Registered No: 1347088

PRUDENTIAL (AN) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

PRUDENTIAL (AN) LIMITED

Incorporated and registered in England and Wales. Registered no. 1347088.

Registered Office: Laurence Pountney Hill, London, EC4R 0HH

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PRUDENTIAL (AN) LIMITED

Directors

D J Belsham
F A O'Dwyer

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG Audit Plc
Chartered Accountants
1 Canada Square
Canary Wharf
London
E14 5AG

PRUDENTIAL (AN) LIMITED

Incorporated and registered in England and Wales. Registered no. 1347088

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

Principal activity

The principal activity of the Company in the course of 2009 was the transaction of long-term pensions and life insurance business in the United Kingdom. This will continue in 2010.

Business review

Throughout 2009 the Company continued its arrangements with The Prudential Assurance Company Limited (PAC) under which it reinsures the risks associated with both its unit linked pensions business and with-profits policies. The Company writes mostly pension and some life products that were previously sold to the customers of Abbey National. Although no active selling continues, new business is generated as policyholders top up existing policies and when existing policyholders switch from pensions into annuity contracts. In common with other UK long-term insurance companies, the Company's products are structured as either with-profits (or participating) products, or non-participating products including annuities in payment and unit-linked products. Depending upon the structure, the level of shareholders' interest in the value of policies and the related profit or loss varies. The profits from almost all of the Company's non-participating business accrue solely to shareholders.

Market review and strategy

The operations of the Company are managed as part of the UK Insurance Operations (UKIO) of the Prudential plc Group. UKIO's long-term products consist of life insurance, pension products and pension annuities. In 2009, it continued its strategy of selectively competing in areas of the retirement savings and income markets where it can generate attractive returns. The Company remains focussed on maximising value from the opportunity afforded by the fast growing need for retirement solutions.

Risks & uncertainties

The Company is a wholly owned subsidiary within the Group, Prudential plc and as such forms a part of the overall risk management process of the Group. A significant part of the Group's business involves the acceptance and management of risk. The Group has a Risk Framework requiring all businesses and functions within the Group i.e. including the Company, to establish processes for identifying, evaluating and managing key risks. The system of internal control is an essential and integral part of the risk management process. As part of the annual preparation of its business plan, all of the Group's businesses and functions are required to carry out a review of risks including an assessment of the impact and likelihood of key risks and effectiveness of the controls in place to manage them. The assessment is reviewed regularly throughout the year and all businesses and functions within the Group are required to confirm annually that they have undertaken risk management. Actual performance is regularly monitored against the business plans. Detailed procedures are laid down in financial and actuarial procedure manuals. The insurance operations of the Group, such as the Company, also prepare a financial condition report.

Further detail about the key risks and uncertainties affecting the Company is provided in the sections Financial Risk Management, Market Risk, Credit Risk and Liquidity Risk in note 7 and in the financial statements of the parent company, PAC.

Performance and measurement

The results of the Company for the year as set out on pages 8 and 9 show a profit on ordinary activities before tax of £619,000 (2008:£1,784,000).

The shareholders' funds of the Company total £25,052,000 (2008:£24,526,000).

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

Corporate responsibility

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

In 2009, financial institutions came under continued scrutiny as a result of the market turmoil. Insurance companies are, however, fundamentally different from banks because they invest in assets for the long-term. During the financial turmoil the organisation played a significant role to help stabilise the market by providing liquidity during difficult times to the benefit of the whole economy.

Insurance companies have a unique role in society by helping people manage uncertainty and plan for a more secure future. In this way, the organisation's commercial value is linked to the social value of what is offered to its customers.

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

The Group, of which the Company is a part, has developed a Group Governance Framework which is underpinned by a Group Governance Manual and associated processes. In late 2008, the CR framework was enhanced to further drive sustainability performance, provide greater focus to programmes and activities, and to enable a more consistent approach to reporting. The CR activities are framed around five core themes:

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

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

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

Post Balance Sheet Events

There have been no significant events affecting the Company since the balance sheet date.

Accounts

The state of affairs of the Company at 31 December 2009 is shown in the balance sheet on page 11. The profit and loss account appears on pages 8 and 9.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)

Share Capital

There have been no changes to share capital in the year.

Dividends

No dividend was paid in the year (2008: £Nil).

Payment policy

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

Directors

The present directors are shown on page 1.

Mr F A O'Dwyer was appointed as a director on 5 January 2009.

Mr S Allen resigned as a director of the Company on 31 December 2009.

There were no other changes during the year.

