PRUDENTIAL PLC
Form 20-F
May 18, 2009

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As filed with the Securities and Exchange Commission on May 18, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-15040

PRUDENTIAL PUBLIC LIMITED COMPANY

(Exact Name of Registrant as Specified in its Charter)

England and Wales
(Jurisdiction of Incorporation)

Laurence Pountney Hill,
London EC4R 0HH, England
(Address of Principal Executive Offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing 2 Ordinary Shares, 5 pence par value each	New York Stock Exchange
Ordinary Shares, 5 pence par value each	New York Stock Exchange*
6.75% Perpetual Subordinated Capital Securities Exchangeable at the Issuer's Option into Non-Cumulative Dollar Denominated Preference Shares	New York Stock Exchange
6.50% Perpetual Subordinated Capital Securities Exchangeable at the Issuer's Option into Non-Cumulative Dollar Denominated Preference Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2008 was:

2,496,947,688 Ordinary Shares, 5 pence par value each

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes _X_ No ____

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ____ No __X__

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer __X__ Accelerated filer ____ Non-accelerated filer ____

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ___ International Financial Reporting Standards as issued by the International Accounting Standards Board _X_ Other ___

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ____ Item 18 ____

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ____ No __X__

*

Not for trading, but only in connection with the registration of American Depositary Shares.

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Item 3. Key Information

SELECTED HISTORICAL FINANCIAL INFORMATION OF PRUDENTIAL

The following table sets forth Prudential's selected consolidated financial data for the periods indicated. Certain data is derived from Prudential's audited consolidated financial statements prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (collectively "IFRS"). Were the Group to apply International Financial Reporting Standards as adopted by the European Union ("EU") as opposed to those issued by the International Accounting Standards Board ("IASB"), no additional adjustments would be required. This table is only a summary and should be read in conjunction with Prudential's consolidated financial statements and the related notes included elsewhere in this document, together with Item 5, "Operating and Financial Review and Prospects".

The following table presents the income statement and balance sheet data for and as at the years ended December 31, 2004 to 2008, as presented in accordance with IFRS, and has been derived from Prudential's consolidated financial statements, audited by KPMG Audit Plc:

	Year Ended December 31,					
	2008(1)	**2008**	**2007***	**2006***	**2005**	**2004**
	(In $ Millions)	**(In £ Millions)**				
Income statement data						
Gross premium earned	**27,766**	**18,993**	18,359	16,157	15,225	16,408
Outward reinsurance premiums	**(298)**	**(204)**	(171)	(171)	(197)	(256)
Earned premiums, net of reinsurance	**27,468**	**18,789**	18,188	15,986	15,028	16,152
Investment return	**(44,152)**	**(30,202)**	12,225	17,141	23,120	14,848
Other income	**1,675**	**1,146**	2,457	1,917	1,862	1,766
Total revenue, net of reinsurance	**(15,009)**	**(10,267)**	32,870	35,044	40,010	32,766
Benefits and claims and movement in unallocated surplus of with-profits funds	**15,823**	**10,824**	(26,785)	(28,267)	(33,100)	(26,593)
Acquisition costs and other operating expenditure	**(3,595)**	**(2,459)**	(4,859)	(4,489)	(4,514)	(4,519)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(251)**	**(172)**	(168)	(177)	(175)	(154)
Goodwill impairment charge					(120)	
Total charges	**11,977**	**8,193**	(31,812)	(32,933)	(37,909)	(31,266)
(Loss) profit before tax *(being tax attributable to shareholders' and policyholders' returns)*(2)	**(3,032)**	**(2,074)**	1,058	2,111	2,101	1,500
Tax attributable to policyholders' returns	**2,374**	**1,624**	5	(830)	(1,147)	(711)
(Loss) profit before tax attributable to shareholders	**(658)**	**(450)**	1,063	1,281	954	789
Tax attributable to shareholders' profits	**86**	**59**	(354)	(365)	(242)	(215)

(Loss) profit from continuing operations after tax	**(572)**	**(391)**	709	916	712	574
Discontinued operations (net of tax)(3)			241	(105)	48	(58)
(Loss) profit for the year	**(572)**	**(391)**	950	811	760	516

