



# **Prudential Retirement Income Limited**

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

**Annual FSA Insurance Returns for the year ended**

**31 December 2006**



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



# PRUDENTIAL RETIREMENT INCOME LIMITED

Year ended 31 December 2006

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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 2006**

Solo solvency calculation

	Company registration number	GL/UK/CM	day month year			Units	
	<b>R2</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
				<b>As at end of this financial year</b>		<b>As at end of the previous year</b>	
				<b>1</b>		<b>2</b>	

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	156120	
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	509348	454412
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	665468	454412

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	173108	117547
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	492360	336865

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	519323	352642
Resilience capital requirement	<b>32</b>		
Base capital resources requirement	<b>33</b>	2139	2030
Individual minimum capital requirement	<b>34</b>	519323	352642
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	519323	352642
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	405807	278091
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	275976	189931

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		
Enhanced capital requirement	<b>40</b>	519323	352642

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	519323	352642
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	146145	101770

**Contingent liabilities**

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

**Form 2**

Name of insurer      **Prudential Retirement Income Limited**

Global business

Financial year ended      **31 December 2006**

\_\_\_\_\_ **N E T Prettejohn**      **Chief Executive**

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

\_\_\_\_\_ **T V Boardman**      **Director**

**Date**

**London 22 March 2007**

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

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day month year			Units	
	<b>R3</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>		<b>4</b>	

**Core tier one capital**

Permanent share capital	<b>11</b>		517700	517700	465700
Profit and loss account and other reserves	<b>12</b>		433701	433701	296494
Share premium account	<b>13</b>				
Positive valuation differences	<b>14</b>				
Fund for future appropriations	<b>15</b>				
Core tier one capital in related undertakings	<b>16</b>				
Core tier one capital (sum of 11 to 16)	<b>19</b>		951401	951401	762194

**Tier one waivers**

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

**Other tier one capital**

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

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		971401	971401	782194
Investments in own shares	<b>32</b>				
Intangible assets	<b>33</b>				
Amounts deducted from technical provisions for discounting	<b>34</b>				
Other negative valuation differences	<b>35</b>		305333	305333	327282
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>		305333	305333	327282
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		666068	666068	454912

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

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day	month	year	Units
<b>R3</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business <b>1</b>	Long-term insurance business <b>2</b>	Total as at the end of this financial year <b>3</b>	Total as at the end of the previous year <b>4</b>	

**Tier two capital**

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

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

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

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

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	<b>R3</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>		<b>4</b>	

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	<b>71</b>					
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		666068	666068	454912	
Inadmissible assets other than intangibles and own shares	<b>73</b>		600	600	500	
Assets in excess of market risk and counterparty limits	<b>74</b>					
Deductions for related ancillary services undertakings	<b>75</b>					
Deductions for regulated non-insurance related undertakings	<b>76</b>					
Deductions of ineligible surplus capital	<b>77</b>					
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		665468	665468	454412	

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

Available capital resources for guarantee fund requirement	<b>81</b>		665468	665468	454412	
Available capital resources for 50% MCR requirement	<b>82</b>		665468	665468	454412	
Available capital resources for 75% MCR requirement	<b>83</b>		665468	665468	454412	

**Financial engineering adjustments**

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

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

Global business

Financial year ended **31 December 2006**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
	<b>R13</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
						<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
						<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>					

**Investments in group undertakings and participating interests**

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

**Other financial investments**

Equity shares	<b>41</b>			
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>			
Rights under derivative contracts	<b>44</b>	2473	1742	
Fixed interest securities	Approved	<b>45</b>	280123	296983
	Other	<b>46</b>	189436	102336
Variable interest securities	Approved	<b>47</b>	6400	
	Other	<b>48</b>	10967	4812
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>			
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>			
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	14359	14045
	More than one month withdrawal	<b>55</b>		
Other financial investments	<b>56</b>			
Deposits with ceding undertakings	<b>57</b>			
Assets held to match linked liabilities	Index linked	<b>58</b>		
	Property linked	<b>59</b>		

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

Global business

Financial year ended **31 December 2006**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

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

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	803	41657
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	7753	5461
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	512314	467036
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**Analysis of admissible assets**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2006**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	2006	£000	1
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					1	2	

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

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	<b>91</b>	512314	467036
Assets in excess of market and counterparty limits	<b>92</b>		
Capital resources requirement deduction of regulated related undertakings	<b>93</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>94</b>		
Inadmissible assets of regulated related insurance undertakings	<b>95</b>		
Book value of related ancillary services undertakings	<b>96</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>97</b>		
Deferred acquisition costs excluded from line 89	<b>98</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>99</b>		
Other asset adjustments (may be negative)	<b>100</b>	(30)	(41229)
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 100)	<b>101</b>	512284	425807
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>102</b>		

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

Global business

Financial year ended **31 December 2006**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	2006	£000	10
						As at end of this financial year	As at end of the previous year	
						1	2	
Land and buildings				11			456020	233797

**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		
Participating interests	Shares	29		
	Debts and loans	30		

**Other financial investments**

Equity shares	41			
Other shares and other variable yield participations	42			
Holdings in collective investment schemes	43			
Rights under derivative contracts	44	9093	3772	
Fixed interest securities	Approved	45	3718649	2446448
	Other	46	6831313	4206017
Variable interest securities	Approved	47	94284	79174
	Other	48	224810	106768
Participation in investment pools	49			
Loans secured by mortgages	50	14094	14691	
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	32434	34222	
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	532361	413357
	More than one month withdrawal	55		
Other financial investments	56			
Deposits with ceding undertakings	57			
Assets held to match linked liabilities	Index linked	58	1540469	1509547
	Property linked	59		

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

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	25861	27302
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>	14348	4515
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	1300	13060
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	20856	
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	209082	115742
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>	14408	15807

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	13739382	9224219
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**Analysis of admissible assets**Name of insurer **Prudential Retirement Income Limited**

Global business

Financial year ended **31 December 2006**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	2006	£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 its external financial reporting**

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	91	13739382	9224219
Assets in excess of market and counterparty limits	92		
Capital resources requirement deduction of regulated related undertakings	93		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	94		
Inadmissible assets of regulated related insurance undertakings	95		
Book value of related ancillary services undertakings	96		
Other differences in the valuation of assets (other than for assets not valued above)	97	(5477)	
Deferred acquisition costs excluded from line 89	98		
Reinsurers' share of technical provisions excluded from line 89	99		
Other asset adjustments (may be negative)	100	(7851)	8816
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 100)	101	13726054	9233035
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102		

