

Registered No 1347088

**PRUDENTIAL (AN) LIMITED**

**ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER  
2007**

# 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 (Chairman)  
A Allen  
G Shaughnessy  
M Sheppard

## **Secretary**

Prudential Group Secretarial Services Limited

## **Auditor**

KPMG Audit Plc, London

## **PRUDENTIAL (AN) LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007**

#### **Principal activity**

The principal activity of the Company is the transaction of long-term pensions and life insurance business in the United Kingdom. This will continue in 2008.

#### **Business review**

Throughout 2007 the Company continued its arrangements with PACL (The Prudential Assurance Company) 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.

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.

#### **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 2007, 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 below and in the financial statements of the parent company, The Prudential Assurance Company Limited.

## **PRUDENTIAL (AN) LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

#### 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 £1,790,000 (2006:£8,324,000).

The shareholders' funds of the Company total £23,244,000 (2006:£28,796,000).

#### Corporate responsibility

The Company is a wholly owned subsidiary within the Group, Prudential plc, and as such forms a part of the overall approach to corporate responsibility (CR) for the Group. For the Group, CR is not an optional extra. It is fundamental to how the Group and its businesses and functions operate and is a philosophy that is now embedded therein. It is recognised that stakeholders increasingly support those companies that define and exhibit sound values around trust, ethics and environmental responsibility. It is also believed that performance in key areas of conduct such as corporate governance, environmental management and employment practices can have a significant impact on its financial performance. 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 policy and Health and Safety Policy. "Treating Customers Fairly" is a key ethic on which the Company conducts its business.

There is also a Corporate Responsibility Committee which is Group-wide and has responsibility for reviewing business conduct and social and environmental policy. A CR unit develops the Group's strategy, provides training across the Group and works closely with the businesses and functions, of which the Company is a part, to provide advice and ensuring that core values are maintained and assisting with the adaptation of Group-wide initiatives to meet local needs.

#### 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 2007 is shown in the balance sheet on page 11. The profit and loss account appears on pages 8 and 9.

#### Share Capital

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

#### Dividends

A dividend of £7,000,000 was paid in the year (2006: £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.

## **PRUDENTIAL (AN) LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

#### Directors

The present directors of the Company are shown on page 1.

Ms M Sheppard was appointed as a director of the Company on 22 January 2007.

Mrs R Harris resigned as a director of the Company on 2 February 2007.

Mssrs G Shaughnessy and A Allen were appointed as directors of the Company on 21 February 2008 and 29 February 2008 respectively.

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 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 risks that the Company faces are equity risk and interest rate risk because most of its assets are investments that are either equity type of investments and subject to equity price risk, or 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 split of the Company's investments between equity investments and interest-sensitive instruments depends principally on the type of liabilities supported by those investments and the amount of capital the Company has available. This mix of liabilities allows the Company to invest a substantial portion of its investment funds in equity and real estate investments that the Company believes produce greater returns over the long term. On the other hand 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 2007 or 2006. 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.

In practice, most of the Company's assets are marketable securities. This, combined with the fact that a large proportion of the liabilities contains discretionary surrender values or surrenders charges, reduces the liquidity risk.

## **PRUDENTIAL (AN) LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

#### 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/she ought to have taken as a director to make himself/herself 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 234ZA of the Companies Act 1985.

#### 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 provide that, to the extent permitted by law, every Director, manager, Secretary and other officer or servant of the Company shall be indemnified by the Company against, and it shall be the duty of the Directors out of the funds of the Company to pay to him, all costs, losses and expenses which he may incur or become liable to by reason of any contract entered into or any act or deed done by him as such officer or servant or in any way in the discharge of his duties.

On behalf of the board of directors



On behalf of Prudential Group Secretarial Services Limited  
Secretary  
27th March 2008

## **PRUDENTIAL (AN) 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.

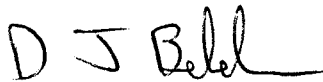
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.



