



Prudential Retirement Income Limited

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

Annual PRA Insurance Returns for the year ended

31 December 2014

IPRU(INS) Appendices 9.1, 9.3, 9.4, 9.6

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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 2014

Solo solvency calculation

	Company registration number	GL/UK/CM	day month year			Units
R2	47842	GL	31	12	2014	£000
			As at end of this financial year			As at end of the previous year
			1			2

Capital resources

Capital resources arising within the long-term insurance fund	11	554779	664900
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	2230906	1477984
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	2785685	2142884

Guarantee fund

Guarantee fund requirement	21	335880	283601
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	2449805	1859283

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	1007641	850804
Resilience capital requirement	32		
Base capital resources requirement	33	2902	3146
Individual minimum capital requirement	34	1007641	850804
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	1007641	850804
Excess (deficiency) of available capital resources to cover 50% of MCR	37	2281864	1717482
Excess (deficiency) of available capital resources to cover 75% of MCR	38	2029954	1504781

Enhanced capital requirement

With-profits insurance capital component	39		
Enhanced capital requirement	40	1007641	850804

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	1007641	850804
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	1778044	1292080

Contingent liabilities

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51	220339	212983
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Components of capital resources

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2014**

	Company registration number	GL/UK/CM	day month year			Units
R3	47842	GL	31	12	2014	£000
		General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3	Total as at the end of the previous year 4	

Core tier one capital

Permanent share capital	11		837700	837700	837700
Profit and loss account and other reserves	12		2434181	2434181	1989129
Share premium account	13				
Positive valuation differences	14				
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		3271881	3271881	2826829

Tier one waivers

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

Other tier one capital

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

Total tier one capital before deductions (19+24+25+26+27+28)	31		3291881	3291881	2846829
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35		506196	506196	695545
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37		506196	506196	695545
Total tier one capital after deductions (31-37)	39		2785685	2785685	2151284

Components of capital resources

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2014**

	Company registration number	GL/UK/CM	day	month	year	Units	
	R3	47842	GL	31	12	2014	£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	

Tier two capital

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

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

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

Components of capital resources

Name of insurer Prudential Retirement Income Limited

Global business

Financial year ended 31 December 2014

	Company registration number	GL/UK/CM	day month year			Units	
	R3	47842	GL	31	12	2014	£000
			General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3	Total as at the end of the previous year 4	

Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71					
Total capital resources before deductions (39+69+71)	72			2785685	2785685	2151284
Inadmissible assets other than intangibles and own shares	73					8400
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					
Total capital resources after deductions (72-73-74-75-76-77)	79			2785685	2785685	2142884

Available capital resources for GENPRU/INSRU tests

Available capital resources for guarantee fund requirement	81			2785685	2785685	2142884
Available capital resources for 50% MCR requirement	82			2785685	2785685	2142884
Available capital resources for 75% MCR requirement	83			2785685	2785685	2142884

Financial engineering adjustments

Implicit items	91					
Financial reinsurance - ceded	92					
Financial reinsurance - accepted	93					
Outstanding contingent loans	94			220339	220339	212983
Any other charges on future profits	95					
Sum of financial engineering adjustments (91+92-93+94+95)	96			220339	220339	212983

Analysis of admissible assets

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2014**

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	2014	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	
Land and buildings			11				

Investments in group undertakings and participating interests

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25		
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28	381500	487428
Participating interests	Shares	29		
	Debts and loans	30		

Other financial investments

Equity shares	41		1	
Other shares and other variable yield participations	42			
Holdings in collective investment schemes	43			
Rights under derivative contracts	44	321		
Fixed interest securities	Approved	45	460268	476702
	Other	46	310379	191071
Variable interest securities	Approved	47	524218	120991
	Other	48	59711	76460
Participation in investment pools	49			
Loans secured by mortgages	50	18591		
Loans to public or local authorities and nationalised industries or undertakings	51			
Loans secured by policies of insurance issued by the company	52			
Other loans	53			
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	513873	325641
	More than one month withdrawal	55		
Other financial investments	56			
Deposits with ceding undertakings	57			
Assets held to match linked liabilities	Index linked	58		
	Property linked	59		

Analysis of admissible assets

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2014**

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	2014	£000	1
						As at end of this financial year	As at end of the previous year
						1	2

Reinsurers' share of technical provisions

Provision for unearned premiums	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

Debtors and salvage

Direct insurance business	Policyholders	71		
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75		
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	499	3206
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	166470	44551
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	10158	10460
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		

Deductions from the aggregate value of assets	87		
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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)	89	2445988	1736511
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Analysis of admissible assets

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2014**

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	2014	£000	1
						As at end of this financial year	As at end of the previous year
						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)	91	2445988	1736511
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98	(146)	
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101	(619789)	(244033)
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)	102	1826053	1492478
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		107237

Analysis of admissible assets

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2014**

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	2014	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	
Land and buildings			11	938599		843505	

Investments in group undertakings and participating interests

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25		
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28	1327056	919628
Participating interests	Shares	29		
	Debts and loans	30		

Other financial investments

Equity shares	41	114	639	
Other shares and other variable yield participations	42			
Holdings in collective investment schemes	43			
Rights under derivative contracts	44	346932	196565	
Fixed interest securities	Approved	45	4141583	3449437
	Other	46	16384525	14746269
Variable interest securities	Approved	47	138531	115437
	Other	48	665320	623483
Participation in investment pools	49			
Loans secured by mortgages	50	367227	190003	
Loans to public or local authorities and nationalised industries or undertakings	51			
Loans secured by policies of insurance issued by the company	52			
Other loans	53	2998	3149	
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	122790	500818
	More than one month withdrawal	55		
Other financial investments	56			
Deposits with ceding undertakings	57			
Assets held to match linked liabilities	Index linked	58	5017801	3799978
	Property linked	59		

Analysis of admissible assets

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2014**

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	2014	£000	10
						As at end of this financial year	As at end of the previous year
						1	2

Reinsurers' share of technical provisions

Provision for unearned premiums	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

Debtors and salvage

Direct insurance business	Policyholders	71	249	40336
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74	1413	3703
	Ceded	75		
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	1847	729
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81		
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	424425	413201
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	28409	33747

Deductions from the aggregate value of assets	87		
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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)	89	29909819	25880627
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Analysis of admissible assets

Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2014**

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	2014	£000	10
						As at end of this financial year	As at end of the previous year
						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)	91	29909819	25880627
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		8400
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98	(635924)	(169264)
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100	5639372	3581918
Other asset adjustments (may be negative)	101	751191	280666
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)	102	35664458	29582347
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103	1598915	1112511

Long term insurance business liabilities and margins

Name of insurer Prudential Retirement Income Limited

Global business

Financial year ended 31 December 2014

Total business/Sub fund 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	11	23599080	21203141
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12		
Balance of surplus/(valuation deficit)	13	554779	673300
Long term insurance business fund carried forward (11 to 13)	14	24153859	21876441
Claims outstanding	Gross	5408	4254
	Reinsurers' share		
	Net (15-16)	5408	4254
Provisions	Taxation	12752	
	Other risks and charges		
Deposits received from reinsurers	23	4680866	3094968
Creditors	Direct insurance business	13	30
	Reinsurance accepted		
	Reinsurance ceded	1162	1122
Debenture loans	Secured		
	Unsecured		
Amounts owed to credit institutions	36	733540	534021
Creditors	Taxation	67185	71315
	Other	230699	287465
Accruals and deferred income	39	24335	19411
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49	5755960	4012586
Excess of the value of net admissible assets	51		
Total liabilities and margins	59	29909819	25889027

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	5368	80214
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		

