



# **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**

**31 December 2007**



**(Appendices 1, 3, 4, 6)**



# PRUDENTIAL RETIREMENT INCOME LIMITED

Year ended 31 December 2007

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**Statement of solvency - long-term insurance business**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2007**

Solo solvency calculation

	Company registration number	GL/UK/CM	day	month	year	Units	
	<b>R2</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>
						<b>1</b>	<b>2</b>

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	261250	156120
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	516904	509348
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	778154	665468

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	189460	173108
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	588694	492360

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	568380	519323
Resilience capital requirement	<b>32</b>		
Base capital resources requirement	<b>33</b>	2231	2139
Individual minimum capital requirement	<b>34</b>	568380	519323
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	568380	519323
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	493964	405807
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	351869	275976

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		
Enhanced capital requirement	<b>40</b>	568380	519323

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	568380	519323
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	209774	146145

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	<b>51</b>	218280	134328
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**Covering Sheet to Form 2**

**Form 2**

Name of insurer      **Prudential Retirement Income Limited**

Global business

Financial year ended      **31 December 2007**

\_\_\_\_\_ A M Crossley      **Director**

\_\_\_\_\_ D J Belsham      **Director**

\_\_\_\_\_ G P J Shaughnessy      **Director**

**Date**

**London 27 March 2008**

**Components of capital resources**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2007**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	<b>R3</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year		
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>		

**Core tier one capital**

Permanent share capital	<b>11</b>		517700	517700	517700
Profit and loss account and other reserves	<b>12</b>		590126	590126	433701
Share premium account	<b>13</b>				
Positive valuation differences	<b>14</b>				
Fund for future appropriations	<b>15</b>				
Core tier one capital in related undertakings	<b>16</b>				
Core tier one capital (sum of 11 to 16)	<b>19</b>		1107826	1107826	951401

**Tier one waivers**

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

**Other tier one capital**

Perpetual non-cumulative preference shares as restricted	<b>25</b>		20000	20000	20000
Perpetual non-cumulative preference shares in related undertakings	<b>26</b>				
Innovative tier one capital as restricted	<b>27</b>				
Innovative tier one capital in related undertakings	<b>28</b>				

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		1127826	1127826	971401
Investments in own shares	<b>32</b>				
Intangible assets	<b>33</b>				
Amounts deducted from technical provisions for discounting	<b>34</b>				
Other negative valuation differences	<b>35</b>		349172	349172	305333
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>		349172	349172	305333
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		778654	778654	666068

**Components of capital resources**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2007**

	Company registration number	GL/ UK/ CM	day month year			Units
<b>R3</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Tier two capital**

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

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

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



**Components of capital resources**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2007**

	Company registration number	GL/ UK/ CM	day month year			Units
R3	47842	GL	31	12	2007	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		1	2	3	4	

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	71				
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		778654	778654	666068
Inadmissible assets other than intangibles and own shares	73		500	500	600
Assets in excess of market risk and counterparty limits	74				
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76				
Deductions of ineligible surplus capital	77				
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		778154	778154	665468

**Available capital resources for GENPRU/INSPRU tests**

Available capital resources for guarantee fund requirement	81		778154	778154	665468
Available capital resources for 50% MCR requirement	82		778154	778154	665468
Available capital resources for 75% MCR requirement	83		778154	778154	665468

**Financial engineering adjustments**

Implicit items	91				
Financial reinsurance - ceded	92				
Financial reinsurance - accepted	93				
Outstanding contingent loans	94		218280	218280	134328
Any other charges on future profits	95				
Sum of financial engineering adjustments (91+92-93+94+95)	<b>96</b>		218280	218280	134328

**Analysis of admissible assets**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2007**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
	<b>R13</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>	<b>1</b>
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
						<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>					

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>		
	Debts and loans	<b>28</b>		
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>			
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>			
Rights under derivative contracts	<b>44</b>	4471	2473	
Fixed interest securities	Approved	<b>45</b>	329844	280123
	Other	<b>46</b>	148291	189436
Variable interest securities	Approved	<b>47</b>	6772	6400
	Other	<b>48</b>	10826	10967
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>			
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>			
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	17107	14359
	More than one month withdrawal	<b>55</b>		
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>		
	Property linked	<b>59</b>		

**Analysis of admissible assets**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2007**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	
	Intermediaries	<b>72</b>	
Salvage and subrogation recoveries		<b>73</b>	
Reinsurance	Accepted	<b>74</b>	
	Ceded	<b>75</b>	
Dependants	due in 12 months or less	<b>76</b>	
	due in more than 12 months	<b>77</b>	
Other	due in 12 months or less	<b>78</b>	
	due in more than 12 months	<b>79</b>	

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	97	803
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	9054	7753
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	526462	512314
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**Analysis of admissible assets**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2007**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	47842	GL	31	12	2007	£000	1
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					1	2	

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting**

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	<b>91</b>	526462	512314
Admissible assets in excess of market and counterparty limits	<b>92</b>		
Inadmissible assets directly held	<b>93</b>		
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related insurance undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>		
Deferred acquisition costs excluded from line 89	<b>99</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>		
Other asset adjustments (may be negative)	<b>101</b>	(32)	(30)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	<b>102</b>	526430	512284

Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		
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**Analysis of admissible assets**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2007**Category of assets **Total long term insurance business assets**

	Company registration number	GL/UK/CM	day month year			Units	Category of assets	
	<b>R13</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>	<b>10</b>
							<b>As at end of this financial year</b>	<b>As at end of the previous year</b>
							<b>1</b>	<b>2</b>
Land and buildings				<b>11</b>			793092	456020

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>		
	Debts and loans	<b>28</b>		
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>			
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>	89817		
Rights under derivative contracts	<b>44</b>	48967	9093	
Fixed interest securities	Approved	<b>45</b>	3516935	3718649
	Other	<b>46</b>	7039212	6831313
Variable interest securities	Approved	<b>47</b>	122951	94284
	Other	<b>48</b>	658950	224810
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>	13137	14094	
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>			
Other loans	<b>53</b>	31292	32434	
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	789969	532361
	More than one month withdrawal	<b>55</b>		
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>	1591727	1540469
	Property linked	<b>59</b>		

**Analysis of admissible assets**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2007**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	1210	25861
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>	24996	14348
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	2217	1300
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	29608	20856
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	243514	209082
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>	23736	14408

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	15021330	13739382
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**Analysis of admissible assets**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2007**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	47842	GL	31	12	2007	£000	10
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					1	2	

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting**

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	<b>91</b>	15021330	13739382
Admissible assets in excess of market and counterparty limits	<b>92</b>		
Inadmissible assets directly held	<b>93</b>	500	
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related insurance undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>	(3412)	(5477)
Deferred acquisition costs excluded from line 89	<b>99</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>		
Other asset adjustments (may be negative)	<b>101</b>	(103)	(7851)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	<b>102</b>	15018315	13726054
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		

**Long term insurance business liabilities and margins**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2007**Total business/Sub fund **21 Ordinary Branch Long Term**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	<b>11</b>	14209500	12983065	
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>			
Balance of surplus/(valuation deficit)	<b>13</b>	261750	156720	
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	14471250	13139785	
Claims outstanding	Gross	<b>15</b>	2837	2622
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	2837	2622
Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers	<b>23</b>			
Creditors	Direct insurance business	<b>31</b>	491	7081
	Reinsurance accepted	<b>32</b>	2676	4490
	Reinsurance ceded	<b>33</b>		
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions	<b>36</b>	466960		
Creditors	Taxation	<b>37</b>	13487	19578
	Other	<b>38</b>	64129	565118
Accruals and deferred income	<b>39</b>		1308	
Provision for "reasonably foreseeable adverse variations"	<b>41</b>			
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	550580	600197	
Excess of the value of net admissible assets	<b>51</b>			
Total liabilities and margins	<b>59</b>	15021830	13739982	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	8976	3478
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>		