D J Belsham  
Director

27th March 2008

## 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 2007 which comprise the Profit and Loss Account, the Reconciliation of movements in shareholders' funds, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

*KPMG Audit Plc*

**KPMG Audit Plc**

Chartered Accountants

Registered Auditor

London

27<sup>th</sup> March 2008

**PRUDENTIAL (AN) LIMITED**

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2007**

<b>Technical Account - Long Term Business</b>		<b>2007</b>	<b>2006</b>
		<b>£000</b>	<b>£000</b>
	<b>Notes</b>		
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	2	2,972	2,621
Outward reinsurance premiums		(2,957)	(2,621)
		<u>15</u>	<u>-</u>
Investment income	3	1,126	18,530
Unrealised (losses)/gains on investments	3	(204)	4,781
Other technical income		1,362	10,619
		<u>2,284</u>	<u>33,930</u>
<b>Claims incurred, net of reinsurance</b>			
Claims paid - gross amount		(6,088)	(5,534)
- reinsurers' share		5,619	5,534
		<u>(469)</u>	<u>-</u>
Change in the provision for claims			
- gross amount	9	(1,081)	275
		<u>(1,081)</u>	<u>275</u>
<b>Change in other technical provisions, net of reinsurance</b>			
Long term business provision, net of reinsurance			
- gross amount		5,161	2,953
- reinsurers' share		(5,129)	(1,914)
	9	<u>32</u>	<u>1,039</u>
Technical provisions for linked liabilities, net of reinsurance	9	-	(19,118)
		<u>32</u>	<u>(18,079)</u>
<b>Other charges</b>			
Net operating expenses - administrative expenses		432	(7,400)
Investment expenses and charges	3	(273)	(1,247)
Tax attributable to the long term business	4	(282)	(2,244)
		<u>(123)</u>	<u>(10,891)</u>
<b>Balance on the technical account - long term business</b>		<u>658</u>	<u>5,235</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 2007  
(continued)**

<b>Non-Technical Account</b>		<b>2007</b>	<b>2006</b>
	<b>Notes</b>	<b>£000</b>	<b>£000</b>
<b>Balance on the technical account – long term business</b>		<b>658</b>	<b>5,235</b>
Tax credit attributable to the balance on the technical account – long term business		282	2,244
Balance on the long term business technical account before tax		<u>940</u>	<u>7,479</u>
Investment income	3	1,030	555
Unrealised (losses)/gains	3	(180)	290
<b>Operating profit on ordinary activities before tax</b>		<b><u>1,790</u></b>	<b><u>8,324</u></b>
Tax on profit on ordinary activities	4	(342)	(1,776)
<b>Profit after tax</b>		<b><u>1,448</u></b>	<b><u>6,548</u></b>

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 2007

	2007 £000	2006 £000
Profit for the financial year	1,448	6,548
Dividends paid	(7,000)	-
Net movement in shareholders' funds	<u>(5,552)</u>	<u>6,548</u>
<b>Shareholders' funds at beginning of year as originally reported</b>	<b><u>28,796</u></b>	<b><u>25,706</u></b>
Effect of FRS26 on the opening balance sheet	-	(3,458)
<b>Shareholders' funds at beginning of year as restated</b>	<b><u>28,796</u></b>	<b><u>22,248</u></b>
<b>Shareholders' funds at end of year</b>	<b><u>23,244</u></b>	<b><u>28,796</u></b>

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

**PRUDENTIAL (AN) LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2007**

		2007 £000	2006 £000
	Notes		
<b>ASSETS</b>			
<b>Investments</b>			
Other financial investments	7	23,460	40,751
<b>Reinsurers' share of technical provisions</b>			
Long term business provision	9	119,577	124,706
Technical provision for linked liabilities	9	105,054	127,638
		<u>224,631</u>	<u>252,344</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations: Policyholders		4	95
Other debtors	8	2,930	2,282
<b>Other Assets</b>			
Cash at bank and in hand	14	6,644	1,177
<b>Prepayment and accrued income</b>			
Accrued interest and rent		756	389
<b>Total assets</b>		<u>258,425</u>	<u>297,038</u>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	16	18,000	18,000
Profit and loss account	17,9	5,244	10,796
<b>Total shareholders' funds attributable to equity interests</b>		<u>23,244</u>	<u>28,796</u>
<b>Technical provisions</b>			
Long term business provision	9,10	125,253	130,414
Claims outstanding	9	1,786	705
		<u>127,039</u>	<u>131,119</u>
<b>Technical provisions for linked liabilities</b>	9,11	105,054	127,638
<b>Provision for other risks and charges</b>			
Deferred taxation	4	245	18
<b>Creditors</b>			
Other creditors including taxation and social security	12	2,552	9,030
<b>Accruals and deferred income</b>	13	291	437
<b>Total liabilities</b>		<u>258,425</u>	<u>297,038</u>

The accounts on pages 8 to 26 were approved by the board of directors on 27th March 2008

D J Belsham  
 Director