Total liabilities (11+12+49)	71	29355040	25215727
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73	5639372	3581918
Other adjustments to liabilities (may be negative)	74	(391075)	(584143)
Capital and reserves and fund for future appropriations	75	1061121	1368845
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76	35664458	29582347

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

Global business

Financial year ended **31 December 2014**

	Company registration number	GL/UK/CM	day	month	year	Units	
	R15	47842	GL	31	12	2014	£000
						As at end of this financial year	As at end of the previous year
						1	2

Technical provisions (gross amount)

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

Provisions and creditors

Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers		31		
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions		46	120924	192452
Creditors	Taxation	47	31717	
	Foreseeable dividend	48		
	Other	49	62441	66075
Accruals and deferred income		51		
Total (19 to 51)		59	215082	258527
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69	215082	258527

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71			
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Amounts deducted from technical provisions for discounting	82			
Other adjustments (may be negative)	83	(19789)		(244033)
Capital and reserves	84	1630760		1477984
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)	85	1826053		1492478

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

Global business

Financial year ended **31 December 2014**

Company registration number	GL/ UK/ CM	day	month	year	Units
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R16		47842	GL	31	12	2014	£000
				This financial year		Previous year	
				1		2	
Transfer (to)/from the general insurance business technical account	From Form 20		11				
	Equalisation provisions		12				
Transfer from the long term insurance business revenue account			13		600000		250000
Investment income	Income		14		41079		37249
	Value re-adjustments on investments		15		94637		
	Gains on the realisation of investments		16		61495		
Investment charges	Investment management charges, including interest		17		1103		695
	Value re-adjustments on investments		18				36700
	Loss on the realisation of investments		19				10144
Allocated investment return transferred to the general insurance business technical account			20				
Other income and charges (particulars to be specified by way of supplementary note)			21		(1087)		(1453)
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29		795021		238257
Tax on profit or loss on ordinary activities			31		42245		(1532)
Profit or loss on ordinary activities after tax (29-31)			39		752776		239789
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			41				
Tax on extraordinary profit or loss			42				
Other taxes not shown under the preceding items			43				
Profit or loss for the financial year (39+41-(42+43))			49		752776		239789
Dividends (paid or foreseeable)			51				
Profit or loss retained for the financial year (49-51)			59		752776		239789

Analysis of derivative contracts

Name of insurer Prudential Retirement Income Limited

Global business

Financial year ended 31 December 2014

Category of assets Total other than long term insurance business assets

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		R17	47842	GL	31	12	2014	£000	1
Derivative contracts		Value as at the end of this financial year			Notional amount as at the end of this financial year				
		Assets 1	Liabilities 2	Bought / Long 3	Sold / Short 4				
Futures and contracts for differences	Fixed-interest securities	11							
	Interest rates	12							
	Inflation	13							
	Credit index / basket	14							
	Credit single name	15							
	Equity index	16							
	Equity stock	17							
	Land	18							
	Currencies	19		321			8584	8477	
	Mortality	20							
Other	21								
In the money options	Swaptions	31							
	Equity index calls	32							
	Equity stock calls	33							
	Equity index puts	34							
	Equity stock puts	35							
Other	36								
Out of the money options	Swaptions	41							
	Equity index calls	42							
	Equity stock calls	43							
	Equity index puts	44							
	Equity stock puts	45							
Other	46								
Total (11 to 46)		51		321			8584	8477	
Adjustment for variation margin		52							
Total (51 + 52)		53		321					

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE.
Please see instructions 11 and 12 to this Form for the meaning of these figures.

Analysis of derivative contracts

Name of insurer Prudential Retirement Income Limited

Global business

Financial year ended 31 December 2014

Category of assets Total long term insurance business assets

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets
R17		47842	GL	31	12	2014	£000	10
Derivative contracts		Value as at the end of this financial year			Notional amount as at the end of this financial year			
		Assets	Liabilities	Bought / Long	Sold / Short			
		1	2	3	4			
Futures and contracts for differences	Fixed-interest securities	11						
	Interest rates	12	261231			500714		500714
	Inflation	13	40978		79447	1151042		1151042
	Credit index / basket	14						
	Credit single name	15	34943			1177979		
	Equity index	16						
	Equity stock	17						
	Land	18						
	Currencies	19	9780		131042	666415		708382
	Mortality	20						
Other	21							
In the money options	Swaptions	31						
	Equity index calls	32						
	Equity stock calls	33						
	Equity index puts	34						
	Equity stock puts	35						
Other	36							
Out of the money options	Swaptions	41						
	Equity index calls	42						
	Equity stock calls	43						
	Equity index puts	44						
	Equity stock puts	45						
Other	46							
Total (11 to 46)		51	346932		210489	3496150		2360138
Adjustment for variation margin		52						
Total (51 + 52)		53	346932		210489			

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE.
Please see instructions 11 and 12 to this Form for the meaning of these figures.

Long-term insurance business : Revenue account

Name of insurer **Prudential Retirement Income Limited**
 Total business / subfund **Ordinary Branch Long Term**
 Financial year ended **31 December 2014**
 Units **£000**

Financial year 1	Previous year 2
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Income

Earned premiums	11	385125	1015725
Investment income receivable before deduction of tax	12	1250662	1215442
Increase (decrease) in the value of non-linked assets brought into account	13	3347165	(924815)
Increase (decrease) in the value of linked assets	14		
Other income	15	848	140
Total income	19	4983800	1306492

Expenditure

Claims incurred	21	1228821	1172871
Expenses payable	22	83558	81594
Interest payable before the deduction of tax	23	665707	42099
Taxation	24	128296	90894
Other expenditure	25		79000
Transfer to (from) non technical account	26	600000	250000
Total expenditure	29	2706382	1716458

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	2277418	(409966)
Fund brought forward	49	21876441	22286407
Fund carried forward (39+49)	59	24153859	21876441

Long-term insurance business : Analysis of premiums

Name of insurer **Prudential Retirement Income Limited**
 Total business / subfund **Ordinary Branch Long Term**
 Financial year ended **31 December 2014**
 Units **£000**

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

Gross

Regular premiums	11					
Single premiums	12		2315935		2315935	1322097

Reinsurance - external

Regular premiums	13					
Single premiums	14		127520		127520	127124

Reinsurance - intra-group

Regular premiums	15					
Single premiums	16		1803290		1803290	179248

Net of reinsurance

Regular premiums	17					
Single premiums	18		385125		385125	1015725

Total

Gross	19		2315935		2315935	1322097
Reinsurance	20		1930810		1930810	306372
Net	21		385125		385125	1015725

Long-term insurance business : Analysis of claims

Name of insurer **Prudential Retirement Income Limited**
 Total business / subfund **Ordinary Branch Long Term**
 Financial year ended **31 December 2014**
 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		280	280	629
Disability periodic payments	12				
Surrender or partial surrender	13		10334	10334	11920
Annuity payments	14		1555617	1555617	1476785
Lump sums on maturity	15		7198	7198	16125
Total	16		1573429	1573429	1505459

Reinsurance - external

Death or disability lump sums	21		44	44	10
Disability periodic payments	22				
Surrender or partial surrender	23				1
Annuity payments	24		127712	127712	125599
Lump sums on maturity	25				
Total	26		127756	127756	125610

Reinsurance - intra-group

Death or disability lump sums	31		36	36	93
Disability periodic payments	32				
Surrender or partial surrender	33		1550	1550	1788
Annuity payments	34		214186	214186	202678
Lump sums on maturity	35		1080	1080	2419
Total	36		216852	216852	206978

Net of reinsurance

Death or disability lump sums	41		200	200	526
Disability periodic payments	42				
Surrender or partial surrender	43		8784	8784	10131
Annuity payments	44		1213719	1213719	1148508
Lump sums on maturity	45		6118	6118	13706
Total	46		1228821	1228821	1172871