Disclosure to auditor

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

Auditor

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

Directors' and officers' protection

Prudential plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the Prudential Group. In addition, the Articles of Association of the Company permit the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office.

On behalf of the Board of directors.

Julie McLeod
On behalf of Prudential Group Secretarial Services Limited
Secretary

26th March 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, that complies with that law and those regulations.

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

D J Bell

D J Belsham
Director

26th March 2010

PRUDENTIAL (AN) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRUDENTIAL (AN) LIMITED

We have audited the financial statements of Prudential (AN) Limited for the year ended 31 December 2009 set out on pages 8 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Chris Moulder

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

26 March 2010

PRUDENTIAL (AN) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2009

Technical Account - Long Term Business	**Notes**	**2009 £000**	**2008 £000**
Earned premiums, net of reinsurance			
Gross premiums written	2	1,113	1,772
Outward reinsurance premiums		(1,104)	(1,764)
		9	**8**
Investment income	3	374	667
Other technical income		762	145
		1,136	**812**
Claims incurred, net of reinsurance			
Claims paid - gross amount		(10,559)	(19,417)
- reinsurers' share		10,586	17,511
		27	**(1,906)**
Change in the provision for claims			
- gross amount	9	(281)	1,418
		(281)	**1,418**
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		704	13,970
- reinsurers' share		(499)	(12,936)
	9	**205**	**1,034**
Other charges			
Net operating expenses - administrative expenses		(1,044)	(901)
Investment expenses and charges	3	(70)	177
Unrealised (losses)/gains on investments	3	(124)	525
Tax attributable to the long term business	4	40	(333)
		(1,198)	**(532)**
Balance on the technical account - long term business		**(102)**	**834**

All of the amounts above are in respect of continuing operations.

The notes on pages 12 to 26 form an integral part of these financial statements.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)

Non-Technical Account	**Notes**	**2009 £000**	**2008 £000**
Balance on the technical account – long term business		**(102)**	**834**
Tax (charge)/credit attributable to the balance on the technical account – long term business	4	(40)	333
Balance on the long term business technical account before tax		**(142)**	**1,167**
Investment income	3	839	619
Unrealised losses on investments	3	(78)	(2)
Operating profit on ordinary activities before tax		**619**	**1,784**
Tax on profit on ordinary activities	4	(93)	(502)
Profit for the financial year		**526**	**1,282**

The Company has no recognised gains or losses other than those reported in the profit and loss account.

In accordance with the amendment to Financial Reporting Standard 3 (FRS 3) published in June 1999 no note of historical cost profits has been prepared as the Company's only material gains and losses on assets relate to the holding and disposal of investments.

All of the amounts above are in respect of continuing operations.

The notes on pages 12 to 26 form an integral part of these financial statements.

PRUDENTIAL (AN) LIMITED

Reconciliation of movements in shareholders' funds for the year ended 31 December 2009

	2009 £000	2008 £000
Profit for the financial year	526	1,282
Net movement in shareholders' funds	526	1,282
Shareholders' funds at beginning of year	**24,526**	**23,244**
Shareholders' funds at end of year	**25,052**	**24,526**

The notes on pages 12 to 26 form an integral part of these financial statements.

PRUDENTIAL (AN) LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2009

	Notes	2009 £000	2008 £000
ASSETS			
Investments			
Investments in group undertakings - loans	7	12,813	12,191
Other financial investments	7	12,894	16,317
		25,707	**28,508**
Reinsurers' share of technical provisions			
Long term business provision	7	106,142	106,641
Technical provision for linked liabilities	7	75,489	73,442
		181,631	**180,083**
Debtors			
Debtors arising out of reinsurance operations		33	8
Other debtors	8	1,062	1,778
Deferred tax asset	4	-	43
Other Assets			
Cash at bank and in hand	14	4,504	996
Prepayment and accrued income			
Accrued interest and rent		138	24
Total assets		**213,075**	**211,440**
LIABILITIES			
Capital and reserves			
Called up share capital	16	18,000	18,000
Profit and loss account	9	7,052	6,526
Total shareholders' funds attributable to equity interests		**25,052**	**24,526**
Technical provisions			
Long term business provision	9,10	110,579	111,283
Claims outstanding	9	649	368
		111,228	**111,651**
Technical provisions for linked liabilities	11	75,489	73,442
Provision for other risks and charges			
Deferred taxation	4	104	-
Creditors			
Other creditors including taxation and social security	12	279	838
Accruals and deferred income	13	923	983
Total liabilities		**213,075**	**211,440**

The accounts on pages 8 to 26 were approved by the board of directors on 26th March 2010

D J Bell

D J Belsham
Director

NOTES TO THE ACCOUNTS

1. Accounting Policies

A. Change in accounting policies

The Company has implemented the following changes in preparing its results for the year ended 31 December 2009. These standards closely reflect the requirements of International Financial Reporting Standards (IFRS) and form part of the continuing convergence of IFRS in the UK.

