					day	month	year	
					As at the end of this financial year 1			As at the end of the previous year 2
Technical provisions (gross amount)	Provision for unearned premiums		11					
	Claims outstanding		12					
	Provision for unexpired risks		13					
	Equalisation provisions	Credit business		14				
		Other than credit business		15				
	Other		16					
	Total (11 to 16)		19					
Provisions for other risks and charges	Taxation		21					
	Other		22					
Deposits received from reinsurers			31					
Creditors	Arising out of insurance operations	Direct business	41					
		Reinsurance accepted	42					
		Reinsurance ceded	43					
	Debenture loans	Secured	44					
		Unsecured	45					
	Amounts owed to credit institutions		46					
	Other creditors	Taxation		47				
		Recommended dividend		48				
		Other		49			1873	181
Accruals and deferred income			51				54	
Total (19 to 51)			59			1873	235	
Provision for adverse changes calculated in accordance with Rule 5.3 [regulation 61 of the Insurance Companies Regulations 1994]			61					
Cumulative preference share capital			62					
Subordinated loan capital			63					
Total (59 to 63)			69			1873	235	
Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance			71					

Profit and loss account (non-technical account)

Name of insurer Prudential Retirement Income Limited

Global business

Financial year ended 31 December 2003

		Company registration number	GL/UK/CM	Period ended			Units			
		R16	47842	GL	31	12	2003	£000		
				This financial year	Previous year			Source		
				1	2			Form	Line	Column
Transfer (to)/from the general insurance business technical account	From Form 20	11						20	59	
	Equalisation provisions	12								
Transfer from the long term insurance business revenue account		13		(23243)			(51734)	40	26	
Investment income	Income	14		7558			4040			
	Value re-adjustments on investments	15					4189			
	Gains on the realisation of investments	16								
Investment charges	Investment management charges, including interest	17		183			125			
	Value re-adjustments on investments	18		451						
	Loss on the realisation of investments	19		815			100			
Allocated investment return transferred to the general insurance business technical account		20						20	51	
Other income and charges (particulars to be specified by way of supplementary note)		21		(466)			(96)			
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)		29		(17600)			(43826)			
Tax on profit or loss on ordinary activities		31		(1993)			(13090)			
Profit or loss on ordinary activities after tax (29-31)		39		(15607)			(30736)			
Extraordinary profit or loss (particulars to be specified by way of supplementary note)		41								
Tax on extraordinary profit or loss		42								
Other taxes not shown under the preceding items		43								
Profit or loss for the financial year (39+41-(42+43))		49		(15607)			(30736)			
Dividends (paid and proposed)		51								
Profit or loss retained for the financial year (49-51)		59		(15607)			(30736)			

Analysis of derivative contractsName of insurer **Prudential Retirement Income Limited**

Global business

Business: **Other than long term**Financial year ended **31 December 2003**Category of assets **Total other than long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R17	47842	GL	31	12	2003	£000	1
		As at the end of this financial year				As at the end of the previous year			
		Assets		Liabilities		Assets		Liabilities	
		1		2		3		4	
Derivative contracts									
Futures contracts	Fixed-interest securities	11							
	Equity shares	12							
	Land	13							
	Currencies	14							
	Other	15							
Options	Fixed-interest securities	21							
	Equity shares	22							
	Land	23							
	Currencies	24							
	Other	25							
Contracts for differences	Fixed-interest securities	31							
	Equity shares	32							
	Land	33							
	Currencies	34							
	Other	35		836		1861			164
Adjustments for variation margin		41							
Total (11 to 41)		49		836		1861			164

Analysis of derivative contractsName of insurer **Prudential Retirement Income Limited**

Global business

Business: **Long term**Financial year ended **31 December 2003**Category of assets **Total long term business assets**

		Company registration number	GL/UK/CM	Period ended			Units	Category of assets	
		R17	47842	GL	31	12	2003	£000	10
		As at the end of this financial year				As at the end of the previous year			
		Assets		Liabilities		Assets		Liabilities	
		1		2		3		4	
Derivative contracts									
Futures contracts	Fixed-interest securities	11							
	Equity shares	12							
	Land	13							
	Currencies	14							
	Other	15							
Options	Fixed-interest securities	21							
	Equity shares	22							
	Land	23							
	Currencies	24							
	Other	25							
Contracts for differences	Fixed-interest securities	31							
	Equity shares	32							
	Land	33							
	Currencies	34				1053			398
	Other	35		205		197		107	
Adjustments for variation margin		41							
Total (11 to 41)		49		205		1250		107	398

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

Global business

Ordinary Business

Financial year ended **31 December 2003**Name and number of fund **Ordinary Branch Long Term**

	Company registration number	GL/UK/CM	period ended			Units	OB/IB	No of fund/ Summary	No of part of Fund		
			day	month	year						
	R40	47842	GL	31	12	2003	£000	OB	1	0	
Items to be shown net of reinsurance ceded									The financial year 1	Previous year 2	
Earned premiums									11	795940	1291186
Investment income receivable before deduction of tax									12	147231	85575
Increase (decrease) in the value of non-linked assets brought into account									13	43133	60586
Increase (decrease) in the value of linked assets									14		
Other income									15		
Total income (11 to 15)									19	986304	1437347
Claims incurred									21	178325	105671
Expenses payable									22	30670	27828
Interest payable before deduction of tax									23		
Taxation									24		
Other expenditure									25		
Transfer to (from) non technical account									26	(23243)	(51734)
Total expenditure (21 to 26)									29	185752	81765
Increase (decrease) in fund in financial year (19-29)									39	800552	1355582
Fund brought forward									49	2398349	1042767
Fund carried forward (39+49)									59	3198901	2398349

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

Global business

Ordinary Business

Financial year ended **31 December 2003**Name and number of fund **Summary**

	Company registration number	GL/UK/CM	period ended			Units	OB/IB	No of fund/ Summary	No of part of Fund	
			day	month	year					
	R40	47842	GL	31	12	2003	£000	OB	99	0
Items to be shown net of reinsurance ceded								The financial year	Previous year	
								1	2	
Earned premiums								11	795940	1291186
Investment income receivable before deduction of tax								12	147231	85575
Increase (decrease) in the value of non-linked assets brought into account								13	43133	60586
Increase (decrease) in the value of linked assets								14		
Other income								15		
Total income (11 to 15)								19	986304	1437347
Claims incurred								21	178325	105671
Expenses payable								22	30670	27828
Interest payable before deduction of tax								23		
Taxation								24		
Other expenditure								25		
Transfer to (from) non technical account								26	(23243)	(51734)
Total expenditure (21 to 26)								29	185752	81765
Increase (decrease) in fund in financial year (19-29)								39	800552	1355582
Fund brought forward								49	2398349	1042767
Fund carried forward (39+49)								59	3198901	2398349

Long term insurance business : Analysis of premiums and expenses

Name of insurer **Prudential Retirement Income Limited**

Global business

Ordinary Business

Financial year ended **31 December 2003**Name and number of fund **Ordinary Branch Long Term**

	Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/ Summary	No of part of Fund	
			day	month	year					
	R41	47842	GL	31	12	2003	£000	OB	1	0
								Gross	Payable to or recoverable from reinsurers	Net of reinsurance (1-2)
								1	2	3
Earned premiums in the financial year	Life assurance and general annuity contracts	Single premium		11						
		Regular premium		12						
	Pension business contracts	Single premium		13			795940			795940
		Regular premium		14						
	Permanent health contracts	Single premium		15						
		Regular premium		16						
	Other contracts	Single premium		17						
		Regular premium		18						
	Total premiums	Single premium		19			795940			795940
		Regular premium		29						
Total premiums at lines 19 and 29 attributable to	UK contracts		31			795940			795940	
	Overseas contracts		32							
Expenses payable in the financial year	Commission payable in connection with acquisition of business			41			6922			6922
	Other commission payable			42						
	Management expenses in connection with acquisition of business			43			12161			12161
	Management expenses in connection with maintenance of business			44			6743			6743
	Other management expenses			45			4844			4844
	Total expenses (41 to 45)			49			30670			30670
	Total expenses at line 49 attributable to	UK contracts		51			30670			30670
Overseas contracts		52								