Long-term insurance business : Analysis of expenses

Name of insurer **Prudential Retirement Income Limited**
 Total business / subfund **Ordinary Branch Long Term**
 Financial year ended **31 December 2014**
 Units **£000**

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

Gross

Commission - acquisition	11		8208		8208	15189
Commission - other	12					
Management - acquisition	13		31759		31759	31585
Management - maintenance	14		43322		43322	39595
Management - other	15		15014		15014	9624
Total	16		98303		98303	95993

Reinsurance - external

Commission - acquisition	21					
Commission - other	22					
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
Total	26					

Reinsurance - intra-group

Commission - acquisition	31		1231		1231	2278
Commission - other	32					
Management - acquisition	33		4764		4764	4738
Management - maintenance	34		6498		6498	5939
Management - other	35		2252		2252	1444
Total	36		14745		14745	14399

Net of reinsurance

Commission - acquisition	41		6977		6977	12911
Commission - other	42					
Management - acquisition	43		26995		26995	26847
Management - maintenance	44		36824		36824	33656
Management - other	45		12762		12762	8180
Total	46		83558		83558	81594

Long-term insurance business : Summary of new business

Name of insurer **Prudential Retirement Income Limited**
 Total business
 Financial year ended **31 December 2014**
 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		21876	21876	10906
Total	13		21876	21876	10906

**Amount of new regular
 premiums**

Direct insurance business	21				
External reinsurance	22				
Intra-group reinsurance	23				
Total	24				

**Amount of new single
 premiums**

Direct insurance business	25		1804226	1804226	437453
External reinsurance	26		81529	81529	132268
Intra-group reinsurance	27		429627	429627	752376
Total	28		2315382	2315382	1322097

Long-term insurance business : Assets not held to match linked liabilities

Name of insurer **Prudential Retirement Income Limited**
 Category of assets **10 Total long term insurance business assets**
 Financial year ended **31 December 2014**
 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	938599	938599	51577	5.50	
Approved fixed interest securities	12	4208512	4208512	156975	2.40	
Other fixed interest securities	13	16691315	16691315	775340	3.41	
Variable interest securities	14	808582	808582	16078	2.38	
UK listed equity shares	15	114	114	8	6.55	
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	2244896	2244896	63334	2.31	
Total	19	24892018	24892018	1063312	3.19	

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					
Total	29					

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 2014**
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
UK Government approved fixed interest securities	11	899547	13.42	2.09	2.09
Other approved fixed interest securities	21	3308965	11.88	2.48	2.39
Other fixed interest securities					
AAA/Aaa	31	902231	8.90	2.80	2.68
AA/Aa	32	1737412	11.85	3.16	2.86
A/A	33	7714689	11.54	3.40	2.76
BBB/Baa	34	3783191	8.16	3.51	2.54
BB/Ba	35	172683	6.08	4.50	0.66
B/B	36	451	3.24	5.94	2.97
CCC/Caa	37				
Other (including unrated)	38	2380658	11.55	3.59	2.82
Total other fixed interest securities	39	16691315	10.61	3.41	2.70
Approved variable interest securities	41	138966	19.25	(0.75)	(0.75)
Other variable interest securities	51	669616	13.60	3.03	2.58
Total (11+21+39+41+51)	61	21708409	11.07	3.18	2.60

Long-term insurance business : Summary of mathematical reserves

Name of insurer Prudential Retirement Income Limited
 Total business / subfund Ordinary Branch Long Term
 Financial year ended 31 December 2014
 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		23252766	23252766	20449595
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16		6300440	6300440	4470640
Form 54 - non-linked	17		83305	83305	103417
Total	18		29636511	29636511	25023652

Reinsurance - external

Form 51 - with-profits	21				
Form 51 - non-profit	22		109474	109474	78702
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26		28188	28188	78
Form 54 - non-linked	27				
Total	28		137663	137663	78780

Reinsurance - intra-group

Form 51 - with-profits	31				
Form 51 - non-profit	32		4628657	4628657	3055634
Form 52	33				
Form 53 - linked	34				
Form 53 - non-linked	35				
Form 54 - linked	36		1254450	1254450	670584
Form 54 - non-linked	37		16661	16661	15513
Total	38		5899768	5899768	3741731

Net of reinsurance

Form 51 - with-profits	41				
Form 51 - non-profit	42		18514635	18514635	17315259
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46		5017801	5017801	3799978
Form 54 - non-linked	47		66645	66645	87904
Total	48		23599080	23599080	21203141

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 Ordinary Branch Long Term
 Financial year ended 31 December 2014
 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	18748	24199					491017
390	Deferred annuity non-profit - Group deferred annuities unprocessed business							22480
400	Annuity non-profit (CPA) - Group annuities in payment	68395	184617					3077524
400	Annuity non-profit (CPA) - Group annuities in payment (reassurance accepted)		12196					217569
400	Annuity non-profit (CPA) - Group annuities in payment unprocessed business							36
400	Annuity non-profit (CPA) - Individual annuities in payment	441237	548592					8330604
400	Annuity non-profit (CPA) - Individual annuities in payment (reassurance accepted)		538944					9377229
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment	12250	40632					551768
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment (reassurance accepted)		20766					348574
440	Additional reserves non-profit OB - Miscellaneous							86266
440	Additional reserves non-profit OB - Mismatching							235202
440	Additional reserves non-profit OB - Policy related expenses							514497

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 Ordinary Branch Long Term
 Financial year ended 31 December 2014
 Units £000

UK Pension / Reinsurance ceded intra-group

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		4840					98203
390	Deferred annuity non-profit - Group deferred annuities unprocessed business							4496
400	Annuity non-profit (CPA) - Group annuities in payment		109718					1645620
400	Annuity non-profit (CPA) - Group annuities in payment (reassurance accepted)		36923					614296
400	Annuity non-profit (CPA) - Group annuities in payment unprocessed business							7
400	Annuity non-profit (CPA) - Group annuities in payment (reassurance accepted)		2439					43514
400	Annuity non-profit (CPA) - Individual annuities in payment (reassurance accepted)		107789					1875446
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment		8166					110120
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment (reassurances accepted)		4153					69763
440	Additional reserves non-profit OB - Miscellaneous							17253
440	Additional reserves non-profit OB - Mismatching							47040
440	Additional reserves non-profit OB - Policy related expenses							102899

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

Name of insurer Prudential Retirement Income Limited
 Total business / subfund Ordinary Branch Long Term
 Financial year ended 31 December 2014
 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	44560	203737		4776216	4776216		4776216
905	Index linked annuity(CPA) - Group annuities in payment - valued as fixed	40	66		1348	1348		1348
905	Index linked annuity(CPA) - Group annuities in payment unprocessed business				91	91		91
905	Index linked annuity(CPA) - Individual annuities in payment	33387	45288		1003900	1003900		1003900
905	Index linked annuity(CPA) - Individual annuities in payment (reassurance accepted)		5795		148488	148488		148488
907	Index linked deferred annuity - Group deferred annuities	8792	11847		286177	286177		286177
907	Index linked deferred annuity - Group deferred annuities - valued as fixed	159	292		17568	17568		17568
907	Index linked deferred annuity - Group deferred annuities unprocessed business				7614	7614		7614
915	Additional reserves index linked - Miscellaneous						23709	23709
915	Additional reserves index linked - Mismatching						59596	59596
915	Additional reserves index linked - Policy related expenses				59038	59038		59038

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

Name of insurer Prudential Retirement Income Limited
 Total business / subfund Ordinary Branch Long Term
 Financial year ended 31 December 2014
 Units £000
 UK Pension / Reinsurance ceded external