Amendments to FRS 29 – Improving Disclosures About Financial Instruments

In May 2009 the Accounting Standards Board (ASB) approved the 'Amendments to FRS 29 – Improving Disclosures About Financial Instruments', effective from 1 January 2009, which requires enhanced disclosures about fair value measurements and liquidity risk. The amendments include the introduction of a three-level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements. This has been included in Note 7.

Amendments to FRS 8 – Related Party Transactions

The amendments to FRS 8 'Related Party Transactions' became effective for the Company in 2009. The Company is required under the amendment to disclose any transactions with subsidiaries which are not wholly-owned. The Company did not have any disclosable transactions under this amendment.

Additionally, in 2009, the Company also adopted the following new accounting pronouncements for which their adoption has no material impact on the financial statements of the Company:

- Amendment on FRS 26 financial instruments – eligible hedged items
- Amendments to UITF Abstract 42 and FRS 26 – Embedded Derivatives
- Amendments to FRS 20 'Share-based Payment – Vesting Conditions and Cancellations'
- Improvements to Financial Reporting Standards

B. Basis of Preparation

The financial statements are prepared in accordance with Part 15 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The financial statements comply with applicable accounting standards and the ABI SORP, and have been prepared under the historical cost accounting rules, modified to include the revaluation of investments.

The Company has taken advantage of the exemption under FRS1 (Revised) from preparing a cash flow statement. The Company has not presented a capital position statement with supporting disclosures under FRS 27 on the basis that the Company is more than 90 per cent owned within a group and the Company is included in the publicly available Prudential group financial statements which provide information on a group basis complying with this requirement.

Going concern

The directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis of accounting in preparing the financial statements. This conclusion has been based upon the following: the Company is a subsidiary within the Prudential Group and it, its parent company and the ultimate parent company are continuing to trade and there are no plans for liquidation, the Company has a healthy solvency margin, well in excess of the regulatory capital resource requirement, and has very low debt-financing. In addition consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Business Review on pages 2 to 4, the management of financial risk as set out in Note 7, including its exposure to liquidity risk and credit risk.

1. Accounting Policies (continued)

C. Long-term Business

Under FRS 26, the measurement basis of assets and liabilities of long term business contracts is dependent upon the classification of the contracts as either insurance contracts, if the level of insurance risk is significant, or investment contracts if the risk is insignificant. A further distinction is made between investment contracts with and without discretionary participation features. Discretionary participation features represent the contractual right to receive additional benefits as a supplement to guaranteed benefits. The Company's contracts are mainly unit-linked contracts which are investment contracts without discretionary participating features. Insurance contracts and investment contracts with discretionary participation features are accounted for under previously applied UK GAAP, as set out in the ABI SORP.

Investment contracts without discretionary participation features are closer in nature to a deposit style arrangement between the investors and the Company. Premiums and withdrawals for these contracts are recorded within the balance sheet as a movement on the investors' liability and the long-term business technical account reflects the fee income, expenses and taxation on the contract.

If these contracts involve up-front charges, this income is also deferred and amortised through the technical account in line with contractual service provision. The provisions for investment contracts without discretionary participation features are included in Technical Provisions for Linked Liabilities in the balance sheet.

For unit linked business premiums are accounted for when the liabilities arising from the premiums are created. Premiums exclude any taxes or duties based on premiums. Pensions annuity contracts that vest during the year are included in claims incurred and premium income at the annuity purchase price.

Claims paid include maturities, annuities, surrenders and death. Maturity claims are accounted for on the policy maturity date. Annuity claims are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid and death claims when notified.

D. Long-term business provision

The long term business provision is determined by the Company's directors based on advice from the Company's actuarial function holder, who determined the provision using recognised actuarial methods, with due regard to the actuarial principles laid down in Directive 2002/83/EC. It is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Financial Services and Markets Act 2000. The valuation is then modified to remove certain resilience, contingency and other reserves required by Prudential Sourcebook issued by the Financial Services Authority.

For unit-linked business, the calculation of the long-term business provision in respect of the provision for future expenses compares the projected future revenue stream from each individual policy against the policy's share of projected future expenses using prudent assumptions. Where there is a deficit in the projected revenue compared to the projected level of charges, and such deficits will not be offset by projected excesses in the preceding years, a provision for future expenses is required. This provision is calculated by discounting the deficits at a prudent discount rate. The assumptions to which the long-term business provision is particularly sensitive are the interest rate used to discount the provision, the rate of fund growth on units and the assumed level of future expenses. The key assumptions are disclosed in note 10 of the financial statements.