Total liabilities (11+12+49)	<b>71</b>	14760080	13583262
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>		
Other adjustments to liabilities (may be negative)	<b>74</b>	(352687)	(319261)
Capital and reserves and fund for future appropriations	<b>75</b>		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75)	<b>76</b>	14407393	13264001



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

Global business

Financial year ended **31 December 2007**

	Company registration number	GL/ UK/ CM	day	month	year	Units
<b>R15</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>
			As at end of this financial year 1			As at end of the previous year 2

**Technical provisions (gross amount)**

Provisions for unearned premiums	<b>11</b>		
Claims outstanding	<b>12</b>		
Provision for unexpired risks	<b>13</b>		
Equalisation provisions	Credit business	<b>14</b>	
	Other than credit business	<b>15</b>	
Other technical provisions	<b>16</b>		
Total gross technical provisions (11 to 16)	<b>19</b>		

**Provisions and creditors**

Provisions	Taxation	<b>21</b>	100	100
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers	<b>31</b>			
Creditors	Direct insurance business	<b>41</b>		
	Reinsurance accepted	<b>42</b>		
	Reinsurance ceded	<b>43</b>		
Debenture loans	Secured	<b>44</b>		
	Unsecured	<b>45</b>		
Amounts owed to credit institutions	<b>46</b>	7468		
Creditors	Taxation	<b>47</b>	1958	1598
	Foreseeable dividend	<b>48</b>		
	Other	<b>49</b>	32	1268
Accruals and deferred income	<b>51</b>			
Total (19 to 51)	<b>59</b>	9558		2966
Provision for "reasonably foreseeable adverse variations"	<b>61</b>			
Cumulative preference share capital	<b>62</b>			
Subordinated loan capital	<b>63</b>			
Total (59 to 63)	<b>69</b>	9558		2966

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	<b>71</b>			
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Amounts deducted from technical provisions for discounting	<b>82</b>			
Other adjustments (may be negative)	<b>83</b>	(32)		(30)
Capital and reserves	<b>84</b>	1127826		971401
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)	<b>85</b>	1137352		974337

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

Global business

Financial year ended **31 December 2007**

		Company registration number	GL/UK/CM	day	month	year	Units
	<b>R16</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>
				This financial year		Previous year	
				1		2	
Transfer (to)/from the general insurance business technical account	From Form 20		<b>11</b>				
	Equalisation provisions		<b>12</b>				
Transfer from the long term insurance business revenue account			<b>13</b>				
Investment income	Income		<b>14</b>		27338		23666
	Value re-adjustments on investments		<b>15</b>				
	Gains on the realisation of investments		<b>16</b>				1320
Investment charges	Investment management charges, including interest		<b>17</b>		400		361
	Value re-adjustments on investments		<b>18</b>		14841		20192
	Loss on the realisation of investments		<b>19</b>		188		
Allocated investment return transferred to the general insurance business technical account			<b>20</b>				
Other income and charges (particulars to be specified by way of supplementary note)			<b>21</b>		(1000)		(750)
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			<b>29</b>		10909		3683
Tax on profit or loss on ordinary activities			<b>31</b>		3353		747
Profit or loss on ordinary activities after tax (29-31)			<b>39</b>		7556		2936
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			<b>41</b>				
Tax on extraordinary profit or loss			<b>42</b>				
Other taxes not shown under the preceding items			<b>43</b>				
Profit or loss for the financial year (39+41-(42+43))			<b>49</b>		7556		2936
Dividends (paid or foreseeable)			<b>51</b>				
Profit or loss retained for the financial year (49-51)			<b>59</b>		7556		2936

**Analysis of derivative contracts**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2007**Category of assets **Total other than long term insurance business assets**

		Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
		<b>R17</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>	<b>1</b>
<b>Derivative contracts</b>			As at the end of this financial year			As at the end of the previous year			
			Assets <b>1</b>	Liabilities <b>2</b>	Assets <b>3</b>	Liabilities <b>4</b>			
Futures contracts	Fixed-interest securities	<b>11</b>							
	Equity shares	<b>12</b>							
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>							
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>							
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							
	Land	<b>33</b>							
	Currencies	<b>34</b>							
	Other	<b>35</b>		4471			2473		
Adjustment for variation margin		<b>41</b>							
Total (11 to 41)		<b>49</b>		4471			2473		

**Analysis of derivative contracts**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2007**Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
		<b>R17</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2007</b>	<b>£000</b>	<b>10</b>
<b>Derivative contracts</b>			As at the end of this financial year			As at the end of the previous year			
			Assets <b>1</b>	Liabilities <b>2</b>	Assets <b>3</b>	Liabilities <b>4</b>			
Futures contracts	Fixed-interest securities	<b>11</b>							
	Equity shares	<b>12</b>							
	Land	<b>13</b>							
	Currencies	<b>14</b>			9310				
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>							
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>							
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							
	Land	<b>33</b>							
	Currencies	<b>34</b>	900		21244	2633	14389		
	Other	<b>35</b>	48067		22107	6460	4675		
Adjustment for variation margin		<b>41</b>							
Total (11 to 41)		<b>49</b>	48967		52661	9093	19064		

**Long-term insurance business : Revenue account**

Name of insurer **Prudential Retirement Income Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2007**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	2029007	3409225
Investment income receivable before deduction of tax	12	695776	526516
Increase (decrease) in the value of non-linked assets brought into account	13	(474815)	(353087)
Increase (decrease) in the value of linked assets	14		
Other income	15	71200	128700
<b>Total income</b>	<b>19</b>	<b>2321168</b>	<b>3711354</b>

**Expenditure**

Claims incurred	21	891471	715692
Expenses payable	22	88447	100099
Interest payable before the deduction of tax	23		
Taxation	24	9786	9755
Other expenditure	25		
Transfer to (from) non technical account	26		
<b>Total expenditure</b>	<b>29</b>	<b>989704</b>	<b>825546</b>

Business transfers - in	31		1437428
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	1331464	4323236
Fund brought forward	49	13139786	8816550
Fund carried forward (39+49)	59	14471250	13139786

**Long-term insurance business : Analysis of premiums**

Name of insurer **Prudential Retirement Income Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2007**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Regular premiums	11		2010		2010	3309
Single premiums	12		2026997		2026997	3405916

**Reinsurance - external**

Regular premiums	13					
Single premiums	14					

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17		2010		2010	3309
Single premiums	18		2026997		2026997	3405916

**Total**

Gross	19		2029007		2029007	3409225
Reinsurance	20					
Net	21		2029007		2029007	3409225

**Long-term insurance business : Analysis of claims**

Name of insurer **Prudential Retirement Income Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2007**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Death or disability lump sums	11		971		971	985
Disability periodic payments	12					
Surrender or partial surrender	13		7562		7562	43446
Annuity payments	14		877669		877669	665334
Lump sums on maturity	15		5269		5269	5927
<b>Total</b>	<b>16</b>		<b>891471</b>		<b>891471</b>	<b>715692</b>

**Reinsurance - external**

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>					

**Reinsurance - intra-group**

Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33					
Annuity payments	34					
Lump sums on maturity	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Death or disability lump sums	41		971		971	985
Disability periodic payments	42					
Surrender or partial surrender	43		7562		7562	43446
Annuity payments	44		877669		877669	665334
Lump sums on maturity	45		5269		5269	5927
<b>Total</b>	<b>46</b>		<b>891471</b>		<b>891471</b>	<b>715692</b>

**Long-term insurance business : Analysis of expenses**

Name of insurer **Prudential Retirement Income Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2007**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Commission - acquisition	11		32721		32721	27856
Commission - other	12					
Management - acquisition	13		28769		28769	31889
Management - maintenance	14		19827		19827	18496
Management - other	15		7130		7130	21858
<b>Total</b>	<b>16</b>		<b>88447</b>		<b>88447</b>	<b>100099</b>