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				28022	28022		28022
905	Index linked annuity(CPA) - Individual annuities in payment				126	126		126
905	Index linked annuity(CPA) - Individual annuities in payment (reassurance accepted)				41	41		41

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

Name of insurer Prudential Retirement Income Limited
 Total business / subfund Ordinary Branch Long Term
 Financial year ended 31 December 2014
 Units £000

UK Pension / Reinsurance ceded intra-group

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		40747		949639	949639		949639
905	Index linked annuity(CPA) - Group annuities in payment - valued as fixed		13		270	270		270
905	Index linked annuity(CPA) - Group annuities in payment unprocessed business				18	18		18
905	Index linked annuity(CPA) - Individual annuities in payment		9058		200755	200755		200755
905	Index linked annuity(CPA) - Individual annuities in payment (reassurance accepted)		1159		29689	29689		29689
907	Index linked deferred annuity - Group deferred annuities		2369		57235	57235		57235
907	Index linked deferred annuity - Group deferred annuities - valued as fixed		58		3514	3514		3514
907	Index linked deferred annuity - Group deferred annuities unprocessed business				1523	1523		1523
915	Additional reserves index linked - Miscellaneous						4742	4742
915	Additional reserves index linked - Mismatching						11919	11919
915	Additional reserves index linked - Policy related expenses				11808	11808		11808

Long-term insurance business : index linked business

Name of insurer Prudential Retirement Income Limited
 Total business
 Financial year ended 31 December 2014
 Units £000

Value of assets	Mean Term
1	2

Analysis of assets

Approved variable interest securities	11	905565	19.25
Other variable interest securities	12	2950996	14.48
Approved fixed interest securities	13	644336	17.13
Other fixed interest securities	14	1004749	12.67
Cash and deposits	15	95629	
Equity index derivatives	16		
Inflation swaps	17	15958	
Other assets	18	(599432)	
Variation margin	19		
Total (11 to 19)	20	5017801	

Credit rating of other fixed interest and other variable interest securities

AAA/Aaa	31	37608	12.73
AA/Aa	32	90061	8.63
A/A	33	2372038	13.99
BBB/Baa	34	659615	12.21
BB/Ba	35	98484	9.06
B/B	36		
CCC/Caa	37		
Other (including unrated)	38	697939	17.32
Total other fixed interest and other variable interest securities	39	3955745	14.02

Long-term insurance business: Analysis of valuation interest rate

Name of insurer Prudential Retirement Income Limited

Total business Ordinary Branch Long Term

Financial year ended 31 December 2014

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	17845861		2.86	2.93
Form 51: Additional reserves	257175			2.93
Form 51: Additional reserves - policy related expenses	411598		(0.10)	(0.10)
Form 54: Additional reserves	66644			(0.10)
Total	18581278			

Long-term insurance business : Distribution of surplus

Name of insurer **Prudential Retirement Income Limited**
 Total business / subfund **Ordinary Branch Long Term**
 Financial year ended **31 December 2014**
 Units **£000**

Financial year	Previous year
1	2

Valuation result

Fund carried forward	11	24153859	21876441
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	600000	250000
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	24753859	22126441
Mathematical reserves	21	23599080	21203141
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	1154779	923300

Composition of surplus

Balance brought forward	31	673300	699632
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	481479	223668
Total	39	1154779	923300

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	600000	250000
Total distributed surplus (46+47)	48	600000	250000
Surplus carried forward	49	554779	673300
Total (48+49)	59	1154779	923300

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 2014

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%					
Total	16						

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%	23252766	18514635	0.85	197649	173822
Classes III, VII and VIII (investment risk)	33	1%	6383744	5084445	0.85	54262	38879
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%					
Total	39					251910	212701

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	23252766	18514635	0.85	592946	521465
Classes III, VII and VIII (investment risk)	43	3%	6383744	5084445	0.85	162785	116638
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%					
Total	49		29636510	23599080		755731	638103

Long term insurance capital requirement	51					1007641	850804
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PRUDENTIAL RETIREMENT INCOME LIMITED

Valuation Report pursuant to the Interim Prudential Sourcebook (IPRU (INS)) rule 9.4, 9.31(a)(i) and Appendix 9.4

Valuation Report as at 31 December 2014

1. Introduction

- (1) The investigation relates to 31 December 2014.
- (2) The previous investigation related to 31 December 2013.
- (3) No interim valuations have been carried out for the purposes of rule 9.4 since 31 December 2013.

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

Valuation Report as at 31 December 2014 (continued)

- (7) Not applicable
- (8) Not applicable
- (9) Not applicable
- (10) Not applicable

4. Valuation basis (other than for special reserves)

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

The mathematical reserve for inflation-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 inflation-linked annuities which are subject to maximum and/or minimum percentage increases is as follows:

- (a) inflation-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 inflation-linked annuities.
- (b) inflation-linked annuities subject to a minimum annual increase of 0% and a maximum annual increase of 12% are, for valuation purposes, treated as being identical to normal inflation-linked annuities.
- (c) inflation-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.
- (d) inflation-linked annuities subject to a minimum annual increase of 0% and a maximum annual increase of 3% arising from Guaranteed Minimum Pension liabilities are, for valuation purposes, treated as annuities with fixed 3% annual increases. This business is reported on Form 51 as non-linked business.

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 inflation, 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 3.50% annual revaluation throughout the remaining deferred period followed by the actual fixed escalation in payment. The 3.50% annual revaluation rate is the same as the inflation rate assumed in the valuation and is appropriate as these annuities are matched with non-linked assets and inflation swaps. These annuities are included in these returns as non-linked business.

Valuation Report as at 31 December 2014 (continued)

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

- (2) The PRA, on the application of the firm, made a direction under section 138A 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.

In applying the section 138A 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 to 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 of the property at the end of the lease is taken as 75% of the current market value.

The interest rates used are as follows:

Non-linked

Product code number	Product description	31 December 2014 %	31 December 2013 %
All	All products	2.86	3.85

Index linked

Product code number	Product description	31 December 2014 %	31 December 2013 %
All	All products (except index linked annuities – valued as fixed)	(0.10)	0.61
All	Index linked annuity – group annuities in payment – valued as fixed Index linked annuity – group deferred annuities – valued as fixed	2.86	3.85

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 allowance for credit risk is calculated as the long-term expected level of defaults plus the long-term credit risk premium plus the long-term downgrade resilience reserve plus an allowance for the impact of additional short-term credit events reflecting the market conditions at the valuation date.

Valuation Report as at 31 December 2014 (continued)

The long-term expected levels of defaults are 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 40 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 aggregate provision for the long-term expected levels of defaults and the long-term credit risk premium, 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. This further amount for credit risk (the long-term credit risk premium) is determined as the excess over the best estimate level of default, of the 95th percentile of historic cumulative defaults, reduced to allow for the expected recovery of capital and subject to a minimum margin over best estimate of 50%.

The long-term downgrade resilience reserve is determined as the hypothetical impact on the aggregate provision described above of a one-notch downgrade of the entire credit-risky asset portfolio.

For the aggregate of the long-term expected level of defaults, the long-term credit risk premium, and the long-term downgrade resilience reserve, the derived default rates for each level of security are set out overleaf:

Valuation Report as at 31 December 2014 (continued)

Default rates – basis points per annum:

	AAA	AA	A	BBB+	BBB	BBB-	BB and lower
First Mortgage Debenture / Senior Secured							
0 to 10 years	7.4	10.2	16.3	23.4	47.0	95.5	234.2
10 to 20 years	5.7	13.3	20.1	28.6	56.8	97.5	189.8
20 to 30 years	9.6	18.7	22.2	31.4	60.7	93.0	158.4
Over 30 years	11.5	20.6	22.7	31.8	59.4	93.0	158.4
Senior unsecured							
0 to 10 years	16.2	22.4	35.9	51.4	103.3	210.2	515.3
10 to 20 years	12.6	29.3	44.1	62.9	124.9	214.5	417.5
20 to 30 years	21.1	41.1	48.8	69.0	133.6	204.5	348.4
Over 30 years	25.4	45.3	49.9	69.9	130.7	204.5	348.4
Subordinated debt							
0 to 10 years	23.6	32.5	52.3	74.8	150.3	305.8	749.5
10 to 20 years	18.3	42.6	64.2	91.5	181.7	312.0	607.2
20 to 30 years	30.7	59.7	70.9	100.4	194.4	297.5	506.7
Over 30 years	36.9	66.0	72.5	101.6	190.1	297.5	506.7

A deduction is also made to allow for the risk of default of rent on properties. 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.

