

Registered No 1347088

PRUDENTIAL (AN) LIMITED

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

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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

PRUDENTIAL (AN) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009 (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.

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 meet 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.

PRUDENTIAL (AN) LIMITED

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

PRUDENTIAL (AN) LIMITED

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

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.

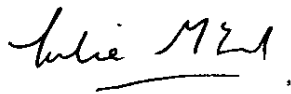
Auditor

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

PRUDENTIAL (AN) LIMITED

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 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 (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 | | 2009 £000 | 2008 £000 |
|---|-------|----------------|----------------|
| | Notes | | |
| Earned premiums, net of reinsurance | | | |
| Gross premiums written | 2 | 1,113 | 1,772 |
| Outward reinsurance premiums | | (1,104) | (1,764) |
| | | <u>9</u> | <u>8</u> |
| Investment income | 3 | 374 | 667 |
| Other technical income | | 762 | 145 |
| | | <u>1,136</u> | <u>812</u> |
| Claims incurred, net of reinsurance | | | |
| Claims paid - gross amount | | (10,559) | (19,417) |
| - reinsurers' share | | 10,586 | 17,511 |
| | | <u>27</u> | <u>(1,906)</u> |
| Change in the provision for claims | | | |
| - gross amount | 9 | (281) | 1,418 |
| | | <u>(281)</u> | <u>1,418</u> |
| 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 | <u>205</u> | <u>1,034</u> |
| 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) |
| | | <u>(1,198)</u> | <u>(532)</u> |
| Balance on the technical account - long term business | | <u>(102)</u> | <u>834</u> |

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

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

| Non-Technical Account | | 2009 £000 | 2008 £000 |
|---|-------|--------------------------|----------------------------|
| | Notes | | |
| 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 | | <u>(142)</u> | <u>1,167</u> |
| Investment income | 3 | 839 | 619 |
| Unrealised losses on investments | 3 | (78) | (2) |
| Operating profit on ordinary activities before tax | | <u>619</u> | <u>1,784</u> |
| Tax on profit on ordinary activities | 4 | (93) | (502) |
| Profit for the financial year | | <u><u>526</u></u> | <u><u>1,282</u></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 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 | 2008 |
|---|----------------------|----------------------|
| | £000 | £000 |
| Profit for the financial year | 526 | 1,282 |
| Net movement in shareholders' funds | <u>526</u> | <u>1,282</u> |
| Shareholders' funds at beginning of year | <u>24,526</u> | <u>23,244</u> |
| Shareholders' funds at end of year | <u>25,052</u> | <u>24,526</u> |

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 |
| | | <u>25,707</u> | <u>28,508</u> |
| Reinsurers' share of technical provisions | | | |
| Long term business provision | 7 | 106,142 | 106,641 |
| Technical provision for linked liabilities | 7 | 75,489 | 73,442 |
| | | <u>181,631</u> | <u>180,083</u> |
| 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 | | <u>213,075</u> | <u>211,440</u> |
| 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 | | <u>25,052</u> | <u>24,526</u> |
| Technical provisions | | | |
| Long term business provision | 9,10 | 110,579 | 111,283 |
| Claims outstanding | 9 | 649 | 368 |
| | | <u>111,228</u> | <u>111,651</u> |
| 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 | | <u>213,075</u> | <u>211,440</u> |

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



D J Belsham
Director

PRUDENTIAL (AN) LIMITED

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.

PRUDENTIAL (AN) LIMITED

NOTES TO THE ACCOUNTS (continued)

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.

PRUDENTIAL (AN) LIMITED

NOTES TO THE ACCOUNTS (continued)

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.

PRUDENTIAL (AN) LIMITED

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 |
| | <u>1,113</u> | <u>1,772</u> |

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 reinsurance accepted, pensions | 2 | 2 |
| | <u>1,166</u> | <u>2,031</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.

PRUDENTIAL (AN) LIMITED

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 |
| | <u>374</u> | <u>667</u> | <u>839</u> | <u>619</u> |
| Investment expenses and charges | | | | |
| Investment managers' expenses | (70) | 177 | - | - |
| Unrealised (losses)/gains on investments | (124) | 525 | (78) | (2) |
| Total investment return | <u>180</u> | <u>1,369</u> | <u>761</u> | <u>617</u> |

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 | <u>(82)</u> | <u>(13)</u> |
| Total current tax | (54) | 790 |
| Deferred tax | | |
| Origination and reversal of timing differences | 147 | (288) |
| Total deferred tax | <u>147</u> | <u>(288)</u> |
| Tax (credit)/charge on profit on ordinary activities | <u>93</u> | <u>502</u> |

PRUDENTIAL (AN) LIMITED

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 | <u>619</u> | <u>1,784</u> |
| Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 28.0% (2008: 28.5%) | 173 | 508 |
| <u>Effects of</u> | | |
| 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 | <u>(85)</u> | <u>-</u> |
| Current tax charge for the period | <u>(54)</u> | <u>790</u> |

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) | <u>104</u> | <u>(43)</u> |
| Deferred tax (asset)/liability at start of period | (43) | 245 |
| Deferred tax charged/(credited) in non technical account for the period | 147 | (288) |
| | <u>104</u> | <u>(43)</u> |

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 |

PRUDENTIAL (AN) LIMITED

NOTES TO THE ACCOUNTS (continued)

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 | <u>6,791</u> | <u>10,000</u> | <u>6,791</u> | <u>10,000</u> |
| | <u>12,894</u> | <u>16,317</u> | <u>13,082</u> | <u>16,337</u> |

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 | <u>5,799</u> | <u>25,612</u> | <u>31,411</u> | <u>31,411</u> |
| 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 | <u>5,978</u> | <u>25,328</u> | <u>31,306</u> | <u>31,306</u> |

PRUDENTIAL (AN) LIMITED

NOTES TO THE ACCOUNTS (continued)

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 |
| | <u>12,894</u> | <u>16,317</u> |

PRUDENTIAL (AN) LIMITED

NOTES TO THE ACCOUNTS (continued)

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+.

PRUDENTIAL (AN) LIMITED

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 |
| | <u>12,590</u> | <u>4,808</u> | <u>17,398</u> |

| 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 |
| | <u>15,978</u> | <u>1,335</u> | <u>17,313</u> |

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 | % |
| Loans and receivables | | |
| Mortgage loans | 304 | 1.65% - 2.15% |
| Cash at bank and in hand | 4,504 | 0.4% |
| | <u>4,808</u> | |

| 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 | % |
| Loans and receivables | | |
| Mortgage loans | 339 | 3.40% - 3.90% |
| Cash at bank and in hand | 996 | 1.7% |
| | <u>1,335</u> | |

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.

PRUDENTIAL (AN) LIMITED

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.

PRUDENTIAL (AN) LIMITED

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 |
| | <u>1,062</u> | <u>1,778</u> |

PRUDENTIAL (AN) LIMITED

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 | <u>4,437</u> | <u>649</u> | <u>7,052</u> |

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 |

PRUDENTIAL (AN) LIMITED

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 | - |
| | <u>279</u> | <u>838</u> |

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 | <u>923</u> | <u>983</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. 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.

PRUDENTIAL (AN) LIMITED

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 | <u>25</u> | <u>14</u> |

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.