	As of and for the year ended December 31,					
	2008(1)	**2008**	**2007***	**2006***	**2005**	**2004**
	(In $ Millions, Except Share Information)	**(In £ Millions, Except Share Information)**				
Balance sheet data						
Total assets	**315,101**	**215,542**	219,382	216,528	207,436	180,006
Total policyholder liabilities and unallocated surplus of with-profits funds	**266,637**	**182,391**	190,317	178,539	170,315	145,211
Core structural borrowings of shareholder financed operations	**4,324**	**2,958**	2,492	3,063	3,190	3,248
Total equity	**7,474**	**5,113**	6,164	5,556	5,366	4,626
Based on (loss) profit for the year attributable to the equity holders of the Company:						
Basic earnings per share	**(23.39)¢**	**(16.0)p**	38.7p	33.6p	31.6p	24.4p
Diluted earnings per share	**(23.39)¢**	**(16.0)p**	38.6p	33.6p	31.6p	24.4p
Dividend per share declared and paid in reporting period(6)	**26.74¢**	**18.29p**	17.42p	16.44p	15.95p	15.48p
Equivalent cents per share(7)		**35.36¢**	34.70¢	30.74¢	29.61¢	28.36¢
Market price at end of period	**608.88¢**	**416.5p**	712p	699.5p	550p	453p
Weighted average number of shares (in millions)		**2,472**	2,445	2,413	2,365	2,121
Other data						
New business from continuing operations:						
Single premium sales(5)	**22,371**	**15,303**	14,940	14,013	12,839	11,422
New regular premium sales(4)(5)	**2,184**	**1,494**	1,374	1,062	846	695
Gross investment product contributions	**92,315**	**63,147**	53,759	33,894	26,373	25,108
Funds under management	**364,013**	**249,000**	267,000	251,000	234,000	197,000

*

Prudential has adopted the principles of IFRIC 14 in accounting for pension schemes. The adoption gives rise to consequential changes to the comparative results for 2007 and 2006. Further details are provided in note I1 of the notes to Prudential's consolidated financial statements.

(1)

Amounts stated in US dollars have been translated from pounds sterling at the rate of $1.4619 per £1.00 (the noon buying rate in New York City on December 31, 2008).

(2)

This measure is the formal (loss) profit before tax measure under IFRS but is not the result attributable to shareholders.

(3)

Discontinued operations in the prior years predominantly related to UK banking operations following the sale on May 1, 2007, of Egg Banking plc ("Egg") to Citibank Overseas Investment Corporation, a subsidiary of Citigroup Inc ("Citi"). See note I9 of the notes to Prudential's consolidated financial statements.

(4)

New regular premium sales are reported on an annualized basis, which represents a full year of installments in respect of regular premiums irrespective of the actual payments made during the year.

(5)

The new business premiums in the table shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the IFRS income statement. Department of Work and Pensions ("DWP") rebate business is classified as single recurrent business. Internal vesting business is classified as new business where the contracts include an open market option.

The details shown above for new business include contributions for contracts that are classified under IFRS 4 "Insurance Contracts" as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK insurance operations and Guaranteed Investment Contracts and similar funding agreements written in US operations.

Investment products included in the table for funds under management above are unit trust, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as "investment contracts" under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

The 2007 single premium sales in the table above included the transfer of 62,000 with-profits annuity policies from Equitable Life on December 31, 2007, with assets of approximately £1.7 billion.

New regular premium sales in the table above includes sales for PruHealth. The comparative figures have been restated accordingly.

Subsequent to September 29, 2007, following expiry of the previous management agreement CITIC-Prudential Life Insurance Company Ltd ("CITIC-Prudential"), Prudential's life operation in China, has been accounted for as a 50 per cent joint venture. Prior to this date CITIC-Prudential was consolidated as a subsidiary undertaking. All premiums for CITIC-Prudential in the comparative results

are shown at 50 per cent on a like for like basis, reflecting the constant economic interest before and after the management changes in line with the original agreement with CITIC.