**Reinsurance - external**

Commission - acquisition	21					
Commission - other	22					
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
<b>Total</b>	<b>26</b>					

**Reinsurance - intra-group**

Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Commission - acquisition	41		32721		32721	27856
Commission - other	42					
Management - acquisition	43		28769		28769	31889
Management - maintenance	44		19827		19827	18496
Management - other	45		7130		7130	21858
<b>Total</b>	<b>46</b>		<b>88447</b>		<b>88447</b>	<b>100099</b>



**Long-term insurance business : Summary of new business**

Name of insurer **Prudential Retirement Income Limited**  
 Total business  
 Financial year ended **31 December 2007**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Number of new policyholders/  
scheme members for direct  
insurance business**

Regular premium business	11					
Single premium business	12		43072		43072	48198
<b>Total</b>	<b>13</b>		43072		43072	48198

**Amount of new regular  
premiums**

Direct insurance business	21					
External reinsurance	22					
Intra-group reinsurance	23					
<b>Total</b>	<b>24</b>					

**Amount of new single  
premiums**

Direct insurance business	25		859363		859363	800000
External reinsurance	26		144189		144189	1071626
Intra-group reinsurance	27		1023445		1023445	1534290
<b>Total</b>	<b>28</b>		2026997		2026997	3405916

**Long-term insurance business : Analysis of new business**

Name of insurer

**Prudential Retirement Income Limited**

Total business

Financial year ended

**31 December 2007**

Units

**£000**

UK Pension / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
390	Deferred annuity non-profit - Group deferred annuities			675	17658
400	Annuity non-profit (CPA) - Individual annuities in payment			38064	667338
401	Annuity non-profit (bulk transfer) - Group annuities in payment			644	24111
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment			854	39089
905	Index linked annuity (CPA) - Individual annuities in payment			2376	98953
906	Index linked annuity (bulk transfer) - Group annuities in payment			267	10548
907	Index linked deferred annuity - Group deferred annuities			192	1666





**Long-term insurance business : Non- linked assets**

Name of insurer **Prudential Retirement Income Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2007**  
 Units **£000**

Unadjusted assets	Economic exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
1	2	3	4	5

**Assets backing non-profit liabilities and non-profit capital requirements**

Land and buildings	11	793092	882909	42433	4.81	
Approved fixed interest securities	12	3587539	3587539	177625	4.79	
Other fixed interest securities	13	7202813	7202813	422623	6.06	
Variable interest securities	14	787834	787834	31348	3.48	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	1058325	968508	42030	3.97	
<b>Total</b>	<b>19</b>	<b>13429603</b>	<b>13429603</b>	<b>716059</b>	<b>5.34</b>	

**Assets backing with-profits liabilities and with-profits capital requirements**

Land and buildings	21					
Approved fixed interest securities	22					
Other fixed interest securities	23					
Variable interest securities	24					
UK listed equity shares	25					
Non-UK listed equity shares	26					
Unlisted equity shares	27					
Other assets	28					
<b>Total</b>	<b>29</b>					

**Overall return on with-profits assets**

Post investment costs but pre-tax	31					
Return allocated to non taxable 'asset shares'	32					
Return allocated to taxable 'asset shares'	33					

## Long-term insurance business : Fixed and variable interest assets

Name of insurer **Prudential Retirement Income Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2007**  
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
<b>UK Government approved fixed interest securities</b>	<b>11</b>	332626	11.79	4.47	4.47

<b>Other approved fixed interest securities</b>	<b>21</b>	3254913	9.45	4.82	4.80
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**Other fixed interest securities**

AAA/Aaa	<b>31</b>	703456	9.18	5.47	5.33
AA/Aa	<b>32</b>	1348955	10.81	5.82	5.58
A/A	<b>33</b>	3319089	10.63	6.22	5.81
BBB/Baa	<b>34</b>	999162	9.69	6.38	5.71
BB/Ba	<b>35</b>				
B/B	<b>36</b>	2778	5.22	10.61	1.88
CCC/Caa	<b>37</b>				
Other (including unrated)	<b>38</b>	829373	9.99	5.92	5.56
<b>Total other fixed interest securities</b>	<b>39</b>	7202813	10.32	6.06	5.68

<b>Approved variable interest securities</b>	<b>41</b>	123719	17.53	1.11	1.11
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<b>Other variable interest securities</b>	<b>51</b>	664115	7.73	3.92	3.69
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<b>Total (11+21+39+41+51)</b>	<b>61</b>	11578186	10.05	5.49	5.23
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**Long-term insurance business : Summary of mathematical reserves**Name of insurer **Prudential Retirement Income Limited**Total business / subfund **21 Ordinary Branch Long Term**Financial year ended **31 December 2007**Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Form 51 - with-profits	11				
Form 51 - non-profit	12		12542000	12542000	11365636
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16		1591728	1591728	1540469
Form 54 - non-linked	17		75772	75772	76960
<b>Total</b>	<b>18</b>		14209500	14209500	12983065

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22				
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26				
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>				

**Reinsurance - intra-group**

Form 51 - with-profits	31				
Form 51 - non-profit	32				
Form 52	33				
Form 53 - linked	34				
Form 53 - non-linked	35				
Form 54 - linked	36				
Form 54 - non-linked	37				
<b>Total</b>	<b>38</b>				

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42		12542000	12542000	11365636
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46		1591728	1591728	1540469
Form 54 - non-linked	47		75772	75772	76960
<b>Total</b>	<b>48</b>		14209500	14209500	12983065

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

Name of insurer **Prudential Retirement Income Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2007**  
 Units **£000**  
 UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
390	Deferred annuity non-profit - Group deferred annuities	32217	45969					421187
390	Deferred annuity non-profit - Group deferred annuities unprocessed business							14595
400	Annuity non-profit (CPA) - Group annuities in payment	39872	85241					1106798
400	Annuity non-profit (CPA) - Group annuities in payment (reassurance accepted excluding PAC (ex-Sal))		10894					155732
400	Annuity non-profit (CPA) - Group annuities in payment unprocessed business							19648
400	Annuity non-profit (CPA) - Individual annuities in payment	312343	440481					5769250
400	Annuity non-profit (CPA) - Individual annuities in payment (reassurance accepted excluding PAC (ex-Sal))		258711					3639334
400	Annuity non-profit (CPA) - Individual annuities in payment (reassurance accepted from PAC (ex-Sal))		24453					287815
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment	9188	33725					407289
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment (reassurance accepted excluding PAC (ex-Sal))		1122					14910
440	Additional reserves non-profit OB - Miscellaneous							279643
440	Additional reserves non-profit OB - Mismatching							197977
440	Additional reserves non-profit OB - Policy related expenses							227822



**Long-term insurance business : Valuation summary of index linked contracts**

Name of insurer **Prudential Retirement Income Limited**  
Total business / subfund **21 Ordinary Branch Long Term**  
Financial year ended **31 December 2007**  
Units **£000**  
UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
905	Index linked annuity (CPA) - Group annuities in payment	20126	37761		586995	586995		586995
905	Index linked annuity (CPA) - Group annuities in payment - valued as fixed	48	57		1344	1344		1344
905	Index linked annuity (CPA) - Group annuities in payment unprocessed business				23654	23654		23654
905	Index linked annuity (CPA) - Individual annuities in payment	22309	32268		649875	649875		649875
905	Index linked annuity (CPA) - Individual annuities in payment (reassurance accepted excluding PAC (ex-SAL))		2630		58604	58604		58604
905	Index linked annuity (CPA) - Individual annuities in payment (reassurance accepted from PAC (ex-SAL))		164		3170	3170		3170
907	Index linked deferred annuity - Group deferred annuities	11105	18492		219939	219939		219939
907	Index linked deferred annuity - Group deferred annuities - valued as fixed	229	504		6570	6570		6570
907	Index linked deferred annuity - Group deferred annuities unprocessed business				10846	10846		10846
915	Additional reserves index linked - Miscellaneous						15917	15917
915	Additional reserves index linked - Mismatching						59855	59855
915	Additional reserves index linked - Policy related expenses				30731	30731		30731



