

PRUDENTIAL PENSIONS LIMITED

Annual Report and Financial Statements for the year ended 31 December 2010

PRUDENTIAL PENSIONS LIMITED

Incorporated and registered in England and Wales. Registered No. 992726.
Registered Office: Laurence Pountney Hill, London EC4R 0HH.

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PRUDENTIAL PENSIONS LIMITED

Directors

D J Belsham (Chairman)
J Betteridge
K Nunn

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG Audit Plc, London

PRUDENTIAL PENSIONS LIMITED

Incorporated and registered in England and Wales. Registered No. 992726.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

Principal activity

The principal activity of Prudential Pensions Limited (the Company) in the course of 2010 was the writing of long-term insurance business in the United Kingdom. This activity will continue in 2011.

Business review

The Company accepts reinsurance from The Prudential Assurance Company Limited in respect of corporate pension schemes. In addition the Company sells direct investment only business to group pension schemes. All of the Company's products are unit-linked products. The profits from the Company's business accrue solely to shareholders.

The Company does not report against Key Performance Indicators in its Business Review. This is because the Company is part of the wider Prudential plc Group and the Group's business is managed on a divisional basis by UK Insurance Operations and M&G. Key Performance Indicators exist for the management of these 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.

Market review and strategy

The operations of the Company are managed as part of the UK Insurance Operations (UKIO) of the Prudential plc Group and M&G.

UKIO's long-term products consist of life insurance, pension products and pension annuities. The Company remains focused on maximising value from the opportunity afforded by the fast growing need for retirement solutions.

The M&G side of the business largely invests money on behalf of defined benefit pension schemes. The key determinant of success and retention is delivery of good investment performance relative to the benchmark. The company is further exposed to changes in the marketplace, particularly in relation to its traditional defined benefit book, and actively monitors those changes.

Risks & uncertainties

The Company is a wholly owned subsidiary of Prudential plc and as such forms a part of the overall risk management process of the Group. A significant part of the Group's business involves the managed acceptance of risk. The Group has a Risk Governance Framework requiring all businesses and functions within the Group i.e. including the Company, to establish processes for identifying, evaluating and managing key risks. The 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 immediate parent company, The Prudential Assurance Company Limited, and the ultimate parent company, Prudential plc.

Performance and measurement

The results of the Company for the year as set out on pages 9 and 10 show a profit on ordinary activities before tax of £7,126,000 (2009: Profit £3,147,000).

The shareholders' funds of the Company total £29,579,000 (2009:£23,286,000).

PRUDENTIAL PENSIONS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

Corporate responsibility

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

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

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

The CR activities are framed around four core themes:

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

While the Group sets the overall strategy for CR, the framework gives the Company the flexibility to implement programmes that best 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. This committee is responsible for monitoring the Group's CR activities and for raising issues that need to be addressed.

Post balance sheet events

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

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

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

Accounts

The state of affairs of the Company at 31 December 2010 is shown in the balance sheet on page 12. The profit and loss account appears on pages 9 to 10.

Share Capital

There were no changes in the Company's share capital during 2010.

PRUDENTIAL PENSIONS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

Dividend

No dividend is proposed for the year (2009: Nil).

Payment policy

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

Directors

The present directors of the Company are shown on page 3.

I A Haasz resigned as director of the Company on 15 January 2010.

There were no other changes during the year.

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 unit linked business.

Disclosure of information 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.

On behalf of Prudential Group Secretarial Services Limited
S D Windridge
Secretary

28th March 2011

PRUDENTIAL PENSIONS LIMITED

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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

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.