(6)

Under IFRS, dividends declared after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event. The appropriation reflected in the statement of changes in equity, therefore, includes the final dividend in respect of the prior year. Parent company dividends relating to the reporting period were an interim dividend of 5.99p per share in 2008 (2007: 5.70p, 2006: 5.42p) and a final dividend of 12.91p per share in 2008 (2007: 12.30p, 2006: 11.72p).

(7)

The dividends have been translated into US dollars at the noon buying rate on the date each payment was made.

Dividend Data

Under UK company law, Prudential may pay dividends only if "distributable profits" of the holding company are available for that purpose. "Distributable profits" are accumulated, realized profits not previously distributed or capitalized less accumulated, realized losses not previously written off, on the applicable GAAP basis. Even if distributable profits are available, under UK law Prudential may pay dividends only if the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves (such as, for example, the share premium account) and the payment of the dividend does not reduce the amount of its net assets to less than that aggregate. For further information about the holding company refer to Schedule II. The financial information in Schedule II has been prepared under UK GAAP reflecting the legal basis of preparation of the Company's separate financial statements as distinct from the IFRS basis that applies to the Company's consolidated financial statements.

As a holding company, Prudential is dependent upon dividends and interest from its subsidiaries to pay cash dividends. Many of its insurance subsidiaries are subject to regulations that restrict the amount of dividends that they can pay to Prudential. These restrictions are discussed in more detail in Item 4, "Information on the Company Supervision and Regulation of Prudential UK Supervision and Regulation Regulation of Insurance Business Distribution of Profits and With-profits Business" and Item 4, " Information on the Company Supervision and Regulation of Prudential US Supervision and Regulation General".

Historically, Prudential has declared an interim and a final dividend for each year (with the final dividend being paid in the year following the year to which it relates). Subject to the restrictions referred to above, Prudential's directors have the discretion to determine whether to pay a dividend and the amount of any such dividend but must take into account the Company's financial position.

The following table shows certain information regarding the dividends per share that Prudential declared for the periods indicated in pence sterling and converted into US dollars at the noon buying rate in effect on each payment date. Interim dividends for a specific year now generally have a record date in August and a payment date in September of that year, and final dividends now generally have a record date in the following April and a payment date in the following May.

Year	Interim Dividend (pence)	Interim Dividend (US Dollars)	Final Dividend (pence)	Final Dividend (US Dollars)
2004	5.19	0.0952	10.65	0.1950
2005	5.30	0.0942	11.02	0.2046
2006	5.42	0.1028	11.72	0.2317
2007	5.70	0.1153	12.30	0.2424
2008	5.99	0.1112	12.91	

A final dividend for 2008 of 12.91 pence per share was approved by the shareholders at the Annual General Meeting held on May 14, 2009. The interim dividend for 2008 was 5.99 pence per share. The total dividend for the year, including the interim dividend and the final dividend, amounts to 18.90 pence per share compared with 18.00 pence per share for 2007, an increase of five per cent. The total cost of dividends in respect of 2008 was £471 million. Dividend cover is calculated as operating

profit based on longer-term investment returns after tax on an IFRS basis, divided by the current year total dividend. The full dividend for 2008 is covered 2.2 times by post-tax IFRS operating profit based on longer-term investment returns from continuing operations as discussed in Item 5. This compares with dividend cover of 1.8, 1.8, 1.8 and 1.3 for the years 2007, 2006, 2005 and 2004 respectively. The Board will continue to focus on delivering a growing dividend, the size of which will continue to reflect the Board's view at the time of the Group's financial position and needs, including available opportunities for profitable investment. The Board believes that in the medium term, a dividend cover of around two times is appropriate to maintain a progressive, though conservative, dividend policy.

Exchange Rate Information

Prudential publishes its consolidated financial statements in pounds sterling. References in this document to "US dollars", "US$", "$" or "¢" are to US currency, references to "pounds sterling", "£", "pounds", "pence" or "p" are to UK currency (there are 100 pence to each pound) and references to "Euro" or "€" are to the Euro. The following table sets forth for each year the average of the noon buying rates on the last business day of each month of that year, as certified for customs purposes by the Federal Reserve Bank of New York, for pounds sterling expressed in US dollars per pound sterling for each of the five most recent fiscal years. Prudential has not used these rates to prepare its consolidated financial statements.