For annuity business, the calculation is based on a discounted value of projected future annuity payments plus an allowance for expenses. The projected amounts are based on prudent assumptions of mortality and expenses, and these are discounted at a prudent discount rate. The provision is sensitive to each of these assumptions, but almost all of this business is reassured.

1. Accounting Policies (continued)

For term assurance business, the net premium valuation method has been used to calculate the long-term business provision. The net premium is calculated such that it would be exactly sufficient at the outset of the policy to provide the discounted value of the guaranteed death and maturity benefits. The provision is then calculated by subtracting the present value of future net premiums from the present value of future benefits using a prudent discount rate. As this business forms only a small part of the long-term business provision, the provision is not particularly sensitive to the assumptions used.

D. Long-term business provision (continued)

For accumulating with-profits policies the provision has been taken as the lower of:
- the accumulated fund or the value at the bid price of the notional number of units allocated to policyholders, in both cases excluding terminal bonus, and
- the surrender or transfer value which, having regard to policyholders' reasonable expectations, would be payable at the valuation date,

or, if greater, the value of the guaranteed liabilities excluding terminal bonus calculated on a gross premium bonus reserve method. For the purpose of calculating the liability using the bonus reserve method, the assumed interest rate of 1.6% has been used and future reversionary bonuses are assumed to fall from current levels to zero immediately.

E. Technical provision for linked liabilities

The technical provision for linked liabilities is based on the market value of the related assets.

F. Investments

Investment income and realised and unrealised gains in respect of long-term business are included in the long-term business technical account. Other investment income and realised gains and unrealised gains are included in the non-technical account.

Realised gains are determined as the difference between net proceeds on disposal and the purchase price. Movements in unrealised gains comprise the change in the value of investments held at the balance sheet date and the reversal of unrealised investment gains and losses recognised in earlier accounting periods in respect of investment disposals.

Investments in group undertakings are valued at the lower of cost and net realisable value.

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

(i) Financial investments at fair value through profit and loss – this comprises of assets designated by management as fair value through profit and loss on inception and derivatives which are deemed to be held for trading. These investments are valued at fair value with all changes thereon being recognised in the profit and loss account. An analysis of net gains/losses are disclosed separately in Note 3 on page 16.

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

(ii) Loans and receivables – these comprise investments that have fixed or determinable payments and are not designated as fair value through profit and loss or available-for-sale. These investments include loans secured by mortgages, deposits and loans to policyholders and other unsecured loans and receivables. Under FRS 26, these investments are carried at amortised cost using the effective interest method and subject to impairment reviews. The Company measures the amount of the impairment loss by comparing the amortised cost with the present value of its estimated future cash flows discounted at the original effective interest rate.

NOTES TO THE ACCOUNTS (continued)

1. Accounting Policies (continued)

G. Allocation of Surplus

Surpluses arising from linked long term business, as a result of the annual investigation of the long term business, are carried forward to the profit and loss account.

H. Tax

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

I. Foreign Currencies

Foreign currency assets and liabilities are translated at year end exchange rates. Foreign currency revenue transactions are translated at rates ruling at the transaction dates, except for accrued revenue items that are translated at year end exchange rates.

J. Reinsurance

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

2. Segmental analysis

(a) Long-term business

Gross Premiums	**2009**	**2008**
	£000	**£000**
Single premiums		
- direct:		
pensions	1,113	1,772
	1,113	**1,772**

All premiums were in respect of annuity purchases sold in the United Kingdom.

New Business	**2009**	**2008**
	£000	**£000**
Regular premiums – direct, pensions	46	30
Single premiums		
- direct:		
pensions	1,164	2,029
- intragroup reassurance accepted, pensions	2	2
	1,166	**2,031**

New business premiums include those contracts excluded from premium income in the technical account under FRS26 and the ABI SORP (as amended in December 2006). These are investment contracts without discretionary participation features and carry no significant insurance risk.

NOTES TO THE ACCOUNTS (continued)

2. Segmental analysis (continued)

(a) Long-term business (continued)

When classifying new business premiums for pension business the adopted basis of recognition is to include increments under existing pension schemes. Premiums include new single premiums with a gross value of £1,164,000 (2008: £2,029,000). The annualised gross value of new premiums (other than single) is £46,000 (2008: £30,000). Prior year comparatives for new premiums (other than single) have been restated for accuracy. All new business premiums are in respect of investment linked contracts.