Long term insurance business : Analysis of premiums and expenses

Name of insurer **Prudential Retirement Income Limited**

Global business

Ordinary Business

Financial year ended **31 December 2003**Name and number of fund **Summary**

	Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/ Summary	No of part of Fund	
			day	month	year					
	R41	47842	GL	31	12	2003	£000	OB	99	0
								Gross	Payable to or recoverable from reinsurers	Net of reinsurance (1-2)
								1	2	3
Earned premiums in the financial year	Life assurance and general annuity contracts	Single premium		11						
		Regular premium		12						
	Pension business contracts	Single premium		13		795940			795940	
		Regular premium		14						
	Permanent health contracts	Single premium		15						
		Regular premium		16						
	Other contracts	Single premium		17						
		Regular premium		18						
	Total premiums	Single premium		19		795940			795940	
		Regular premium		29						
Total premiums at lines 19 and 29 attributable to	UK contracts		31		795940			795940		
	Overseas contracts		32							
Expenses payable in the financial year	Commission payable in connection with acquisition of business			41		6922			6922	
	Other commission payable			42						
	Management expenses in connection with acquisition of business			43		12161			12161	
	Management expenses in connection with maintenance of business			44		6743			6743	
	Other management expenses			45		4844			4844	
	Total expenses (41 to 45)			49		30670			30670	
	Total expenses at line 49 attributable to	UK contracts		51		30670			30670	
Overseas contracts		52								

Long term insurance business : Analysis of claims

Name of insurer **Prudential Retirement Income Limited**

Global business

Ordinary Business

Financial year ended **31 December 2003**Name and number of fund **Ordinary Branch Long Term**

	Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/ Summary	No of part of Fund	
			day	month	year					
	R42	47842	GL	31	12	2003	£000	OB	1	0
Claims incurred in the financial year							Gross	Recoverable from reinsurers	Net of reinsurance (1-2)	
							1	2	3	
Life assurance and annuity contracts	On death					11				
	By way of lump sums on maturity					12				
	By way of annuity payments					13				
	By way of payments arising from other insured events					14				
	On surrender or partial surrender					15				
	Total life assurance and annuity claims (11 to 15)					19				
Pension business contracts	On death					21	637		637	
	By way of lump sums on vesting					22	1758		1758	
	By way of vested annuity payments					23	164890		164890	
	On surrender or partial surrender					24	11040		11040	
	Total pension business claims (21 to 24)					29	178325		178325	
Permanent health contracts	By way of lump sums					31				
	By way of periodical payments					32				
	Total permanent health claims (31+32)					39				
Other contracts	By way of lump sums					41				
	By way of periodical payments					42				
	Total claims (41+42)					49				
Total claims (19+29+39+49)						59	178325		178325	
Total claims at line 59 attributable to	UK contracts					61	178325		178325	
	Overseas contracts					62				

Long term insurance business : Analysis of claims

Name of insurer **Prudential Retirement Income Limited**

Global business

Ordinary Business

Financial year ended **31 December 2003**Name and number of fund **Summary**

	Company registration number	GL/UK/CM	Period ended			Units	OB/IB	No of fund/ Summary	No of part of Fund	
			day	month	year					
	R42	47842	GL	31	12	2003	£000	OB	99	0
Claims incurred in the financial year							Gross	Recoverable from reinsurers	Net of reinsurance (1-2)	
							1	2	3	
Life assurance and annuity contracts	On death					11				
	By way of lump sums on maturity					12				
	By way of annuity payments					13				
	By way of payments arising from other insured events					14				
	On surrender or partial surrender					15				
	Total life assurance and annuity claims (11 to 15)					19				
Pension business contracts	On death					21	637		637	
	By way of lump sums on vesting					22	1758		1758	
	By way of vested annuity payments					23	164890		164890	
	On surrender or partial surrender					24	11040		11040	
	Total pension business claims (21 to 24)					29	178325		178325	
Permanent health contracts	By way of lump sums					31				
	By way of periodical payments					32				
	Total permanent health claims (31+32)					39				
Other contracts	By way of lump sums					41				
	By way of periodical payments					42				
	Total claims (41+42)					49				
Total claims (19+29+39+49)						59	178325		178325	
Total claims at line 59 attributable to	UK contracts					61	178325		178325	
	Overseas contracts					62				

Long term insurance business : Summary of changes in ordinary long term business

Name of insurer **Prudential Retirement Income Limited**

Global business

United Kingdom business/Overseas business

Non-linked/Linked

Financial year ended **31 December 2003**

		Company registration number		GL/UK/CM	Period ended			Units	UK/OS	NL/LN
		R46	47842	GL	31	12	2003	£000	UK	NL
		day month year								
		Life assurance and general annuity		Pensions business		Permanent health		Other business		
		No of contracts	Annual premiums	No of contracts	Annual premiums	No of contracts	Annual premiums	No of contracts	Annual premiums	
		1	2	3	4	5	6	7	8	
In force at beginning of year	11			47608						
New business and increases	12			26015						
Net transfers and other alterations 'on'	13									
Total 'on' (12+13)	19			26015						
Deaths	21			1338						
Other insured events	22									
Maturities	23									
Surrenders	24			19						
Forfeitures	25									
Conversions to paid-up policies for reduced benefits	26									
Net transfers, expiries and other alterations 'off'	27			931						
Total 'off' (21 to 27)	29			2288						
In force at end of year (11+19-29)	39			71335						

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

Global business

United Kingdom business/Overseas business

Non-linked/Linked

Financial year ended **31 December 2003**

		Company registration number		GL/UK/CM	Period ended			Units	UK/OS	NL/LN
		R46	47842	GL	31	12	2003	£000	UK	LN
		day month year								
		Life assurance and general annuity		Pensions business		Permanent health		Other business		
		No of contracts	Annual premiums	No of contracts	Annual premiums	No of contracts	Annual premiums	No of contracts	Annual premiums	
		1	2	3	4	5	6	7	8	
In force at beginning of year	11			20419						
New business and increases	12			7964						
Net transfers and other alterations 'on'	13									
Total 'on' (12+13)	19			7964						
Deaths	21			820						
Other insured events	22									
Maturities	23									
Surrenders	24									
Forfeitures	25									
Conversions to paid-up policies for reduced benefits	26									
Net transfers, expiries and other alterations 'off'	27			1858						
Total 'off' (21 to 27)	29			2678						
In force at end of year (11+19-29)	39			25705						

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

Name of insurer

Prudential Retirement Income Limited

Global business

Financial year ended

31 December 2003

Type of insurance	Single premium contracts			Regular premium contracts		
	No of contracts	Premiums	Sums assured, annuities per annum or other measures of benefit	No of contracts	Annual premiums	Sums assured, annuities per annum or other measures of benefit
1	2	3	4	5	6	7
UK DIRECT WRITTEN BUSINESS						
Pension Business						
Index Linked Contracts						
Annuity in payment	7964	105829	9774 pa			
Group deferred annuity	1225	18064	1159 pa			
Sub total: Index Linked Contracts	9189	123893	10933 pa			
Non-Linked Non-Profit Policies						
Annuity in payment	26015	621469	52407 pa			
Group deferred annuity	2651	50578	4204 pa			
Sub total: Non-Linked Non-Profit Policies	28666	672047	56611 pa			
Total: Pension Insurance Business	37855	795940	67544 pa			
Total: UK Direct Written Insurance Business	37855	795940	67544 pa			