Year ended December 31,	Average rate
2004	1.84
2005	1.82
2006	1.86
2007	2.01
2008	1.84

The following table sets forth the high and low noon buying rates for pounds sterling expressed in US dollars per pound sterling for each of the previous six months:

	High	Low
November 2008	1.62	1.48
December 2008	1.55	1.44
January 2009	1.53	1.37
February 2009	1.49	1.42
March 2009	1.47	1.38
April 2009	1.45	1.44

On May 8, 2009, the noon buying rate was £1.00 = $1.51.

RISK FACTORS

A number of factors (risk factors) affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this report, is not updated, and any forward-looking statements are made subject to the reservations specified below under "Forward-Looking Statements".

Prudential's businesses are inherently subject to market fluctuations and general economic conditions.

Prudential's businesses are inherently subject to market fluctuations and general economic conditions. Uncertain or negative trends in international economic and investment climates which have adversely affected Prudential's business and profitability could be repeated, or prolonged, or could worsen. The adverse effects of such trends, including the unprecedented market dislocation across asset classes and geographical markets witnessed since mid-2008, have been and would be felt principally through the following:

- reduced investment returns could impair its ability to write significant volumes of new business as a result of market volatility, which would have a negative impact on Prudential's assets under management and profit;

- higher credit defaults and wider credit and liquidity spreads resulting in realized and unrealized credit losses, as recently experienced when illiquidity and credit spreads reached all-time highs;

- Prudential in the normal course of business enters into a variety of transactions, including derivative transactions, with counterparties. Failure of any of these counterparties to discharge their obligations, or where adequate collateral is not in place, could have an adverse impact on Prudential's results; and

- in certain illiquid or closed markets, determining the value at which financial instruments can be realized is highly subjective. Processes to ascertain value and estimates of value require substantial elements of judgment, assumptions and estimates (which may change over time). Increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

In the United Kingdom, a significant part of Prudential's shareholders' profit is related to bonuses for policyholders declared on its with-profits products, which are broadly based on historic and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. For all lines of business, fluctuations in financial risk factors will affect the Company's results. In 2008, Prudential has had to operate against a challenging background of unprecedented volatility in capital and equity markets, interest rates and widespread economic uncertainty.

In the United States, fluctuations in interest rates can affect results from Jackson National Life Insurance Company ("Jackson"), which has a significant spread-based business and where the majority of investments are in fixed-income securities. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. During 2008, the US financial services industry faced an unprecedented array of challenges: the S&P 500 index fell by 38.5 per cent, government interest rates fell to historic lows, and global markets experienced a significant increase in volatility. In addition, credit markets seized and global credit spreads widened to historic levels. These factors have significantly contributed to the substantial increases in Jackson's unrealized losses. Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. There could be unforeseen market circumstances where the derivatives

that it enters into to hedge its market risks may not fully offset its losses, and any cost of the guarantees that remain unhedged will also affect the Company's results.

For some non unit-linked products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to exactly match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets such as Taiwan where regulated surrender values are set by regulators with reference to the interest rate environment prevailing at time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. This residual asset/liability mismatch risk can be managed but not eliminated. Where interest rates in these markets remain lower than interest rates used to calculate surrender values over a sustained period this could have an adverse impact on the Group's reported profit.

Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses.

Due to the geographical diversity of Prudential's businesses, it is subject to the risk of exchange rate fluctuations. Prudential's international operations in the United States and Asia, which represent a significant proportion of operating profit and shareholders' funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon translation of results into pounds sterling. The currency exposure relating to the translation of reported earnings is not separately managed. Consequently, this could impact on the Group's gearing ratios (defined as debt over debt plus shareholders' funds). The impact of gains or losses on currency translations is recorded as a component within the statement of changes in equity.

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates.