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 Belsham
Director

28th March 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRUDENTIAL PENSIONS LIMITED

We have audited the financial statements of Prudential Pensions Limited for the year ended 31 December 2010 set out on pages 9 to 31. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

28th March 2011

PRUDENTIAL PENSIONS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010

Long-term Business Technical Account	Notes	2010 £000	2009 £000
Investment income	3	424,062	208,893
Unrealised gains on investment	3	453,905	998,432
Other technical income		29,347	25,273
		<u>907,314</u>	<u>1,232,598</u>
Claims incurred, net of reinsurance			
Change in provision for claims			
- gross amount	10	366	-
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		527	2,855
- reinsurers' share		(227)	(2,855)
	10	<u>300</u>	<u>-</u>
Change in technical provisions for linked liabilities, net of reinsurance	10	(968,525)	(1,168,980)
		<u>(968,225)</u>	<u>(1,168,980)</u>
Net Operating Expenses			
- Acquisition costs		(703)	(1,040)
- Administrative expenses		(6,937)	(7,448)
Investment expenses and charges	3	(12,558)	(9,902)
Foreign exchange gains / (losses)	3	90,402	(39,473)
Interest payable	3	(361)	(442)
Tax attributable to long term business	4	(3,089)	(2,928)
		<u>66,754</u>	<u>(61,233)</u>
Balance on the long-term business technical account		<u><u>6,209</u></u>	<u><u>2,385</u></u>

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

The accounting policies and notes on pages 13 to 31 form an integral part of these financial statements.

PRUDENTIAL PENSIONS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

Non-Technical Account	Notes	2010 £000	2009 £000
Balance on the long-term business technical account		6,209	2,385
Tax attributable to the balance on the long-term business technical account	4	801	671
Balance on the long term business technical account before tax		<u>7,010</u>	<u>3,056</u>
Investment income	3	114	87
Bank interest receivable	3	2	4
Operating profit on ordinary activities before tax		<u>7,126</u>	<u>3,147</u>
Tax on profit on ordinary activities	4	(833)	(696)
Profit for the financial year		<u>6,293</u>	<u>2,451</u>

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 accounting policies and notes on pages 13 to 31 form an integral part of these financial statements.

PRUDENTIAL PENSIONS LIMITED

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUND FOR THE YEAR ENDED 31 DECEMBER 2010

	2010	2009
	£000	£000
Shareholders' fund at the beginning of the year	23,286	20,835
Profit for the financial year	6,293	2,451
Shareholders' fund at the end of the year	<u>29,579</u>	<u>23,286</u>

The accounting policies and notes on pages 13 to 31 form an integral part of these financial statements.

PRUDENTIAL PENSIONS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2010

	Notes	2010 £000	2009 £000
ASSETS			
Investments			
Other financial investments	7	57,782	48,324
Assets held to cover linked liabilities	7,9	9,854,987	8,203,783
Reinsurers' share of technical provisions			
Long term business provision	10,11	76,985	77,212
Technical provision for linked liabilities	10,11	1,374,391	974,365
Debtors			
Other debtors	13	3,736	9,565
Other assets			
Cash at bank and in hand	14	13,793	6,421
Prepayments and accrued income		82	124
Total assets		<u>11,381,756</u>	<u>9,319,794</u>
LIABILITIES			
Capital and reserves			
Called up share capital	16	6,000	6,000
Capital redemption reserve	10	4,088	4,088
Profit and loss account	10	19,491	13,198
Total shareholders' funds attributable to equity interests		<u>29,579</u>	<u>23,286</u>
Technical provisions			
Long term business provision	10, 11	77,185	77,712
Claims outstanding	10	-	366
Technical provisions for linked liabilities	10	11,229,378	9,178,148
Provisions for other risks and charges			
Deferred taxation	4	8,641	7,994
Creditors			
Other creditors including taxation and social security	12	<u>36,973</u>	<u>32,288</u>
Total liabilities		<u>11,381,756</u>	<u>9,319,794</u>

The accounts on pages 9 to 31 were approved by the board of directors on 28th March 2011.

D J Belsham
Director

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS

1. Accounting Policies

(a) Change in accounting policies

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

(b) Basis of presentation

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 (Note 8 on page 27), generates positive cashflows and has very low debt-financing. In addition consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Business Review on pages 4 and 5, the management of financial risk as set out in Note 7, including its exposure to liquidity risk and credit risk.

