

Registered Number SC047842

Prudential Retirement Income Limited

**Annual Report and Financial Statements
For the year ended 31 December 2010**

Prudential Retirement Income Limited

Incorporated and registered in Scotland Registered Number SC047842
Registered Office: Craigforth, Stirling, FK9 4UE

Contents	Page
Directors and officers	2
Directors' report	3 - 6
Statement of Directors' responsibilities in respect of the financial statements	7
Independent auditor's report	8 - 9
Profit and loss account	10 - 11
Statement of total recognised gains and losses	11
Reconciliation of movement in Shareholders' Funds	11
Balance sheet	12 - 13
Notes to the financial statements	14 - 40

Prudential Retirement Income Limited

Directors

R A Devey (Chairman)
D J Belsham
A M Crossley
F A O'Dwyer

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG Audit Plc, London

Prudential Retirement Income Limited

Directors' report for the year ended 31 December 2010

Company Registration number

The Company Registration number is SC047842.

Principal activity

The principal activity of Prudential Retirement Income Limited (the Company) is the writing of pension annuity long term insurance business. This will continue in 2011.

Business review

Performance and measurement

The results of the Company for the year as set out on pages 10 and 11 show a profit on ordinary activities before tax of £391m (2009: profit of £375m).

The profits during 2010 have mainly arisen from profits on new business written in the year and favourable investment returns earned on the surplus assets held by the Company.

The Shareholders' funds of the Company total £1,911m (2009: £1,620m).

The assets and liabilities of the Company increased during 2010 as a result of new business single premiums of £2.3bn (2009: £1.6bn) and a decrease in the yield on the underlying assets during 2010. The above increases have been partially offset by the payment of annuity claims. The increase in new business premiums of £0.7bn over prior year, is mainly due to a large one off bulk deal of £0.9bn which was included in 2010.

The Company's conventional annuities include level, fixed increase and retail price index (RPI) annuities. The fixed increase annuities incorporate automatic increases in annuity payments by fixed amounts over the policyholder's life. The RPI annuities that the Company offers provide for a regular annuity payment which changes periodically based on the change in the UK RPI.

With effect from 31 December 2008, the Company entered into an arrangement with The Prudential Assurance Company Limited (PAC) to reinsure 15% of all its non-profit annuity business on a quota share basis. This arrangement allows for all of the reinsurance premiums to be deposited back to the Company. On a UK GAAP basis the reinsurance results in a loss of £58m (2009: loss of £67m) in the Company. There is an equal and offsetting profit in PAC from accepting this business.

The Company remained in a satisfactory financial position at 31 December 2010.

The Company does not report against Key Performance Indicators in its Business Review. This is because the Company is part of the wider Prudential Group and the Group's business is managed on a divisional basis such as UK Insurance Operations. Key Performance Indicators exist for the management of the divisions, of which this Company's business forms a part. The divisional Key Performance Indicators can be found in the Annual Report of Prudential plc.

Prudential Retirement Income Limited

Directors' report for the year ended 31 December 2010 (continued)

Business review (continued)

Market review and strategy

During 2010, the Company has maintained its market leadership in annuities, where it has continued to extract maximum value from The Prudential Assurance Company Limited's internal vesting pension book and has retained high conversion rates in this area. This has been supported by the Company's partnership deals with insurers such as Zurich, Royal London and Save and Prosper. The Company now has approximately 900,000 annuities in payment.

The Company's strategy in the Wholesale market is to participate selectively in bulk annuity and back book buyouts, where the Company is able to win business based on its financial strength, superior track record as well as its extensive annuitant mortality risk assessment capabilities. The Company will maintain a strict focus on value, only participating in transactions that generate an acceptable rate of return.

Corporate responsibility

The Company is a wholly owned subsidiary within the Prudential Group and corporate responsibility (CR) is a philosophy that is firmly embedded in Prudential's operations around the world as an integral part of how the organisation does business. The organisation strives to minimise the social, ethical and environmental impact of its activities and to maximise the opportunities. The importance of engaging with stakeholders and responding to their concerns is recognised. To do this the organisation maintains a regular dialogue and conducts periodic research on the issues that matter most to them.

The approach to CR is underpinned by the organisation's founding values of integrity, security and prudence. Throughout its 160-year history the organisation has been committed to helping its customers safeguard their financial security and protect their families. This, together with the contribution to the well-being of the communities in which the organisation operates, is as strong today as it has always been.

The Group, of which the Company is a part, has developed a Group Governance Framework which is underpinned by a Group Governance Manual and associated processes. This encompasses all key policies and procedures for example, the Group Code of Business Conduct.

The CR activities are framed around four core themes:

1. Fair and transparent products meeting customer needs
2. Best people for the best performing business
3. Protecting the environment
4. Supporting local communities

While the Group sets the overall strategy for CR, the framework gives the Company the flexibility to implement programmes that best meet its markets. This recognises that the people on the ground are closest to their customers and their communities, and best know how to meet their needs and expectations.

The Prudential plc Board discusses the Group's CR performance at least once a year and also reviews and approves the Group CR Report and strategy on an annual basis. Below the Board, the Responsibility Committee comprises senior representatives from relevant Group functions and each of our core businesses. This committee is responsible for monitoring the Group's CR activities and for raising issues that need to be addressed.

Prudential Retirement Income Limited

Directors' report for the year ended 31 December 2010 (continued)

Post balance sheet events

Finance (no. 2) Act 2010 enacted the reduction in corporation tax rate from 28% to 27% with effect from April 2011. In addition, the UK Government announced three further annual 1% cuts to reduce the rate to 24% from April 2014.

At Budget 2011 on 23rd March 2011 the UK Government announced that the corporation tax rate would instead reduce to 26% from April 2011 with three further annual 1% cuts to 23% by April 2014.

Other than the enacted change to 27%, the effects of the announced changes are not reflected in the financial statements for the year ended 31 December 2010 as they have not yet been enacted and the impact has not yet been estimated.

Results and dividends

The state of affairs of the Company at 31 December 2010 is shown in the balance sheet on pages 12 and 13. The profit and loss account appears on pages 10 and 11. No dividend for 2010 is proposed (2009: £Nil).

Payment policy

The Company does not have any trade creditors and therefore codes or standards on payment practice and disclosure of trade creditor days are not applicable.

Share Capital

No ordinary shares were issued by the Company during the year (2009: Nil). There have been no other changes in the Company's share capital during 2010.

Directors

The present directors are shown on page 2.

Mr Haasz and Mr Boardman resigned as directors of the Company on 15 January and 31 March 2010 respectively. There were no other changes during the year.

Financial risk management objectives, policies and exposure

The Company is a wholly owned subsidiary of Prudential plc and as such forms a part of the overall risk management process of the Group. A significant part of the Group's business involves the managed acceptance of risk. The Group has a Risk Governance Framework requiring all businesses and functions within the Group i.e. including the Company, to establish processes for identifying, evaluating and managing key risks. The risk governance framework is based on the concept of three lines of defence: risk management, risk oversight and independent assurance.