(b) Assets attributable to the long term business fund

Of the total amount of assets shown on page 11, £192,651,000 (2008: £191,023,000) is attributable to the long term business fund.

3. Investment return

	Long-term business technical account		Non technical account	
	2009 £000	2008 £000	2009 £000	2008 £000
Investment Income				
Interest receivable – other than bank	-	-	621	191
Income from other investments	374	667	218	309
Gains on the realisation of investments	-	-	-	119
	374	667	839	619
Investment expenses and charges				
Investment managers' expenses	(70)	177	-	-
Unrealised (losses)/gains on investments	(124)	525	(78)	(2)
Total investment return	180	1,369	761	617

4. Taxation

	Non technical account	
	2009 £000	2008 £000
(a) Analysis of charge in the period		
Current tax		
UK Corporation tax on profit for the period	28	803
Adjustments in respect of prior years	(82)	(13)
Total current tax	(54)	790
Deferred tax		
Origination and reversal of timing differences	147	(288)
Total deferred tax	147	(288)
Tax (credit)/charge on profit on ordinary activities	**93**	**502**

NOTES TO THE ACCOUNTS (continued)

4. Taxation (continued)

b) Factors affecting tax charge for period

The tax assessed in the period is lower this year than the standard rate of Corporate Tax in the UK and the differences are explained below. The standard rate of tax has been determined by using the UK rate of corporation tax in force for the period for which the profits of the Company will be taxed.

	2009 £000	2008 £000
Profit on ordinary activities before tax	619	1,784
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 28.0% (2008 : 28.5%)	173	508
Effects of		
Tax on disallowable expenses	2	2
Deferred tax recognised in the period	(147)	288
Adjustments to current tax in respect of previous periods	3	(13)
Differences in tax rates between current and deferred tax	-	5
Write-off of prior year tax balances	(85)	-
Current tax charge for the period	(54)	790

The rate of corporation tax in the UK fell to 28% with effect from 1 April 2008. The effective rate applying for the year to 31 December 2008 was 28.5%.

(c) Balance Sheet

	2009 £000	2008 £000
Provision for Deferred Tax		
Short term timing differences	104	(43)
Undiscounted provision for deferred tax liability/(asset)	**104**	**(43)**
Deferred tax (asset)/liability at start of period	(43)	245
Deferred tax charged/(credited) in non technical account for the period	147	(288)
	104	**(43)**

5. Auditors' remuneration

During the year the Company obtained the following services from KPMG Audit plc (KPMG) at costs as detailed below

	2009 £	2008 £
Audit Services		
Fees payable to KPMG for the audit of the Company's accounts	22,000	19,800
Non-audit services		
Fees payable to KPMG and its associates for other services:		
Other services pursuant to legislation, including the audit of the regulatory return	3,000	8,000

6. Directors' emoluments and staff costs

The directors of the Company received emoluments of £2,453 during the year in connection with services to the Company (2008: £3,093). There was no compensation for loss of office (2008: £Nil).

Retirement benefits are accruing to 1 of the directors under the Group's defined benefit scheme and 1 of the directors under the Group's defined contribution scheme.

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

7. Investments

Investments in group undertakings - loans at 31 December 2009 of £12,813k (2008: £12,191k) represents a commercial loan (including interest) with PAC. Both the loan and interest are repayable at any time at the request of either party.

Other financial investments	Current Value		Cost	
	2009 £000	2008 £000	2009 £000	2008 £000
Debt securities and other fixed interest securities	5,799	5,978	5,987	5,998
Loans secured by mortgages	304	339	304	339
Deposits with credit institutions	6,791	10,000	6,791	10,000
	12,894	**16,317**	**13,082**	**16,337**

All debt securities and other fixed interest securities are listed on a recognised UK investment exchange.

Financial instruments – designation and fair values

On application of FRS26 all financial assets of the company are designated as either fair value through profit and loss or loans and receivables. Financial liabilities are designated as either fair value through profit and loss, amortised cost or investment contracts with discretionary participation features accounted for under FRS26 and the ABI SORP as described in the Accounting Policies section.