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

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2003**

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

		Company registration number	GL/UK/CM	Period ended day month year	Units	Category of assets	
		R48	47842	GL	31 12 2003	£000	10
Type of asset				Value of admissible assets as shown on Form 13 1	Expected income from admissible assets 2	Yield % 3	
Land and buildings		11		90089	5720	6.31	
Fixed interest securities	Approved securities	12		906375	45676	4.90	
	Other	13		1278470	76164	5.82	
Variable interest and variable yield securities (excluding items shown at line 16)	Approved securities	14		6090	133	1.93	
	Other	15		25943	948	3.22	
Equity shares and holdings in collective investment schemes		16					
Loans secured by mortgages		17		13194	875	7.33	
All other assets	Producing income	18		24505	949	3.87	
	Not producing income	19		1537			
Total (11 to 19)		29		2346203	130465	5.36	

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 Retirement Income Limited**

Global business

Financial year ended **31 December 2003**

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

Company registration number

GL/UK/CM

Period ended
day month year

Units

Category of assets

				R49	47842	GL	31 12 2003	£000	10
Redemption period in years			Value of admissible assets as shown on Form 13 1	Gross redemption yield % 2	Value of admissible higher yielding assets 3		Value of admissible assets as shown on Form 13 4	Gross redemption yield % 5	Value of admissible higher yielding assets 6
One year or less	11	Fixed interest approved securities				Variable interest and variable yield approved securities excluding equities			
More than one year but not more than five years	12		8141	4.49					
More than five years but not more than ten years	13		30317	4.77			251	1.71	
More than ten years but not more than fifteen years	14		55855	4.96			316	1.98	
More than fifteen years but not more than twenty years	15		200810	5.02			867	1.97	
More than twenty years but not more than twenty five years	16		356428	4.92			1464	1.97	
More than twenty five years	17		234180	4.82			3192	1.91	
Irredeemable	18		20644	4.81					
Total (11 to 18)	19		906375	4.90		6090	1.93		
One year or less	21	Other fixed interest securities				Other variable interest and variable yield securities excluding equities			
More than one year but not more than five years	22		2390	6.43	451				
More than five years but not more than ten years	23		202726	5.81			414	3.33	
More than ten years but not more than fifteen years	24		188373	5.88	11428		548	2.73	
More than fifteen years but not more than twenty years	25		283480	5.91	8084		12621	4.00	369
More than twenty years but not more than twenty five years	26		235738	6.10	8543		4810	3.07	
More than twenty five years	27		356789	5.53	450		7550	2.62	
Irredeemable	28		8974	6.96					
Total (21 to 28)	29		1278470	5.82	28956	25943	3.22	369	

PRUDENTIAL RETIREMENT INCOME LIMITED

SCHEDULE 4

Valuation Report on Prudential Retirement Income Limited as at 31 December 2003

1. Date of investigation

The investigation relates to 31 December 2003.

2. Date of previous investigation

The previous investigation related to 31 December 2002.

3. Conformity with Rule 5.6

The valuation of long term insurance business liabilities shown in this report conforms with Rule 5.6 of the Interim Prudential Sourcebook for Insurers.

4. Description of non-linked contracts

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

(i) Annuities in payment

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

(ii) Deferred annuities

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

Valuation Report as at 31 December 2003 (continued)

5. Description of linked contracts

- (1) (a) RPI-linked annuities.
 - (b) These contracts are classified as:
United Kingdom pension business;
Business is written directly, and reinsurance is accepted;
Non-profit annuities in payment and in deferment.
 - (c) These are all single premium contracts.
 - (d) These are non-profit annuities, written on either a single life or joint life and last survivor basis, which provide a series of payments throughout the life of the annuitant(s), reducing where appropriate on the death of the first life, which are revalued, annually, in line with the Retail Price Index. In some cases the annuity may incorporate a minimum guaranteed period of payment, the revaluation may have a maximum and/or minimum percentage increase, and the annuity may be enhanced where the policyholder suffers from a range of medical conditions that have an adverse impact on life expectancy.
 - (e) There are no guaranteed investment returns other than those implicit in the guaranteed annuity benefit.
 - (f) The guaranteed annuity benefit is calculated incorporating an allowance for initial and renewal expenses and commission.
 - (g) Not applicable.
 - (h) Not applicable.
 - (i) See (d) above.
 - (j) None.
 - (k) The contract was open to new business during the year to the valuation date.
 - (l) Not applicable.
- (2) No linked contract contains a with-profits option.
- (3) Not applicable.
- (4) Not applicable.
- (5) Not applicable.
- (6) Not applicable.

Valuation Report as at 31 December 2003 (continued)

6. Valuation principles and methods

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

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

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

In particular, the following principles have been observed:

- (a) Derivative contracts as at 31 December 2003 comprised:

- i) A contract to swap UK sterling LIBOR for fixed UK sterling
- ii) A contract to swap fixed euros for fixed UK sterling
- iii) Contracts to swap future income increasing at a fixed rate each year for income varying in line with changes in RPI and LPI (RPI subject to minimum and maximum increases).
- iv) A contract to swap future floating UK sterling LIBOR for UK inflation linked cashflows

The effect of the contract under i) is to convert UK sterling cashflows from a floating rate note into fixed UK sterling cashflows.

The effect of the contract under ii) is to convert cashflows from a euro denominated bond into UK sterling cashflows.

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

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

The cashflows involved in these arrangements were included in the aggregate cashflows from the portfolio, to give the aggregate yield on the portfolio. This is in accordance with a waiver under section 148 of the Financial Services and Markets Act 2000, which was reissued in December 2002.

- (b) Not applicable.

Valuation Report as at 31 December 2003 (continued)

- (c) The net premium method has not been used.
- (d) There are no contracts where negative values could arise.
- (e) No reserve for future bonuses is required.
- (f) No provision for any prospective liability for tax on unrealised capital gains has been included in the mathematical reserves since the Company transacts pension business only and no capital gains tax liability is expected to arise.
- (g) Not applicable.
- (h) As described in 5(1)(d), some RPI-linked annuities are subject to maximum and minimum percentage increases. These fall into the following categories
 - (1) RPI-linked annuities subject to a minimum annual increase of 0% and a maximum annual increase of 5%. For valuation purposes these are treated as being identical to normal RPI-linked annuities.
 - (2) RPI-linked annuities subject to a minimum annual increase of 3% and a maximum annual increase of 5%. For valuation purposes these are treated as annuities with fixed 5% annual increases. They are however included in these returns as linked business. Thus in particular, Form 56 includes sufficient fixed interest assets to match the corresponding liabilities.

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

- (i) The additional reserve includes £500,000 in respect of counterparty risk in connection with derivative contracts. The reserve was assessed based on counterparty exposure limits and arrangements for the use of collateral allowing for defaults in line with AA rated senior unsecured stock over the maximum outstanding term for each counterparty. The additional reserve also includes allowance for general contingencies.
- (2) Not applicable.

Valuation Report as at 31 December 2003 (continued)

7. Interest, mortality bases, resilience, etc.

- (1) See Forms 51 and 54 and the notes to these forms. Enhanced annuities are valued using the tables specified in note 5101, but include a policy specific age adjustment to the mortality rate used.
- (2) The mortality tables used are published tables.
- (3) All business is written in the UK and UK-based mortality tables have been used.
- (4) Annuities are generally valued using a percentage of the 92 series (year of birth) tables for annuitants and pensioners. In order to allow for mortality improvement, the CMIR 17 mortality improvement factors are applied up to and including 2004, and future improvement factors are applied from 2005 in line with the CMI medium cohort projections. Male future improvement factors are subject to a minimum of 2%. For some annuity contracts a calendar year table was used with a percentage adjustment, to the current level of mortality, equivalent to a suitable allowance for future mortality improvement.
- (5) No allowance is made or reserve is held, in addition to the assumptions in 7 (4) above, in respect of possible changes in the incidence of disease or development in medical science.
- (6) The scenarios tested were:
 - (a) an immediate decrease of 1 percentage point in the rates of interest obtainable on fixed interest securities, an immediate decrease of 25% in the real yields on index-linked stocks and an immediate fall in property values of 20%.
 - (b) an immediate increase of 2 percentage points in the rates of interest obtainable on fixed interest securities, an immediate increase of 25% in the real yields on index-linked stocks and an immediate fall in property values of 20%.