The system of internal control is an essential and integral part of the risk management process. As part of the annual preparation of its business plan, all of the Group's businesses and functions are required to carry out a review of risks including an assessment of the impact and likelihood of key risks and effectiveness of the controls in place to manage them. The assessment is reviewed regularly throughout the year and all businesses and functions within the Group are required to confirm annually that they have undertaken risk management. Actual performance is regularly monitored against the business plans. Detailed procedures are laid down in financial and actuarial procedure manuals. The insurance operations of the Group, such as the Company, also prepare a financial condition report.

Prudential Retirement Income Limited

Directors' report for the year ended 31 December 2010 (continued)

Financial risk management objectives, policies and exposure (continued)

The Company's objectives and policy in relation to the management of financial risk resulting from its financial assets and liabilities is to minimise any risk. The Company's exposure to financial risk through its financial assets and liabilities is provided in detail in note 9 of the notes to the financial statements.

Disclosure of information to auditors

The directors who held the office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

In accordance with Section 487(2) of the Companies Act 2006, KPMG Audit Plc will be deemed to be re-appointed auditor of the Company for the current financial year.

Directors' and officers' protection

Prudential plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the Prudential Group. In addition, the Articles of Association of the Company permit the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office. Prudential plc also provides protections for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of Prudential plc including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities were in force during 2010 and remain in force.

On behalf of the board of directors.

Prudential Group Secretarial Services Limited
Company Secretary
28 March 2011

Prudential Retirement Income Limited

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

A M Crossley
Director

28 March 2011

Prudential Retirement Income Limited

Independent Auditor's report to the members of Prudential Retirement Income Limited

We have audited the financial statements of Prudential Retirement Income Limited for the year ended 31 December 2010 set out on pages 10 to 40. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report 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 members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland).

Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apd/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Prudential Retirement Income Limited

Independent Auditor's report to the members of Prudential Retirement Income Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Chris Moulder (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

28 March 2011

Prudential Retirement Income Limited

Profit and Loss Account for the year ended 31 December 2010

Long Term Business - Technical Account	Note	2010 £m	2009 £m
Gross premiums written	2(a)	2,322	1,612
Outward Reinsurance Premiums		(401)	(295)
Earned premiums, net of reinsurance		1,921	1,317
Investment income	3	1,015	660
Unrealised gains on investments		904	1,444
		1,919	2,104
Claims incurred, net of reinsurance			
Claims paid		(1,022)	(942)
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance	13	(1,294)	(1,677)
Technical provision for linked liabilities, net of reinsurance	13	(849)	(69)
		(2,143)	(1,746)
Net operating expenses			
Acquisition costs	8	(45)	(52)
Administrative costs		(20)	(17)
Investment expenses and charges		(268)	(313)
		(333)	(382)
Tax attributable to the long term business		(91)	(98)
Balance on the technical account – long term business		251	253

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 14 to 40 form an integral part of these financial statements.

Prudential Retirement Income Limited

Profit and Loss Account for the year ended 31 December 2010 (continued)

Non-Technical Account	Note	2010 £m	2009 £m
Balance on the long term business technical account		251	253
Tax attributable to balance on the long term business technical account		91	98
Investment income	3	27	49
Unrealised gains / (losses) on investments		23	(24)
Investment expenses and charges		(1)	(1)
Profit on ordinary activities before tax		391	375
Tax on profit on ordinary activities	5(a)	(100)	(107)
Retained profit for the financial year transferred to reserves	13	291	268

Statement of total recognised gains and losses

Year ended 31 December 2010

	2010 £m	2009 £m
Retained profit for the financial year	291	268
Total gains and losses recognised since the last annual report	291	268

Reconciliation of movement in Shareholders' Funds

Year ended 31 December 2010

	2010 £m	2009 £m
Shareholders' capital and reserves at beginning of year	1,620	1,352
Retained profit for the financial year	291	268
Shareholders' capital and reserves at end of year	1,911	1,620

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 14 to 40 form an integral part of these financial statements.

Prudential Retirement Income Limited

Balance sheet as at 31 December 2010

ASSETS	Note	2010 £m	2009 £m
Investments			
Land and buildings	9	771	728
Investments in group undertakings	10	1,210	1,137
Other financial investments	9	17,144	15,464
		19,125	17,329
Assets held to cover linked liabilities			
	12	2,830	1,982
Reinsurers' share of technical provisions			
Long term business provision	13	2,435	2,200
Technical provision for linked liabilities	13	499	350
		2,934	2,550
Debtors			
Debtors arising out of direct insurance operations		2	-
Debtors arising out of reinsurance operations		12	7
Other debtors	15	62	56
		76	63
Other assets			
Cash at bank and in hand	19	174	87
Prepayments and accrued income			
Accrued interest and rent		372	349
Total assets	2(b)	25,511	22,360

The accounting policies and notes on pages 14 to 40 form an integral part of these financial statements.

Prudential Retirement Income Limited

Balance sheet as at 31 December 2010 (continued)

LIABILITIES	Note	2010 £m	2009 £m
Capital and reserves			
Called up share capital	20	858	858
Profit and loss account	13	1,053	762
Total shareholders' funds		1,911	1,620
Technical provisions			
Long term business provision	13	16,003	14,474
Claims outstanding	13	3	2
Technical provisions for linked liabilities	13	3,329	2,331
Provision for other risks and charges			
Deferred tax	16	289	276
Creditors			
Derivative liabilities	9	154	137
Amounts owed to credit institutions		761	698
Creditors arising out of direct insurance operations		4	13
Creditors arising out of reinsurance operations		2,598	2,374
Other creditors including taxation and social security	17	459	435
		3,976	3,657
Total liabilities		25,511	22,360

The financial statements on pages 10 to 40 were approved by the board of directors on 28 March 2011.

A M Crossley
Director

The accounting policies and notes on pages 14 to 40 form an integral part of these financial statements.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010

1. Accounting Policies

(a) Change in accounting policies

There have been no changes to accounting policies that were required to be applied in preparing the Company's results for the year ended 31 December 2010.

(b) Basis of preparation

The financial statements have been prepared in accordance with Part 15 of the Companies Act 2006 and Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The financial statements comply with applicable accounting standards and the ABI SORP, and have been prepared under the historical cost accounting rules, modified to include the revaluation of investments.

The Company has not presented a capital position statement with supporting disclosures under FRS 27 on the basis that the Company is more than 90 per cent owned within a group and the Company is included in the publicly available Prudential Group financial statements which provide information on a group basis complying with this requirement. The process for setting assumptions and determining liabilities, as required to be disclosed by FRS 27, is described in Note 14 of the financial statements (together with key assumptions).

The directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis of accounting in preparing the financial statements.

This conclusion has been based upon the following: the Company is a subsidiary within the Prudential Group and it, its parent company and the ultimate parent company are continuing to trade and there are no plans for liquidation, the Company has a healthy solvency margin, well in excess of the Minimum Capital Requirement (MCR) and Enhanced Capital Requirement (ECR) (Note 11), generates positive cashflows and has very low debt-financing. In addition consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Business Review of pages 3 and 4, the management of financial risk as set out in Note 9, including its exposure to liquidity risk and credit risk.

(c) Long term business

Under FRS 26, the measurement basis of assets and liabilities of long term business contracts is dependent upon the classification of the contracts as either insurance contracts, if the level of insurance risk is significant, or investment contracts if the risk is insignificant. The Company's contracts are all classed as insurance contracts.

Annuity considerations are accounted for when due. Annuities are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid. Death claims and all other claims are accounted for when notified. Index linked business has been disclosed as linked for the purposes of these financial statements.