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

Global business

Financial year ended **31 December 2006**Total business/Sub fund **21 Ordinary Branch Long Term**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	<b>11</b>	12983065	8816050	
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>			
Balance of surplus/(valuation deficit)	<b>13</b>	156720	500	
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	13139785	8816550	
Claims outstanding	Gross	<b>15</b>	2622	1794
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	2622	1794
Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers	<b>23</b>			
Creditors	Direct insurance business	<b>31</b>	7081	4140
	Reinsurance accepted	<b>32</b>	4490	1188
	Reinsurance ceded	<b>33</b>		
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions	<b>36</b>		28532	
Creditors	Taxation	<b>37</b>	19578	3994
	Other	<b>38</b>	565118	367104
Accruals and deferred income	<b>39</b>	1308	1417	
Provision for "reasonably foreseeable adverse variations"	<b>41</b>			
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	600197	408169	
Excess of the value of net admissible assets	<b>51</b>			
Total liabilities and margins	<b>59</b>	13739982	9224719	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	3478	1589
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>		

Total liabilities (11+12+49)	<b>71</b>	13583262	9224219
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>		
Other adjustments to liabilities (may be negative)	<b>74</b>	(319261)	(360172)
Capital and reserves and fund for future appropriations	<b>75</b>		
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75)	<b>76</b>	13264001	8864047

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

Global business

Financial year ended **31 December 2006**

	Company registration number	GL/UK/CM	day	month	year	Units	
	<b>R15</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
						As at end of this financial year 1	As at end of the previous year 2

**Technical provisions (gross amount)**

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

**Provisions and creditors**

Provisions	Taxation	<b>21</b>	100	
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers		<b>31</b>		
Creditors	Direct insurance business	<b>41</b>		
	Reinsurance accepted	<b>42</b>		
	Reinsurance ceded	<b>43</b>		
Debenture loans	Secured	<b>44</b>		
	Unsecured	<b>45</b>		
Amounts owed to credit institutions		<b>46</b>		
Creditors	Taxation	<b>47</b>	1598	8932
	Declared dividend	<b>48</b>		
	Other	<b>49</b>	1268	3692
Accruals and deferred income		<b>51</b>		
Total (19 to 51)		<b>59</b>	2966	12624
Provision for "reasonably foreseeable adverse variations"		<b>61</b>		
Cumulative preference share capital		<b>62</b>		
Subordinated loan capital		<b>63</b>		
Total (59 to 63)		<b>69</b>	2966	12624

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	<b>71</b>		
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Reinsurers' share of DAC	<b>81</b>		
Amounts deducted from technical provisions for discounting	<b>82</b>		
Other adjustments (may be negative)	<b>83</b>	(30)	(23)
Capital and reserves	<b>84</b>	971401	782194
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69+81-82+83+84)	<b>85</b>	974337	794795

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

Global business

Financial year ended **31 December 2006**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		<b>R16</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>
				This financial year			Previous year	
				1			2	
Transfer (to)/from the general insurance business technical account	From Form 20		<b>11</b>					
	Equalisation provisions		<b>12</b>					
Transfer from the long term insurance business revenue account			<b>13</b>					9206
Investment income	Income		<b>14</b>			23666		16386
	Value re-adjustments on investments		<b>15</b>					10055
	Gains on the realisation of investments		<b>16</b>			1320		11414
Investment charges	Investment management charges, including interest		<b>17</b>			361		264
	Value re-adjustments on investments		<b>18</b>			20192		
	Loss on the realisation of investments		<b>19</b>					
Allocated investment return transferred to the general insurance business technical account			<b>20</b>					
Other income and charges (particulars to be specified by way of supplementary note)			<b>21</b>			(750)		(599)
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			<b>29</b>			3683		46198
Tax on profit or loss on ordinary activities			<b>31</b>			747		10129
Profit or loss on ordinary activities after tax (29-31)			<b>39</b>			2936		36069
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			<b>41</b>					
Tax on extraordinary profit or loss			<b>42</b>					
Other taxes not shown under the preceding items			<b>43</b>					
Profit or loss for the financial year (39+41-(42+43))			<b>49</b>			2936		36069
Dividends (paid or declared)			<b>51</b>					
Profit or loss retained for the financial year (49-51)			<b>59</b>			2936		36069

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

Global business

Financial year ended **31 December 2006**Category of assets **Total other than long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		<b>R17</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>1</b>
		As at the end of this financial year			As at the end of the previous year				
		Assets	Liabilities	Assets	Liabilities				
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>				
<b>Derivative contracts</b>									
Futures contracts	Fixed-interest securities	<b>11</b>							
	Equity shares	<b>12</b>							
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>							
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>							
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							
	Land	<b>33</b>							
	Currencies	<b>34</b>							
	Other	<b>35</b>	2473			1742	2173		
Adjustment for variation margin		<b>41</b>							
Total (11 to 41)		<b>49</b>	2473			1742	2173		

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

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		<b>R17</b>	<b>47842</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</b>	<b>10</b>
		As at the end of this financial year			As at the end of the previous year				
		Assets	Liabilities	Assets	Liabilities				
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>				
<b>Derivative contracts</b>									
Futures contracts	Fixed-interest securities	<b>11</b>							
	Equity shares	<b>12</b>							
	Land	<b>13</b>							
	Currencies	<b>14</b>				4			
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>							
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>							
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							
	Land	<b>33</b>							
	Currencies	<b>34</b>	2633	14389			7200		
	Other	<b>35</b>	6460	4675	3768		47		
Adjustment for variation margin		<b>41</b>							
Total (11 to 41)		<b>49</b>	9093	19064	3772		7247		

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

Name of insurer **Prudential Retirement Income Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	3409225	2202785
Investment income receivable before deduction of tax	12	526516	372147
Increase (decrease) in the value of non-linked assets brought into the account	13	(353087)	545614
Increase (decrease) in the value of linked assets	14		
Other income	15	128700	
<b>Total income</b>	<b>19</b>	<b>3711354</b>	<b>3120546</b>