Changes in government policy, legislation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, which in some circumstances may be applied retrospectively, may adversely affect Prudential's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements. For instance, regulators in jurisdictions in which Prudential operates may change the level of capital required to be held by individual businesses. Also these changes could include possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. Furthermore, as a result of the recent interventions by governments in response to global economic conditions, it is widely expected that there will be a substantial increase in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transaction structure, and enhanced supervisory powers.

The current EU Insurance Groups Directive ("IGD") requires European financial services groups to demonstrate net aggregate surplus capital in excess of solvency requirements at the Group level in respect of shareholder-owned entities. The test is a continuous requirement, so that Prudential needs to maintain a somewhat higher amount of regulatory capital at the Group level than otherwise necessary in respect of some of its individual businesses to accommodate, for example, short-term movements in global foreign exchange rates, interest rates, deterioration in credit quality and equity markets. In addition, changes in the local regulatory environment of countries where this is deemed equivalent to the EU could affect the calculation of the Group's solvency position. The application of Solvency II, the new European Union solvency framework for insurers, to international groups is still unclear and there is

a risk of inconsistent application in different member states which may place Prudential at a competitive disadvantage to other European and non-European financial services groups.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where Prudential, along with other companies, may be required to make additional material contributions.

The Group's accounts are prepared in accordance with current international financial reporting standards ("IFRS") applicable to the insurance industry. The International Accounting Standards Board ("IASB") introduced a framework that it described as Phase I that permitted insurers to continue to use the statutory basis of accounting that existed in their jurisdictions prior to January 2005. The IASB has published proposals in its Phase II discussion paper that would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. It is uncertain in what form the proposals in the discussion paper will be taken forward into a definitive IFRS and when such changes might take effect.

European Embedded Value ("EEV") basis results are published as supplementary information for Prudential's announcements to the UK Listing Authority and in its UK Annual Report. The EEV basis is a value based reporting method for Prudential's long-term business which is used by market analysts and which underpins a significant part of the key performance indicators used by the Company's management for both internal and external reporting purposes. In June 2008, in an effort to improve still further the consistency and transparency of embedded value reporting, the Chief Financial Officers' ("CFO") Forum published the initial Market Consistent Embedded Value ("MCEV") Principles. The CFO Forum announced on 19 December, 2008, that it would be reviewing the Principles given the current turbulent markets. They acknowledged that the MCEV principles were designed during a period of relatively stable market conditions and their application could, in turbulent markets, lead to misleading results. The review may lead to changes to the published MCEV Principles or the issuance of guidance. On completion of this review, Prudential will consider its approach to them. If Prudential adopts the new Principles, this will result in a restatement of reported EEV results and change the reporting basis of future results.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its reputation or on its relations with current and potential customers.

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the United Kingdom and internationally. This could be a review of business sold in the past under previously acceptable market practices at the time such as the requirement in the United Kingdom to provide redress to certain past purchasers of pension and mortgage endowment policies, changes to the tax regime affecting products and regulatory reviews on products sold and industry practices, including in the latter case businesses it has closed.

Regulators particularly, but not exclusively, in the United States and the United Kingdom are moving towards a regime based on principles-based regulation which brings an element of uncertainty. These regulators are increasingly interested in the approach that product providers use to select third-party distributors. In some case product providers can be held responsible for the deficiencies of third-party distributors.

In the United States, federal and state regulators have focused on, and continue to devote substantial attention to, the mutual fund, fixed index and variable annuity and insurance product industries. This includes new regulations in respect of the suitability of broker-dealers' sales of certain

products. As a result of publicity relating to widespread perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms.

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. There is a risk that new requirements are retrospectively applied to sales made prior to their introduction.

Litigation and disputes may adversely affect Prudential's profitability and financial condition.

Prudential is, and may be in the future, subject to legal actions and disputes in the ordinary course of its insurance, investment management and other business operations. These legal actions and disputes may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provisioned in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could, from time to time, have an adverse effect on Prudential's results of operation or cash flows.

Prudential's businesses are conducted in highly competitive environments with developing demographic trends and Prudential's continued profitability depends on its management's ability to respond to these pressures and trends.