Investment income and realised and unrealised investment gains attributable to long term business are credited to the long term business technical account.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting Policies (continued)

(c) Long term business (continued)

The costs of acquiring new business, principally commission and certain costs associated with policy issue and underwriting, which are not matched by policy charges, are written off in the year in which they are incurred.

(d) Investments

(i) *Land and Buildings*

Land and buildings are valued annually by professional external valuers on a Market Value basis, as defined in the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors, in particular Practice Statement 3.2. No depreciation is provided on land and buildings held for investment purposes, in accordance with Statement of Standard Accounting Practice 19, Accounting for Investment Properties.

On a historical cost basis buildings are depreciated over 40 years. Leasehold buildings are depreciated over 40 years or if the lease is less than 40 years over the length of the lease.

(ii) *Other financial investments*

Listed investments are shown at fair value. Unlisted investments are valued on quotations provided by external fund managers, brokers, independent pricing services or values as determined by the directors.

(iii) *Realised gains and losses on investments*

Realised gains and losses on investments represent the difference between net proceeds on disposal and the purchase price.

(iv) *Unrealised gains and losses on investments*

Unrealised gains and losses on investments represent the difference between the change in the value of investments held at the balance sheet date and the reversal of unrealised investment gains and losses recognised in earlier accounting periods in respect of investment disposals.

Under FRS 26 upon initial recognition, financial investments are measured at fair value. Subsequently, the Company is permitted, subject to specific criteria, to designate its investments as either financial investments at fair value through profit and loss, financial investments held on an available-for-sale basis, financial investments held to maturity, or loans and receivables. The Company holds financial investments on the following bases:

(v) *Financial investments at fair value through profit and loss*

This comprises assets designated by management as fair value through profit and loss on inception and derivatives which are deemed to be held for trading. These investments are valued at fair value with all changes thereon being recognised in the profit and loss account.

The Company uses bid prices to value its quoted financial investments. Actively traded investments without quoted prices are valued using external broker bid prices. If there is no active established market for an investment, the Company applies an appropriate valuation technique such as discounted cash flow technique.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting Policies (continued)

(d) Investments (continued)

(vi) *Loans and receivables*

This comprises investments that have fixed or determinable payments and are not designated as fair value through profit and loss or available-for-sale. These investments include loans secured by mortgages, deposits and other unsecured loans and receivables. These investments are carried at amortised cost using the effective interest method and subject to impairment reviews. The Company measures the amount of the impairment loss by comparing the amortised cost with the present value of its estimated future cash flows discounted at the original effective interest rate.

(e) Long term business provision

The long term business provision is determined by the Company's directors based on advice from the Company's Actuarial Function Holder, who determined the provision using recognised actuarial methods, with due regard to the actuarial principles laid down in Directive 2002/83/EC.

It is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Financial Services and Markets Act 2000. The valuation is then modified to remove certain resilience, contingency and other reserves required by the Prudential Sourcebook for Insurers and the General Prudential Sourcebook issued by the Financial Services Authority.

The technical provisions are the discounted value of future claim payments, adjusted for investment expenses and future administration costs. Claim payments allow for the effects of mortality in line with the bases set out in Note 14. These bases have been derived from an analysis of recent population and internal mortality experience and make allowance for improvements in mortality in the future.

The interest rates used for discounting claim payments are derived from the yield on the assets held and make allowance for potential defaults on those assets (see Note 14). Long-term rates of default appropriate to the assets held have been set based on an investigation into historic rates of default by credit rating, term to redemption and security. An additional short-term default provision is held to reflect market conditions at the valuation date.

(f) Cash Flow Statement

The Company has availed itself of the exemption from preparing a cash flow statement allowed under section 5(a) of FRS 1, "Cash Flow Statements", on the grounds that it is a wholly owned subsidiary of Prudential plc which publishes a consolidated cash flow statement incorporating the cash flows of the Company.

(g) Taxation

Tax is charged on all taxable profits arising in the accounting period.

Except where otherwise required by accounting standards, full provision for deferred tax without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting Policies (continued)

(h) Foreign Currencies

Foreign currency revenue transactions are translated at the rate applied at the time of execution. Monetary foreign currency assets and liabilities are translated at year end exchange rates. Exchange differences are included in the profit and loss account.

(i) Reinsurance

In the normal course of business the Company seeks to reduce loss exposure by reinsuring certain levels of risk in various areas of exposure with other insurance companies or reinsurers. An asset or liability is recognised in the balance sheet representing premiums due to or payments due from reinsurers and the share of benefits and claims recoverable from reinsurers. The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts.

2. Segmental analysis

(a) Gross premiums written

	2010 £m	2009 £m
Pension annuities:		
- Level and fixed increasing	1,261	1,490
- Index linked	1,061	122
	2,322	1,612
Comprising:		
External direct premiums:		
- Immediate annuities	1,307	517
- Deferred annuities	1	1
	1,308	518
External reinsurance accepted:		
- Immediate annuities	139	129
Reinsurance from a related party:		
- Immediate annuities	875	965
Total	2,322	1,612

All premiums are single premium business. All business is written in the United Kingdom. Group pension schemes included in premiums are £923m (2009: £42m). Included in External Direct premiums in 2010 is an amount of £885m in respect of a group bulk buy in from Glaxo Smith Kline Pension scheme.

(b) Assets attributable to the long term business fund

Of the total assets shown on page 12, £24,475m (2009: £21,315m) is attributable to the long term business fund.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

3. Investment income

	Long term business technical account		Non technical account	
	2010 £m	2009 £m	2010 £m	2009 £m
Income from equity securities	1	2	-	-
Income from land and buildings	55	78	5	5
Income from debt securities	913	859	21	21
Income from mortgage loans and other loans	3	3	-	-
Income from deposits with credit institutions	1	1	-	-
Income from other investments	27	15	5	9
(Losses) / profits on the realisation of investments other than derivatives	(3)	(259)	(4)	14
Exchange gains / (losses)	18	(39)	-	-
	1,015	660	27	49

4. Staff costs

The Company has no employees (2009: Nil). Included within net operating expenses are amounts paid in return for management services provided to the Company by other group companies.

5. Tax on profit on ordinary activities

(a) Analysis of charge in the period

	2010 £m	2009 £m
Current Tax		
UK Corporation tax on gains of the period	86	21
Adjustments in respect of previous periods	1	-
	87	21
Deferred Tax		
Origination and reversal of timing differences	13	83
Adjustments in respect of previous periods	-	3
	13	86
Tax on profits on ordinary activities	100	107

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

5. Tax on profit on ordinary activities (continued)

(b) Factors affecting tax charge for the period

	2010 £m	2009 £m
Profit on ordinary activities before tax	391	375
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 28% (2009: 28%)	109	105
<i>Effects of</i>		
Adjustment in respect of previous periods	1	-
Timing differences		
- Transfer from the non-technical account in excess of the statutory surplus	(23)	7
Utilisation of tax losses brought forward	-	(91)
Current tax charge for the period	87	21

6. Auditors' remuneration

Fees payable to KPMG Audit Plc (KPMG) for the audit of the Company's accounts were £68,000 (2009: £78,525). Fees payable to KPMG for other services pursuant to legislation, including the audit of the regulatory return were £30,000 (2009: £16,475).