**Expenditure**

Claims incurred	21	715692	456091
Expenses payable	22	100099	75476
Interest payable before the deduction of tax	23		697
Taxation	24	9755	(13348)
Other expenditure	25		60042
Transfer to (from) non technical account	26		9206
<b>Total expenditure</b>	<b>29</b>	<b>825546</b>	<b>588164</b>

Business transfers - in	31	1437428	
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	4323236	2532382
Fund brought forward	49	8816550	6284168
Fund carried forward (39+49)	59	13139786	8816550

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

Name of insurer **Prudential Retirement Income Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Regular premiums	11		3309		3309	23947
Single premiums	12		3405916		3405916	2178838

**Reinsurance - external**

Regular premiums	13					
Single premiums	14					

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17		3309		3309	23947
Single premiums	18		3405916		3405916	2178838

**Total**

Gross	19		3409225		3409225	2202785
Reinsurance	20					
Net	21		3409225		3409225	2202785

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

Name of insurer **Prudential Retirement Income Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2006**  
 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		985		985	189
Disability periodic payments	12					
Surrender or partial surrender	13		43446		43446	11436
Annuity payments	14		665334		665334	439431
Lump sums on maturity	15		5927		5927	5035
<b>Total</b>	<b>16</b>		<b>715692</b>		<b>715692</b>	<b>456091</b>

**Reinsurance - external**

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

**Reinsurance - intra-group**

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

**Net of reinsurance**

Death or disability lump sums	41		985		985	189
Disability periodic payments	42					
Surrender or partial surrender	43		43446		43446	11436
Annuity payments	44		665334		665334	439431
Lump sums on maturity	45		5927		5927	5035
<b>Total</b>	<b>46</b>		<b>715692</b>		<b>715692</b>	<b>456091</b>

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

Name of insurer **Prudential Retirement Income Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Commission - acquisition	11		27856		27856	25230
Commission - other	12					
Management - acquisition	13		31889		31889	28945
Management - maintenance	14		18496		18496	13536
Management - other	15		21858		21858	7765
<b>Total</b>	<b>16</b>		<b>100099</b>		<b>100099</b>	<b>75476</b>

**Reinsurance - external**

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

**Reinsurance - intra-group**

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

**Net of reinsurance**

Commission - acquisition	41		27856		27856	25230
Commission - other	42					
Management - acquisition	43		31889		31889	28945
Management - maintenance	44		18496		18496	13536
Management - other	45		21858		21858	7765
<b>Total</b>	<b>46</b>		<b>100099</b>		<b>100099</b>	<b>75476</b>

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

Name of insurer **Prudential Retirement Income Limited**  
 Total business  
 Financial year ended **31 December 2006**  
 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				618
Single premium business	12		48198	48198	33368
<b>Total</b>	<b>13</b>		48198	48198	33986

**Amount of new regular  
premiums**

Direct insurance business	21				23947
External reinsurance	22				
Intra-group reinsurance	23				
<b>Total</b>	<b>24</b>				23947

**Amount of new single  
premiums**

Direct insurance business	25		800000	800000	1084315
External reinsurance	26		1071626	1071626	250616
Intra-group reinsurance	27		1534290	1534290	843907
<b>Total</b>	<b>28</b>		3405916	3405916	2178838

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

Name of insurer

**Prudential Retirement Income Limited**

Total business

Financial year ended

**31 December 2006**

Units

**£000**

UK Pension / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
390	Deferred annuity non-profit - Group deferred annuities			5842	29240
400	Annuity non-profit (CPA) - Individual annuities in payment			30307	591713
400	Annuity non-profit (CPA) - Group annuities in payment			4864	30536
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment			1133	51385
905	Index linked annuity - Group annuities in payment			2313	17478
905	Index linked annuity - Group deferred annuities			2398	8170
905	Index linked annuity - Individual annuities in payment			1341	71478

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

Name of insurer

**Prudential Retirement Income Limited**

Total business

Financial year ended

**31 December 2006**

Units

**£000**

UK Pension / Reinsurance accepted external

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
400	Annuity non-profit (CPA) - Individual annuities in payment			97231	1063934
905	Index linked annuity - Individual annuities in payment			1133	7692

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

Name of insurer

**Prudential Retirement Income Limited**

Total business

Financial year ended

**31 December 2006**

Units

**£000**

UK Pension / Reinsurance accepted intra-group

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
400	Annuity non-profit (CPA) - Individual annuities in payment			90829	1519195
905	Index linked annuity - Individual annuities in payment			331	15095

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

Name of insurer **Prudential Retirement Income Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 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	456020	456020	19237	4.22	
Approved fixed interest securities	12	3777884	3777884	182876	4.76	
Other fixed interest securities	13	6977698	6977698	381390	5.43	
Variable interest securities	14	321231	321231	8142	1.88	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	666080	666080	31948	4.80	
<b>Total</b>	<b>19</b>	<b>12198913</b>	<b>12198913</b>	<b>623593</b>	<b>5.05</b>	

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

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

**Overall return on with-profits assets**

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

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

Name of insurer **Prudential Retirement Income Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
<b>UK Government approved fixed interest securities</b>	<b>11</b>	1250079	12.56	4.49	4.49

<b>Other approved fixed interest securities</b>	<b>21</b>	2527805	10.21	4.90	4.87
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**Other fixed interest securities**

AAA/Aaa	<b>31</b>	616656	11.27	5.08	4.88
AA/Aa	<b>32</b>	1202450	12.20	5.15	4.87
A/A	<b>33</b>	3192160	11.37	5.48	4.99
BBB/Baa	<b>34</b>	1149065	10.58	5.70	4.73
BB/Ba	<b>35</b>	5511	7.39	9.06	5.99
B/B	<b>36</b>				
CCC/Caa	<b>37</b>				
Other (including unrated)	<b>38</b>	811856	10.70	5.50	5.02
<b>Total other fixed interest securities</b>	<b>39</b>	6977698	11.29	5.43	4.92

<b>Approved variable interest securities</b>	<b>41</b>	94891	18.43	1.30	1.30
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<b>Other variable interest securities</b>	<b>51</b>	226340	17.81	2.13	1.76
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<b>Total (11+21+39+41+51)</b>	<b>61</b>	11076813	11.38	5.10	4.76
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**Long-term insurance business : Summary of mathematical reserves**

Name of insurer **Prudential Retirement Income Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2006**  
 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		11365636	11365636	7239907
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16		1540469	1540469	1509547
Form 54 - non-linked	17		76960	76960	66596
<b>Total</b>	<b>18</b>		<b>12983065</b>	<b>12983065</b>	<b>8816050</b>