**Long-term insurance business: analysis of valuation interest rate**Name of insurer **Prudential Retirement Income Limited**Total business **21 Ordinary Branch Long Term**Financial year ended **31 December 2007**Units **£000**

Product group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
Form 51: Immediate & deferred annuities	11836558		5.25	5.39
Form 51: Additional reserves	447620			5.39
Form 51: Additional reserves - policy related expenses	227822		1.55	1.59
Form 54: Additional reserves	75772			1.59
<b>Total</b>	12587772			

**Long-term insurance business : Distribution of surplus**

Name of insurer **Prudential Retirement Income Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2007**  
 Units **£000**

Financial year 1	Previous year 2
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**Valuation result**

Fund carried forward	11	14471250	13139786
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	14471250	13139786
Mathematical reserves	21	14209500	12983066
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	261750	156720

**Composition of surplus**

Balance brought forward	31	156720	500
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	105030	156220
Total	39	261750	156720

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41		
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		
Surplus carried forward	49	261750	156720
Total (48+49)	59	261750	156720

**Percentage of distributed surplus allocated to policyholders**

Current year	61		
Current year - 1	62		
Current year - 2	63		
Current year - 3	64		

**Long-term insurance capital requirement**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2007**Units **£000**

LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Reinsurance factor	LTICR Financial year	LTICR Previous year
1	2	3	4	5	6

**Insurance death risk capital component**

Life protection reinsurance	11	0.0%					
Classes I (other), II and IX	12	0.1%					
Classes I (other), II and IX	13	0.15%					
Classes I (other), II and IX	14	0.3%					
Classes III, VII and VIII	15	0.3%					
<b>Total</b>	<b>16</b>						

**Insurance health risk and life protection reinsurance capital component**

Class IV supplementary classes 1 and 2 and life protection reinsurance	21						
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**Insurance expense risk capital component**

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	12542000	12542000	1.00	125420	113656
Classes III, VII and VIII (investment risk)	33	1%	1667500	1667500	1.00	16675	16174
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%					
Classes III, VII and VIII (other)	35	25%					
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	<b>39</b>					142095	129831

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	12542000	12542000	1.00	376260	340969
Classes III, VII and VIII (investment risk)	43	3%	1667500	1667500	1.00	50025	48523
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%					
Classes III, VII and VIII (other)	45	0%					
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	<b>49</b>		14209500	14209500		426285	389492

<b>Long term insurance capital requirement</b>	<b>51</b>					568380	519323
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## **PRUDENTIAL RETIREMENT INCOME LIMITED**

### **Valuation report pursuant to the Interim Prudential Sourcebook (IPRU (INS)) rule 9.4, 9.31(a) and Appendix 9.4**

#### **Appendix 9.4**

#### **Valuation Report as at 31 December 2007**

##### **1. Introduction**

- (1) The investigation relates to 31 December 2007.
- (2) The previous investigation related to 31 December 2006.
- (3) No interim valuations have been carried out for the purposes of rule 9.4 since 31 December 2006.

##### **2. Product range**

(a) New products

No new products have been introduced during the financial year.

(b) New bonus series

No new bonus series have been introduced during the financial year.

(c) Products withdrawn

No products have been withdrawn during the financial year.

(d) Changes to options or guarantees under existing products

No changes have been made to options or guarantees under existing products during the financial year.

(e) With-profits subfunds

There are no with-profits subfunds.

##### **3. Discretionary charges and benefits**

- (1) Not applicable
- (2) Not applicable
- (3) Not applicable
- (4) Not applicable
- (5) Not applicable
- (6) Not applicable

(7) Not applicable

(8) Not applicable

(9) Not applicable

(10) Not applicable

#### 4. Valuation basis (other than for special reserves)

In this report, the following abbreviations are used:

Description	Abbreviation
Reassurance accepted from The Prudential Assurance Company Limited (ex-Scottish Amicable Life plc business)	Reassurance accepted from PAC (ex-SAL)

- (1) The mathematical reserve for annuities in payment is the present value of the annuities, less the present value of future premiums where applicable.

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 as follows:

- (a) RPI-linked annuities subject to a minimum annual increase of 0% and a maximum annual increase of 5% are, for valuation purposes, treated as being identical to normal RPI-linked annuities.
- (b) RPI-linked annuities subject to a minimum annual increase of 3% and a maximum annual increase of 5% are, for valuation purposes, treated as annuities with fixed 5% annual increases. They are, however included in these returns as linked business. Thus, Form 56 includes sufficient fixed interest assets to match the corresponding liabilities.

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

For deferred annuities where benefits include revaluation in deferment in line with RPI, followed by fixed escalation in payment, the revaluation in deferment is generally subject to a minimum annual increase of 0% and a maximum annual increase of 5%. For valuation purposes these are treated as annuities with fixed 4% annual revaluation throughout the remaining deferred period followed by the actual fixed escalation in payment. These annuities are included in these returns as non-linked business. They are matched with non-linked assets and inflation swaps.

A separate expense reserve is held. This is calculated as the present value of future expenses, allowing for expense inflation.

- (2) The FSA, on the application of the firm, made a direction under Section 148 of the Financial Services and Markets Act 2000. The effect of the direction is to modify the provisions of INSPRU 3.1.35R and IPRU (INS) Appendix 9.3 so that a more appropriate rate of interest will be used for assets taken in combination.

The interest rates used are as follows:

**Non-linked**

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2007 %</b>	<b>31 December 2006 %</b>
All	All products	5.25	4.73

**Index linked**

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2007 %</b>	<b>31 December 2006 %</b>
All	All products (except index linked annuities – valued as fixed)	1.55	1.55
All	Index linked annuity – group annuities in payment – valued as fixed Index linked annuity – group deferred annuities – valued as fixed	5.25	4.73

Investment management expenses are allowed for by means of an appropriate deduction from the valuation rate of interest (see 4(6) below). The valuation rates of interest above are shown before the deduction for investment management expenses.

- (3) The long-term 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 35 year period, produces mean default rates according to credit quality and term to redemption.

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

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

To calculate the overall long-term 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 vary between 100% and 200% of the appropriate mean default rate, reduced by the expected recovery, plus a further amount for credit risk. The derived default rates for each level of security are set out below:



Default rates – basis points per annum:

<b>Seniority</b>	AAA	AA	A	BBB	BB	B and lower
First Mortgage Debenture / Senior Secured	6.6	8.5	13.8	28.5	107.2	216.6
Senior Unsecured	14.6	18.7	30.3	62.8	235.8	476.6
Subordinated Debt	21.2	27.2	44.0	91.3	343.0	693.3

The yields shown in Form 48 column 4 were determined in accordance with the requirements of INSPRU 3.1. The risk adjusted yields shown in Form 57 column 5 were calculated using the method specified in the section 148 waiver, after allowance for defaults.

In applying the section 148 waiver, the yield on property is taken to be the lower of the current rental yield and the “redemption yield”, which is the interest rate at which the market value equates with the present value of future rental income and the disposal value. No allowance is made for non-contractual increases in rental income. As an allowance for the risk of falls in value, the disposal value is taken as 75% of the current market value. A further deduction is made to allow for the risk of default of rent. This deduction is calculated in the same way as for corporate bonds (having regard to the credit quality of the relevant tenants), as described above.

Aggregate yields on the backing assets have been adjusted by 0.25% and 0.18% to allow for the long-term expected level of defaults within the non-linked and index-linked asset portfolios respectively. These default adjustments include margins for prudence.

Whilst the default rates above are considered to be appropriate long-term valuation assumptions, an additional credit contingency reserve has been held at 31 December 2007 in light of the prevailing economic conditions. This additional reserve amounts to £154m and has been established as a prudent provision against the possibility of future short-term credit losses and downgrades in the asset portfolio. It has been calculated as the impact on mathematical reserves of the Company's entire portfolio of credit-risky assets being downgraded by one rating category.