7. Directors' emoluments

During the year, the directors received the following emoluments in respect of work on behalf of the Company.

	2010 £	2009 £
Aggregate emoluments and non-pension benefits	363,461	552,955

During the year five (2009: five) directors were entitled to shares under the Prudential's main long term incentive scheme. Three directors are entitled to retirement benefits under defined benefit schemes and four directors participate in the defined contribution scheme.

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director included in the above figure was £133,655. During the year the highest paid director did not exercise any share options but he did receive shares under a long term incentive scheme.

8. Acquisition costs

Included within the total for acquisition costs are commissions of £19m (2009: £22m).

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments

	Cost		Current Value	
	2010 £m	2009 £m	2010 £m	2009 £m
Freehold land and buildings	418	419	441	406
Leasehold land and buildings	297	320	330	322
Derivative assets	30	-	153	115
Equity securities	19	3	9	2
Debt securities and other fixed income securities	15,783	15,013	16,242	14,779
Loans secured by mortgages	37	37	37	37
Other loans	4	4	4	3
Deposits with credit institutions	699	528	699	528
	17,287	16,324	17,915	16,192

The change in current value of investments included in the profit and loss account was a gain of £724m (2009: gain of £1,211m) analysed between a gain of £700m (2009: gain of £1,234m) included in the Long term business technical account and a gain of £24m (2009: loss of £23m) included in the Non-technical account. The change in current value of £700m (2009: gain of £1,234m) included a gain of £54m (2009: gain of £95m) in respect of land and buildings, a gain of £647m (2009: gain of £1,064m) in respect of debt securities, a loss of £9m in respect to equity securities (2009: gain of £27m) and a gain of £8m (2009: gain of £48m) in respect of derivatives.

Amounts included in the above ascribable to listed investments:

	Current Value	
	2010 £m	2009 £m
Equity securities	7	2
Debt securities and other fixed income securities	15,537	14,113
	15,544	14,115

All Leasehold land and buildings are classed as long lease as their term is greater than 50 years.

If the revalued land and buildings were stated on the historical cost basis, the amounts would be:

	Freehold and leasehold land and buildings	
	2010 £m	2009 £m
At cost	715	739
Aggregated depreciation	(48)	(46)
Net book value based on historical cost	667	693

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments (continued)

(a) Financial instruments

(i) Designation and fair values

All financial assets of the Company are designated as either fair value through profit and loss or loans and receivables. Financial liabilities are designated as either fair value through profit and loss or amortised cost.

2010	Fair value through profit and loss	Loans and receivables	Total carrying value	Fair value
£m				
Financial Assets:				
Freehold land and buildings	441	-	441	441
Leasehold land and buildings	330	-	330	330
Deposits with credit institutions	-	699	699	699
Equity securities	9	-	9	9
Debt securities	16,242	-	16,242	16,242
Loans:				
Loans secured by mortgages	-	37	37	37
Other loans	-	4	4	4
Derivative assets	153	-	153	153
Accrued investment income	-	372	372	372
Other Debtors	-	50	50	50
Debtors arising out of direct insurance operations	-	2	2	2
Debtors arising out of reinsurance operations	-	12	12	12
Cash at bank and in hand	-	174	174	174
Assets held to cover linked liabilities	2,830	-	2,830	2,830
	20,005	1,350	21,355	21,355
Financial Liabilities:				
Creditors arising out of direct insurance operations	-	4	4	4
Creditors arising out of reinsurance operations	-	2,598	2,598	2,598
Other creditors	-	1,174	1,174	1,174
Derivative liabilities	154	-	154	154
	154	3,776	3,930	3,930

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments (continued)

(a) Financial instruments (continued)

(i) Designation and fair values (continued)

2009	Fair value through profit and loss	Loans and receivables	Total carrying value	Fair value
£m				
Financial Assets:				
Freehold land and buildings	406	-	406	406
Leasehold land and buildings	322	-	322	322
Deposits with credit institutions	-	528	528	528
Equity securities	2	-	2	2
Debt securities	14,779	-	14,779	14,779
Loans:				
Loans secured by mortgages	-	37	37	37
Other loans	-	3	3	3
Derivative assets	115	-	115	115
Accrued investment income	-	349	349	349
Other Debtors	-	58	58	58
Debtors arising out of reinsurance operations	-	7	7	7
Cash at bank and in hand	-	87	87	87
Assets held to cover linked liabilities	1,982	-	1,982	1,982
	17,606	1,069	18,675	18,675
Financial Liabilities:				
Creditors arising out of direct insurance operations	-	13	13	13
Creditors arising out of reinsurance operations	-	2,374	2,374	2,374
Other creditors	-	1,118	1,118	1,118
Derivative liabilities	137	-	137	137
	137	3,505	3,642	3,642

As at 31 December 2010 no convertible bonds (2009: £Nil) were included in debt securities. There were no convertible bonds included in borrowings (2009: £Nil).

For financial liabilities designated as fair value through profit and loss there was no material impact on profit from movements in credit risk during 2010 and 2009.

(ii) Determination of fair values

The fair values of the financial assets and liabilities as shown in the table above and on the previous page have been determined on the following bases.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments (continued)

(a) Financial instruments (continued)

(ii) *Determination of fair values (continued)*

The fair values of the financial instruments for which fair valuation is required under UK GAAP are determined by the use of current market bid prices for quoted investments, or by using quotations from independent third-parties, such as brokers and pricing services or by using appropriate valuation techniques. Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades and financial investments for which markets are no longer active as a result of market conditions e.g. market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources, when available but overall, the source of pricing is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The fair value estimates are made at a specific point in time, based upon available market information and judgements about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses from selling the financial instrument being fair valued. In some cases the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realised in immediate settlement of the financial instrument.

The loans and receivables have been shown net of provisions for impairment where applicable. The fair value of loans has been estimated from discounted cash flows expected to be received. The rate of discount used was the market rate of interest.

The estimated fair value of derivative instruments reflects the estimated amount the Company would receive or pay in an arm's length transaction. The amount is determined using quoted prices if exchange listed, quotations from independent third parties or valued internally using standard market practices.

The fair value of borrowings is based on quoted market prices, where available.

The fair value of other financial liabilities of the Company is determined using discounted cash flows of the amounts expected to be paid.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments (continued)

(a) Financial instruments (continued)

(iii) Level 1, 2 and 3 fair value measurement hierarchy of financial instruments

The classification criteria and its application to the Company can be summarised as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 1 principally includes exchange listed equities, mutual funds with quoted prices, exchange traded derivatives such as futures and options, and national government bonds unless there is evidence that trading in a given instrument is so infrequent that the market could not possibly be considered active. It also includes other financial instruments where there is clear evidence that the year end valuation is based on a traded price in an active market.

Level 2 – inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 2 principally includes corporate bonds and other non-national government debt securities which are valued using observable inputs, together with over-the-counter derivatives such as forward exchange contracts and non-quoted investment funds valued with observable inputs. It also includes investment contract liabilities that are valued using observable inputs.