(c) Long term business

Under FRS 26, the measurement basis of assets and liabilities of long term business contracts is dependent upon the classification of the contracts as either insurance contracts, if the level of insurance risk is significant, or investment contracts if the risk is insignificant. 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 has no investment contracts with discretionary participating features. 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 accounted for as financial liabilities under FRS 26 and, where relevant the provisions of the ABI SORP in respect of the attaching investment management features of the contracts. FRS 26 applies a different accounting treatment to these contracts than the previously applied UK GAAP primarily in respect of deferred acquisition costs, deferred income reserves, and provisions for future expenses commonly called "sterling reserves" (see below).

A further feature is that 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. The provisions for investment contracts without discretionary participation features are included in Technical Provisions for Linked Liabilities in the balance sheet.

Technical account treatment

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.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

1. Accounting Policies (continued)

(c) Long term business (continued)

Technical account treatment (continued)

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.

Under FRS26, the accounting treatment for investment contracts without discretionary participation features reflects the deposit nature of the arrangement with premiums and claims reflected as deposits and withdrawals taken directly to the balance sheet as a movement on the investors liability with the long-term technical account reflecting fee income, expense, and taxation on these contracts.

Sterling reserves are not permitted to be recognised under FRS26 for investment contracts.

(d) 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, except in respect of shareholder investments in subsidiaries, 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.

Under FRS26, upon initial recognition financial investments are recognised 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 assets designated by management as fair value through profit and loss on inception and derivatives which deemed to be held for trading. These investments are valued at fair value with all changes thereon being recognised in the profit and loss account.

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

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

Properties are valued annually by professional external valuers at market value as defined in the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors in particular Practice statement 3.2. In accordance with SSAP 19, no depreciation is provided on investment properties as the directors consider that to depreciate them would not give a true and fair view.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

1. Accounting Policies (continued)

(e) Long term business provision

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

(f) 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.

(g) Allocation of surpluses

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, in compliance with Financial Reporting Standard 19 (FRS 19).

(i) Cash flow statement

The Company has taken advantage of the exemption under FRS 1 (Revised) from preparing a cash flow statement.

(j) 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.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

2. Segmental analysis

(a) Gross Premiums

Premiums comprise corporate pension business. For premiums in respect of corporate pension business investment risk is borne by policyholders and transacted within the UK. All direct single and regular premiums are group pension business. Premiums for 2010 and 2009 are nil as all business is investment contracts without discretionary participation features and are deposit accounted, as described in the accounting policies part (c).

	2010 £000	2009 £000
New Business		
Single premiums		
- direct:		
pensions	758,799	699,821
external reinsurance	7,113	33,568
- intragroup reinsurance accepted, pensions	938,891	647,247
	<u>1,704,803</u>	<u>1,380,636</u>

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.

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 12, £11,370,097,000 (2009: £9,308,219,000) is attributable to the long term business fund.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

3. Investment return

	Long-term business Technical account		Non-Technical account	
	2010 £000	2009 £000	2010 £000	2009 £000
Investment Income				
Income from land and buildings	27,647	28,072	-	-
Income from listed investments	302,137	280,319	-	-
Income from other investments	18,223	11,438	114	87
Profit / (loss) on the realisation of investments	76,055	(110,936)	-	-
	<u>424,062</u>	<u>208,893</u>	<u>114</u>	<u>87</u>
Investment expenses and charges				
Investment managers' expenses	(12,558)	(9,902)	-	-
Unrealised gains / (losses) on investments				
Debt securities	459	(205)	-	-
Linked assets	453,446	998,637	-	-
Exchange gains / (losses) on investments	90,402	(39,473)	-	-
Bank interest (payable) /receivable	(56)	(67)	2	4
Intragroup interest (payable)	(305)	(375)	-	-
Total investment return	<u>955,450</u>	<u>1,157,508</u>	<u>116</u>	<u>91</u>