(4)

**Non-linked**

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
400	<b>Annuity non-profit (CPA) – individual annuities in payment</b> <b>Annuity non-profit (CPA) – individual annuities in payment (reassurance accepted excluding PAC (ex-SAL))</b> <b>Annuity non profit (CPA) – group annuities in payment (reassurance accepted excluding PAC (ex-SAL))</b>		
405	<b>Annuity non-profit (CPA impaired life) – individual annuities in payment</b> <b>Annuity non-profit (CPA impaired life) – individual annuities in payment (reassurance accepted excluding PAC(ex-SAL))</b>		
	Mortality table	Modified 99% PNMA00 / 85% PNFA00	Modified 99% PNMA00 / 85% PNFA00
	Expectation of life age 65	23.7 (M), 25.5 (F)	22.4 (M), 25.0 (F)
	Expectation of life age 75	14.3 (M), 16.3 (F)	13.7 (M), 16.0 (F)
400	<b>Annuity non-profit (CPA) – group annuities in payment</b> <b>Annuity non-profit (CPA) – group annuities in payment unprocessed business</b>		
	Mortality table	Modified 114% PNMA00 / 103% PNFA00	Modified 114% PNMA00 / 103% PNFA00
	Expectation of life age 65	22.4 (M), 23.9 (F)	21.2 (M), 23.4 (F)
	Expectation of life age 75	13.3 (M), 14.9 (F)	12.7 (M), 14.6 (F)
390	<b>Deferred annuity non-profit – group deferred annuities</b> <b>Deferred annuity non-profit – group deferred annuities unprocessed business</b>		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 114% PNMA00 / 103% PNFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 114% PNMA00 / 103% PNFA00
	Current age 45, expectation of life age 65	26.4 (M), 25.9 (F)	23.6 (M), 24.8 (F)
	Current age 55, expectation of life age 65	24.4 (M), 24.9 (F)	22.4 (M), 24.1 (F)
400	<b>Annuity non-profit (CPA) – individual annuities in payment (reassurance accepted from PAC (ex-SAL))</b>		
	Mortality table	Modified 106% PNMA00 / 84% PNFA00	Modified 110% PNMA00 / 86% PNFA00
	Expectation of life age 65	23.1 (M), 25.6 (F)	21.5 (M), 24.9 (F)
	Expectation of life age 75	13.8 (M), 16.4 (F)	12.9 (M), 15.9 (F)

## Index linked

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
905	<b>Index linked annuity (CPA) – individual annuities in payment</b> <b>Index linked annuity (CPA) – individual annuities in payment (reassurance accepted excluding PAC (ex-SAL))</b>		
	Mortality table	Modified 99% PNMA00 / 85% PNFA00	Modified 99% PNMA00 / 85% PNFA00
	Expectation of life age 65	23.7 (M), 25.5 (F)	22.4 (M), 25.0 (F)
	Expectation of life age 75	14.3 (M), 16.3 (F)	13.7 (M), 16.0 (F)
905	<b>Index linked annuity (CPA) – group annuities in payment</b> <b>Index linked annuity (CPA) – group annuities in payment - valued as fixed</b> <b>Index linked annuity (CPA) – group annuities in payment unprocessed business</b>		
	Mortality table	Modified 114% PNMA00 / 103% PNFA00	Modified 114% PNMA00 / 103% PNFA00
	Expectation of life age 65	22.4 (M), 23.9 (F)	21.2 (M), 23.4 (F)
	Expectation of life age 75	13.3 (M), 14.9 (F)	12.7 (M), 14.6 (F)
907	<b>Index linked deferred annuity – group deferred annuities</b> <b>Index linked deferred annuity – group deferred annuities – valued as fixed</b> <b>Index linked deferred annuity – group deferred annuities unprocessed business</b>		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 114% PNMA00 / 103% PNFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 114% PNMA00 / 103% PNFA00
	Current age 45, expectation of life age 65	26.4 (M), 25.9 (F)	23.6 (M), 24.8 (F)
	Current age 55, expectation of life age 65	24.4 (M), 24.9 (F)	22.4 (M), 24.1 (F)
905	<b>Index linked annuity (CPA) – individual annuities in payment (reassurance accepted from PAC (ex-SAL))</b>		
	Mortality table	Modified 106% PNMA00 / 84% PNFA00	Modified 110% PNMA00 / 86% PNFA00
	Expectation of life age 65	23.1 (M), 25.6 (F)	21.5 (M), 24.9 (F)
	Expectation of life age 75	13.8 (M), 16.4 (F)	12.9 (M), 15.9 (F)

### **Mortality bases used at 31 December 2007**

Annuities are generally valued using a percentage of the 00 series tables for annuitants and pensioners (normal retirements). In order to allow for mortality improvement, improvement factors are applied from 2001. For males these future improvement factors are in line with 100% of the CMI medium cohort projections, subject to future improvement factors not being less than 2.25% p.a. until age 90, tapering linearly to zero at age 120. For females, future improvement factors are in line with 75% of the CMI medium cohort projections, subject to future improvement factors not being less than 1.25% p.a. until age 90, tapering linearly to zero at age 120. For impaired lives, an adjustment is made to the annuitant's age to allow for impairment.

In practice, the individual annuities in payment reassured from PAC (ex-SAL) have been valued using percentages of single entry tables based on the 92 series tables for annuitants and pensioners, with calendar year 2004 (improvements in line with CMIR17 until 2004). The percentages have been chosen so that the rates used are equivalent to the double entry tables with future improvement factors as described above.

### **Mortality bases used at 31 December 2006**

Annuities were generally valued using a percentage of the 00 series tables for annuitants and pensioners (normal retirements). In order to allow for mortality improvement, improvement factors were applied from 2001. For males these were in line with 100% of the CMI medium cohort projections, subject to future improvement factors not being less than 1.25% p.a. For females, future improvement factors were in line with 75% of the CMI medium cohort projections, subject to future improvement factors not being less than 0.75% p.a. For impaired lives, an adjustment was made to the annuitant's age to allow for impairment.

In practice, the individual annuities in payment reassured from PAC (ex-SAL) were valued using percentages of single entry tables based on the 92 series tables for annuitants and pensioners, with calendar year 2004 (improvements in line with CMIR17 until 2004). The percentages were chosen so that the rates used were equivalent to the double entry tables with future improvement factors as described above.

- (5) Not applicable
- (6) The renewal expenses per annum used are described in the table below:

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
All	All products <sup>(1)</sup>	£17.92 p.a.	£23.25 p.a.

<sup>(1)</sup> Expense reserves for individual annuities in payment (reassurance accepted from PAC (ex-SAL)) are held in the ceding company.

The inflation rates assumed for future expenses are as follows:

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
All	All products	3.75% p.a.	3.5% p.a.

Investment management expenses are allowed for by making a deduction from the valuation rate of interest. The deduction used is as follows:

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
All	All products	0.06% p.a.	0.06% p.a.

The valuation rates of interest in 4(2) (and the asset yields in Form 48 and Form 57) are shown before the deduction for investment management expenses.

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

- (7) Not applicable
- (8) Not applicable
- (9) No lapses have been allowed for in the valuation.
- (10) There are no material basis assumptions not stated elsewhere.
- (11) Derivative contracts held as at 31 December 2007 comprised:
  - i) Contracts to swap fixed US Dollars for fixed UK Sterling
  - ii) Contracts to swap fixed Euros for fixed UK Sterling
  - iii) Contracts to swap floating UK Sterling and Non Sterling LIBOR and EUROBOR for fixed UK Sterling
  - iv) Contracts to swap inflation linked UK Sterling RPI for fixed UK Sterling
  - v) Contracts to swap future fixed UK Sterling for future inflation linked UK Sterling RPI/LPI
  - vi) Contracts to swap inflation linked UK Sterling property income for fixed UK Sterling
  - vii) A contract to swap fixed, floating LIBOR and credit default premium cashflows for fixed UK Sterling
  - viii) Contracts to swap fixed UK Sterling for inflation linked UK Sterling RPI/LPI

The effect of the contract under i) is to convert US Dollar denominated cashflows into fixed UK Sterling cashflows.