The nature of the Company's operations in the UK mean that a significant proportion of the assets backing non-linked shareholder backed business are held in corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using third party broker quotes in the UK either directly or via third parties such as IDC or Bloomberg. Such assets have generally been classified as level 2 as the nature of broker quotations means that it does not strictly meet the definition of a level 1 asset. However these valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

In addition level 2 includes debt securities that are valued internally using standard market practices. Of the total level 2 debt securities of £13,981m (2009 £12,806m), £642m (2009 £609m) are valued internally. The majority of such securities use matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring a specified liquidity premium. The significance of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments (continued)

(a) Financial instruments (continued)

(iii) Level 1, 2 and 3 fair value measurement hierarchy of financial instruments (continued)

Level 3: Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Level 3 principally includes investments in private equity funds, investments in property funds which are exposed to bespoke properties or risks, investments which are internally valued or subject to a significant number of unobservable assumptions and certain derivatives which are bespoke or long dated. It also includes debt securities which are rarely traded or traded only in privately negotiated transactions and hence where it is difficult to assert that these have been based on observable market data. The inherent nature of the vast majority of these assets means that, in normal market conditions, there is unlikely to be significant change in the specific underlying assets classified as level 3.

Of the £48m (2009: £45m) level 3 items which support non-linked shareholder-backed business (0.2% (2009: 0.3%) of the total assets net of derivative liabilities backing this business), all are internally valued. Internal valuations, which represent only 4% (2009: 4%) of the total assets net of derivative liabilities supporting non-linked shareholder-backed business, are inherently more subjective than external valuations.

If the value of all level 3 investments backing non-linked shareholder-backed business was varied by 10%, the change in valuation would be £5m (2009: £5m), which would reduce or increase shareholders' equity by this amount before tax.

2010	Level 1	Level 2	Level 3	Total
	£m			
Equity securities	1	7	1	9
Debt securities	2,214	13,981	47	16,242
Other investments (including derivative assets)	-	153	-	153
Assets held to cover linked liabilities	632	2,240	-	2,872
Derivative liabilities	-	(154)	-	(154)
Total financial investments, net of derivative liabilities:	2,847	16,227	48	19,122
Percentage of total	14.9%	84.9%	0.2%	100%

The difference in Assets held to cover linked liabilities shown in the above table compared to that shown in the Designation and fair values table earlier is due to assets not covered by the disclosure requirements of FRS29.

2009	Level 1	Level 2	Level 3	Total
	£m			
Equity securities	-	2	-	2
Debt securities	1,910	12,826	43	14,779
Other investments (including derivative assets)	-	115	-	115
Assets held to cover linked liabilities	398	1,516	2	1,916
Derivative liabilities	-	(137)	-	(137)
Total financial investments, net of derivative liabilities:	2,308	14,322	45	16,675
Percentage of total	13.8%	85.9%	0.3%	100%

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments (continued)

(a) Financial instruments (continued)

(iii) Level 1, 2 and 3 fair value measurement hierarchy of financial instruments (continued)

Reconciliation of movements in level 3 financial instruments measured at fair value

The following table reconciles the value of level 3 financial instruments at 1 January 2010 to that presented at 31 December 2010. Total gains and losses recorded in the long-term technical account in the period represents realised gains and losses, including interest and dividend income, unrealised gains and losses on financial instruments classified at fair value through profit and loss and foreign exchange movements on overseas investments. All these amounts are included within “investment income” and “unrealised gains (losses)” in the long-term technical account.

2010	At 1 Jan 2010	Total gains in long- term technical account	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec 2010
£m							
Equity securities	-	-	1	-	-	-	1
Debt securities	43	23	-	(9)	1	(11)	47
Assets held to cover linked liabilities	2	-	-	(2)	-	-	-
Total financial investments net of derivative liabilities	45	23	1	(11)	1	(11)	48
£m							
2009	At 1 Jan 2009	Total losses in long-term technical account	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec 2009
£m							
Equity securities	-	-	-	-	-	-	-
Debt securities	67	(1)	10	(55)	24	(2)	43
Assets held to cover linked liabilities	3	-	-	(2)	1	-	2
Total financial investments net of derivative liabilities	70	(1)	10	(57)	25	(2)	45

Of the total gains of £23m (2009 : £1m loss) in the period, a £17m (2009 : £3m loss) gain relates to level 3 financial instruments still held at the end of the year, all of which relate to debt securities.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments (continued)

(a) Financial instruments (continued)

(iii) *Level 1, 2 and 3 fair value measurement hierarchy of financial instruments (continued)*

Transfers between level 1 and level 2

There have been no significant transfers between level 1 and level 2 during the year.

(iv) *Interest income and expense*

The interest income on financial assets not at fair value through profit and loss was £3m for the year ended 31 December 2010 (2009: £3m).

There is no interest expense on financial liabilities not at fair value through profit and loss for the year ended 31 December 2010 (2009: £Nil).

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or, in the case of liabilities of insurance contracts, their carrying value will fluctuate because of changes in market prices.

Market risk comprises four types of risk, namely:

- Interest rate risk: due to changes in market interest rates,
- Liquidity risk: inability to meet payment of obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or rates
- Currency risk: due to changes in foreign exchange rates, and
- Other price risk: due to fluctuations in market prices (other than those arising from interest rate risk or currency risk).

The financial assets covering the Company's liabilities are subject to market risk. The liabilities for annuity contracts are subject to market risk arising from changes in the returns of the attaching assets. Except mainly to the extent of any minor asset/liability duration mismatch, and exposure to credit risk, the sensitivity of the Company's annuity business' results to market risk for movements in the carrying value of liabilities and covering assets is broadly neutral on a net basis.

The principal items affecting the results of the Company are mortality experience and assumptions and credit risk.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments (continued)

(b) Market Risk (continued)

(i) Interest rate risk

The following table shows an analysis of the classes of financial assets and liabilities and their direct exposure to interest rate risk. Each applicable class of the Company's assets or liabilities are analysed between those exposed to fair value interest rate risk, cash flow interest rate risk and those with no direct interest rate risk exposure.

2010	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£m			
Financial Assets:				
Freehold land and buildings	-	-	441	441
Leasehold land and buildings	-	-	330	330
Deposits with credit institutions	-	699	-	699
Equity securities	-	-	9	9
Debt securities	15,680	492	70	16,242
Loans:				
Loans secured by mortgages	37	-	-	37
Other loans	4	-	-	4
Derivative asset	139	-	14	153
Cash at bank and in hand	-	-	174	174
	15,860	1,191	1,038	18,089
Financial Liabilities:				
Derivative liabilities	144	-	10	154
	144	-	10	154
<hr/>				
2009	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£m			
Financial Assets:				
Freehold land and buildings	-	-	406	406
Leasehold land and buildings	-	-	322	322
Deposits with credit institutions	-	528	-	528
Equity securities	-	-	2	2
Debt securities	14,136	576	67	14,779
Loans:				
Loans secured by mortgages	37	-	-	37
Other loans	3	-	-	3
Derivative asset	108	-	7	115
Cash at bank and in hand	-	87	-	87
	14,284	1,191	804	16,279
Financial Liabilities:				
Derivative liabilities	136	-	1	137
	136	-	1	137

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments (continued)

(b) Market Risk (continued)

(ii) Maturity analysis of derivatives

The net derivative position as at the 31 December 2010 was a liability of £1m (2009: liability of £22m).