4. Tax on profit on ordinary activities

(a) Analysis of charge in the period

	Long-term business technical account		Non technical account	
	2010 £000	2009 £000	2010 £000	2009 £000
Current tax				
UK Corporation tax on profits of the period	(32)	(2,691)	32	25
Adjustments in respect of previous years	186	63	-	-
	<u>154</u>	<u>(2,628)</u>	<u>32</u>	<u>25</u>
Foreign tax	2,288	2,257	-	-
Total current tax	<u>2,442</u>	<u>(371)</u>	<u>32</u>	<u>25</u>
Deferred tax				
Adjustment in respect of previous years	44	(263)	-	-
Origination and reversal of timing difference	603	3,562	-	-
Tax charge on profit on ordinary activities	<u>3,089</u>	<u>2,928</u>	<u>32</u>	<u>25</u>

Shareholder tax attributable on the balance on the long term business technical account:

Current tax	154	(2,628)
Deferred tax	647	3,299
	<u>801</u>	<u>671</u>
Total	<u>833</u>	<u>696</u>

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

4. Tax on profit on ordinary activities (continued)

(b) Factors affecting tax charge for period

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.

From April 2011 the standard corporation tax rate for the UK will change from 28% to 27%. Subsequent phased rate changes to 24% are also proposed but are not yet substantially enacted. Deferred tax at the end of 2010 has been provided wholly at the rate of 27% on the basis that all of the temporary differences will reverse at the new rate. The effect of this change on the deferred tax liabilities at 31 December 2010 in PPL is £320k.

	2010 £000	2009 £000
Profit on ordinary activities before tax	<u>7,126</u>	<u>3,147</u>
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 28% (2009: 28%)	1,995	881
Effects of		
Permanent differences	3	15
Depreciation lower than capital allowances	(4)	-
Utilisation of losses on which no Deferred Tax recognised	(219)	-
Double tax relief claimed	(1,072)	-
Movement in reserves	(703)	-
Deferred tax recognised in period	-	(3,562)
Adjustments to current tax in respect of previous periods	186	63
Current tax charge for the period	<u>186</u>	<u>(2,603)</u>

(c) Balance sheet

	2010 £000	2009 £000
Provision for Deferred Tax		
Policy reserves	8,641	7,994
Undiscounted provision for deferred tax liability	<u>8,641</u>	<u>7,994</u>
Deferred tax liability at start of the period	7,994	4,695
Deferred tax charged in technical/non-technical account for the period	647	3,299
Deferred tax liability at the end of period	<u>8,641</u>	<u>7,994</u>

5. Auditors' remuneration

The remuneration of the auditors in respect of the audit of the Company's accounts amounted to £54,000 (2009 total audit fee: £60,000). The remuneration of the auditors in respect of other services pursuant to legislation, including the audit of the regulatory return amounted to £8,000 (2009: £7,500).

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

6. Directors' emoluments and staff costs

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

	2010 £000	2009 £000
Aggregate emoluments and benefits	12	11

Retirement benefits are accruing for the directors under the Group's defined benefit scheme. The Company has no employees (2009: Nil). Included within net operating expenses are amounts paid in return for management services provided to the Company by other group companies.

7. Investments

	Current value		Cost	
	2010 £000	2009 £000	2010 £000	2009 £000
Debt securities and other fixed income securities	12,282	11,824	11,633	11,633
Deposits with credit institutions	45,500	36,500	45,500	36,500
	<u>57,782</u>	<u>48,324</u>	<u>57,133</u>	<u>48,133</u>

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

A. Financial instruments

(i) Designation and fair values

All financial assets are designated as either fair value through profit and loss or loans and receivables. Financial liabilities are designated as either fair value through profit and loss or amortised cost (in both years).