Designation and fair values

2009	Fair value through profit and loss £000	Loans and receivables £000	Total carrying value £000	Fair value £000
Financial Assets				
Deposits with credit institutions	-	6,791	6,791	6,791
Debt securities	5,799	-	5,799	5,799
Loans and receivables:				
Mortgage loans	-	304	304	304
Other debtors	-	13,875	13,875	13,875
Accrued interest and rent	-	138	138	138
Cash at bank and in hand	-	4,504	4,504	4,504
Total	5,799	25,612	31,411	31,411

2008	Fair value through profit and loss £000	Loans and receivables £000	Total carrying value £000	Fair value £000
Financial Assets				
Deposits with credit institutions	-	10,000	10,000	10,000
Debt securities	5,978	-	5,978	5,978
Loans and receivables:				
Mortgage loans	-	339	339	339
Other debtors	-	13,969	13,969	13,969
Accrued interest and rent	-	24	24	24
Cash at bank in hand	-	996	996	996
Total	5,978	25,328	31,306	31,306

7. Investments (continued)

None of the debt securities held at 31 December 2009 are convertible.

All financial assets as at year end were valued with reference to observable market prices except loans and receivables.

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

At 31 December 2009 the maximum exposure to credit risk on loans and receivables was £304,000 (2008: £339,000). Credit risk on the loans secured by mortgages is mitigated by the collateral held in the form of mortgage interests over property. The Company has not invested in any derivative instruments to further mitigate this risk. Given that the loans are secured by the property the amount of change in the fair value of the loans secured by mortgages attributable to changes in credit risk is insignificant.

The fair values of quoted investments are based on current bid prices, where appropriate. If the market for a financial asset is not active, fair value is established using quotations from independent third parties such as brokers or by using valuation techniques. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments.

Interest income on deposits was £137,000 (2008: £1,321,000). No other interest income or expenses was recognised in respect of financial assets that are not valued at fair value through the profit and loss account. The prior year comparative has been restated for accuracy.

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

In May 2009 FRS 29 'Financial Instruments: Disclosures' was amended by the ASB to require certain additional disclosures to be included in the financial statements. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement. FRS29 does not require comparatives to be provided in the year of adoption.

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

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

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

All financial assets as at year end were classified at level 1.

a) Concentration of credit risk

The following table summarises by the rating the securities held by the Company as at 31 December 2009 and 2008:

Standard & Poors (S&P) rating (or equivalent when not available from S&P)	**2009 £000**	**2008 £000**
AAA	5,799	5,978
AA	-	5,000
A	1,791	-
AA-	5,000	5,000
Moody's – below BBB or not rated	304	339
	12,894	16,317

7. Investments (continued)

b) Financial risk management

The Company's objectives and policy in relation to the management of financial risk resulting from its financial assets and liabilities is to minimise any risk. The Company's exposure to financial risk through its financial assets and liabilities is not considered material to the assessment of the Company's assets, liabilities, financial position, and the profit and loss of the Company. The company's exposure to financial risk is limited due to the matching of policyholder liabilities to attaching asset value movements for the unit linked business and the reinsured with-profits business.

Market risk

Market risk is the risk that future changes in market prices may make a financial instrument less valuable. The primary market risk that the Company faces is interest rate risk because most of its assets are investments that are bonds, mortgages or cash deposits, the values of which are subject to interest rate risk. The amount of risk borne by the Company's shareholders depends on the extent to which its customers share the investment risk through the structure of the Company's products. The Company has some liabilities that contain guaranteed returns which generally will be supported by fixed income investments.

Credit risk

Credit risk is the risk that a counterparty or an issuer of securities, which the Company holds in its asset portfolio, defaults or another party fails to perform according to the terms of the contract. The Company's long-term fund holds large amounts of interest rate sensitive investments that contain credit risk on which a certain level of defaults is expected. These expected losses are considered when the Company determines the crediting rates, deposit rates and premium rates for the products that will be supported by these assets. Although the investment guidelines of the Company permit the use of derivatives contracts none were used during 2009 or 2008. The Company is exposed to credit-related losses in the event of non-performance by counterparties.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet payment of obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or rates. Liquidity management in the Company seeks to ensure that, even under adverse conditions, the Company has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities.

For the unit-linked funds, there is a risk that significant policyholder outflows could exceed the short-term liquidity within the funds. The Company has the power to defer settlement to policyholders in certain circumstances by between one and six months, depending on the fund.

Reinsurer's share of technical provisions

Of the reinsurer's share of technical provisions of £181.6 million at 31 December 2009 (2008: £180.1 million), 0.02% of the balance relates to companies outside of the Prudential Group and of this 100% was to a reinsurer with S&P's rating of A+.