**Reinsurance - external**

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

**Reinsurance - intra-group**

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

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42		11365636	11365636	7239907
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46		1540469	1540469	1509547
Form 54 - non-linked	47		76960	76960	66596
<b>Total</b>	<b>48</b>		<b>12983065</b>	<b>12983065</b>	<b>8816050</b>

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

Name of insurer **Prudential Retirement Income Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2006**  
 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	27238	41947					432180
390	Deferred annuity non-profit - Group deferred annuities unprocessed business							72104
400	Annuity non-profit (CPA) - Group annuities in payment	60780	95313					1074455
400	Annuity non-profit (CPA) - Group annuities in payment unprocessed business							29738
400	Annuity non-profit (CPA) - Individual annuities in payment	133843	250491					3738296
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment	8395	28821					403231
400	Annuity non-profit (CPA) - Group annuities in payment (reassurance accepted excluding PAC (ex-SAL))		15358					153537
400	Annuity non-profit (CPA) - Individual annuities in payment (reassurance accepted excluding PAC (ex-SAL))		318103					4655294
400	Annuity non-profit (CPA) - Individual annuities in payment (reassurance accepted from PAC (ex-SAL))		24726					299257
405	Annuity non-profit (CPA impaired life) - Individual annuities in payment (reassurance accepted excluding PAC (ex-SAL))		784					11308
440	Additional reserves non-profit OB - Miscellaneous							122928
440	Additional reserves non-profit OB - Mismatching							110249
440	Additional reserves non-profit OB - Policy related expenses							263059

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

Name of insurer **Prudential Retirement Income Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2006**  
 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 - Group annuities in payment	20839	36723		585001	585001		585001
905	Index linked annuity - Group annuities in payment - valued as fixed	47	40		1337	1337		1337
905	Index linked annuity - Group annuities in payment unprocessed business				35475	35475		35475
905	Index linked annuity - Group deferred annuities	9764	21711		200134	200134		200134
905	Index linked annuity - Group deferred annuities - valued as fixed	255	544		7603	7603		7603
905	Index linked annuity - Group deferred annuities unprocessed business				72051	72051		72051
905	Index linked annuity - Individual annuities in payment	13232	24829		503333	503333		503333
905	Index linked annuity - Individual annuities in payment (reassurance accepted excluding PAC (ex-SAL))		4955		94943	94943		94943
905	Index linked annuity - Individual annuities in payment (reassurance accepted from PAC (ex-SAL))		164		3265	3265		3265
915	Additional reserves index linked - Miscellaneous						16208	16208
915	Additional reserves index linked - Mismatching						60752	60752
915	Additional reserves index linked - Policy related expenses				37327	37327		37327



**Long-term insurance business: analysis of valuation interest rate**Name of insurer **Prudential Retirement Income Limited**Total business **21 Ordinary Branch Long Term**Financial year ended **31 December 2006**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	10869400		4.73	4.85
Form 51: Additional reserves	233177			4.85
Form 51: Additional reserves - policy related expenses	263059		1.55	1.59
Form 54: Additional reserves	76960			1.59
<b>Total</b>	11442596			

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

Name of insurer **Prudential Retirement Income Limited**  
 Total business / subfund **21 Ordinary Branch Long Term**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	13139786	8816550
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		9206
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	13139786	8825756
Mathematical reserves	21	12983066	8816050
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	156720	9706

**Composition of surplus**

Balance brought forward	31	500	70042
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	156220	(60336)
Total	39	156720	9706

**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		9206
Total distributed surplus (46+47)	48		9206
Surplus carried forward	49	156720	500
Total (48+49)	59	156720	9706

**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 2006**Units **£000**

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

**Insurance death risk capital component**

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

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

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

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	11365636	11365636	1.00	113656	72399
Classes III, VII and VIII (investment risk)	33	1%	1617429	1617429	1.00	16174	15761
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%					
Classes III, VII and VIII (other)	35	25%					
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	<b>39</b>					129831	88161

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	11365636	11365636	1.00	340969	217197
Classes III, VII and VIII (investment risk)	43	3%	1617429	1617429	1.00	48523	47284
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%					
Classes III, VII and VIII (other)	45	0%					
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	<b>49</b>		12983065	12983065		389492	264482

<b>Long term insurance capital requirement</b>	<b>51</b>					519323	352642
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## **PRUDENTIAL RETIREMENT INCOME LIMITED**

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

#### **Valuation Report as at 31 December 2006**

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

- (1) The investigation relates to 31 December 2006.
- (2) The previous investigation related to 31 December 2005.
- (3) No interim valuations have been carried out for the purposes of rule 9.4 since 31 December 2005.

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

###### (a) New products

No new products have been introduced during the financial year.

###### (b) New bonus series

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

###### (c) Products withdrawn

No products have been withdrawn during the financial year.

###### (d) Changes to options or guarantees under existing products

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

###### (e) With-profits subfunds

There are no with-profits subfunds.

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

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

(8) Not applicable

(9) Not applicable

(10) Not applicable

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

In this report, the following abbreviations are used:

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

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

The mathematical reserve for RPI-linked annuities is, in general, determined without an explicit allowance for future increases in annuity payments, which is consistent with the treatment of the matching assets. The treatment of RPI-linked annuities which are subject to maximum and/or minimum percentage increases, is as follows:

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

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

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

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

- (2) Interest rates used to value the liabilities are calculated in accordance with a waiver received under Section 148 of the Financial Services and Markets Act 2000, the effect of which is to modify the provisions of INSPRU 3.1.35R and IPRU (INS) Appendix 9.4 so that a more appropriate rate of interest will be used for assets taken in combination.

The interest rates used are as follows:

#### Non-linked

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2006 %</b>	<b>31 December 2005 %</b>
All	All products	4.73	4.28 <sup>(1)</sup>

#### Index linked

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2006 %</b>	<b>31 December 2005 %</b>
905	All products (except index linked annuities – valued as fixed)	1.55	1.34
905	Index linked annuity – group annuities in payment – valued as fixed Index linked annuity – group deferred annuities – valued as fixed	4.73	4.28 <sup>(1)</sup>

- <sup>(1)</sup> This was shown as 4.29% for all non-linked business and index linked (valued as fixed) business (excluding 2005 business accepted from Royal London) and 3.95% for 2005 business accepted from Royal London in the 2005 year end FSA Returns. This was equivalent to 4.28% for all non-linked business and index linked (valued as fixed) business (including 2005 business accepted from Royal London).