Scenario (a) was the more onerous.

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

- (7) The reserve required under Rule 5.17(a) of the Interim Prudential Sourcebook for Insurers is calculated by projecting:
 - i) the risk adjusted cashflows from the assets held including the assets backing the additional reserve held under Rule 5.17(a) and;
 - ii) the future liability payments on the valuation assumptions.

Valuation Report as at 31 December 2003 (continued)

The cash-flow projection shows that there is in general an excess of income over outgo in the earlier years. These excess amounts are assumed to be invested in cash and are accumulated to meet the shortfall of asset income in later years. The cash investment rate is assumed to be 4.22%. In later years, where outgo exceeds income, the cash borrowing rate is assumed to be 6.22%. The additional reserve is set so that all liability cash-flows can, on these assumptions, be met as they fall due.

A total reserve of £35,562,000 was held at 31 December 2003.

- (8) (a) Valuation rates of interest are adjusted as shown in Form 57. No other assumptions are changed.
- (b) Assets are hypothecated to liabilities as shown in Form 57. The yields on assets shown in Form 57 have been adjusted by 0.35% and 0.25% to allow for defaults on fixed interest and RPI-linked assets respectively.
- (c) Under the scenario which produces the most onerous requirement:
- (i) the aggregate amount of the long term liabilities increased by £297,882,000 after allowing for the release of the cashflow mismatching reserve described in 7(7) above.
 - (ii) the aggregate amount of the assets backing these liabilities increased by £304,830,000.

Hence the reserve shown in 7(7) is adequate to cover the provision required in respect of Rule 5.17(a) and 5.17(b).

- (9) Liabilities are all in sterling.

8. Valuation of non linked business

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

9. Valuation of linked business

- (a) See Form 54 and 6 (1) above.
- (b) The annuity loadings in 10 (1) are calculated without assuming any contribution from the loadings in new business written after the valuation date.

Valuation Report as at 31 December 2003 (continued)

10. Expenses

- (1) A real discount rate of 2.5% p.a. is used to convert prudent per policy renewal expenses into percentage of annuity loadings.

For immediate annuities, the implicit per policy loadings at the end of 2003, before inflation, were approximately £15 p.a. for reinsurance accepted business and £84 p.a. for direct written business.

Deferred annuities costs were assumed to be £5 p.a. per life during deferment and then as for immediate annuities in possession.

Investment management expenses are allowed for by deducting 0.15% p.a. from the valuation rates of interest. The valuation rates of interest in Forms 51, 54 and 57 (and the asset yields in Forms 48 and 57) are shown before this deduction.

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

- (2) Based on the annualised annuity amounts in payment and deferment at 31 December 2003, the amount released to meet renewal expenses in 2004 will be £4,665,000. In addition, £4,783,000 will be released to meet investment expenses (excluding outgo on property maintenance costs and leases).
- (3) New business premium rates incorporate a charge to cover acquisition and set-up costs. The annuity loadings in 10 (1) are calculated without assuming any contribution from the loadings in new business written after the valuation date.
- (4) An allowance for expenses arising from the closure to new business, if closure occurred twelve months after the valuation date, has been compared with the margins in expense loadings arising from the in force business. As the costs are covered by the margins, no additional reserve is required.

11. Currency matching

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

12. Reinsurance

Not applicable

13. to 16. Not applicable.

Valuation Report as at 31 December 2003 (continued)

17. Changes in long term insurance business

See Form 46.

Group non-profit deferred annuities are not included in Form 46. These consist of 13,332 individual arrangements for non-linked contracts and 8,119 individual arrangements for linked contracts at 31 December 2003.

18. New business

See Form 47.

19. Assets covering long term liabilities

(1) See Forms 48 and 49. The yield shown for land and buildings in line 11 of Form 48 is net of expected outgo on management fees, maintenance costs and leases. This treatment is consistent with that adopted on Form 57. Similarly in Form 40 the outgo on property maintenance costs and leases is deducted from investment income. The outgo on property management fees, maintenance costs and leases amounted to £0.1m.

(2) Changes in the amounts reported on Form 48 at 31 December 2003 which would result from the exercise of rights or obligations under derivative contracts or contracts having the effect of derivative contracts (assuming that options would be exercised only if it would be prudent to do so) are as follows:

Form 48	Column 1	Column 2	Column 3
	£000's	£000's	%
Line 18	(1,251)	(15)	12.09
Line 29	(1,251)	(15)	0.02

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

Form 48	Column 1	Column 2	Column 3
	£000's	£000's	%
Line 18	(1,251)	(15)	12.09
Line 29	(1,251)	(15)	0.02

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

Form 48	Column 1	
	Conditions noted in (2)	Conditions noted in (3)
	£000's	£000's
Line 18	(789)	(789)

Valuation Report as at 31 December 2003 (continued)

20. Valuation summaries

See Forms 51 and 54.

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

21. Matching rectangle

- (1) See Form 57.
- (2) Aggregate yields have been adjusted by 0.35% and 0.25% to allow for potential defaults within the fixed interest and RPI-linked asset portfolios respectively.

The default allowance is determined from data supplied by our investment manager, which itself is based upon research carried out by one of the major rating agencies. This analysis, based on actual default experience over a 33 year period, produces mean default rates according to credit quality and term to redemption. Volatility is also analysed and standard deviations of the rates for each credit quality are provided.

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

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

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

Default rates - basis points per annum:

Seniority	AAA	AA	A	BBB	BB	B and lower
First Mortgage Debenture/ Senior Secured	3.4	9.8	10.7	41.7	159.3	426.7
Senior Unsecured	7.4	21.6	23.6	91.8	350.4	938.8
Subordinated Debt	10.7	31.5	34.3	133.5	509.7	1,365.5

Valuation Report as at 31 December 2003 (continued)

Regard is also paid to the yield differential between corporate and government bonds, and prevailing economic circumstances. Additional allowance for counterparty risks in connection with derivative contracts is included in the additional reserve described in 6(1)(i). The yields shown in Form 48 column 3 were calculated using the method of the section 148 waiver. The aggregate yields on the portfolio using the method of the section 148 waiver were also used to derive the valuation rates of interest in Form 57 Row 31.

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

22. Valuation results

See Form 58.

23. Required minimum margin

See Form 60.

D J Belsham, Appointed Actuary

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

Name of insurer **Prudential Retirement Income Limited**

Global business

United Kingdom business

Financial year ended **31 December 2003**

Type of business **Pension Business**

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

Company registration number GL/UK/CM Period ended day month year Units UK/OS Type of business Category of surplus

Type of insurance or name of contract	Valuation basis		No of contracts	Amount of sums assured or annuities per annum, including vested reversionary bonuses	Amount of annual premiums		Proportion of office premiums reserved for expenses and profits	Value of sums assured or annuities per annum, including vested reversionary bonuses	Value of annual premiums		Amount of mathematical reserves
	Rate of interest	Mortality or morbidity table			Office premiums	Net premiums			Office premiums	Net premiums	
1	2	3	4	5	6	7	8	9	10	11	12
Direct Written Business											
Non-Profit Policies											
Annuity in payment : Individual	4.99	D(a)	26853	74731 pa				1052846			1052846
Annuity in payment : Group	4.99	B(a)	24851	52848 pa				637136			637136
Deferred annuity : Group	4.99	C(b)	13332	30215 pa				264190			264190
Mismatching reserves								19542			19542
Additional reserves								14656			14656
Sub total: Non-Profit Policies			65036	157794 pa				1988370			1988370
Sub total: Direct Written Insurance Business			65036	157794 pa				1988370			1988370
Reassurance Accepted											
Non-Profit Policies											
Annuity in payment : Individual	4.99	A(c)	19631	25799 pa				313268			313268