The overall allowance for credit risk at 31 December 2014 has been taken to be the allowance for credit risk brought forward from 31 December 2013 but adjusted to allow for changes in asset mix that have occurred during 2014.

The yields shown in Form 48 column 4 were determined in accordance with the requirements of INSPRU 3.1. The risk adjusted yields in Form 57 column 5 were calculated using the method specified in the section 138A waiver, after allowing for credit risk.

Aggregate yields on the backing assets have been adjusted by 0.61% and 0.50% to allow for credit risk within the non-linked and index-linked portfolios respectively. These credit risk adjustments include margins for prudence.

For the portfolio as a whole this represents an aggregate credit risk assumption of 58 basis points per annum.

Valuation Report as at 31 December 2014 (continued)

(4)

Non-linked

Product code number	Product description	31 December 2014	31 December 2013
400	Annuity non-profit (CPA) – individual annuities in payment Annuity non-profit (CPA) – individual annuities in payment (reassurance accepted)		
405	Annuity non-profit (CPA impaired life) – individual annuities in payment Annuity non-profit (CPA impaired life) – individual annuities in payment (reassurance accepted)		
	Mortality table	Modified 91.2% PCMA00 / 84.3% PCFA00	Modified 91.1% PCMA00 / 84.0% PCFA00
	Expectation of life age 65	25.7 (M), 27.5 (F)	25.5 (M), 27.4 (F)
	Expectation of life age 75	15.8 (M), 17.6 (F)	15.6 (M), 17.5 (F)
400	Annuity non-profit (CPA) – group annuities in payment Annuity non-profit (CPA) – group annuities in payment unprocessed business Annuity non-profit (CPA) – group annuities in payment (reassurance accepted)		
	Mortality table	Modified 95.0% PCMA00 / 97.9% PCFA00	Modified 95.8% PCMA00 / 97.4% PCFA00
	Expectation of life age 65	25.3 (M), 26.2 (F)	25.0 (M), 26.1 (F)
	Expectation of life age 75	15.5 (M), 16.5 (F)	15.3 (M), 16.4 (F)
390	Deferred annuity non-profit – group deferred annuities Deferred annuity non-profit – group deferred annuities unprocessed business		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 95.0% PCMA00 / 97.9% PCFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 95.8% PCMA00 / 97.4% PCFA00
	Current age 45, expectation of life age 65	29.1 (M), 29.0 (F)	28.8 (M), 28.9 (F)
	Current age 55, expectation of life age 65	27.2 (M), 27.6 (F)	27.0 (M), 27.5 (F)

Valuation Report as at 31 December 2014 (continued)

Index linked

Product code number	Product description	31 December 2014	31 December 2013
905	Index linked annuity (CPA) – individual annuities in payment Index linked annuity (CPA) – individual annuities in payment (reassurance accepted)		
	Mortality table	Modified 91.2% PCMA00 / 84.3% PCFA00	Modified 91.1% PCMA00 / 84.0% PCFA00
	Expectation of life age 65	25.7 (M), 27.5 (F)	25.5 (M), 27.4 (F)
	Expectation of life age 75	15.8 (M), 17.6 (F)	15.6 (M), 17.5 (F)
905	Index linked annuity (CPA) – group annuities in payment Index linked annuity (CPA) – group annuities in payment - valued as fixed Index linked annuity (CPA) – group annuities in payment unprocessed business Index linked annuity (CPA) – group annuities in payment (reassurance accepted)		
	Mortality table	Modified 95.0% PCMA00 / 97.9% PCFA00	Modified 95.8% PCMA00 / 97.4% PCFA00
	Expectation of life age 65	25.3 (M), 26.2 (F)	25.0 (M), 26.1 (F)
	Expectation of life age 75	15.5 (M), 16.5 (F)	15.3 (M), 16.4 (F)
907	Index linked deferred annuity – group deferred annuities Index linked deferred annuity – group deferred annuities – valued as fixed Index linked deferred annuity – group deferred annuities unprocessed business		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 95.0% PCMA00 / 97.9% PCFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 95.8% PCMA00 / 97.4% PCFA00
	Current age 45, expectation of life age 65	29.1 (M), 29.0 (F)	28.8 (M), 28.9 (F)
	Current age 55, expectation of life age 65	27.2 (M), 27.6 (F)	27.0 (M), 27.5 (F)

Valuation Report as at 31 December 2014 (continued)

Mortality bases used at 31 December 2014 and 31 December 2013

Annuities are generally valued using a percentage of the 00 series PCxA tables for annuitants and pensioners. In order to allow for mortality improvement, future improvement factors are applied from 2000. For males these future improvement factors are in line with Prudential's own calibration of the CMI 2012 mortality model (unchanged from the 31 December 2013 valuation), with a long term improvement rate of 2.25% p.a. For females, future improvement factors are in line with Prudential's own calibration of the CMI 2012 mortality model (unchanged from the 31 December 2013 valuation), with a long term improvement rate of 1.75% p.a.

Compared with the core CMI mortality model, Prudential's calibration:

- (a) blends period improvements between ages 60 to 80 to the long term improvement rate over a 15 year period (compared with a 20 year period in the core CMI model);
- (b) assumes that cohort improvements dissipate over a 30 year period, or by age 90 if earlier (compared with a 40 year period, or by age 100 if earlier, in the core CMI model); and
- (c) zeroes the negative cohort improvement feature for years of birth on or after 1948.

For impaired life annuities written prior to November 2008, an adjustment is made to the annuitant's age to allow for the impairment. Impaired life annuities written since November 2008 have been underwritten by Hannover Life Re and the impairment is modelled explicitly using parameters determined as part of the underwriting process. The mortality assumptions and expectations of life in the tables above are before the allowance for the impairment has been applied.

(5) Not applicable

(6) The renewal expenses per annum used are described in the table below:

Product code number	Product description	31 December 2014	31 December 2013
All	All products	£17.99 p.a.	£19.31 p.a.

The inflation rate assumed for future expenses is as follows:

Product code number	Product description	31 December 2014	31 December 2013
All	All products	3.50% p.a.	4.00% p.a.

Valuation Report as at 31 December 2014 (continued)

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

Product code number	Product description	31 December 2014	31 December 2013
All	All products	0.059% p.a.	0.053% 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) For joint life policies, the assumptions for the proportion married at the death of the first life are as follows:

	31 December 2014	31 December 2013
<u>Annuities in payment</u>		
When single at retirement	10%	10%
When married at retirement	100%	100%
When average married assumption applies (includes group business written in the year)	74.6% to 99.2%	89.0% to 98.7%
When average married assumption applies (all other cases)	82%	82%
Remarriage assumption for spouse	5%	5%
<u>Deferred annuities</u>		
When single at commencement	75%	75%
When married at commencement	95%	95%
When average married assumption applies	80%	80%
Remarriage assumption for spouse	5%	5%

There are no other material basis assumptions that are not stated elsewhere.