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 default allowance is determined from data supplied by our investment manager, which itself is based upon research carried out by one of the major rating agencies. This analysis, based on actual default experience over a 35 year period, produces mean default rates according to credit quality and term to redemption.

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

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

To calculate the overall default provision, the corporate bond portfolio is broken down according to credit rating and level of security. The default rate for each category is assumed to vary between 100% and 200% of the appropriate mean default rate, reduced by the expected recovery, plus a further amount for credit risk. The derived default rates for each level of security are set out below:

Default rates – basis points per annum:

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

Regard is also paid to the yield differential between corporate and government bonds, and prevailing economic circumstances.

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

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

Aggregate yields on the backing assets have been adjusted by 0.33% and 0.20% to allow for potential defaults within the non-linked and index-linked asset portfolios respectively. These default adjustments include margins for prudence.

(4)

**Non-linked**

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2006</b>	<b>31 December 2005</b>
400	<b>Annuity non-profit (CPA) – individual annuities in payment</b> <b>Annuity non-profit (CPA) – individual annuities in payment (reassurance accepted excluding PAC(ex-SAL))</b> <b>Annuity non profit (CPA) – group annuities in payment (reassurance accepted)</b>		
405	<b>Annuity non-profit (CPA impaired life) – individual annuities in payment</b> <b>Annuity non-profit (CPA impaired life) – individual annuities in payment (reassurance accepted)</b>		
	Mortality table	Modified 99% PNMA00 / 85% PNFA00	Modified 89% PMA92 / 84% PFA92 (C=2004)
	Expectation of life age 65	22.4 (M), 25.0 (F)	22.1 (M), 24.9 (F)
	Expectation of life age 75	13.7 (M), 16.0 (F)	13.4 (M), 16.2 (F)
400	<b>Annuity non-profit (CPA) – group annuities in payment</b> <b>Annuity non-profit (CPA) – group annuities in payment unprocessed business</b>		
	Mortality table	Modified 114% PNMA00 / 103% PNFA00	Modified 100% PMA92 / 102% PFA92 (C=2004)
	Expectation of life age 65	21.2 (M), 23.4 (F)	21.0 (M), 23.2 (F)
	Expectation of life age 75	12.7 (M), 14.6 (F)	12.5 (M), 14.7 (F)
390	<b>Deferred annuity non-profit – group deferred annuities</b> <b>Deferred annuity non-profit – group deferred annuities unprocessed business</b>		
	Mortality table	In deferment: AM92 /AF92 – 4 years In payment: Modified 114% PNMA00 / 103% PNFA00	In deferment: AM92 /AF92 – 4 years In payment: Modified 100% PMA92 / 102% PFA92 (C=2004)
	Current age 45, expectation of life age 65	23.6 (M), 24.8 (F)	23.5 (M), 24.8 (F)
	Current age 55, expectation of life age 65	22.4 (M), 24.1 (F)	22.2 (M), 24.0 (F)
400	<b>Annuity non-profit (CPA) – individual annuities in payment (reassurance accepted from PAC (ex-SAL))</b>		
	Mortality table	Modified 110% PNMA00 / 86% PNFA00	75% PMA92 / 69% PFA92 (C=2004)
	Expectation of life age 65	21.5 (M), 24.9 (F)	20.7 (M), 24.7 (F)
	Expectation of life age 75	12.9 (M), 15.9 (F)	12.8 (M), 16.4 (F)

## Index linked

Product code number	Product description	31 December 2006	31 December 2005
905	<b>Index linked annuity – individual annuities in payment</b> <b>Index linked annuity – individual annuities in payment (reassurance accepted excluding PAC (ex-SAL))</b>		
	Mortality table	Modified 99% PNMA00 / 85% PNFA00	Modified 89% PMA92 / 84% PFA92 (C=2004)
	Expectation of life age 65	22.4 (M), 25.0 (F)	22.1 (M), 24.9 (F)
	Expectation of life age 75	13.7 (M), 16.0 (F)	13.4 (M), 16.2 (F)
905	<b>Index linked annuity – group annuities in payment</b> <b>Index linked annuity – group annuities in payment - valued as fixed</b> <b>Index linked annuity – group annuities in payment unprocessed business</b>		
	Mortality table	Modified 114% PNMA00 / 103% PNFA00	Modified 100% PMA92 / 102% PFA92 (C=2004)
	Expectation of life age 65	21.2 (M), 23.4 (F)	21.0 (M), 23.2 (F)
	Expectation of life age 75	12.7 (M), 14.6 (F)	12.5 (M), 14.7 (F)
905	<b>Index linked annuity – group deferred annuities</b> <b>Index linked annuity – group deferred annuities – valued as fixed</b> <b>Index linked annuity – group deferred annuities unprocessed business</b>		
	Mortality table	In deferment: AM92 / AF92 – 4 years  In payment: Modified 114% PNMA00 / 103% PNFA00	In deferment: AM92 / AF92 – 4 years  In payment: Modified 100% PMA92 / 102% PFA92 (C=2004)
	Current age 45, expectation of life age 65	23.6 (M), 24.8 (F)	23.5 (M), 24.8 (F)
	Current age 55, expectation of life age 65	22.4 (M), 24.1 (F)	22.2 (M), 24.0 (F)
905	<b>Index linked annuity – individual annuities in payment (reassurance accepted from PAC (ex-SAL))</b>		
	Mortality table	Modified 110% PNMA00 / 86% PNFA00	75% PMA92 / 69% PFA92 (C=2004)
	Expectation of life age 65	21.5 (M), 24.9 (F)	20.7 (M), 24.7 (F)
	Expectation of life age 75	12.9 (M), 15.9 (F)	12.8 (M), 16.4 (F)

### Mortality bases used at 31 December 2006

Annuities are generally valued using a percentage of the 00 series tables for annuitants and pensioners (normal retirements). In order to allow for mortality improvement, improvement factors are applied from 2001. For males these are in

line with 100% of the CMI medium cohort projections, subject to future improvement factors not being less than 1.25% p.a. For females, future improvement factors are in line with 75% of the CMI medium cohort projections, subject to future improvement factors not being less than 0.75% p.a. For impaired lives, an adjustment is made to the annuitant's age to allow for impairment.