The effect of the contract under ii) is to convert fixed Euro denominated cashflows into fixed UK Sterling cashflows.

The effect of the contracts under iii) is to convert cashflows from UK Sterling and Non Sterling floating rate LIBOR/EUROBOR assets into fixed UK Sterling cashflows.

The effect of the contract under iv) is to convert cashflows from UK Sterling RPI inflation linked bonds into fixed UK Sterling.

The effect of the contract under v) is to convert future fixed UK Sterling cashflows into future RPI inflation linked cashflows.

The effect of the contract under vi) is to convert cashflows from RPI inflation linked property rental payments into fixed UK Sterling cashflows.

The effect of the contract under vii) is to convert various currency cashflows from floating rate LIBOR bonds, fixed rate bonds and a premium for providing protection on the default of a bond into fixed UK Sterling cashflows.

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

The cashflows involved in these arrangements were included in the aggregate cashflows from the portfolio in order to derive the aggregate yield on the portfolio. This is in accordance with the section 148 waiver.

No options are held and hence no out-of-the-money derivatives have been used to back liabilities.

The yields shown in Form 48 column 4 were determined in accordance with the requirements of INSPRU 3.1 and hence differ from the yields calculated in accordance with the section 148 waiver.

(12) There were no changes in valuation methodology arising from changes in INSPRU valuation rules effective from 31 December 2006.

## **5. Options and guarantees**

- (1) Not applicable
- (2) Not applicable
- (3) Not applicable
- (4) Not applicable

## 6. Expense reserves

- (1) The aggregate amount arising during the twelve months after the valuation date from implicit and explicit expense reserves made in the valuation to meet expenses are:

	£m
Per policy expenses	12.6
Investment management expenses	8.4
Total	21.0

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

- (2) Not applicable
- (3) The maintenance expenses shown at line 14 of Form 43 are £19.8m. The maintenance expenses shown in (1) above include margins for prudence.
- (4) It is expected that all new business written in the twelve months following the valuation date will be written on terms which do not result in new business strain in the Company. Therefore no new business expense overrun reserve is required.
- (5) In the first instance, expense reserves are calculated on the assumption that Prudential's UK insurance operations will continue to write new business indefinitely and hence that there will be no loss of economies of scale. In this scenario, the amount of the expense loading over the remaining lifetime of the contracts in force at the valuation date is £257.5m.

In order to allow for the possibility that the firm will cease to transact new business twelve months after the valuation date, the expense loading is recalculated on the assumption that, over a two year period, unit costs would be reduced by 25% and that loss of economies of scale would result in overall expenses being cut more slowly than the rate at which policies run off. If this revised calculation results in a higher reserve than described in the paragraph above, then the difference is held as an additional reserve. In addition the costs associated with closing to new business, such as redundancy costs or the costs of terminating management agreements, are estimated. To the extent that these costs exceed the projected surplus on prudent assumptions from existing business a further additional reserve is held.

At the valuation date, an additional reserve of £0.5m is held for the impact of closing to new business. In addition, a provision of £0.6m is held for the forecast expense margin expected to be paid to Prudential Distribution Limited in 2008.

- (6) No expenses have been treated as non-attributable.

## 7. Mismatching reserves

- (1) All the mathematical reserves are payable in sterling and the assets which match the liabilities are sterling assets. There are some US Dollar and Euro denominated assets which, in conjunction with specific swap derivative contracts, effectively produce income in UK Sterling. See 4(11) for details.
- (2) Not applicable
- (3) Not applicable
- (4) The most onerous scenario under INSPRU 3.1.16R was:
  - (i) a fall in property values of 20% plus a fall in rental income of 10%, and;
  - (ii) a fall in yield on all fixed interest securities of 0.91%, which is the percentage point fall equal to 20% of the long-term gilt yield at the valuation date.

In addition to the requirements specified in INSPRU 3.1.16R, this test also included an immediate fall of 25% in the real yield on index-linked bonds.

- (5) There were no significant territories at the valuation date.
- (6) In respect of the scenario described under (4) above;
  - (a) No resilience capital requirement was necessary.
  - (b) The increase in the aggregate amount of the long-term insurance liabilities was £1,008m.
  - (c) The increase in the aggregate amount of assets backing these liabilities was £1,029m.
- (7) A reserve of £257.8m was held arising from the test on assets in INSPRU 1.1.34R(2).

This reserve was set at a level which was sufficient to ensure that it covered the results of projecting:

- (i) the risk adjusted cashflows of the assets backing the liabilities, and;
- (ii) the future liability payments on the valuation assumptions.

In any year where asset income exceeds liability outgo, the excess is assumed to be invested in a cash asset, and this cash asset is assumed to accumulate at 97.5% of the maximum reinvestment rate specified in INSPRU 3.1.45R. In any year when asset income is insufficient to meet liabilities, the cash reserve is used to meet the shortfall. In the event that the cash reserve is reduced to zero, then the shortfall is assumed to be borrowed at a rate 2% higher than 97.5% of the maximum reinvestment rate.

## 8. Other special reserves

The additional reserves include the credit contingency reserve mentioned in section 4 above and an allowance of £136.6m for general contingencies.



**9. Reinsurance**

- (1) Not applicable
- (2) Not applicable
- (3) Not applicable

**10. Reversionary (or annual) bonus**

- (1) Not applicable
- (2) Not applicable
- (3) Not applicable
- (4) Not applicable

## PRUDENTIAL RETIREMENT INCOME LIMITED

### Returns for the year ended 31 December 2007

#### Supplementary notes to the returns

##### Form 2

###### \*0201\* Waivers under Section 148, Financial Services and Markets Act 2000

- (a) The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in May 2005, for the period 1 November 2007 to 31 October 2012. The effect of the direction is to modify the provisions of INSPRU 3.1.35R and IPRU (INS) Appendix 9.3 so that a more appropriate rate of interest will be used for assets taken in combination. (FSA reference 771905)
- (b) The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in September 2005, for the period 5 September 2005 to 31 October 2007. The effect of the direction is to modify the provisions of PRU 4.2.35R (INSPRU 3.1.35R with effect from 31 December 2006) and IPRU (INS) Appendix 9.4 so that more appropriate rate of interest will be used for assets taken in combination. (FSA reference 520102)
- (c) The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in December 2004, for the period 31 December 2004 to 31 October 2007. The effect of the direction is to modify the provisions of PRU 4.2.35R (INSPRU 3.1.35R with effect from 31 December 2006) and IPRU (INS) Appendix 9.4 so that a more appropriate rate of interest will be used for assets taken in combination. (FSA Reference 352191)

##### Form 3

###### \*0301\* Reconciliation of net admissible assets to total capital resources

	2007 £'000s
Line 89 on Form 13 (OLTB)	526,462
Line 89 on Form 13 (LTF)	15,021,330
Line 11 on Form 14	(14,209,500)
Line 49 on Form 14	(550,580)
Line 69 on Form 15	(9,558)
Line 79 on Form 3	<u>778,154</u>

## Supplementary notes to the returns (continued)

### Form 3 – continued

\*0308\* There are six contingent loans at the end of the year repayable to Prudential Finance (UK) PLC. The loans and interest on loans are repayable out of the surplus emerging on its business and is contingent on surpluses arising.

The loans are repayable to the extent of a specified percentage of surplus of the Company (determined by reference to line 34 of Form 58), a repayment obligation crystallising on the first day of the Company's financial year, following the year in which the loans were received, and being discharged by application of funds on a date nominated by the Company.