The net derivative positions as stated above comprise the following derivative assets and liabilities:

	2010 £m	2009 £m
Derivative assets	153	115
Derivative liabilities	(154)	(137)
Net Derivative position	(1)	(22)

The derivative assets and liabilities have been included at fair value and their maturity within 1 year or less which represents the basis on which they are managed (i.e. to manage principally asset or liability value exposures). Contractual maturities are not considered essential for an understanding of the timing of the cash flows for these instruments and in particular the Company has no cash flow hedges.

(iii) Sensitivity to interest rate movement

The close matching by the Company of assets of appropriate duration to its annuity liabilities is based on maintaining economic and regulatory capital. The measurement of liabilities under capital reporting requirements and UK GAAP is not the same, with contingency reserves and some other margins for prudence within the assumptions required under the FSA regulatory solvency basis not included for UK GAAP reporting purposes. As a result UK GAAP's shareholders' funds are higher than regulatory capital and therefore more sensitive to interest rate risk.

The estimated sensitivity of the shareholder-backed business to a movement in interest rates of 1% and 2% as at 31 December 2010 and 2009 are as follows:

2010

	Fall of 2%	Fall of 1%	Rise of 1%	Rise of 2%
	£m			
Carrying value of debt securities and derivatives	5,793	2,600	(2,152)	(3,959)
Long term business provision	(5,336)	(2,433)	1,866	3,481
Related tax effects	(123)	(45)	77	129
Net sensitivity of profit after tax and shareholders' funds	334	122	(209)	(349)

2009

	Fall of 2%	Fall of 1%	Rise of 1%	Rise of 2%
	£m			
Carrying value of debt securities and derivatives	4,724	2,128	(1,771)	(3,268)
Long term business provision	(4,515)	(2,027)	1,674	3,072
Related tax effects	(59)	(28)	27	55
Net sensitivity of profit after tax and shareholders' funds	150	73	(70)	(141)

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments (continued)

(b) Market Risk (continued)

(iv) Currency risk

As at 31 December 2010, the Company held 4% (2009: 5%) and 5% (2009: 4%) of its financial assets and financial liabilities respectively, in currencies, mainly US dollar and Euro, other than the functional currency, Sterling.

The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts.

In addition, the portfolio of the Company includes equity securities and investment property. Excluding any second order effects on the measurement of the liabilities for future cash flow to the policyholder a fall in their value would have given rise to the following effects on pre-tax profit, profit after tax, and shareholders' equity.

(v) Other Price Risk – Equities and Property

In addition the shareholder backed portfolio of the Company includes equity securities and investment property. Excluding any second order effects on the measurement of the liabilities for future cash flow to the policy holder a fall in their value would have given rise to the following effects on pre-tax profit, profit after tax, and shareholder equity.

2010	A decrease of 20% £m	A decrease of 10%
Pre-tax profit	(156)	(78)
Related current tax effects	42	21
Net sensitivity of profit after tax and shareholders' equity	(114)	(57)
2009	A decrease of 20% £m	A decrease of 10%
Pre-tax profit	(146)	(73)
Related current tax effects	41	20
Net sensitivity of profit after tax and shareholders' equity	(105)	(53)

A 10% or 20% increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above.

In the equity and property risk sensitivity analysis given above the Company has, for 2010, considered the impact of an instantaneous 20 per cent fall in equity and property markets. If equity and property markets were to fall by more than 20 per cent, the Company believes that this would not be an instantaneous fall but rather this would be expected to occur over a period of time during which the Company would be able to put in place mitigating management actions.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments (continued)

(c) Derivatives and Hedging

The Company uses various derivative arrangements in order to assist in the matching of contractual liabilities.

Currency swap agreements involve the exchange of payments in different currencies over the life of the agreement. The Company enters into currency swap transactions to hedge foreign currency risk on overseas investments. Interest rate and inflation swap agreements involve the exchange of fixed and floating payments over the life of the agreements without an exchange of the underlying principal amount. The Company has entered into credit default swap arrangements predominantly in respect of sovereign government debt obligations.

The swap agreements are accounted for on a market value basis, consistent with the assets and liabilities hedged. All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual group entities, of which the Company is one, and relevant counterparties in place under each of these market master agreements.

The notional amount of the derivatives were as follows at 31 December 2010 and 2009;

2010	Notional amount on which future payments are based	
	Asset £m	Liability £m
Cross-currency swaps	321	401
Futures	-	-
Forwards	390	391
Inflation swaps	1,982	1,980
Credit default swaps	985	-
Interest rate swaps	586	586

2009	Notional amount on which future payments are based	
	Asset £m	Liability £m
Cross-currency swaps	321	407
Futures	10	-
Forwards	407	400
Inflation swaps	1,286	1,286
Credit default swaps	5	-
Interest rate swaps	586	586

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments (continued)

(c) Derivatives and Hedging (continued)

(i) Debt securities and other fixed income securities

The following table summarises by the rating, the securities held by the Company as at 31 December 2010 and 2009:

	Total 2010 £m	Total 2009 £m
S&P – AAA	4,359	4,032
S&P – AA+ to AA-	2,036	1,665
S&P – A+ to A-	5,467	4,755
S&P – BBB+ to BBB-	2,162	2,042
S&P – Other	119	155
	14,143	12,649
Moody's – Aaa	93	76
Moody's – Aa1 to Aa3	111	58
Moody's – A1 to A3	93	188
Moody's – Baa1 to Baa3	146	135
Moody's – Other	57	101
	500	558
Fitch	147	285
Other	1,452	1,287
Total debt securities	16,242	14,779

In the table above, S&P ratings have been used where available. For securities where S&P ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative.

Where no external ratings are available, internal ratings produced by the Prudential Group's asset management operations, which are prepared on a comparable basis to external ratings, are used where possible. Of the total debt securities held at 31 December 2010 which are not externally rated, £551m (2009: £261m) were internally rated AAA to A-, £786m (2009: £325m) were internally rated BBB to B- and £115m (2009: £23m) were unrated.

(ii) Loans and receivables

Of the total loans and receivables held £3 million (2009: £1m) are past their due date but have not been impaired. Of the total past due but not impaired, £3 million (2009: £1m) are less than 1 year past their due date. The Company expects full recovery of these loans and receivables. In accordance with accounting policy, impairment reviews were performed for loans and receivables. During the year ended 31 December 2010, no impairment losses (2009: £Nil) were recognised for loans and receivables.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments (continued)

(c) Derivatives and Hedging (continued)

(iii) Securities lending and reverse repurchase agreements

The Company has entered into securities lending (including repurchase agreements) whereby blocks of securities are loaned to third parties, primarily major brokerage firms. The amounts above the fair value of the loaned securities required to be held as collateral by agreements, depend on the quality of the collateral, calculated on a daily basis. The loaned securities are not removed from the Company's balance sheet, rather they are retained within the appropriate investment classification. Collateral, typically consists of cash, debt securities, equity securities and letters of credit. At 31 December 2010, the Company had lent £2,129m (2009: £2,488m) of securities and held collateral under such agreements of £2,266m (2009: £2,543m). Of this amount £154m (2009: £201m) related to another group company.

At 31 December 2010, the Company had entered into reverse repurchase transactions, under which it purchased securities and had taken on the obligation to resell the securities for the purchase price, amounting to £220m (2009: £353m), together with accrued interest. Of this amount £Nil (2009: £2m) related to another group company.