Long term insurance business : Valuation summary of index linked contracts

Name of insurer **Prudential Retirement Income Limited**

Global business

United Kingdom business

Financial year ended **31 December 2003**

Type of business **Pension Business**

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

Company registration number **GL/UK/CM** **Period ended** **Units** **UK/OS** **Type of business** **Category of surplus**
day month year

							R54	47842	GL	31 12 2003	£000	UK	Pens	11
Name of contract 1	Valuation basis		No of contracts 4	Amount of sums assured or annuities per annum, including vested reversionary bonuses			Amount of annual premiums		Name of index link 10	Investment liability		Other liabilities		Amount of mathematical reserves 15
	Rate of interest 2	Mortality or morbidity table 3		Guaranteed on death 5	Current on death/ current payable per annum 6	Guaranteed on maturity 7	Office premiums 8	Net premiums 9		Current benefit value 11	Discounted value 12	Mortality and expenses 13	Options and guarantees other than investment performance guarantees 14	
Direct Written Business														
Non-Profit Policies														
Annuity in payment : Individual	1.96	D(a)	7198		10463 pa				Retail Prices Index	204359	204359			204359
Annuity in payment : Group	1.96	B(a)	18273		30513 pa				Retail Prices Index	495687	495687			495687
Annuity in payment : Group	4.99	B(a)	32		46 pa				Retail Prices Index	803	803			803
Deferred annuity : Group	1.96	C(b)	7979		10523 pa				Retail Prices Index	151572	151572			151572
Deferred annuity : Group	4.99	C(b)	140		579 pa				Retail Prices Index	7322	7322			7322
Mismatching reserves														12848
Additional reserves														6444
Sub total: Non-Profit Policies			33622		52124 pa					859743	859743			879035
Sub total: Direct Written Insurance Business			33622		52124 pa					859743	859743			879035

Long term insurance business : Valuation summary of index linked contracts

Name of insurer **Prudential Retirement Income Limited**

Global business

United Kingdom business

Financial year ended **31 December 2003**

Type of business **Pension Business**

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

Company registration number	GL/UK/CM	Period ended day month year	Units	UK/OS	Type of business	Category of surplus
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R54	47842	GL	31 12 2003	£000	UK	Pens	11
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Name of contract 1	Valuation basis		No of contracts 4	Amount of sums assured or annuities per annum, including vested reversionary bonuses			Amount of annual premiums		Name of index link 10	Investment liability		Other liabilities		Amount of mathematical reserves 15
	Rate of interest 2	Mortality or morbidity table 3		Guaranteed on death 5	Current on death/ current payable per annum 6	Guaranteed on maturity 7	Office premiums 8	Net premiums 9		Current benefit value 11	Discounted value 12	Mortality and expenses 13	Options and guarantees other than investment performance guarantees 14	
Reassurance Accepted														
Non-Profit Policies														
Annuity in payment : Individual	1.96	A(c)	202		152 pa				Retail Prices Index	2686	2686			2686
Mismatching reserves														40
Additional reserves														20
Sub total: Non-Profit Policies			202		152 pa					2686	2686			2746
Sub total: Reassurance Accepted			202		152 pa					2686	2686			2746
Net total: Pension Insurance Business			33824		52276 pa					862429	862429			881781
Net total: United Kingdom Insurance Business			33824		52276 pa					862429	862429			881781

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

Name of insurer **Prudential Retirement Income Limited**

Global business

United Kingdom business/Overseas business

Financial year ended **31 December 2003**

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

	Company registration number	GL/UK/CM	Period ended			Units	UK/OS	Category of surplus	
	R56	47842	GL	31	12	2003	£000	UK	11
Type of assets and liabilities							Name of index link	Value of assets or liabilities	Gross derivative value
							1	2	3
Rights under derivative contracts							RPI	377	
Government and public body index linked bonds							RPI	141949	
Corporate index linked bonds							RPI	387070	
Government and public body non-linked bonds							RPI	119703	
Corporate non-linked bonds							RPI	175038	
Loans secured by mortgages							RPI	719	
Other loans							RPI	13933	
Deposits with approved credit institutions							RPI	13681	
Prepayments and accrued income							RPI	9959	
Subtotal Assets								862429	
Subtotal Liabilities									
Subtotal Net Assets								862429	
Total assets								862429	
Total liabilities									
Net total assets								862429	

Long term insurance business : Matching rectangle

Sterling liabilities

Name of insurer **Prudential Retirement Income Limited**

Valuation rate(s) of interest **0.00%**

Global business

Type of business **Pension Business**

Financial year ended **31 December 2003**

Non profit

Category of assets

Total long term business assets

Company registration number	GL/UK/CM	Period ended day month year	Units	Stg/ NonStg	Valuation rate of interest	Total long term business assets			Category of assets
						L&GA/Pens/ PHI/other	WP/NP		
R57	47842	GL	31 12 2003	£000	Stg	0.00	Pens	NP	10
Type of asset notionally allocated			The valuation		The resilience scenario				
			Value of asset notionally allocated	Risk adjusted yield %	Value of assets notionally allocated			Risk adjusted yield %	
1	2	On original allocation			Increase or decrease	Total under resilience scenario	6		
Land and buildings			11						
Fixed interest securities	Approved securities		12	34500	4.55	39242	(21504)	17738	3.55
	Other		13						
Variable interest and variable yield securities (excluding items shown at line 16)	Approved securities		14	5532	1.68	5887	(2500)	3387	1.26
	Other		15	5500	2.16	5912	(2500)	3412	1.62
Equity shares and holdings in collective investment schemes			16						
Loans secured by mortgages			17						
All other assets	Producing income		18	14000	3.87	14000	(5100)	8900	2.87
	Not producing income		19						
Total (11 to 19)			29	59532	3.90	65041	(31604)	33437	2.94
Gross valuation interest rate %			31						
Net valuation interest rate % (where appropriate)			32						
Mathematical reserve or other liability, net of reinsurance			33	59532				26489	

Long term insurance business : Matching rectangle

Sterling liabilities

Name of insurer **Prudential Retirement Income Limited**

Valuation rate(s) of interest **1.96%**

Global business

Type of business **Pension Business**

Financial year ended **31 December 2003**

Non profit

Category of assets

Total long term business assets

Company registration number	GL/UK/CM	Period ended day month year	Units	Stg/ NonStg	Valuation rate of interest	Total long term business assets			Category of assets
						L&GA/Pens/ PHI/other	WP/NP		
R57	47842	GL	31 12 2003	£000	Stg	1.96	Pens	NP	10
Type of asset notionally allocated			The valuation		The resilience scenario				
			Value of asset notionally allocated	Risk adjusted yield %	Value of assets notionally allocated			Risk adjusted yield %	
1	2	On original allocation			Increase or decrease	Total under resilience scenario	6		
Land and buildings			11						
Fixed interest securities	Approved securities		12	9859	1.49	11258		11258	0.49
	Other		13						
Variable interest and variable yield securities (excluding items shown at line 16)	Approved securities		14	259187	1.46	273593	2500	276093	1.10
	Other		15	556708	2.16	598499	2500	600999	1.62
Equity shares and holdings in collective investment schemes			16						
Loans secured by mortgages			17	712	3.95	799		799	2.97
All other assets	Producing income		18	27338	4.62	27338	5100	32438	3.47
	Not producing income		19						
Total (11 to 19)			29	853804	2.02	911487	10100	921587	1.52
Gross valuation interest rate %			31		1.96				1.47
Net valuation interest rate % (where appropriate)			32						
Mathematical reserve or other liability, net of reinsurance			33	853804				921587	