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

### **Mortality bases used at 31 December 2005**

Annuities were generally valued using a percentage of the 92 series tables for annuitants and pensioners. In order to allow for mortality improvement, the CMIR 17 mortality improvement factors were applied up to and including 2004. Future improvement factors were applied from 2005, and for males were in line with 100% of the CMI medium cohort projections, subject to future improvement factors not being less than 1.25% p.a. For females, future improvement factors were in line with 75% of the CMI medium cohort projections, subject to future improvement factors not being less than 0.75% p.a. For impaired lives, an adjustment was made to the annuitant's age to allow for impairment.

The individual annuities in payment reassured from PAC (ex-SAL) were valued using percentages of single entry tables with calendar year 2004. The percentages were chosen so that the rates used were equivalent to double entry tables with future improvement factors as described above.

(5) Not applicable

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

<b>Product code number</b>	<b>Product description</b>	<b>31 December 2006</b>	<b>31 December 2005</b>
All	All products <sup>(1)</sup>	£23.25 p.a.	£24 p.a.

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

The inflation rates assumed for future expenses are as follows:

<b>Product code number</b>		<b>31 December 2006</b>	<b>31 December 2005</b>
All	All products	3.5% p.a	3.5% p.a

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

<b>Product code number</b>		<b>31 December 2006</b>	<b>31 December 2005</b>
All	All products	0.06% p.a	0.06% p.a

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

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

- (7) Not applicable
- (8) Not applicable
- (9) No lapses have been allowed for in the valuation.
- (10) There are no material basis assumptions not stated elsewhere.
- (11) Derivative contracts held as at 31 December 2006 comprised:
  - i) Contracts to swap UK Sterling LIBOR for fixed UK Sterling
  - ii) Contracts to swap fixed Euros for fixed UK Sterling
  - iii) Contracts to swap future income increasing at a fixed rate each year for income varying in line with changes in RPI/LPI
  - iv) A contract to swap future floating UK LIBOR for UK RPI linked cashflows
  - v) Contracts to swap fixed US Dollars for fixed UK Sterling
  - vi) Contracts to swap RPI for fixed UK Sterling

The effect of the contract under i) is to convert UK Sterling cashflows from a Floating Rate Note into fixed UK Sterling cashflows.

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

The effect of the contracts under iii) and iv) is to convert fixed / LIBOR UK Sterling cashflows into RPI linked UK Sterling cashflows.

The effect of the contract under v) is to convert cashflows from a US Dollar denominated bond into UK Sterling cashflows.

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

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

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

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

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

## 5. Options and guarantees

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

## 6. Expense reserves

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

	£m
Per policy expenses	14.9
Investment management expenses	7.8
Total	22.7

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 £18.5m. The maintenance expenses shown in (1) above include margins for prudence.
- (4) It is expected that all new business written in the twelve months following the valuation date will be written on terms which do not result in new business strain in the Company. Therefore no new business expense overrun reserve is required.
- (5) In the first instance, expense reserves are calculated on the assumption that Prudential's UK insurance operations will continue to write new business indefinitely and hence that there will be no loss of economies of scale. In this scenario, the amount of the expense loading over the remaining lifetime of the contracts in force at the valuation date is £298.1m.

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

At the valuation date, an additional reserve of £2.3m is held for the impact of closing to new business.

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

## **7. Mismatching reserves**

- (1) All the mathematical reserves are payable in sterling and the assets which match the liabilities are sterling assets. There are some US Dollar and Euro denominated assets which, in conjunction with specific swap derivative contracts, effectively produce income in UK Sterling. See 4(11) for details.
- (2) Not applicable
- (3) Not applicable
- (4) The most onerous scenario under INSPRU 3.1.16R was:
- (i) a fall in property values of 20% plus a fall in rental income of 10%, and;
  - (ii) a fall in yield on all fixed interest securities of 0.92%, which is the percentage point fall equal to 20% of the long-term gilt yield at the valuation date.

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

- (5) There were no significant territories at the valuation date.
- (6) In respect of the scenario described under (4) above;
- (a) No resilience capital requirement was necessary.
  - (b) The increase in the aggregate amount of the long-term insurance liabilities was £1,063m.
  - (c) The increase in the aggregate amount of assets backing these liabilities was £1,092m.
- (7) A reserve of £171.0m was held arising from the test on assets in INSPRU 1.1.34R(2).

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

- (i) the risk adjusted cashflows of the assets backing the liabilities, and;

- (ii) the future liability payments on the valuation assumptions.

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

## **8. Other special reserves**

The additional reserves also include £125.5m as an allowance for general contingencies.

## **9. Reinsurance**

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

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

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

## PRUDENTIAL RETIREMENT INCOME LIMITED

### Returns for the year ended 31 December 2006

#### Supplementary notes to the returns

##### Form 2

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

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

##### Form 3

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

	2006 £'000s
Line 89 on Form 13 (OLTB)	512,314
Line 89 on Form 13 (LTF)	13,739,382
Line 11 on Form 14	(12,983,065)
Line 49 on Form 14	(600,197)
Line 69 on Form 15	(2,966)
Line 79 on Form 3	<u>665,468</u>

## Supplementary notes to the returns (continued)

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

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

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

\*0310\* Valuation differences

	2006 £'000s
<i>Positive valuation differences where liabilities are lower than in the shareholders accounts</i>	
Deferred tax held on additional reserves and valuation difference	188,399
Contingent loan	134,328
<i>Positive valuation differences where assets are Higher than in the Shareholder account</i>	
FSA valuation difference on investments	5,477
<i>Negative valuation differences where liabilities are higher than in the shareholders accounts</i>	
Additional reserves held in long term fund	(633,537)
Line 35 on Form 3	<u>(305,333)</u>

### Form 13

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

\*1302\* The company held £81m in hybrid securities.

\*1304\* Amounts due to or from the company have been set off to the extent permitted by generally accepted accounting principles.

\*1305\* The maximum permitted exposure to any one counterparty has been set in accordance with the counterparty limits detailed in the General Prudential Sourcebook. Therefore exposures to non-approved counterparties have been restricted to a maximum of 5% of the long term business amount. No counterparty exposure during the year exceeded these limits.

## Supplementary notes to the returns (continued)

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

\*1307\* No “secure obligations” were held at the year end.