- (11) Derivative contracts held as at 31 December 2014 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 Sterling LIBOR for fixed Sterling;
 - iv) Contracts to swap inflation linked Sterling RPI for fixed Sterling;
 - v) Contracts to swap future fixed sterling for future inflation linked Sterling RPI/LPI;

Valuation Report as at 31 December 2014 (continued)

- vi) Contracts to swap inflation linked Sterling property income for fixed Sterling;
- vii) FFX contracts to swap fixed, floating LIBOR and Credit default premium cashflows for fixed Sterling;
- viii) Contracts to swap fixed / floating Sterling for inflation linked Sterling RPI/LPI;
- ix) Contracts to take Sovereign credit risk in return for a premium; and
- x) Contracts to swap inflation linked Sterling RPI for inflation linked Sterling LPI

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

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

The effect of the contracts under iii) is to convert cashflows from Sterling and Non Sterling floating rate LIBOR/EUROBOR assets into fixed Sterling cashflows. Euro cashflows are hedged into Sterling via currency forwards.

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

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

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

The effect of the contracts 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 Sterling cashflows.

The effect of the contracts under viii) is to convert fixed / floating Sterling cashflows into RPI/LPI inflation linked cashflows.

The effect of the contract under ix) is to take Sovereign credit risk in return for a premium.

The effect of the contract under x) is to convert RPI inflation linked Sterling cashflows to LPI inflation linked Sterling 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 138A waiver.

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

Valuation Report as at 31 December 2014 (continued)

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 138A 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) Some inflation-linked annuities are subject to maximum and minimum percentage increases. The valuation of this business is as described in 4(1). An additional reserve of £59.4m is held at the valuation date to cover the risk of negative inflation.

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	19.0
Longevity swap management expenses	5.1
Investment management expenses	19.0
Total	43.1

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 £43.3m. These expenses include investment management costs of £5.4m whose payment is contingent on the emergence of statutory surplus emerging and, as such, no reserve is held for them.
- (4) Other than the inward reinsurance contract described in 5(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 additional 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

Valuation Report as at 31 December 2014 (continued)

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 £466.1m.

In order to allow for the possibility that the firm will cease to transact new business twelve months after the valuation date, all expense provisions are recalculated on the assumption that, over a two year period, unit costs would be reduced by 20%. Thereafter, the unit costs are increased to allow for the loss of economies of scale that would arise as the in-force business runs off. The expenses for all business lines are capped at the point that aggregate expenses are projected to have doubled in real terms after closure. 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. If the sum of the closed fund expense reserves and termination costs exceed the open fund expense reserve, then the excess is held as an additional reserve, to the extent that this excess cannot be offset by projected surplus on prudent assumptions from existing business.

At the valuation date, an additional reserve of £84.9m is held for the impact of closing to new business. In addition, a reserve of £1.3m is held for the forecast expense margin expected to be paid to Prudential Distribution Limited in 2015 and a reserve of £10.0m is held to cover the cost of additional contributions to the Prudential Staff Pension Scheme.

(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%;

(ii) a rise in yield on all fixed interest securities of 0.45%, which is the percentage point rise equal to 20% of the long-term gilt yield at the valuation date, and;

(iii) a rise of 0.14% in the index-linked real security yield in conjunction with a rise of 0.30% in the inflation rate such that the overall rise in the nominalised yield is equal to 0.45%.

Valuation Report as at 31 December 2014 (continued)

- (5) There were no significant territories at the valuation date.
- (6) In respect of the scenarios described under (4) above;
- (a) No resilience capital requirement was necessary.
- (b) For non-linked annuities, the decrease in the aggregate amount of the long-term insurance liabilities was £1,264m.
- For index-linked annuities, the decrease in the aggregate amount of long-term insurance liabilities was £224m.
- (c) For non-linked annuities, the decrease in the aggregate amount of assets backing these liabilities was £1,264m.
- For index-linked annuities, the decrease in the aggregate amount of assets backing these liabilities was £224m.
- (7) A reserve of £295m 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 carrying out this test, the asset cashflows have been adjusted to allow for a level of defaults consistent with the Company's credit risk assumptions.

In determining the risk adjusted cashflows of the assets, two scenarios are tested:

- Scenario A: In any year where asset income exceeds liability outgo, the excess is invested in a notional 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 below zero, then the shortfall is assumed to be borrowed at a rate 2.0% higher than 97.5% of the maximum reinvestment rate.
- Scenario B: In any year where asset income exceeds liability outgo, the excess is invested in a notional cash asset, and this cash asset is assumed to accumulate at the valuation rate of interest (as specified in 4(2)). 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 below zero, then the shortfall is assumed to be borrowed at a rate 1.2% higher than the valuation rate of interest.

The reserve held is that required to satisfy the more onerous of these two scenarios.

Valuation Report as at 31 December 2014 (continued)

8. Other special reserves

Other special reserves are as follows:

A reserve of £110m is held to cover general contingencies.

A reserve of £26.5m is held to cover potential additional liabilities in respect of systems and administration errors.

A reserve of £18.0m is held to cover the potential risks, including operational risks, arising in connection with the sale of sovereign credit default swaps.

A reserve of £11.9m is held as a prudent allowance for potential valuation strain that might arise on future new business written under an inward reinsurance contract.

9. Reinsurance

(1) Not applicable

(2) Details of any reinsurance treaties held as at 31 December 2014 which satisfy criteria (a), (b) or (c) are as follows:

Valuation Report as at 31 December 2014 (continued)

(d) Reinsurer	(e) Nature of Cover	(f) Premiums £m	(g) Deposits back at the valuation date £m	(h) Open/ Closed	(i) Amount of any Undischarged Obligation	(j) Reserves Ceded £m	(k) Retention
Hannover Life Re	A single treaty covering enhanced annuity liabilities insured by PRIL. In return for a fixed series of reinsurance premiums, Hannover Life Re will pay to PRIL a specified proportion (50%) of the actual claims incurred by PRIL on the policies covered by the reinsurance arrangement.	11.9	None	Open	None	1.1	N/A
Hannover Life Re	A single treaty covering specific annuity liabilities issued by PRIL. In return for a fixed series of reinsurance premiums Hannover Life Re will pay to PRIL a specified proportion (40%) of the actual claims incurred by PRIL on the policies covered by the reinsurance arrangement.	53.9	None	Closed	None	56.5	N/A
SCOR Global Life SE	A single treaty covering specific annuity liabilities issued by PRIL. In return for a fixed series of reinsurance premiums SCOR Global Life SE will pay to PRIL a specified proportion (45%) of the actual claims incurred by PRIL on the policies covered by the reinsurance arrangement.	58.5	None	Closed	None	46.0	N/A
Hannover Life Re	A single treaty covering specific annuity liabilities issued by PRIL. In	2.6	None	Closed	None	34.1	N/A

Valuation Report as at 31 December 2014 (continued)

<p>The Prudential Assurance Company Limited (PAC)*</p>	<p>return for a series of reinsurance premiums Hannover Life Re will pay to PRIL a specified proportion (85%) of the actual claims incurred by PRIL on the policies covered by the reinsurance arrangement.</p>	<p>1,803.3</p>	<p>5,899.8</p>	<p>Open</p>	<p>None</p>	<p>5,899.8</p>	<p>The firm retains 80% of liabilities in respect of new policies. The firm's retention is 80% of liabilities after the session of mortality risk under other reinsurance arrangements.</p>
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Valuation Report as at 31 December 2014 (continued)

- (l) All of the above companies are authorised to carry on insurance business in the United Kingdom.
- (m) An asterisk (*) denotes companies connected to the cedent.
- (n) In general the treaties are exposed to the credit risk of the reinsurers, against which a reserve is held.
- (o) The net liability includes no allowance for the refund of any reinsurance commission.
- (p) 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 2014

Supplementary notes to the returns

Form 2

0201 Waivers under Section 138A, Financial Services and Markets Act 2000

(1502402) The FSA (the UK insurance regulator at the time), on the application of the firm, made a direction under section 138A of the Financial Services and Markets Act 2000 in August 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 is used for certain assets taken in combination. This direction ended on 31 March 2014.