NOTES TO THE ACCOUNTS (continued)

7. Investments (continued)

c) Interest rate risk

2009	Fair value interest rate risk	Cash flow interest rate risk	Total
	£000	£000	£000
Financial Assets			
Deposits with credit institutions	6,791	-	6,791
Debt securities	5,799	-	5,799
Loans and receivables:			
Mortgage loans	-	304	304
Cash at bank and in hand	-	4,504	4,504
	12,590	4,808	17,398

2008	Fair value interest rate risk	Cash flow interest rate risk	Total
	£000	£000	£000
Financial Assets			
Deposits with credit institutions	10,000	-	10,000
Debt securities	5,978	-	5,978
Loans and receivables:			
Mortgage loans	-	339	339
Cash at bank and in hand	-	996	996
	15,978	1,335	17,313

To correctly classify interest rate risk, cash at bank and in hand for 2008 has been restated by moving it from "Not directly exposed to interest rate risk" to "Cash flow interest rate risk".

Effective Interest Rates

2009	Balance of financial instruments not at fair value in profit and loss	Range of effective interest rate applicable as at 31st December 2009 %
	£000	£000
Loans and receivables:		
Mortgage loans	304	1.65% - 2.15%
Cash at bank and in hand	4,504	0.4%
	4,808	

2008	Balance of financial instruments not at fair value in profit and loss	Range of effective interest rate applicable as at 31st December 2008 %
	£000	£000
Loans and receivables:		
Mortgage loans	339	3.40% - 3.90%
Cash at bank and in hand	996	1.7%
	1,335	

Sensitivity to Interest Rate Risk

Interest rate risk is minimal for the shareholder assets as the deposit terms are all less than one month. The Company has no commitments to lend at a fixed interest rate.

NOTES TO THE ACCOUNTS (continued)

7. Investments (continued)

d) Liquidity risk

Contractual maturities and repricing dates

2009	One year or less £'000	After 1 year to 5 years £'000	After 5 years to 10 years £'000	After 10 years to 15 years £'000	After 15 years to 20 years £'000	Total carrying value £'000
Financial Assets						
Deposits with credit institutions	6,791	-	-	-	-	6,791
Debt securities	-	-	5,799	-	-	5,799
Mortgage loans	-	33	-	229	42	304
Total	6,791	33	5,799	229	42	12,894

2008	One year or less £'000	After 1 year to 5 years £'000	After 5 years to 10 years £'000	After 10 years to 15 years £'000	After 15 years to 20 years £'000	Total carrying value £'000
Financial Assets						
Deposits with credit institutions	10,000	-	-	-	-	10,000
Debt securities	-	-	5,978	-	-	5,978
Mortgage loans	-	68	-	229	42	339
Total	10,000	68	5,978	229	42	16,317

The table below shows the maturity profile for investment contracts on an undiscounted basis to the nearest million. This maturity profile has been based on the cash flow projections of expected benefit payments as part of the determination of the value of in-force business when preparing the EEV basis results for the Prudential Group.

Maturity Profile for Investment Contracts

	1 Year or less £m	After 1 year to 5 years £m	After 5 years to 10 years £m	After 10 years to 15 years £m	After 15 years to 20 years £m	Over 20 years £m	Total carrying value £m
Financial Liabilities							
Investment Contracts without Discretionary Participation Features – 2009	20	22	38	15	2	1	98
Investment Contracts without Discretionary Participation Features - 2008	18	32	33	11	2	0	96

Financial liabilities are designated as either fair value through profit and loss, amortised costs or for investment contracts with discretionary participation features accounted for under FRS26 and the ABI SORP as described in the Accounting Policies section.

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NOTES TO THE ACCOUNTS (continued)

7. Investments (continued)

d) Liquidity risk (continued)

Financial Liabilities - Designation and fair values

2009	Fair Value through Profit & Loss Account £000	Amortised cost £000	Total carrying value £000	Fair value £000
Financial Liabilities				
Investment contracts without discretionary participation features	75,489	-	75,489	75,489
Accruals and deferred income	-	923	923	923
Total	75,489	923	76,412	76,412

2008	Fair Value through Profit & Loss Account £000	Amortised cost £000	Total carrying value £000	Fair value £000
Financial Liabilities				
Investment contracts without discretionary participation features	73,442	-	73,442	73,442
Accruals and deferred income	-	983	983	983
Total	73,442	983	74,425	74,425

At 31 December 2009 the Company held no financial liabilities that were exposed to interest rate risk and none with a contractual repricing date. All financial liabilities held at 31 December 2009 are denominated in pounds sterling and none are exposed to credit risk outside of the United Kingdom.

e) Derivatives and Hedging

As at 31 December 2009, the Company held no derivatives or forward contracts (2008: Nil).

f) Currency risk and geographical concentration

All financial assets are denominated in pounds sterling and none are exposed to credit risk outside of the United Kingdom.