(iv) Collateral under derivative transactions

At 31 December 2010, the Company had pledged £81m (2009: £82m) for liabilities and held collateral of £82m (2009: £70m) in respect of over-the-counter derivative transactions.

(d) Reinsurer's share of technical provisions

Of the reinsurer's share of technical provisions at 31 December 2010 of £2,934m (2009: £2,550m), 1.4% (2009: 1.3%) of the balance relates to companies outside of the Prudential Group and of these 100% (2009: 100%) of the balance were from reinsurers with S&P's rating of AA- and above, based on the ratings at the date of signing these financial statements.

(e) Risk management

The Company's business involves the acceptance and management of risk. The Company has in place a risk management process, which is undertaken in accordance with the Group Risk Framework adopted by the Prudential Group in 1999.

A number of risk factors affect the Company's operating results and financial condition. The financial risk factors affecting the Company include the effects of market risk, credit risk and liquidity risk on the financial instruments of the Company.

The Company uses derivatives to facilitate efficient portfolio management or to reduce investment risk. The most widely used derivatives by the Company are interest rate, currency and inflation-linked swaps.

The Company also uses over-the-counter swaps (including total return swaps), options, swaptions and warrants.

It is the Company's policy that cash or corresponding assets cover amounts at risk through derivative transactions. Derivative financial instruments used to facilitate efficient portfolio management and for investment purposes are carried at fair value with changes in fair value included in the profit and loss account. The Company has not applied hedge accounting to its derivatives.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Investments (continued)

(e) Risk management (continued)

Market risk

Market risk is the risk that arises from adverse changes in the value of, or income from, assets and changes in interest rates or exchange rates.

The primary market risks that the Company faces is interest rate risk because most of its assets are investments that are bonds, mortgages or cash deposits, the values of which are subject to interest rate risk. The Company has some liabilities that contain guaranteed returns which generally will be supported by fixed income investments.

Credit risk

Credit risk is the risk of loss to the Company if another party fails to perform its obligations, or fails to perform them in a timely manner. The Company's long term fund holds large amounts of interest rate sensitive investments that contain credit risk on which a certain level of defaults is expected. These expected losses are considered when the Company determines the crediting rates, deposit rates and premium rates for the products that will be supported by these assets. Certain over-the-counter derivatives contain a credit risk element that is controlled through evaluation of collateral agreements and master netting agreements on interest rate and currency swaps. The Company is also exposed to credit-related losses in the event of non-performance by counterparties.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet the payment of obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or rates. The Company writes solely annuity business, which cannot be surrendered. Therefore liquidity risk is mitigated by cashflow matching the maturity profile of investments with the expected regular annuity payments.

10. Investments in group undertakings

	Cost		Current Value	
	2010 £m	2009 £m	2010 £m	2009 £m
Loans to group undertakings	1,210	1,137	1,210	1,137

In 2010 the Company entered into loan agreements of £268m which represents loans to The Prudential Assurance Company Limited. Of the total loans, £174m is to be repaid within one year and the remainder of £1,036m have no set term.

11. Capital requirements and management

Regulatory capital requirements apply at both an individual Company level and at the Prudential Group level, of which the Company is a part, for life assurance and investment management business. The Prudential Group, of which the Company is a part, is currently subject to the solvency requirements of the Insurance Groups Directive (IGD) as implemented by the FSA. Under the IGD a continuous parent company solvency test is applied: under this test the surplus capital held in each of the regulated subsidiaries, including the Company, is aggregated with the free assets of non-regulated subsidiaries.

From this total, Prudential Group borrowings are deducted, other than subordinated debt issues which qualify as capital.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

11. Capital requirements and management (continued)

In addition to obligations under subsidiary and Prudential Group regulatory requirements, the Prudential Group applies an economic framework to its management of capital. Economic capital provides a realistic and consistent view of the Group's capital requirements, allowing for diversification benefits.

At the Company level, the FSA rules which govern the Prudential regulation of insurance form part of the Insurance Prudential Sourcebook, the General Prudential Sourcebook and Interim Prudential Sourcebook for Insurers. Overall, the net requirements of the General Prudential Sourcebook are intended to align the capital adequacy requirements for insurance business more closely with those of banking and investment firms and building societies, for example, by addressing tiers of capital, rather than looking at net admissible assets. An insurer must hold capital resources equal at least to the Minimum Capital Requirement (MCR).

The Insurance Prudential Sourcebook also contains rules on Individual Capital Assessments. Under these rules and the rules of the General Prudential Sourcebook all insurers must assess for themselves the amount of capital needed to back their business. If the FSA views the results of this assessment as insufficient, it may draw up its own Individual Capital Guidance for a firm, which can be superimposed as a requirement.

The available capital of £1,523m (2009: £1,293m) reflects the excess of regulatory basis assets over liabilities of the fund, before deduction of the capital resources requirement of £704m (2009: £614m).

The capital resources requirement for this Company broadly reflects a formula which, for active funds, equates to a percentage of regulatory reserves plus a percentage of death strains.

	2010 £m	2009 £m
Shareholders' equity		
Held outside long term funds:		
Net assets	879	840
Total	879	840
Held in long term funds	1,032	780
Total shareholders' equity	1,911	1,620
Adjustments to regulatory basis		
Other adjustments to restate these amounts to a regulatory basis	(388)	(327)
Total adjustments	(388)	(327)
Total available capital resources on FSA regulatory bases	1,523	1,293

12. Assets held to cover linked liabilities

	Cost		Current Value	
	2010 £m	2009 £m	2010 £m	2009 £m
Assets held to cover linked liabilities	2,925	2,110	2,830	1,982

The change in current value of assets held to cover linked liabilities included in the Long term business technical account was a gain of £203m (2009: gain of £210m).

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

13. Reserves and policyholder liabilities (net of reinsurance)

	Claims outstanding	Technical provision for linked liabilities	Long term business provision	Profit and loss account
	£m			
Balance at 1 January 2010	2	1,981	12,274	762
Movement in technical provisions for the year	-	849	1,294	-
Profit and loss account	1	-	-	291
Balance at 31 December 2010	3	2,830	13,568	1,053

Of the balance on the profit and loss account of £1,053m (2009: £762m), £819m (2009: £679m) is distributable to the shareholder. The remaining balance on the profit and loss account is not distributable due to the need to maintain the required margin of solvency, as computed under the rules of the FSA's Interim Prudential Sourcebook, Insurance Prudential Sourcebook and General Prudential Sourcebook.

14. Long term business provisions

The Company's liabilities are for contracts that provide individual immediate and bulk immediate and deferred annuities.

The immediate annuities are either fixed or retail price-index linked (referred to as RPI), where annuity payments are guaranteed from the outset. These products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products.

The deferred annuities are also either fixed or RPI linked, both during deferment and in payment.

The primary risks to the Company are therefore mortality, investment and credit risk.

The Company's fixed-increase annuities may incorporate automatic increases in annuity payments by fixed amounts over the policyholder's life. The Company's RPI annuity contracts provide for a regular annuity payment which changes periodically based on the change in the UK Retail Prices Index, which for some contracts are subject to pre-defined minima and maxima.

For bulk annuity business, the Company manages the assets and accepts the liabilities of a company pension scheme, to the extent to which they are funded, usually when it is wound up by the employer.