(1735913) The PRA, on the application of the firm, made a direction under section 138A of the Financial Services and Markets Act 2000 in February 2014. 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 is used for certain assets taken in combination. This direction ends on 1 April 2016 or, if earlier, the date the relevant rule is revoked or no longer applies to the firm (in whole or in part).

Form 3

0301 Reconciliation of net admissible assets to total capital resources

	2014 £'000s
Line 89 on Form 13 (OLTB)	2,445,988
Line 89 on Form 13 (LTF)	29,909,819
Line 11 on Form 14	(23,599,080)
Line 49 on Form 14	(5,755,960)
Line 69 on Form 15	(215,082)
Line 79 on Form 3	<u>2,785,685</u>

0308 The Company has two contingent loans from The Prudential Assurance Company Ltd. The loans accumulate with interest at specified rates.

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 1 surplus (determined by reference to line 34 of Form 58) and the Company's Pillar 2 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.

Supplementary notes to the returns (continued)

Form 3 (continued)

0310 Valuation differences

	2014 £'000s
<i>Positive valuation differences where liabilities are lower than in the shareholders accounts</i>	
Deferred tax held on life tax transitional arrangements	181,700
Contingent loan	220,339
<i>Positive valuation differences where assets are higher than in the shareholder accounts</i>	
PRA valuation difference on investments	636,070
<i>Negative valuation differences where liabilities are higher than in the shareholders accounts</i>	
Additional reserves held in long term fund	(1,544,305)
Line 35 on Form 3	<u>(506,196)</u>

0313 Reconciliation of profit and loss account and other reserves

	2014 £'000s
Profit & loss account and reserves b/fwd (Form 3 line 12)	1,989,129
Profit & loss account and reserves c/fwd (Form 3 line 12)	2,434,181
Movement	<u>445,052</u>
Movement in additional reserves held for PRA	(239,413)
Movement in valuation difference	466,660
Movement in deferred tax	(45,400)
Movement in unallocated surplus	118,521
Movement in contingent loan	7,356
Line 59 on Form 16	<u>752,776</u>

Form 13

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

1302 The Company held £53,747k 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 single counterparty has been set in accordance with the counterparty limits detailed in the various Prudential Sourcebooks. Therefore exposures to individual non-approved counterparties have been restricted to a maximum of 5% of the long term business amount.

Supplementary notes to the returns (continued)

Form 13 (continued)

1306 No counterparty exposure at the year end exceeded 5% of the long term business amount.

1307 The Company has an exposure of £340.9m to 'secured obligations'. This figure has not been deducted from the admissibility testing for 31 December 2014, as the original test covered all exposures within the limits set.

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

1308 The Company held £1,687m in unlisted securities.

1309 The Company held £1,446m in hybrid securities.

1310 Amounts due to or from the Company have been set off to the extent permitted by generally accepted accounting principles.

1312 No counterparty exposure at the year end exceeded 5% of the long term business amount.

1313 The Company has an exposure of £340.9m to 'secured obligations'. This figure has not been deducted from the Admissibility testing for 31st Dec 2014, as the original test covered all exposures within the limits set.

1318 Other asset adjustments

	<u>2014</u> <u>£'000s</u>
<i>Other than long term business assets</i>	
Amount due from the long term fund notionally settled in cash	(600,000)
Miscellaneous liabilities netted off against assets in the financial statements	(19,789)
Line 101 on Form 13	<u>(619,789)</u>
	<u>£'000s</u>
<i>Total long term business assets</i>	
Deposit back liability netted off Index Linked assets in the regulatory return	74,250
Miscellaneous adjustments to assets	76,941
Amount due to the other than long term fund notionally settled in cash	600,000
Line 101 on Form 13	<u>751,191</u>

Supplementary notes to the returns (continued)

Form 13 (continued)

1319 The maximum permitted exposure to any one counterparty has been set in accordance with the counterparty limits detailed in INSPRU 2.1.22. 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.

1321 Other differences in valuation of assets

	<u>2014</u> <u>£'000s</u>
<i>Total long term business assets</i>	
Assets valued on a different basis than that in the financial statements	(635,924)
Line 98 on Form 13	<u>(635,924)</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) 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. The amounts secured by charges of this nature and included in Form 14 Line 11 were £9,281,093k and £500,716k. The whole of the amount at Form 13 line 89 is subject to charge.

On 2 September 2008 and 10 November 2010 floating charges were placed over cash and assets of the long term fund to secure certain pension scheme liabilities. On crystallisation the charge gives the debts owed to the scheme trustees priority status in any claim against the said cash or assets. The charges provide for the amount to be secured to vary by reference to a percentage of the value of the liabilities. The amounts secured under this charge included in Form 14 line 11 is £2,552,849k. The aggregate value of the assets subject to the charge is £2,764,200k (see table overleaf).

Supplementary notes to the returns (continued)

Form 14 (continued)

	2014 £'000s
<i>Assets which are subject to the charge</i>	
<i>Form 13</i>	
Line 45 – Approved fixed interest securities	291,509
Line 46 – Other fixed interest securities	277,164
Line 47 – Approved variable interest securities	51,334
Line 48 – Other variable interest securities	145,847
Line 81 – Deposits not subject to time restriction on withdrawal with approved institutions	12,854
Line 84 – Accrued interest and rent	9,822
<i>Form 56</i>	
Line 11 – Approved variable interest securities	335,566
Line 12 – Other variable interest securities	946,292
Line 13 – Approved fixed interest securities	345,927
Line 14 – Other fixed interest securities	313,572
Line 15 – Cash and deposits	18,510
Line 18 – Other assets	15,803
Total	<u>2,764,200</u>

- (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.
- (c) The Company has two contingent loans not in Form 14, from The Prudential Assurance Company Ltd. The loans accumulate with interest at specified rates. The value of these loans total £220,339k.

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 1 surplus (determined by reference to line 34 of Form 58) and the Company's Pillar 2 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.

- (d) 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.

Supplementary notes to the returns (continued)

Form 14 (continued)

1405 Details of other adjustments to liabilities

	2014 £'000s
Additional reserves held in long term fund	(1,544,305)
Deferred tax held on life tax transitional arrangements	181,700
Contingent loan	220,339
Amount due to the other than long term fund notionally settled in cash	600,000
Miscellaneous adjustments to liabilities	151,191
Line 74 on Form 14	<u>(391,075)</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 £Nil.

(c) There were no contingent liabilities at the year end.

(d) There were no guarantees, indemnities or other contractual commitments other than in the ordinary course of insurance business and in respect of related companies.

1507 Details of other adjustment in liabilities

	2014 £'000s
Miscellaneous liabilities netted off against assets in the financial statements	(19,789)
Line 83 on Form 15	<u>(19,789)</u>

Form 16

1601 Revenue account items are translated at rates ruling on the transaction date.

1603 Balances in line 21 relate to management expenses.

Supplementary notes to the returns (continued)

Form 17

1702 No convertible securities, with the features of a quasi-derivative, have been included in line 46 of the Long-term Form 13.

Form 40

4002 Other income represents advisor charge received from another Group Company.

Other expenditure represents a repayment of a contingent loan repayable to a related group undertaking. The loan and interest on the loan is repayable out of the surplus emerging on its business and is contingent on surpluses arising, but can be repaid by the Company at any time.