In accordance with their terms, the loans may be prepaid upon prior notice, and the repayment obligation discharged in whole or part.

\*0310\* Valuation differences

	2007 £'000s
<i>Positive valuation differences where liabilities are lower than in the shareholders accounts</i>	
Deferred tax held on additional reserves and valuation difference	220,599
Contingent loan	218,280
<i>Positive valuation differences where assets are Higher than in the Shareholder account</i>	
FSA valuation difference on investments	3,412
<i>Negative valuation differences where liabilities are higher than in the shareholders accounts</i>	
Additional reserves held in long term fund	(791,463)
Line 35 on Form 3	<u>(349,172)</u>

\*0313\* Reconciliation of profit and loss account and other reserves

	2007 £'000s
Profit & loss account and reserves b/fwd (Form 3 line 12)	433,701
Profit & loss account and reserves c/fwd (Form 3 line 12)	590,126
Movement	<u>156,425</u>
Movement in additional reserves held for FSA	(157,926)
Movement in valuation difference	(2,065)
Movement in deferred tax	32,200
Movement in unallocated surplus	(21,078)
Line 59 on Form 16	<u>7,556</u>

## Supplementary notes to the returns (continued)

### Form 13

Notes 1302 to 1307 apply to the other than long term business fund.

- \*1302\* The company held £65m 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 has been set in accordance with the counterparty limits detailed in the various Prudential Sourcebooks. 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.
- \*1306\* No counterparty exposure at the year end exceeded 5% of the business amount.
- \*1307\* PRIL has two exposures at 31.12.07 that are ‘secured obligations’:

	2007 £'000s
Credit Suisse International	13,100
Royal Bank of Scotland Plc	23,400

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

- \*1308\* The company held £458m in unlisted securities.
- \*1309\* The company held £2,269m in hybrid securities.
- \*1310\* Amounts due to or from the Company have been set off to the extent permitted by generally accepted accounting principles.
- \*1311\* The maximum permitted exposure to any one counterparty has been set in accordance with the counterparty limits detailed in the General Prudential Sourcebook. Therefore exposures to non-approved counterparties have been restricted to a maximum of 5% of the long term 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.
- \*1313\* No “secure obligations” were held at the year end.

## Supplementary notes to the returns (continued)

### Form 13 - continued

#### \*1318\* Other asset adjustments

	2007 £'000s
<i>Other than long term business assets</i>	
Miscellaneous liabilities netted off against assets in the financial statements	(32)
Line 101 on Form 13	<u>(32)</u>
	2007 £'000s
<i>Total long term business assets</i>	
Miscellaneous liabilities netted off against assets in the financial statements	(103)
Line 101 on Form 13	<u>(103)</u>

#### \*1321\* Other differences in valuation of assets

	2006 £'000s
<i>Total long term business assets</i>	
Assets valued on a different basis than that in the financial statements	(3,412)
Line 98 on Form 13	<u>(3,412)</u>

### 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) Increases in the value of assets of the long term fund do 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.

## Supplementary notes to the returns (continued)

### Form 14 - continued

#### \*1402\* - continued

- (c) There are six contingent loans, not in Form 14, at the year end repayable to Prudential Finance (UK) PLC. The loans and interest on the loans are repayable out of the surplus emerging on its business and is contingent on surpluses arising. The value of these loans total £218,280k.

The loans are repayable to the extent of a specified percentage of surplus of the Company (determined by reference to line 34 of Form 58), a repayment obligation crystallising on the first day of the Company's financial year, following the year in which the loans were received, and being discharged by application of funds on a date nominated by the Company.

In accordance with their terms, the loans may be prepaid upon prior notice, and the repayment obligation discharged in whole or part.

- (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.

#### \*1405\* Details of other adjustments to liabilities

	2007 £'000s
Additional reserves held in long term fund	(791,463)
Deferred tax provision on additional reserves	221,599
Deferred tax provision on valuation differences	(1,000)
Contingent loan	218,280
Miscellaneous adjustments to liabilities	(103)
Line 74 on Form 14	<u>(352,687)</u>

### 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.

- \*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 £100k.

## Supplementary notes to the returns (continued)

### Form 15 - continued

#### \*1502\* - continued

- (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.

#### \*1507\* Details of other adjustments to liabilities

	2007 £'000s
	<hr/>
Intragroup balances less than £100k	(32)
	<hr/> <hr/>

### 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

\*4002\* Other Income represents three additional contingent loans at the end of the year repayable to Prudential Finance (UK) PLC. The loans and interest on loans are repayable out of the surplus emerging on its business and is contingent on surpluses arising.

The loans are repayable to the extent of a specified percentage of surplus of the Company (determined by reference to line 34 of Form 58), a repayment obligation crystallising on the first day of the Company's financial year, following the year in which the loans were received, and being discharged by application of funds on a date nominated by the Company.

In accordance with their terms, the loans may be prepaid upon prior notice, and the repayment obligation discharged in whole or part.

\*4008\* Management services are provided to the Company for day to day administration from The Prudential Assurance Company Ltd, Prudential Distribution Limited, M&G Investment Management Ltd, Prudential Property Investment Managers Ltd, Prudential UK Services Ltd and Prudential Services Ltd, all being group companies.

## **Supplementary notes to the returns (continued)**

### Form 40 - continued

\*4009\* The Company has reinsurance agreements with a related company, The Prudential Assurance Company Limited, in respect of non-participating approved pension annuity contracts. This includes an agreement with Scottish Amicable Life Plc which was novated to The Prudential Assurance Company Limited on 17 December 2002 and agreements dated 1 July and 25 November 2004, and an agreement with Scottish Amicable Insurance Fund, which was novated to The Prudential Assurance Company Limited in September 1997. During the year, claims amounting to £237m were paid under these reinsurance agreements. A premium, calculated on normal commercial terms, amounting to £1,018m was received. The liabilities included in the Return, relating to this business, amount to £3,761m at the year end.

There were no other material intra-group transactions.

### Form 47

\*4702\* For annuity business where a premium includes both non-linked and linked benefits, total counts have been reported against both the non-linked and linked premiums. The extent of double counting of policies on Form 47 arising from this is 2,800.

### Form 48

\*4802\* There is 1 asset where the payment of interest is in default. The expected income from this asset has been reduced to nil.

\*4803\* Where securities may be redeemed over a period at the option of the guarantor or issuer, and they are valued "above par" they have been classified on the assumption that they will be redeemed at the earliest possible date. Where they are valued "below par" they have been classified on the basis that they will be redeemed at the latest possible date.

### Form 49

\*4901\* Credit ratings used on Form 49 are the lowest of 3 external rating agencies, namely Fitch, S&P & Moody's.

### Form 51

\*5105\* The amount of double-counting of policies between Forms 51 and 54 combined is 62,100.

There are no counts and benefit amounts shown for some liabilities where the benefits to which these relate are currently unprocessed and are not yet set up on our administration systems.



## Supplementary notes to the returns (continued)

### Form 51 - continued

#### \*5105\* - continued

The unprocessed business comes from former occupational pension schemes which are now in wind-up where final benefits and member details are yet to be finalised by the Trustees.

\*5106\* 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.

### Form 54

\*5405\* The amount of double-counting of policies on Forms 51 and 54 combined is 62,100.

There are no counts and benefits amounts shown for some liabilities where the benefits to which these relate are currently unprocessed and are not yet set up on our administration systems.

The unprocessed business comes from former occupational pension schemes which are now in wind-up where final benefits and member details are yet to be finalised by the Trustees.