Long term insurance business : Matching rectangle

Sterling liabilities

Name of insurer **Prudential Retirement Income Limited**

Valuation rate(s) of interest **4.99%**

Global business

Type of business **Pension Business**

Financial year ended **31 December 2003**

Non profit

Category of assets

Total long term business assets

Type of asset notionally allocated	Company registration number	GL/UK/CM	Period ended day month year	Units	Stg/ NonStg	Valuation rate of interest	L&GA/Pens/ PHI/other	WP/NP	Category of assets
	R57	47842	GL	31 12 2003	£000	Stg	4.99	Pens	NP
					The valuation		The resilience scenario		
					Value of asset notionally allocated	Risk adjusted yield %	Value of assets notionally allocated		Risk adjusted yield %
				1	2	On original allocation	Increase or decrease	Total under resilience scenario	6
Land and buildings			11	90000	5.96	72000		72000	7.45
Fixed interest securities	Approved securities		12	862000	4.55	980478	21504	1001982	3.55
	Other		13	1278000	5.47	1415278		1415278	4.47
Variable interest and variable yield securities (excluding items shown at line 16)	Approved securities		14						
	Other		15	22200	2.97	24510		24510	2.23
Equity shares and holdings in collective investment schemes			16						
Loans secured by mortgages			17	13100	6.98	14672		14672	5.98
All other assets	Producing income		18	10265	3.87	10265		10265	2.87
	Not producing income		19						
Total (11 to 19)			29	2275565	5.12	2517203	21504	2538707	4.17
Gross valuation interest rate %			31		4.99				4.06
Net valuation interest rate % (where appropriate)			32						
Mathematical reserve or other liability, net of reinsurance			33	2275565				2538707	

Long term insurance business : Matching rectangle

Sterling liabilities

Name of insurer **Prudential Retirement Income Limited**

Valuation rate(s) of interest **Total**

Global business

Type of business

Financial year ended **31 December 2003**

Non profit

Category of assets

Total long term business assets

Company registration number	GL/UK/CM	Period ended day month year	Units	Stg/ NonStg	Valuation rate of interest	L&GA/Pens/ PHI/other	WP/NP	Category of assets	
									R57
Type of asset notionally allocated			The valuation		The resilience scenario				
			Value of asset notionally allocated	Risk adjusted yield %	Value of assets notionally allocated			Risk adjusted yield %	
			1	2	3	4	5	6	
Land and buildings			11	90000	5.96	72000		72000	7.45
Fixed interest securities	Approved securities		12	906359	4.52	1030978		1030978	3.52
	Other		13	1278000	5.47	1415278		1415278	4.47
Variable interest and variable yield securities (excluding items shown at line 16)	Approved securities		14	264719	1.46	279480		279480	1.10
	Other		15	584408	2.19	628921		628921	1.64
Equity shares and holdings in collective investment schemes			16						
Loans secured by mortgages			17	13812	6.82	15471		15471	5.82
All other assets	Producing income		18	51603	4.27	51603		51603	3.25
	Not producing income		19						
Total (11 to 19)			29	3188901	4.27	3493731		3493731	3.46
Gross valuation interest rate %			31						
Net valuation interest rate % (where appropriate)			32						
Mathematical reserve or other liability, net of reinsurance			33	3188901				3486783	

Long term insurance business : Valuation result and distribution of surplus

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2003**Category of surplus **11: Global Business (Issued in the United Kingdom)**

		Company registration number	GL/UK/CM	Period ended			Units	Category of surplus	
				day	month	year			
		R58	47842	GL	31	12	2003	£000	11
Valuation result	Fund carried forward							11	3198901
	Bonus payments made to policyholders in anticipation of a surplus							12	
	Transfers out of fund/ parts of fund	Transfer to non-technical account						13	
		Transfer to other funds/parts of funds						14	
	Net transfer out of funds/parts of funds (13+14)							15	
	Total (11+12+15)							16	3198901
	Mathematical reserves for accumulating with profit policies							17	
	Mathematical reserves for other non linked contracts							18	2307120
	Mathematical reserves for property linked contracts							19	
	Mathematical reserves for index linked contracts							20	881781
	Total (17 to 20)							21	3188901
Surplus including contingency and other reserves held towards the solvency margin (deficiency) (16-21)							29	10000	
Composition of surplus	Balance of surplus brought forward unappropriated from last valuation							31	
	Transfers into fund/part of fund	Transfer from non-technical account						32	23243
		Transfer from other funds/parts of fund						33	
	Net transfer into fund/part of fund (32+33)							34	23243
	Surplus arising since the last valuation							35	(13243)
Total (31+34+35)							39	10000	
Distribution of surplus	Bonus payments made to policyholders in anticipation of a surplus							41	
	Allocated to policyholders by way of	Cash bonuses						42	
		Reversionary bonuses						43	
		Other bonuses						44	
		Premium reductions						45	
	Total allocated to policyholders (41 to 45)							46	
	Net transfer out of fund/part of fund							47	
	Total distributed surplus (46+47)							48	
	Balance of surplus (including contingency and other reserves held towards the solvency margin) carried forward unappropriated							49	10000
Total (48+49)							59	10000	
Percentage of distributed surplus allocated to policyholders of fund/part of fund							61		
Corresponding percentage at three immediately previous valuations	Latest (year of valuation)						62		
	Earlier (year of valuation)						63		
	Earliest (year of valuation)						64		

Long term insurance business : Required minimum margin

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2003**

Company registration number **GL/UK/CM** Period ended **Units**
day month year

R60	47842	GL	31 12 2003	£000
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Class		Classes I, II and IX	Class III business with relevant factor of				Classes IV and VI	Classes VII and VIII business with relevant factor of				Unlocated additional mathematical reserves with relevant factor of		Total for all classes		
			4% 1	4% 2	1% 3	Nil 4		Total 5	4% 6	4% 7	1% 8	NI 9	Total 10	4% 11	1% 12	The financial year 13
Mathematical reserves before deduction of reinsurance	Reserves before distribution of surplus	11	2267440	862429			862429						59032		3188901	2398349
	Reserves for bonus allocated to policyholders	12														
	Reserves after distribution of surplus	13	2267440	862429			862429						59032		3188901	2398349
Mathematical reserves after deduction of reinsurance	Reserves before distribution of surplus	14	2267440	862429			862429						59032		3188901	2398349
	Reserves for bonus allocated to policyholders	15														
	Reserves after distribution of surplus	16	2267440	862429			862429						59032		3188901	2398349
Ratio of 16 to 13 or 0.85 if greater (see instruction 2)		17	1.0000				1.0000						1.0000			
Required margin of solvency - first result = (line 13) * (line 17) * relevant factor		19	90698				34497						2361		127556	95934
Non negative capital at risk before reinsurance (all contracts) (see instruction 3)	Temporary assurances with required margin of solvency of 0.1%	21														
	Temporary assurances with required margin of solvency of 0.15%	22														
	All other assurances with required margin of solvency of 0.3%	23														
	Total (21 to 23)	29														
Non negative capital at risk after reinsurance (all contracts) (see instruction 3)		31														
Ratio of line 31 to line 29, or 0.50 if greater		32														
Required margin of solvency - second result (see instruction 4)		39														
Sum of first and second results (19+39)		49	90698				34497						2361		127556	95934
Required margin of solvency for supplementary Accident and Sickness Insurance and Class V business		51														
Total required margin of solvency for long term business (49+51)		59													127556	95934
Minimum guarantee fund		61													549	507
Required minimum margin (greater of lines 59 and 61)		69													127556	95934

PRUDENTIAL RETIREMENT INCOME LIMITED

Returns for the year ended 31 December 2003

Supplementary notes to the returns

Form 9

0901 Other waivers under Section 148, Financial Services and Markets Act 2000

- (a) The Financial Services Authority, on the application of the firm, made a direction in December 2002 under section 148 of the Financial Services and Markets Act 2000. The effect of the direction is to modify the provisions of IPRU (INS) rule 5.11 and Appendix 9.4, so that a more appropriate rate of interest will be used when valuing assets backing non profit liabilities.
- (b) The Financial Services Authority, on the application of the firm, made a direction in December 2002 under section 148 of the Financial Services and Markets Act 2000. The effect of the direction was to modify IPRU (INS) rule 3.4 so that the rule does not apply to the reassurance agreement between the firm and Scottish Amicable Life plc dated 30 September 2000 novated to The Prudential Assurance Company Limited by the deed of novation between the firm, Scottish Amicable Life plc and The Prudential Assurance Company Limited dated 17 December 2002, which covers the annuity business formerly written by Scottish Amicable Life plc and transferred to The Prudential Assurance Company Limited on 31 December 2002 under Part VII of the Financial Services and Markets Act 2000.