The loan is repayable to the extent of a specified percentage of surplus of the Company, a repayment obligation crystallising on the last day of the Company's financial year and being discharged by application of funds on a date nominated by the Company (being prior to the last working day for submission of its regulatory returns for such financial year).

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 Ltd, M&G Investment Management Ltd, M&G Real Estate Ltd, Prudential Portfolio Management Group Ltd, Prudential UK Services Ltd, Prudential Financial Planning Ltd and Prudential Services Ltd, all being group companies.

4009 The Company has reinsurance agreements with a related company, The Prudential Assurance Company Ltd, in respect of non-participating approved pension annuity contracts.

During the year, claims amounting to £532m were paid under these reinsurance agreements and claims amounting to £217m were ceded. A premium, calculated on normal commercial terms, amounting to £430m was received and a premium amounting to £1,803m was ceded. The reinsurance included in the Return, relating to this business, amount to £9,782m liability for reinsurance accepted and £5,900m asset for the reinsurance ceded at the year end.

There were no other material intra-group transactions.

Supplementary notes to the returns (continued)

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 7,477.

Form 48

4802 There are 5 assets where the payment of interest is in default. The expected interest from these assets has been reduced to nil.

4803 Securities with an issuer option to redeem early are assumed to redeem at the next call date. The only exceptions to this are Government perpetual bonds (which can redeem at any time), where the coupon is assumed to continue in perpetuity and certain variable dated bonds where the issuer has an option to extend the maturity date which we assume will redeem at the initial redemption date.

Form 49

4901 Credit ratings used on Form 49 are the second highest 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 43,200.

The counts and benefit amounts are not 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.

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 UK inflation. Deferred annuities with revaluation in line with inflation in deferment and fixed increases in payment are included in Form 51.

Supplementary notes to the returns (continued)

Form 54

5405 The amount of double-counting of policies between Forms 51 and 54 combined is 43,200.

The counts and benefit amounts are not 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 56

5601 Credit ratings used on Form 56 are the second highest of 3 external rating agencies, namely Fitch, S&P & Moody's.

Form 57

(2088184) The PRA, on the application of the firm, made a direction under section 138A of the Financial Services and Markets Act 2000 in February 2014. 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 is used for certain assets taken in combination. This direction ends on 1 April 2016 or, if earlier, the date the relevant rule is revoked or no longer applies to the firm (in whole or in part).

Asset yields before risk adjustment and the yields adjusted for risk shown in Form 57 as required by waiver 2088184 (effective from 1 April 2014, see note *0201*), are as follows:

Product group	Risk adjusted yield on matching assets (Form 57 column 5)	Corresponding asset yield
Form 51: Immediate & deferred annuities	2.93%	3.54%
Form 51: Additional reserves – policy related expenses	-0.10%	0.39%

PRUDENTIAL RETIREMENT INCOME LIMITED
Global Business

Directors' Certificate required by rule 9.34 of the Accounts and Statements Rules

Financial year ended 31 December 2014

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 a waiver detailed in supplementary note 0201 issued under section 138A of the Financial Services and Markets Act 2000 and section 68 of the Insurance Companies Act 1982 which continues 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;
 - (ii) from the beginning of financial year in question until 18 June 2014, the insurer has complied in all material respects with the requirements of PRIN;
 - (iii) from 19 June 2014 until the end of the financial year in question, the insurer has complied in all material respects with the Fundamental Rules; and
 - (iv) it is reasonable to believe that the insurer has continued so to comply with the requirements of SYSC, the Fundamental Rules and the provisions of IPRU (INS), GENPRU, and INSPRU 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 sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (including all liabilities arising from deposit back arrangements, but 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;
 - (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.



J Hunt
Chief Executive



H A Hussain
Director



D J Pender
Director

27 March 2015

PRUDENTIAL RETIREMENT INCOME LIMITED

Global business

Financial year ended 31 December 2014

Independent auditor's report to the Directors pursuant to rule 9.35 of IPRU(INS), the Interim Prudential Sourcebook for Insurers

We have examined the following documents prepared by the insurer 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 Prudential Regulation Authority under section 137G 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 1 to 62 ('the Forms');
- the statement required by IPRU(INS) rule 9.29 on pages 67 to 68 ('the Statement'); and
- the valuation report required by IPRU(INS) rule 9.31(a)(i) ("the valuation report") on pages 37 to 53.

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 20 to 62;
- the statement required by IPRU(INS) rules 9.30 on page 69; or
- the certificate required by IPRU(INS) rule 9.34(1) on page 63 ('the certificate').

This report is made solely to the insurer'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 PRA, to enable the PRA to verify that an auditor's report has been commissioned by the insurer's directors and issued in accordance with the requirements of IPRU(INS) rule 9.35 and to facilitate the discharge by the PRA of its regulatory functions in respect of the insurer, conferred on the PRA by or under the Financial Services and Markets Act 2000. Our work (including our examination) has been undertaken so that we might state to the insurer's directors, as a body, 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 insurer and the insurer's directors as a body, for our work (including our examination), for this report, or for the opinions we have formed.

PRUDENTIAL RETIREMENT INCOME LIMITED

Global business

Independent auditor's report to the Directors pursuant to rule 9.35 of IPRU(INS), the Interim Prudential Sourcebook for Insurers

Respective responsibilities of the insurer and its auditor

The insurer is responsible for the preparation of an annual return (including the Forms, the Statement and the valuation report) under the provisions of the Rules. The requirements of the Rules have been modified by a direction issued under section 138A of the Financial Services and Markets Act 2000 in February 2014. Under IPRU(INS) rule 9.11 the Forms, the Statement, and the valuation report, 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 insurer and used to perform the actuarial investigation as set out in the valuation report 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:

- 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 Forms, the Statement and the valuation report are not in agreement with the accounting records and returns; or
- 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 insurer for the financial year. It also included an assessment of the significant estimates and judgements made by the insurer 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.

PRUDENTIAL RETIREMENT INCOME LIMITED

Global business

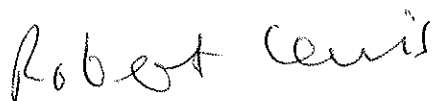
Independent auditor's report to the Directors pursuant to rule 9.35 of IPRU(INS), the Interim Prudential Sourcebook for Insurers

In accordance with IPRU(INS) rule 9.35(1A), to the extent that any document, Form, Statement, analysis or report to be examined under IPRU(INS) rule 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 insurer.

Opinion

In our opinion:

- i) the Forms, the Statements 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 insurer and used to perform the actuarial investigation as set out in the valuation report appropriately reflect the requirements of INSPRU 1.2.



Robert Lewis
For and on behalf of KPMG LLP, Statutory Auditor Chartered Accountants
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

27 March 2015

PRUDENTIAL RETIREMENT INCOME LIMITED

Returns for the year ended 31 December 2014

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, 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 Prudential sourcebook for Insurers (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, credit default and inflation-linked swaps in the long term business and interest rate swaps in the other than long term business.
The Company has previously used redeemable convertible corporate bonds. These bonds have not been categorised as derivative contracts as the derivative element is minimal and have therefore not been reported on form 17. This year the value is £Nil as there are none held.

(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.

PRUDENTIAL RETIREMENT INCOME LIMITED

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

(c) Quantification of derivatives in (b) above

There was zero exposure during the year to out of the money call options / warrants.

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

There were no derivative contracts held during 2014 that did not satisfy requirements of the Interim Prudential Sourcebook.

(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 2014

Rule 9.30 Statement on Shareholder Controllers

The following companies were shareholder controllers of Prudential Retirement Income Limited for the year: The Prudential Assurance Company Ltd holding 100% of its issued share capital and voting power throughout the year; and Prudential plc, being the ultimate holding company, holding 100% of the issued share capital and voting power of The Prudential Assurance Company Ltd throughout the year.