### Form 57

The information required in respect of waiver 771905 (dated 17 December 2007) is as follows:

Product group	Risk adjusted yield on matching assets (Form 57 column 5)	Corresponding asset yield
Form 51: Immediate & deferred annuities	5.39%	5.63%
Form 51: Additional reserves non-profit OB – policy related expenses	1.59%	1.77%

## **PRUDENTIAL RETIREMENT INCOME LIMITED**

**Financial year ended 31 December 2007**

**Directors' Certificate pursuant to the Interim Prudential Sourcebook (IPRU (INS)) rule 9.34**

We certify:

1. (a) that the return has been properly prepared in accordance with the requirements in IPRU (INS), GENPRU and INSPRU as modified by waivers dated 31 December 2004 replaced by waiver dated 17 December 2007 and waiver dated 5 September 2005 issued under section 148 of the Financial Services and Markets Act 2000 which continue to have effect; and
  - (b) we are satisfied that:
    - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements of SYSC and PRIN as well as the provisions of IPRU (INS), GENPRU and INSPRU; and
    - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.
2. (a) that in our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
  - (b) that the mathematical reserves, as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;

**Directors' Certificate pursuant to the Interim Prudential Sourcebook (IPRU (INS))  
rule 9.34 (continued)**

- (c) that we have, in preparing the return, taken and paid due regard to advice in preparing the return from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.

.....

A M Crossley  
Director

.....

D J Belsham  
Director

.....

G P J Shaughnessy  
Director

27 March 2008

## **PRUDENTIAL RETIREMENT INCOME LIMITED**

**Financial year ended 31 December 2007**

### **Report of the auditor to the Directors pursuant to the Interim Prudential Sourcebook for Insurers (IPRU (INS)) rule 9.35**

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

- Forms 2, 3, 13 to 17, 40 to 43, 48, 49, 56, 58 and 60, (including the supplementary notes) on pages 3 to 55 (‘the Forms’);
- the statement required by rule 9.29 on pages 61 to 64 (‘the Statement’);
- the statements, analysis and reports required by IPRU (INS) rule 9.31(a) (“the valuation report”) on pages 36 to 47.

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

- Forms 46, 47, 50, 51, 54 and 57 (including the supplementary notes) on pages 23 to 55;
- the statement required by IPRU (INS) rules 9.30 on page 65; or
- the certificate signed by IPRU (INS) rule 9.34 on pages 56 to 57 (‘the certificate’).

This report is made solely to the Company’s directors, as a body, in accordance with the requirements of IPRU (INS) rule 9.35. We acknowledge that the directors are required to submit this report to the 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 IPRU (INS) rule 9.35 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 IPRU (INS) rule 9.35 and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s directors as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of the Company and its auditors**

The Company is responsible for the preparation of an annual return (including the Forms, the Statement, the valuation report, the forms and statements not examined by us 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 31 December 2004 replaced by waiver dated 17 December 2007 and waiver dated 5 September 2005. Under IPRU (INS) rule 9.11 the Forms, the Statement, valuation report, the forms and statements not examined by us and the certificate are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules.

The methods and assumptions determined by the Company and used to perform the actuarial investigation as set out in the valuation report, prepared in accordance with IPRU (INS) rule 9.31 are required to reflect appropriately the requirements of INSPRU 1.2.

It is our responsibility to form an independent opinion as to whether the Forms, the Statement and the valuation report meet these requirements, and to report our opinions to you. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information we require for our examination.

### **Basis of opinion**

We conducted our work in accordance with Practice Note 20 “The audit of insurers in the United Kingdom (Revised)” issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the Statement, and the valuation report. The evidence included that previously obtained by us relating to the audit of the financial statements of the Company for the financial year. It also included an assessment of the significant estimates and judgements made by the Company in the preparation of the Forms, the Statement and the valuation report.

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

In accordance with IPRU (INS) rule 9.35(1A), to the extent that any document, Form, Statement, analysis or report to be examined under rule IPRU (INS) 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to IPRU (INS) rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the Company.

## **Opinion**

In our opinion:

- i) the Forms, the Statement and the valuation report fairly state the information provided on the basis required by the Rules as modified and have been properly prepared in accordance with the provisions of those Rules; and
- ii) the methods and assumptions determined by the Company and used to perform the actuarial investigation as set out in the valuation report prepared in accordance with IPRU (INS) rule 9.31 appropriately reflect the requirements of INSPRU 1.2.

KPMG Audit Plc  
Registered Auditor

London

27 March 2008

## **PRUDENTIAL RETIREMENT INCOME LIMITED**

**Returns for the year ended 31 December 2007**

### **Statement pursuant to the Interim Prudential Sourcebook for Insurers (IPRU (INS)) rule 9.29**

#### **(a) Investment guidelines**

As requested by Rule 9.29 of the Interim Prudential Sourcebook for Insurers (IPRU (INS)), (FSA Statutory Instrument 2004/98) 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 3.2.5 of the Insurance Prudential Sourcebook (INSPRU).
  - the maximum allowable exposure to counterparties should not be exceeded.
  - only certain permitted exchanges and contracts can be used.
- (iii) During the year the company has used interest rate, currency and inflation-linked swaps in the long term business and interest rate swaps in the other than long term business.

#### **(b) Derivatives where exercise is unlikely.**

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

#### **(c) Quantification of derivatives in (b) above**

During 2007 no such contracts were used.

**Statement pursuant to IPRU (INS) rule 9.29 (continued)**

- (d) Effect on form 13 at 31 December 2007 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;	(£48,920k)
Form 13 line 58 (Derivatives);	(£36,535k)
Form 13 line 58 (Cash);	£296,159k
Form 13 line 54/55/81;	£1,194,638k

**Other than long-term funds**

Form 13 line 44;	(£4,471k)
Form 13 line 54/55/81;	£77,560k

- (e) Effect on form 13 at 31 December 2007 of exercising all derivatives. Decreases are shown in brackets**

Long-term funds

Form 13 line 44;	(£48,920k)
Form 13 line 58 (Derivatives);	(£36,535k)
Form 13 line 58 (Cash);	£296,159k
Form 13 line 54/55/81;	£1,194,638k

**Other than long-term funds**

Form 13 line 44;	(£4,471k)
Form 13 line 54/55/81;	£77,560k



**Statement pursuant to IPRU (INS) rule 9.29 (continued)**

**(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;	(£2,581k)
Form 13 line 58 (Derivatives);	(£32,285k)
Form 13 line 58 (Cash);	£390,236k
Form 13 line 54/55/81;	£280,145k

**Other than long-term funds**

Form 13 line 44;	(£2,474k)
Form 13 line 54/55/81	77,560k

**Conditions noted in (e)**

**Long-term funds**

Form 13 line 44;	(£2,581k)
Form 13 line 58 (Derivatives);	(£32,285k)
Form 13 line 58 (Cash);	£390,236k
Form 13 line 54/55/81;	£280,145k

**Other than long-term funds**

Form 13 line 44;	(£2,474k)
Form 13 line 54/55/81	77,560k

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.

**Statement pursuant to IPRU (INS) rule 9.29 (continued)**

**(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 £14,000k.

Under foreseeable market conditions the company's exposure would not increase beyond £35,000k as timely actions would be taken by the Investment Manager in line with its collateral management policies to prevent further exposures arising. The maximum loss at any other time during the year was £14,000k.

**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 £2,924k.

Under foreseeable market conditions the company's exposure would not increase beyond £3,070k. The maximum loss at any other time during the year was £2,973k.

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

There were no derivative contracts held during 2007 that did not satisfy requirements of the Integrated Prudential.

**(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 2007

#### Statement pursuant to the Interim Prudential Sourcebook for Insurers (IPRU (INS)) rule 9.30

##### 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 2007, 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 2007:
  - (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 2007, a shareholder controller of the company.	In the case of each person who was a shareholder controller of the company at 31 December 2007:	
	The percentage of shares he held at that time in the company, or in another company of which the company was a subsidiary undertaking, either alone or ( <i>shown separately</i> ) with any associate or associates	The percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the company, or another company of which it was a subsidiary undertaking, either alone or ( <i>shown separately</i> ) with any associate or associates
The Prudential Assurance Company Limited, being its immediate holding company	100%	100%
Prudential plc, being its ultimate holding company	100%	100%