

PRUDENTIAL (AN) LIMITED

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

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)
M Sheppard

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG Audit Plc, London

PRUDENTIAL (AN) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

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 2007.

Business review

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. With-profits policies can be single or regular premium and are reinsured to the Prudential Assurance Company Limited. The profits from almost all of the Company's non-participating business accrue solely to shareholders.

At the start of 2006 the Company held unit-linked funds to back the unit-linked pensions business that it had sold to the customers of Abbey National. On 13 May 2006 the Company entered into a reinsurance arrangement with the Prudential Assurance Company Limited (PACL) under which it ceded the risks associated with this business. The Company paid for this reinsurance with a one-off premium to PACL equal to the unit-linked funds backing this business. This premium was effected by an in-specie transfer of unit-linked funds on 13 May 2006.

At the start of 2006 the Company was underwriting linked pension business that it accepted, by way of a reinsurance arrangement, from the PACL. On 13 May 2006 that arrangement was terminated. As the arrangement unwound the Company settled a claim to PACL equal to the unit-linked funds backing this business. This claim was effected by an in-specie transfer of unit-linked funds on 13 May 2006.

Market review and strategy

The operations of the Company are managed as part of the UK Insurance Operations (UKIO) of the Prudential plc Group. The operations of UKIO are structured into three business units: Retail Retirement; Wholesale and Mature, Life and Pensions. The operations of the Company fall into the Mature, Life and Pensions. UKIO has committed to continuing to safeguard the embedded value through the Mature Life and Pensions business area. It has an aggressive target to reduce per policy unit processing costs by internal cost cutting, further off-shoring and possible out-sourcing.

The transfer of unit linked funds to PACL made possible by the changes to the reinsurance arrangements furthered the objectives of UKIO by reducing the costs for administering these funds that are paid to Mellon Funds Services.

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, Prudential Assurance Company Limited.