8. Other debtors

All debtors are due within a period of 5 years

	2009 £000	2008 £000
Amounts due from group undertakings	950	1,713
Sundry debtors	112	65
	1,062	1,778

NOTES TO THE ACCOUNTS (continued)

9. Reserves and policyholder liabilities

	Long-term business provision net of reinsurance	Claims outstanding	Profit and Loss Account
	£000	£000	£000
Balance at beginning of year	4,642	368	6,526
Movement in profit and loss account for the year:			
Movement in technical provisions	(205)	281	-
Profit after tax	-	-	526
Net balance at end of year	4,437	649	7,052

Of the reinsurer's share of technical provisions of £181.6 million at 31 December 2009 (2008: £180.1 million), 0.02% of the balance relates to companies outside of the Prudential Group and of this 100% was to a reinsurer with S&P's rating of A+.

Of the balance on the profit and loss account at 31 December 2009 the amount required not to be treated as realised profits in determining the company's profits available for distribution is £Nil (2008:£Nil).

10. Long term business provision

The long term business provision has been calculated by the Company's Actuarial function holder.

For unit linked business the long term business provision comprises provisions for future expenses and mortality risks.

The provision for future expenses is calculated using a discounted cashflow method. The level of expenses allowed for has been increased broadly in line with inflation. In addition an explicit allowance has been made for the effect of regular income withdrawals.

The mortality basis for wholly reassured non-linked annuities in payment has been amended following a review of current and anticipated future experience.

Valuation interest rates and other economic assumptions reflect current market yields.

There have been no other significant changes in the bases or assumptions adopted for the calculation of the long term business provision during the year.

The unit-linked provisions have been calculated on the following bases:

	2009	2008
Discount Rate	3.00% gross	3.25% gross
Fund Growth	5.75% gross	5.00% gross
Expense Inflation	4.25%	3.50%
Mortality	AM/AF92-3	AM/AF92-3

NOTES TO THE ACCOUNTS (continued)

10. Long term business provision (continued)

	2009	2008
Personal / Self-Employed Pensions		
Expenses - Single Premium *	£64.67	£41.27
Expenses - Regular Premium - per policy *	£172.74	£129.40
Executive Pensions		
Expenses - Single Premium	£152.90	£107.91
Expenses - Regular Premium - per policy	£1,526.33	£1,230.22

* For 2009 the expenses are split into 2 elements, those attributable to Prudential and those from Capita. The expense shown here is a combined expense.

11. Technical provision for linked liabilities

The technical provision for linked liabilities comprises provision for the value of units attributed to policyholders. 100% of the provision is reinsured.

12. Other creditors including taxation and social security

All creditors are payable within a period of five years

	2009 £000	2008 £000
Tax payable	244	838
Amounts due to group undertakings	29	-
Sundry creditors	6	-
	279	**838**

13. Accruals and deferred income

Deferred income reserve	2009 £000	2008 £000
Balance at 1 January	983	291
(Deferred fees released to income)/Deferred fees	(60)	692
Balance at 31 December	**923**	**983**

14. Bank accounts

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

15. Capital requirements and management

Regulatory capital requirements apply at both an individual company level and at the Prudential Group level, of which the Company is a part, for life assurance and investment management business. The Prudential Group, of which the Company is a part, is currently subject to the solvency requirements of the Insurance Groups Directive (IGD) as implemented by the FSA.

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

NOTES TO THE ACCOUNTS (continued)

15. Capital requirements and management (continued)

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

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

The available capital of £25m (2008: £14m) reflects the excess of regulatory basis assets over liabilities of the Company before deduction of the regulatory capital resources requirement of £5m (2008: £5m). This excess of available capital over capital resources requirement is monitored during the year. In addition, a realistic assessment of available capital and capital requirements sufficient to cover a 1 in 200 year event is undertaken. Additional capital is sought from the parent company as necessary.

The capital requirement required by regulation was maintained during the year.

The Company's capital position for life assurance businesses with reconciliations to shareholders' equity is shown below. Available capital for each fund is determined by reference to the FSA regulations at 31 December 2009 and 2008.

	2009	**2008**
	£m	**£m**
Shareholders Equity		
Net Assets held outside long-term funds	20	9
Total Shareholder Equity	20	9
Held in long-term funds	5	5
Total available capital resources	25	14

16. Share capital

	2009	**2008**
	£000	**£000**
Allotted and fully paid:		
18 million ordinary shares (2008: 18 million) of £1 each	18,000	18,000

17. Related party transactions

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

18. Immediate and ultimate parent company

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