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

\*1308\* The company held £375m in unlisted securities.

\*1309\* The company held £1,976m in hybrid securities.

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

\*1311\* The maximum permitted exposure to any one counterparty has been set in accordance with the counterparty limits detailed in the General Prudential Sourcebook. Therefore exposures to non-approved counterparties have been restricted to a maximum of 5% of the long term business amount. No counterparty exposure during the year exceeded these limits.

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

\*1313\* No “secure obligations” were held at the year end.

\*1318\* Other asset adjustments

	2006 £'000s
<i>Other than long term business assets</i>	
Miscellaneous liabilities netted off against assets in the financial statements	(30)
Line 100 on Form 13	(30)
	2006 £'000s
<i>Total long term business assets</i>	
Miscellaneous liabilities netted off against assets in the financial statements	(7,851)
Line 100 on Form 13	(7,851)

## Supplementary notes to the returns (continued)

\*1321\* Other differences in valuation of assets

	2006 £'000s
<u>Total long term business assets</u>	
Assets valued on a different basis than that in the financial statements	(5,477)
Line 97 on Form 13	<u>(5,477)</u>

### Form 14

\*1401\* The long term fund held a number of interest rate, currency and inflation-linked swaps during the year. The swaps involved the exchange of cash flows and not of the underlying principal amount. No provision for adverse change is required, as all derivatives that impose an obligation on the fund are strictly covered.

\*1402\* (a) There were no charges attributable to the long term business assets.

(b) Increases in the value of assets of the long term fund do not attract tax, and therefore no provision, potential or otherwise, has been made for any liability to tax which might arise if the company disposed of its assets at the values stated in this return.

(c) There are three contingent loans, not in Form 14, at the year end repayable to Prudential Finance (UK) PLC. The loans and interest on the loans are repayable out of the surplus emerging on its business and is contingent on surpluses arising. The value of these loans total £134,328k.

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

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

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

## Supplementary notes to the returns (continued)

\*1405\* Details of other adjustments to liabilities

	2006 £'000s
Additional reserves held in long term fund	(633,537)
Deferred tax provision on additional reserves	190,000
Deferred tax provision on valuation differences	(1,601)
Inadmissible deferred tax asset netted off deferred	
Tax liability in financial statements	(600)
Contingent loan	134,328
Miscellaneous adjustments to liabilities	(7,851)
Line 74 on Form 14	<u>(319,261)</u>

### Form 15

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

\*1502\* (a) There were no charges attributable to the other than long term insurance business assets.

(b) The total potential liability to taxation on capital gains which might arise if the company disposed of its assets was £100k.

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

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

\*1507\* Details of other adjustments to liabilities

	2006 £'000s
Intragroup balances less than 100k	<u>(30)</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 40

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

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

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

\*4004\* The company received a business transfer in on 4 July 2006 from Phoenix and London Assurance Company Limited (PALAC) in respect of a portfolio of in-payment pension annuities. Assets were transferred to the company, from Prudential Pensions Limited where the business had previously been reassured from PALAC via Prudential Assurance Company Limited in 2005. The premium of £1,437 million, is equivalent to the value of the assets transferred on the transfer date and a later initial premium adjustment.

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

\*4009\* The Company has reinsurance agreements with a related company, The Prudential Assurance Company Limited, in respect of non-participating approved pension annuity contracts. This includes an agreement with Scottish Amicable Life Plc which was novated to The Prudential Assurance Company Limited on 17 December 2002 and agreements dated 1 July and 25 November 2004, and an agreement with Scottish Amicable Insurance Fund, which was novated to The Prudential Assurance Company Limited in September 1997. During the year, claims amounting to £149 million were paid under these reinsurance agreements. A premium, calculated on normal commercial terms, amounting to £1,530 million was received. The liabilities included in the Return, relating to this business, amount to £2,835 million at the year end.

There were no other material intra-group transactions.

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

### Form 47

- \*4702\* For group annuity business where a premium for a scheme 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 4,600.

### Form 48

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

### Form 49

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

### Form 51

- \*5105\* The amount of double-counting of policies between Forms 51 and 54 combined is 57,900.

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

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

- \*5106\* Annuities included in Forms 51 and 54 are categorised depending on the type of escalation of benefits once an annuity is in payment. Form 51 includes annuities that increase at a guaranteed fixed rate and Form 54 includes annuities where benefits are dependent on changes in RPI. Deferred annuities with revaluation in line with RPI in deferment and fixed increases in payment are included in Form 51.

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

Form 54

\*5405\* The amount of double-counting of policies between Forms 51 and 54 combined is 57,900.

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

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

Form 57

The information required in respect of waivers 352191 (dated 29 December 2004) and 520102 (dated 5 September 2005) is as follows:

Product group	Risk adjusted yield on matching assets (Form 57 column 5)	Corresponding asset yield
Form 51: Immediate & deferred annuities	4.85%	5.18%
Form 51: Additional reserves non-profit OB – policy related expenses	1.59%	1.79%

## **PRUDENTIAL RETIREMENT INCOME LIMITED**

**Financial year ended 31 December 2006**

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

We certify:

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

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

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

.....

N E T Prettejohn  
Chief Executive

.....

D J Belsham  
Director

.....

T V Boardman  
Director

22 March 2007

## **PRUDENTIAL RETIREMENT INCOME LIMITED**

**Financial year ended 31 December 2006**

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

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

- Forms 2, 3, 13 to 17, 40 to 43, 48, 49, 56, 58 and 60, (including the supplementary notes) on pages 3 to 54 (‘the Forms’);
- the statement required by rule 9.29 on pages 60 to 62 (‘the Statement’); and
- the statements, analysis and reports required by IPRU (INS) rule 9.31(a) (“the valuation report”) on pages 36 to 46.

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

- Forms 46, 47, 50, 51, 54 and 57 (including the supplementary notes) on pages 23 to 54;
- the statement required by IPRU (INS) rules 9.30 on page 63; or
- the certificate signed by IPRU (INS) rule 9.34 on pages 55 to 56 (‘the certificate’).