Supplementary notes to the returns (continued)

Form 10

1001	Reconciliation to shareholder accounts	2003	2002
		£'000s	£'000s
	<i>Net assets per FSA return</i>		
	Line 99 on Form 13 (OLTB)	157,147	161,116
	Line 59 on Form 15	<u>1,873</u>	<u>(235)</u>
		155,274	160,881
	<i>Per shareholder accounts</i>		
	Capital and reserves	279,696	247,727
	<i>Difference</i>		
	Additional reserves held in long term fund	162,051	123,052
	Valuation difference Line 94 on Form 13	1,371	994
	Deferred tax held on additional reserves and valuation differences	(49,000)	(37,200)
	Unappropriated surplus held in long term fund		
	Line 49 on Form 58	10,000	-
		<u>124,422</u>	<u>86,846</u>

Form 13

Notes 1302 to 1306 apply to the other than long term business fund.

- *1302* The company held £24m in hybrid securities.
- *1304* Amounts due to or from the company have been set off to the extent permitted by generally accepted accounting principles.
- *1305* The maximum permitted exposure to any one counterparty other than short term deposits with an approved credit institution is set at 5% of the long term business amount. Maximum permitted exposure to any one approved credit institution is set at 20%. There were no breaches of these limits during the year.
- *1306* No counterparty exposure at the year end exceeded 5% of the long term business amount. Counterparty limits set were not exceeded during the year.

Notes 1308 to 1312 apply to the long term business fund.

- *1308* The company held £129m in unlisted securities.
- *1309* The company held £259m in hybrid securities.

Supplementary notes to the returns (continued)

- *1310* Amounts due to or from the Company have been set off to the extent permitted by generally accepted accounting principles.
- *1311* The maximum permitted exposure to any one counterparty has been set in accordance with the counterparty limits detailed in the Interim Prudential Sourcebook for Insurers Appendix 4.2 Rule 4.14. Therefore exposures to non-approved counterparties have been restricted to a maximum of 5% of the business amount. No counterparty exposure during the year exceeded these limits.
- *1312* No counterparty exposure at the year end exceeded 5% of the long term business amount.

Form 14

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

Form 15

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

Supplementary notes to the returns (continued)

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

Form 16

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

Form 40

- *4008* Management services are provided to the Company for day to day administration from The Prudential Assurance Company Ltd, Prudential Financial Services Ltd, M&G Investment Management Ltd, Prudential Property Investment Managers Ltd, Prudential UK Services Ltd and Prudential Services Ltd, all being group companies.
- *4009* The Company has a reinsurance agreement with a related company, Scottish Amicable Life Plc, in respect of non-participating approved pension annuity contracts. This agreement was novated to The Prudential Assurance Company Limited on 17 December 2002. During the year, claims amounting to £26 million were paid under this reinsurance agreement. A related premium, calculated on normal commercial terms, was received in a prior year. There was no premium received in this year. The liabilities included in the return, relating to this business, amount to £321 million at the year end.

There were no other material intra-group transactions.

Supplementary notes to the returns (continued)

Form 48

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

Line	Description	2003 £'000
12	Fixed interest – approved securities	11,718
13	Fixed interest – other securities	24,921
14	Variable interest – approved securities	53
15	Variable interest – other securities	252

These amounts are included in line 84 on form 13.

4802 There are 3 assets where the payment of interest is in default. The expected income from these assets has been reduced to nil.

Supplementary notes to the returns (continued)

Form 51

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

- A** 78% PMA92 (C=2004) / 70% PFA92 (C=2004)
- B** 99% PMA92 (U=2004) medium cohort improvement table with 2% floor + 2.75 years / 82% PFA92 (U=2004) medium cohort improvement table + 2.75 years
- C** [AM / AF92] - 3 years (in deferment), 99% PMA92 (U=2004) medium cohort improvement table with 2% floor + 2.75 years / 82% PFA92 (U=2004) medium cohort improvement table + 2.75 years (in possession)
- D** 99% PMA92 (U=2004) medium cohort improvement table with 2% floor / 82% PFA92 (U=2004) medium cohort improvement table

For B, C and D, the CMIR17 Improvement factors from 1992 to 2004 are applied to PMA92 and PFA92 mortality tables respectively. Future improvement factors from 2005 onwards are in line with the Medium Cohort projection (CMI mortality subcommittee 2002: Working paper 1: An interim basis for adjusting the '92' series mortality projections for cohort effects). Male future improvement factors are subject to a minimum improvement of 2% in any year.

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

- a** Expense loading of 2.00%
- b** Expense loading of 3.00%
- c** Expenses covered by ceding company

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

PRUDENTIAL RETIREMENT INCOME LIMITED

Returns for the year ended 31 December 2003

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

We certify:

1. (a) in relation to the part of this return comprising Forms 9, 9A, 10, 13 to 17 and 40 to 42 (and the supplementary notes thereto) and the statements required by rules 9.29 and 9.30 that:
 - (i) the return has been prepared in accordance with the Accounts and Statements Rules as modified by the waivers dated 20 December 2002 and 31 December 2002 issued under Section 148 of the Financial Services and Markets Act 2000;
 - (ii) proper accounting records have been maintained and adequate information has been obtained by the company; and
 - (iii) an appropriate system of control has been established and maintained by the company over its transactions and records;
- (b) that in respect of the company's business which is not excluded by rule 7.6, the assets held throughout the financial year enabled the company to comply with rules 7.1 to 7.5 (matching and localisation); and
- (c) in relation to the statement required by rule 9.36 that:
 - (i) for the purpose of preparing the statement, proper accounts and records have been maintained; and
 - (ii) the information given has been ascertained in conformity with that Rule;
- (d) that proper records have been maintained and adequate information obtained by the insurer for the purpose of the declaration required by rule 9.39.

Certificate required by Rule 9.34(a) (continued)

2. that the margin of solvency required by rule 2.1 has been maintained throughout the financial year.
3.
 - (a) that 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 business fund has not been applied otherwise than for the purpose of the long term insurance business;
 - (b) that any amount payable from or receivable by the long term insurance business fund in respect of services rendered by or to any other business carried on by the company or by a person who, for the purposes of rule 3.4, is connected with it or is a subsidiary company of it has been determined and where appropriate apportioned on terms which are believed to be no less than fair to that fund, and any exchange of assets representing such fund for other assets of the company has been made at fair market value;
 - (c) that no guarantees have been given by the company of the performance by a related company of a contract binding on the related company which would fall to be met by any long term insurance business fund;
 - (d) that no internal linked funds are maintained;
 - (e) that the return in respect of long term insurance business is not distorted by agreements with any other company carrying on insurance business with which the company has financial, commercial or administrative links or by any arrangements which could affect the apportionment of expenses and income; and
 - (f) that the company has fully complied with the requirement of rule 3.5.

Certificate required by Rule 9.34(a) (continued)

4. (a) that the systems of control established and maintained by the company in respect of its business complied at the end of the financial year, and it is reasonable to believe that those systems continued to so comply subsequently and will continue to so comply in the future, with the following published guidance:
- (i) Guidance Note P.1 – ‘Systems of control over the investments of insurers’; and
 - (ii) Guidance notes for the Insurance and Retail Products Financial Sector (issued by the Joint Money Laundering Steering Group);
- (b) that the return has been prepared in accordance with the following published guidance:
- (i) Guidance Note 4.1 – ‘Guidance for insurers and auditors on the Valuation of Assets Rules’;
 - (ii) Guidance Note 4.2 – ‘Use of derivative contracts in insurance funds’; and
 - (iii) Guidance Note 9.1 – ‘Preparation of annual returns’.