The provisions are the present value of the annuity payments and expenses. The calculation of the provisions requires a number of actuarial assumptions regarding future experience to be made. The assumptions are set by the Directors having regard to actuarial advice and based on analysis of relevant past and current data and information on anticipated future trends.

The key assumptions made at 31 December 2009 and 31 December 2010 are shown below.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

14. Long term business provisions (continued)

Mortality

Mortality assumptions are set in light of recent population and internal experience. The mortality assumptions used are percentages of standard actuarial mortality tables. The percentages of the standard table used are selected according to the source of business. Where annuities have been sold on an enhanced basis to impaired lives an adjustment is made, either through an addition to the age or through an explicit mortality loading set by the underwriters. The base mortality assumptions have been updated during 2010 to use the PCxA tables. Previously the PNxA tables were used, which reflected normal retirements only. The PCxA tables reflect all retirements and have been found to provide a better fit to experience.

The mortality assumptions also include an allowance for expected future improvements in longevity. For males, the future mortality improvements are in line with Prudential's own calibration of the CMI 2009 mortality model, with a long term improvement rate of 2.25% p.a. For females, the future mortality improvements are in line with Prudential's own calibration of the CMI 2009 mortality model, with a long term improvement rate of 1.25% p.a. The assumptions used (shown as a range of percentages of base tables with future improvements), before any allowance for impairment, are set out overleaf:

	2010		2009	
	Males	Females	Males	Females
In payment:	94% – 95% PCMA00 with future improvements in line with Prudential's own calibration of the CMI model, with a long term improvement rate of 2.25% p.a.	86% – 97% PCFA00 with future improvements in line with Prudential's own calibration of the CMI model, with a long term improvement rate of 1.25% p.a.	96% - 102% PNMA00 (C=2000) with medium cohort improvement table with a minimum annual improvement of 2.25% up to age 90, decreasing linearly to zero by age 120	88% - 98% PNFA00 (C=2000) with 75% of medium cohort improvement table with a minimum annual improvement of 1.25% up to age 90, decreasing linearly to zero by age 120
In deferment:	AM92 - 4 years	AF92 - 4 years	AM92 - 4 years	AF92 - 4 years

Interest rate

The valuation interest rates comply with the requirements of Rule 1.2.33R of the Prudential Sourcebook for Insurers except that:

- additional margins for prudence required in setting the valuation interest rate for the valuation of liabilities for statutory solvency purposes have been removed;
- the Company is required, by an order issued under section 148 of the Financial Services and Markets Act 2000, to calculate the valuation rate of interest by reference to the aggregate yield on the assets rather than the market weighted gross redemption yield which is normally required by the Valuation Rules.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

14. Long term business provisions (continued)

Interest rate (continued)

The valuation interest rates are adjusted to reflect investment management expenses and the risk of default on the assets.

The investment management expenses are reviewed annually and reflect the Company's costs.

The credit risk assumption is also reviewed annually and reflects the assets actually held. The assumption about the future level of defaults has been reduced to 42 basis points per annum (47 basis points per annum at 31 December 2009). This reduction largely reflects the impact of asset trading over the course of 2010.

Expenses

An allowance is made for expenses. This allowance is reviewed annually following an investigation into the Company's costs.

Other assumptions

A number of other, less financially significant, actuarial assumptions are made in calculating the provisions, including the likely marital status of joint-life policyholders on death and the future rates of escalation of certain benefits.

15. Debtors

Other Debtors	2010 £m	2009 £m
Amounts due from group undertakings	47	44
Tax recoverable	12	10
Other debtors	3	2
	62	56

16. Provision for deferred tax

	2010 £m	2009 £m
Unrealised gains on investments	(27)	(19)
Transfer to the non technical account in excess of the statutory surplus	316	295
Undiscounted provision for deferred tax	289	276
	2010 £m	2009 £m
Deferred tax liability at start of year	276	190
Deferred tax charge in profit and loss account	13	86
Deferred tax liability at end of year	289	276

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

16. Provision for deferred tax (continued)

From April 2011 the standard corporation tax rate for the UK will change from 28% to 27%. Subsequent phased rate changes to 24% are also proposed but are not yet substantially enacted. Deferred tax at the end of 2010 has been provided wholly at the rate of 27% on the basis that all of the temporary differences will reverse at the new rate. The effect of this change on the deferred tax assets and liabilities at 31 December 2010 is £10.7m.

17. Creditors

Other creditors including taxation and social security	2010 £m	2009 £m
Amounts owed to group undertakings	396	387
Taxation	46	27
Other creditors	17	21
	459	435

Included within amounts owed to group undertakings at 31 December 2010 was an amount of £394m (2009: £384m), which represents two contingent loans (including interest) repayable to The Prudential Assurance Company Limited.

Loan repayments are contingent upon surplus arising and are made after the end of each financial year as a specified percentage of the lesser of the Company's Pillar I surplus and the Company's Pillar II surplus which emerged over that period. If either surplus arising amount is negative, no repayments need be made in respect of that financial year.

Any repayment obligations crystallise on the last day of the financial year to which the surplus arising relates. The loans may be prepaid by the Company upon prior notice.

All other creditors of £65m (2009: £51m) are payable within a period of five years.

18. Guarantees and Commitments

Although currently none the Company has provided, from time to time, other guarantees and commitments to third parties entered into in the normal course of business.

19. Bank current accounts

Under the terms of the Company's arrangements with the Prudential Group's main UK banker (HSBC), the bank has a right of set-off between credit balances (other than those of long term business funds) and all overdrawn balances of those Group undertakings with similar arrangements.

20. Called up share capital

The total number of issued and fully paid shares at the year end was 837,700,000 (2009: 837,700,000) ordinary shares and 20,000,000 (2009: 20,000,000) preference shares.

The Preference Shares issued carry the right to receive a non-cumulative preferential Dividend which shall accrue at the rate of two pence per annum. The Preference Shares may not be redeemed otherwise than at the option of the Company at any time after the fifth anniversary of the date of issue of such Preference Share.

Prudential Retirement Income Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

20. Called up share capital (continued)

The Preference Shares carry no voting rights except if a resolution is proposed in relation to (i) the winding up of the Company, a voluntary arrangement with creditors of the Company or proposed receivership, administrative receivership or administration of the Company; or (ii) an alteration of the rights of the Preference Shares or in relation to any other matter which will have detrimental effect upon the rights of the Preference Shares.

21. Charges

In the normal course of business certain reinsurance liabilities were secured by a floating charge, ranking these liabilities equally with amounts due under unsecured direct (non-reassurance) policies, over the long term insurance assets of the Company. Amounts secured by charges of this nature were £5,448m and £465m (2009: £4,561m and £463m) representing individual liabilities to one customer.

22. Related party transactions

The Company has taken advantage of the exemption under paragraph 3(c) of Financial Reporting Standard Number 8 from disclosing transactions with other subsidiary undertakings of the Prudential Group. There were no other transactions with related parties.

23. Immediate and ultimate parent company

The immediate parent company is The Prudential Assurance Company Limited. The ultimate parent company is Prudential plc, which is the only parent company which prepares group financial statements. Copies of these financial statements can be obtained from the Company Secretary, Laurence Pountney Hill, London, EC4R 0HH.