This report is made solely to the Company’s directors, as a body, in accordance with the requirements of IPRU (INS) rule 9.35. We acknowledge that the directors are required to submit this report to the FSA, to enable the FSA to verify that an auditor’s report has been commissioned by the Company’s directors and issued in accordance with the requirements of IPRU (INS) rule 9.35 and to facilitate the discharge by the FSA of its regulatory functions in respect of the Company, conferred on the FSA by or under the Financial Services and Markets Act 2000. Our audit work has been undertaken so that we might state to the Company’s directors those matters we are required to state to them in an auditor’s report issued pursuant to IPRU (INS) rule 9.35 and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s directors as a body, for our audit work, for this report, or for the opinions we have formed.

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

The Company is responsible for the preparation of an annual return (including the Forms, the Statement, the valuation report, the forms and statements not examined by us and the certificate) under the provisions of the Rules. The requirements of the Rules have been modified by waivers issued under section 148 of the Financial Services and Markets Act 2000 on 31 December 2004 and 5 September 2005. Under IPRU (INS) rule 9.11 the Forms, the Statement, valuation report, the forms and statements not examined by us and the certificate are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules.

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

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

### **Basis of opinion**

We conducted our work in accordance with Practice Note 20 “The audit of insurers in the United Kingdom” and Bulletin 2004/5 issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the Statement, and the valuation report. The evidence included that previously obtained by us relating to the audit of the financial statements of the Company for the financial year. It also included an assessment of the significant estimates and judgements made by the Company in the preparation of the Forms, the Statement and the valuation report.

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

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

## **Opinion**

In our opinion:

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

KPMG Audit Plc  
Registered Auditor

London

22 March 2007

## **PRUDENTIAL RETIREMENT INCOME LIMITED**

### **Returns for the year ended 31 December 2006**

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

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

As requested by rule 9.29 of IPRU (INS), (FSA Statutory Instrument 2004/98) the investment guidelines for the use of derivative contracts for both long term and other than long term funds are set out below. These are fully explained in the Company's Investment Management Agreement with its fund managers and are consistent with the investment strategy.

- (i) Derivatives are used for the purpose of efficient portfolio management or to reduce risk, specific examples being to implement tactical asset allocation changes around the strategic benchmark, hedge cash flows, or control the risk profile of an identified strategy.
- (ii) A number of restrictions on the use of derivatives have been agreed with the Company's fund managers and can only be overruled by prior agreement between the two parties:
  - all derivatives that impose obligations on the fund must be strictly covered.
  - all derivative contracts must satisfy the definition of approved under IPRU (INS).
  - the maximum allowable exposure to counterparties should not be exceeded.
  - only certain permitted exchanges and contracts can be used.
- (iii) During the year the company has used interest rate, currency and inflation-linked swaps in the long term business and interest rate swaps in the other than long term business.

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

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

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

During 2006 no such contracts were used.

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

- (d) Effect on form 13 at 31 December 2006 of exercising derivatives where it would be prudent to assume options would be exercised. Decreases are shown in brackets**

**Long-term funds**

Form 13 line 44	(£9,093k)
Form 13 line 58 (Derivatives);	(£25,825k)
Form 13 line 58 (Cash);	£25,825k
Form 13 line 54/55/81;	(£9,970k)

**Other than long-term funds**

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

- (e) Effect on form 13 at 31 December 2006 of exercising all derivatives. Decreases are shown in brackets**

**Long-term funds**

Form 13 line 44;	(£9,093k)
Form 13 line 58 (Derivatives);	(£25,825k)
Form 13 line 58 (Cash);	£25,825k
Form 13 line 54/55/81;	(£9,970k)

**Other than long-term funds**

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

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

**Conditions noted in (d)**

**Long-term funds**

Form 13 line 44	(£1,369k)
Form 13 line 58 (Derivatives);	(£109,871k)
Form 13 line 58 (Cash);	£109,871k
Form 13 line 54/55/81;	(£44,089k)

**Other than long-term funds**

Form 13 line 44;	(£1,742k)
Form 13 line 54/55/81	(£432k)

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

### Conditions noted in (e)

#### Long-term funds

Form 13 line 44;	(£1,369k)
Form 13 line 58 (Derivatives);	(£109,871k)
Form 13 line 58 (Cash);	£109,871k
Form 13 line 54/55/81;	(£44,089k)

#### Other than long-term funds

Form 13 line 44	(£1,742k)
Form 13 line 54/55/81	(£432k)

The above figures are the maximum impact on the individual line items of exercising derivatives at any time during the year. The maximum impacts for each line will not necessarily occur on the same day.

### (g) Maximum exposure

#### Long-term funds

The maximum loss which would have been incurred by the Company on the failure by any one counterparty to fulfil its obligations under derivative contracts at the end of the year was £17,755k.

Under foreseeable market conditions the Company's exposure would not increase beyond £25,000k as timely actions would be taken by the Investment Manager in line with its collateral management policies to prevent further exposures arising. The maximum loss at any other time during the year was £25,000k.

#### Other than long-term funds

The maximum loss which would have been incurred by the Company on the failure by any one counterparty to fulfil its obligations under derivative contracts at the end of the year was £2,196k.

Under foreseeable market conditions the Company's exposure would not increase beyond £2,306k. The maximum loss at any other time during the year was £2,283k.

### (h) Derivatives not covered by the definition of an admissible derivative contract in IPRU (INS).

There were no derivative contracts held during 2006 that did not satisfy requirements of the IPRU (INS).

### (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 2006

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

##### Additional information on shareholder controllers

We confirm that the following is a list of:

- (a) Persons who, to the knowledge of Prudential Retirement Income Limited (“the company”), have been, at any time during the year ended 31 December 2006, a shareholder controller of the company; and
- (b) In the case of each person who was a shareholder controller of the company at 31 December 2006:
  - (i) the percentage of shares he held at that time in the company, or in another company of which the company was a subsidiary undertaking; and
  - (ii) the percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the company, or another company of which it was a subsidiary undertaking;

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

Persons who, to the knowledge of the company, have been, at any time during the year ended 31 December 2006, a shareholder controller of the company.	In the case of each person who was a shareholder controller of the company at 31 December 2006:	
	The percentage of shares he held at that time in the company, or in another company of which the company was a subsidiary undertaking, either alone or ( <i>shown separately</i> ) with any associate or associates	The percentage of the voting power which he was entitled at that time to exercise, or control the exercise of, at any general meeting of the company, or another company of which it was a subsidiary undertaking, either alone or ( <i>shown separately</i> ) with any associate or associates
The Prudential Assurance Company Limited, being its immediate holding company	100%	100%
Prudential plc, being its ultimate holding company	100%	100%