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G M Wood
Chief Executive

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D J Belsham
Director

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T J W Tookey
Director

24 March 2004

PRUDENTIAL RETIREMENT INCOME LIMITED

Returns for the year ended 31 December 2003

Appointed Actuary's Certificate pursuant to 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 constitute proper provision at 31 December 2003 for the liabilities (other than the 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 Valuation of Assets Rules, as shown in Form 13;
 - (iv) the valuation complies with the guidance notes "GN1: The Prudential Supervision in the UK of Long-Term Insurance Business" issued by the Faculty and Institute of Actuaries dated 1 September 2003 and "GN8: Additional Guidance on Valuation of Long-Term Insurance Business" issued by the Faculty and Institute of Actuaries, dated 30 December 2002;
 - (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 these contracts and, in particular, to establish adequate mathematical reserves.
- (b) the amount of the required minimum solvency margin applicable to the company's long term insurance business immediately following 31 December 2003 (including the amount resulting from any increase in liabilities arising from a distribution of surplus as a result of the investigation into the financial condition of the long term insurance business) is £127,556,000.

D J Belsham
Appointed Actuary

24 March 2004

PRUDENTIAL RETIREMENT INCOME LIMITED

Financial 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 documents prepared by the company pursuant to the Accounts and Statements Rules set out in part I of chapter 9 to the Interim Prudential Sourcebook for Insurers (“the Rules”) made by the Financial Services Authority (“FSA”) under section 138 of the Financial Services and Markets Act 2000:

- Forms 9, 9A, 10, 13 to 17 and 40 to 42 (including the supplementary notes thereto) (“the Forms”);
- the statement required by rule 9.29 on pages 63 to 66 (‘the statement’); and
- the certificate signed in accordance with rule 9.34(a) on pages 56 to 58 (‘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 and 9.36 concerning shareholder controllers 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 the 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 on 20 December 2002 and 31 December 2002. Under rule 9.11 the Forms and statements are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules.

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 obtained by us relating to the audit of the financial statements of the company for the financial year. It also included an assessment of the significant estimates and judgements made by the company in the preparation of the Forms and statements.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms 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 59 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 by the directions dated 20 December 2002 and 31 December 2002 issued by the Financial Services Authority and have been properly prepared in accordance with the provisions of those Rules; and
- (b) based on 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
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

24 March 2004

PRUDENTIAL RETIRMENT INCOME 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, 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.
 - the maximum allowable exposure to counterparties should not be exceeded.
 - only certain permitted exchanges and contracts can be used.
- (iii) During the year the company has used interest rate, currency and inflation-linked swaps in the long term business and interest rate swaps in the other than long term business.

(b) Derivatives where exercise is unlikely (Long Term and Other Than Long-Term funds)

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

(c) Quantification of derivatives in (b) above

During 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 44; (£5,018,000)

Form 13 line 54/55/81; (£668,000)

Other than long term funds

Form 13 line 44; (£837,000)

Form 13 line 54/55/81; (£1,024,000)

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

Long term funds

Form 13 line 44; (£5,018,000)

Form 13 line 54/55/81; (£668,000)

Other than long term funds

Form 13 line 44; (£837,000)

Form 13 line 54/55/81; (£1,024,000)

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

Conditions noted in (d)

Long term funds

Form 13 line 44; (£110,000)

Form 13 line 54/55/81; (£13,924,000)

Other than long term funds

Form 13 line 44; Nil

Form 13 line 54/55/81; £855,000

Conditions noted in (e)

Long term funds

Form 13 line 44; (£110,000)

Form 13 line 54/55/81; (£13,924,000)

Other than long term funds

Form 13 line 44; Nil

Form 13 line 54/55/81; £855,000

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 £4,026,000.

Under foreseeable market conditions the company's exposure would not increase beyond £4,227,000. The maximum loss at any other time during the year was £2,440,000.

Other than long term funds

The maximum loss which would have been incurred by the Company on the failure by any one counterparty to fulfil its obligations under derivative contracts at the end of the year was £837,000.

Under foreseeable market conditions the company's exposure would not increase beyond £879,000. The maximum loss at any other time during the year was £855,000.

(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

There were no derivative contracts held during 2003 that did not satisfy the Rule 4.12 requirements of the Interim Prudential Sourcebook for Insurers.

(i) Consideration for granting rights under derivative contracts

No rights under derivative contracts have been granted.

PRUDENTIAL RETIREMENT INCOME LIMITED

Returns for the year ended 31 December 2003

Statement in accordance with Rule 9.30 of the Interim Prudential Sourcebook for Insurers

Additional information on shareholder controllers

We confirm that the following is a list of:

- (a) Persons who, to the knowledge of Prudential Retirement Income Limited (“the company”), have been, at any time during the year ended 31 December 2003, a shareholder controller of the company; and
- (b) In the case of each person who was a shareholder controller of the company at 31 December 2003:
 - (i) the percentage of shares he held at that time in the company, or in another company of which the company was a subsidiary undertaking; and
 - (ii) the percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the company, or another company of which it was a subsidiary undertaking;

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

Persons who, to the knowledge of the company, have been, at any time during the year ended 31 December 2003, a shareholder controller of the company.	In the case of each person who was a shareholder controller of the company at 31 December 2003:	
	The percentage of shares he held at that time in the company, or in another company of which the company was a subsidiary undertaking, either alone or (<i>shown separately</i>) with any associate or associates	The percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the company, or another company of which it was a subsidiary undertaking, either alone or (<i>shown separately</i>) with any associate or associates
The Prudential Assurance Company Limited, being its immediate holding company since 30 June 2003	100%	100%
Prudential plc, being its ultimate holding company	100%	100%
Prudential Corporation Holdings Limited, being its immediate holding company until 30 June 2003		

PRUDENTIAL RETIREMENT INCOME LIMITED

Returns for the year ended 31 December 2003

Statement of information on the Appointed Actuary pursuant to Rule 9.36 of the Interim Prudential Sourcebook for Insurers

G A Gallagher: Appointed Actuary to 11 July 2003

In accordance with Rule 9.36, G A Gallagher, the Appointed Actuary of the company, was requested to furnish and has provided the following information:

- (a) The Appointed Actuary had an interest in 8,361 and 8,700 shares in the ultimate parent company, Prudential plc, at the beginning and at the end of the year respectively.
- (b) The Appointed Actuary had an interest in shares in Prudential plc held in trust, representing the maximum award that could be made if performance requirements under the Prudential Restricted Share Plan were met, of 6,619 and 10,063 shares at the beginning and at the end of the year respectively. During the year, 5,050 shares were conditionally awarded to him under the 2003 scheme and 1,606 shares conditionally awarded under the 2000 scheme were not subsequently awarded.
- (c) At the end of the year the Appointed Actuary held options granted under the Prudential Savings-Related Share Option Scheme to subscribe for shares in Prudential plc as follows:

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

During the year, options held previously for 4,747 shares were cancelled.

- (d) The Appointed Actuary also had an interest in 470 shares in Egg plc, a subsidiary of Prudential plc, throughout the year.
- (e) The Appointed Actuary received aggregate remuneration from the Prudential Group of £130,672.

Additionally, the Appointed Actuary is a member of the Prudential Staff Pension Scheme and contributions in respect of the year were paid by the Prudential Group.

- (f) The following general insurance policies issued by the Prudential Group subsisted throughout the year:
 - (i) a home insurance policy covering buildings, household contents and personal effects (now underwritten by Churchill).

Statement of information on the Appointed Actuary pursuant to Rule 9.36 of the Interim Prudential Sourcebook for Insurers (continued)

D J Belsham: Appointed Actuary from 11 July 2003

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:

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Exercise Dates</u>
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.