2010	Fair value through profit and loss £000	Loans and receivables £000	Total carrying value £000	Fair value £000
Financial Assets				
Deposits with credit institutions	-	45,500	45,500	45,500
Debt securities	12,282	-	12,282	12,282
Accrued investment income	-	82	82	82
Other debtors	-	90	90	90
Cash at bank and in hand	-	13,793	13,793	13,793
Assets held to cover linked liabilities	9,854,987	-	9,854,987	9,854,987
Total	<u>9,867,269</u>	<u>59,465</u>	<u>9,926,734</u>	<u>9,926,734</u>

2010	Fair value through profit and loss £000	Amortised Cost £000	Total carrying value £000	Fair value £000
Financial Liabilities				
Creditors arising out of reinsurance operations	-	1,013	1,013	1,013
Other creditors	-	35,959	35,959	35,959
Investment contracts without discretionary participating features	11,229,378	-	11,229,378	11,229,378
Total	<u>11,229,378</u>	<u>36,972</u>	<u>11,266,350</u>	<u>11,266,350</u>

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

7. Investments (continued)

(i) Designation and fair values (continued)

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	-	36,500	36,500	36,500
Debt securities	11,824	-	11,824	11,824
Accrued investment income	-	124	124	124
Other debtors	-	1,557	1,557	1,557
Cash at bank and in hand	-	6,421	6,421	6,421
Assets held to cover linked liabilities	8,203,783	-	8,203,783	8,203,783
Total	8,215,607	44,602	8,260,209	8,260,209

2009	Fair value through profit and loss £000	Amortised Cost £000	Total carrying value £000	Fair value £000
Financial Liabilities				
Creditors arising out of reinsurance operations	-	4,799	4,799	4,799
Other creditors	-	27,487	27,487	27,487
Investment contracts without discretionary participating features	9,178,148	-	9,178,148	9,178,148
Total	9,178,148	32,286	9,210,434	9,210,434

(ii) Determination of fair value

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

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

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

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

7. Investments (continued)

(ii) Determination of fair value - continued

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

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

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

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

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

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

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

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

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

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

In addition level 2 can include debt securities that are valued internally using standard market practices. None of the level 2 debt securities are valued internally in the current year. The Company's usual policy for valuing such securities is to use matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring a specified liquidity premium. The significance of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

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

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

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

7. Investments (continued)

(ii) Determination of fair value (continued)

	31 December 2010			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Unit-linked				
Equity securities	3,536,595	-	-	3,536,595
Debt securities	1,585,810	3,659,537	-	5,245,347
Other investments (including derivative assets)	517	3,333	-	3,850
Total financial investments	5,122,922	3,662,870	-	8,785,792
Percentage of total	58%	42%	-	100%
Non-linked				
Debt securities	12,282	-	-	12,282
Total financial investments	100%	-	-	100%
Company total				
Equity securities	3,536,595	-	-	3,536,595
Debt securities	1,598,092	3,659,537	-	5,257,629
Other investments (including derivative assets)	517	3,333	-	3,850
Total financial investments	5,135,204	3,662,870	-	8,798,074
	58%	42%	-	100%
	31 December 2009			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Unit-linked				
Equity securities	3,031,727	-	-	3,031,727
Debt securities	1,473,793	2,762,942	-	4,236,735
Other investments (including derivative assets)	13,811	814	-	14,625
Total financial investments	4,519,331	2,763,756	-	7,283,087
Percentage of total	62%	38%	-	100%
Non-linked				
Debt securities	11,824	-	-	11,824
Total financial investments	100%	-	-	100%
Company total				
Equity securities	3,031,727	-	-	3,031,727
Debt securities	1,485,617	2,762,942	-	4,248,559
Other investments (including derivative assets)	13,811	814	-	14,625
Total financial investments	4,531,155	2,763,756	-	7,294,911
	62%	38%	-	100%

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

7. Investments (continued)

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

There were no level 3 financial instruments at 31 December 2010. The following table reconciles the value of level 3 financial instruments at 1 January 2009 to that presented at 31 December 2009. Total gains and losses recorded in the long-term technical account in the period represents realised gains and losses, including interest and dividend income, unrealised gains and losses on financial instruments classified at fair value through profit and loss and foreign exchange movements on overseas investments. All these amounts are included within "investment income" and "unrealised gains (losses)" in the long-term technical account.

	At 1 Jan 2009	Total gains or (losses) in long- term technical account	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec 2009
	£000	£000	£000	£000	£000	£000	£000
Unit-linked							
Debt securities	3,339	(202)	-	-	-	(3,137)	-

Transfers between level 1 and level 2

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

B. Market Risk

The financial assets and liabilities attaching to the Company's life assurance business are, to varying degrees, subject to market risk that may have a material effect on the profit or loss and equity.

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

Market risk comprises four types of risk, namely:

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

Due to the matching of policyholders liabilities to attaching asset value movements the unit-linked business is not directly affected by market risk. The principal factor affecting the results is investment performance through fund management fees.

(i) Interest rate risk

The following table shows an analysis of the classes of financial assets with direct exposure to interest rate risk. Each applicable class of the Company's assets are analysed between those exposed to fair value interest rate risk, cash-flow interest rate risk and those with no direct interest rate risk exposure. Interest rate risk is minimal for the shareholder assets as the deposits are all less than one month, whereas for the unit-linked assets the risk is borne by the policyholders.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

7. Investments (continued)

(i) Interest rate risk (continued)

2010	Fair value interest rate risk £000	Cash flow interest rate risk £000	Total £000
Financial Assets			
Deposits with credit institutions	-	45,500	45,500
Debt securities	12,282	-	12,282
Cash at bank and in hand	-	13,793	13,793
	<u>12,282</u>	<u>59,293</u>	<u>71,575</u>
2009	Fair value interest rate risk £000	Cash flow interest rate risk £000	Total £000
Financial Assets			
Deposits with credit institutions	-	36,500	36,500
Debt securities	11,824	-	11,824
Cash at bank and in hand	-	6,421	6,421
	<u>11,824</u>	<u>42,921</u>	<u>54,745</u>

Effective interest rates

2010	Balance of financial instruments not at fair value in profit and loss £000	Range of effective interest rate applicable as at 31st December 2010 %
Financial Assets		
Deposits with credit institutions	45,500	0.50 % - 0.80%
Cash at bank and in hand	13,793	0.5%
	<u>59,293</u>	
2009	Balance of financial instruments not at fair value in profit and loss £000	Range of effective interest rate applicable as at 31st December 2009 %
Financial Assets		
Deposits with credit institutions	36,500	0.43 % - 0.60%
Cash at bank and in hand	6,421	0.4%
	<u>42,921</u>	

Liquidity Analysis

(ii) Contractual maturities

Maturity profile for investment contracts and durations of long-term business contracts on an undiscounted basis

The majority of the In Force business consists of pooled investment vehicles used for Pension Scheme business which by nature do not have any contractual repricing or maturity dates, as the benefits are the realisation values of the units held in the internal linked funds and may be surrendered at any time.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

7. Investments (continued)

Liquidity Analysis (continued)

(iii) Sensitivity to interest rate movement

The estimated sensitivity of the Company to a movement in interest rates (including assumed investment returns for all asset classes, market values of debt securities and all risk discount rates) of 1% and 2% is as follows:

	31 December 2010			
	Fall of 1%	Fall of 2%	Rise of 1%	Rise of 2%
	£000	£000	£000	£000
Carrying value of debt securities	1,295	3,167	(1,295)	(3,167)
Interest on deposits with credit institutions	(251)	(251)	476	953
Related tax effects	(292)	(816)	229	620
Net sensitivity of profit after tax and shareholders' funds	752	2,100	(590)	(1,594)

	31 December 2009			
	Fall of 1%	Fall of 2%	Rise of 1%	Rise of 2%
	£000	£000	£000	£000
Carrying value of debt securities	1,311	2,622	(1,311)	(2,622)
Interest on deposits with credit institutions	(206)	(206)	429	858
Related tax effects	(309)	(676)	247	494
Net sensitivity of profit after tax and shareholders' funds	796	1,740	(635)	(1,270)

C. Credit Risk

(i) Currency risk and geographical concentration

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

(ii) Concentration of credit risk

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

	2010 £000	2009 £000
AAA	12,282	11,824
AA	10,000	
AA-	5,000	-
A+	13,000	-
A	17,500	8,000
A-	-	28,500
	<u>57,782</u>	<u>48,324</u>
Unit-linked	9,854,987	8,203,783
Total assets bearing credit risk	<u>9,912,769</u>	<u>8,252,107</u>

Due to the matching of policyholders liabilities to attaching asset value movements there is minimal credit risk for the Company on the Unit linked contracts as the risks are borne by the policyholders.

Securities lending and reverse repurchase agreements

At 31 December 2010, the Company had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities for the purchase price, £240m (2009: £51m), together with accrued interest.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

7. Investments (continued)

D. Risk management

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

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

The Company's investment guidelines allow the use of derivatives to facilitate efficient portfolio management or to reduce investment risk.

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

For unit linked insurance and investment contracts, the liability to policyholders is determined by the value of the assets in the unit-linked portfolios. There is therefore minimal net equity price, currency, interest rate or credit risk exposure to the Company for these contracts as the risks are borne by the policyholders.

(i) Market risk

Market risk is the risk that future changes in market prices may make a financial instrument less valuable. Due to the matching of policyholder liabilities to attaching asset value movements the UK unit-linked business is not directly affected by market or credit 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.

(ii) 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. Due to the matching of policyholder liabilities to attaching asset value movements the UK unit-linked business is not directly affected by credit risk. The Company is also exposed to credit-related losses in the event of non-performance by counterparties.

(iii) 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.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

8. Capital requirements and management

The available capital of £20.0m (2009: £19.9m) reflects the excess of regulatory basis assets over liabilities of the Company before deduction of the regulatory capital resources requirement of £12.0m (2009: £11.9m). 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.

	2010	2009
	£000	£000
Shareholders' equity		
Held outside long-term funds	11,659	11,575
Held in long-term funds	17,920	11,711
Total shareholders' equity	<u>29,579</u>	<u>23,286</u>
Adjustments to regulatory basis		
Other adjustments to restate these amounts to a regulatory basis	(9,587)	(3,425)
Total available capital resources on FSA regulatory basis	<u>19,992</u>	<u>19,861</u>

9. Assets held to cover linked liabilities - at current value

	2010	2009
	£000	£000
Freehold land and buildings	461,142	348,088
Leasehold land and buildings	88,800	95,716
Shares and other variable yield securities	3,536,595	3,031,727
British government securities - fixed income	673,962	653,207
British government securities - index linked	614,580	520,576
Debentures and loan stocks	3,462,471	2,838,173
Provincial & municipal stocks	494,334	224,779
Deposits with credit institutions	180,142	67,704
Other assets	342,961	423,813
	<u>9,854,987</u>	<u>8,203,783</u>
Assets held to cover linked liabilities - at cost	<u>9,087,723</u>	<u>7,928,767</u>

Included in the carrying values above are amounts in respect of listed investments as follows:

	2010	2009
	£000	£000
Shares and other variable yield securities	3,536,595	3,031,727
British government securities - fixed income	673,962	653,207
British government securities - index linked	614,580	520,576
Debentures and loan stocks	3,462,471	2,838,173
Provincial & municipal stocks	494,334	224,779
	<u>8,781,942</u>	<u>7,268,462</u>

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

10. Reserves and policyholder liabilities

	Long-term business provision net of reassurance	Provision for linked liabilities	Provision for claims outstanding	Profit and Loss account	Capital Redemption Reserve
	£000	£000	£000	£000	£000
Balance at 1 January 2010	500	8,203,783	366	13,198	4,088
Movement in technical provisions for year	(300)	968,525	-	-	-
Movement in profit & loss account for year	-	-	(366)	6,293	-
Deposits received from policyholders under investment contracts	-	1,356,309	-	-	-
Payments made to policyholders of investment contracts	-	(673,630)	-	-	-
Balance at 31 December 2010	200	9,854,987	-	19,491	4,088

Provision for claims outstanding: the company has completed its review of its defined benefit payment processes.

Of the reinsurer's share of technical provisions for linked liabilities of £1,374.4m at 31 December 2010 (2009: £974.4m), the entire balance relates to companies outside of the Prudential Group and of this 97% (2009: 99%) of the balance was from reinsurers with S&P's rating of A and above.

The entire reinsurer's share of technical provisions for long term business of £77.0m at 31 December 2010 (2009: £77.2m) relates to reinsurance agreements with other Prudential Group companies.

Of the balance on the profit and loss account at 31 December 2010 the amount required not to be treated as realised profits in determining the company's profits available for distribution is £Nil (2009:£Nil).

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

11. Long term business provision

The long term business provision has been calculated by the company's directors with advice from the company's actuarial function holder.

The long term business provision comprises a provision for annuity business and an additional provision for compensation payments.

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

Valuation interest rates have been amended, where necessary, in line with changes in 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 reinsurers' share of the long term business provision relates mainly to cessions to Prudential Annuities Limited, a fellow subsidiary company.

The provisions have been calculated on the following bases:

	2010	2009
Discount Rate	4.897% for annuities	5.414% for annuities
Fund Growth	N/A for annuities	N/A for annuities
Expense Inflation	4.25% gross	4.25% gross
Renewal expenses:		
Reassured annuity business	£21.24 p.a per policy	£21.54 p.a per policy
Annuity mortality	Male: 98% PCMA00 with future improvements in line with Prudential's own calibration of the CMI 2009 mortality model, with a long term improvement rate of 2.25% p.a.	Male: 102% PNMA00 (C=2000) with medium cohort improvement table with a minimum annual improvement of 2.25% up to age 90, tapering to zero at age 120)
	Female: 88% PCFA00 with future improvements in line with Prudential's own calibration of the CMI 2009 mortality model, with a long term improvement rate of 1.25% p.a.	Female: 88% PNFA00 (C=2000) with medium cohort improvement table with a minimum annual improvement of 1.25% up to age 90, tapering to zero at age 120)

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

12. Creditors

All creditors are payable within a period of five years.

	2010	2009
	£000	£000
Creditors arising from reinsurance operations	1,013	4,799
Due to group undertakings	20,772	21,201
Sundry creditors	15,187	6,286
Other tax payable	1	2
	<u>36,973</u>	<u>32,288</u>

Included within amounts owed to group undertakings at 31 December 2010 was an amount of £18.4m (2009: £18.1m), which represents a contingent loan (including interest at 3 month LIBOR plus 1% cumulative) repayable to The Prudential Assurance Company Limited. The loan and interest on the loan are repayable out of surplus emerging on its business and is contingent on surpluses arising but can be repaid by the Company at any time. The remainder is intercompany balances which are cleared regularly and not interest bearing.

The loan is repayable to the extent of a specified percentage of surplus of the Company, a repayment obligation crystallising on the last day of the Company's financial year and being discharged by application of funds on a date nominated by the Company.

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

Sundry creditors are payable on demand and are not interest bearing.

13. Other debtors

All debtors are due within one year.

	2010	2009
	£000	£000
Tax recoverable	3,193	4,051
Amounts owed by policyholders	453	3,957
Other debtors	90	1,557
	<u>3,736</u>	<u>9,565</u>

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. Charges

In the normal course of business certain reinsurance liabilities were secured by a floating charge, ranking these liabilities equally with amounts due under unsecured direct (non-reassurance) policies, over the long term insurance assets of the Company. Amounts secured by charges of this nature were £3,293.0m, £65.9m, £29.2m and £2.0m, representing liabilities to four different customers.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

16. Share capital

	2010	2009
	£000	£000
Allotted and fully paid		
6 million ordinary shares (2009: 6 million) of £1 each	6,000	6,000

17. Related party transactions

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

18. Ultimate and immediate parent companies

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