The markets for financial services in the United Kingdom, United States and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and its continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, developing demographic trends and customer appetite for certain savings products. In some of its markets Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates or claims-paying ratios. Further, heightened competition for talented and skilled employees with local experience, particularly in Asia, may limit the Group's potential to grow its business as quickly as planned.

Within the United Kingdom, Prudential's principal competitors in the life insurance market include many of the major retail financial services companies including, in particular, Aviva, Legal & General, Lloyds Banking Group and Standard Life.

Jackson's competitors in the United States include major stock and mutual insurance companies, mutual fund organizations, banks and other financial services companies such as AIG, AXA, Hartford, Lincoln National, MetLife and TIAA-CREF.

In Asia, the Group's main regional competitors are international financial companies, including AIG, Allianz, AXA, ING and Manulife. In a number of markets, local companies have a very significant market presence.

Prudential believes competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and hurt its relationships with creditors or trading counterparties.

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in most of Prudential's products, and as a result its competitiveness. Changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition. Downgrades in Prudential's ratings could have an adverse effect on its ability to market products and retain current policyholders. In addition, the interest rates Prudential pays on its borrowings are affected by its debt credit ratings, which are in place to measure Prudential's ability to meet its contractual obligations.

As at March 31, 2009 Prudential's long-term senior debt is rated as A2 (negative outlook) by Moody's, A+ (stable outlook) by Standard & Poor's and A+ (negative outlook) by Fitch.

Prudential's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's and F1+ by Fitch.

Prudential Assurance Company's (PAC's) financial strength is rated Aa2 (negative outlook) by Moody's, AA+ (negative outlook) by Standard & Poor's and AA+ (negative outlook) by Fitch.

Jackson's financial strength is rated A1 (negative outlook) by Moody's, AA (stable outlook) by Standard & Poor's and AA (negative outlook) by Fitch.

Adverse experience in the operational risks inherent in Prudential's business could have a negative impact on its results of operations.

Operational risks are present in all of Prudential's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. Prudential's business is dependent on processing a large number of complex transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. In addition, Prudential outsources several operations, including in the United Kingdom a significant part of its back office and customer-facing functions as well as a number of IT functions. In turn, Prudential is reliant upon the operational processing performance of its outsourcing partners.

Further, because of the long-term nature of much of Prudential's business, accurate records have to be maintained for significant periods. Prudential's systems and processes incorporate controls which are designed to manage and mitigate the operational risks associated with its activities. For example, any weakness in the administration systems or actuarial reserving processes could have an impact on its results of operations during the effective period. Prudential has not experienced or identified any operational risks in its systems or processes during 2008 which have subsequently caused, or are expected to cause, a significant negative impact on its results of operations.

Adverse experience against the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products and for reporting the results of its long-term business operations. For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its United Kingdom annuity business. In exchange for a premium equal to the capital value of their accumulated pension fund, pension annuity policyholders receive a guaranteed payment, usually monthly, for as long as they are alive. Prudential conducts rigorous research into longevity risk, using data from its substantial annuitant portfolio. As part of its pension annuity pricing and reserving policy, Prudential United Kingdom assumes that current rates of mortality continuously improve over time at levels based on adjusted data from the Continuous Mortality Investigations ("CMI") medium cohort table projections

(as published by the Institute and Faculty of Actuaries). If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

A further example is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (persistency). This is particularly relevant to its lines of business other than its United Kingdom annuity business. Prudential's persistency assumptions reflect recent past experience for each relevant line of business. Any expected deterioration in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different from those assumed, Prudential's results of operations could be adversely affected.

In common with other industry participants, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity trends, policy surrender rates, investment performance, unit cost of administration and new business acquisition expense.

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments.

Prudential's insurance and investment management operations are generally conducted through direct and indirect subsidiaries. As a holding company, Prudential's principal sources of funds are dividends from subsidiaries, shareholder-backed funds, the shareholder transfer from Prudential's long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper. Certain of the subsidiaries are regulated and therefore have restrictions that can limit the payment of dividends, which in some circumstances could limit the Group's ability to pay dividends to shareholders.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties. These arrangements involve certain risks that Prudential does not face with respect to its consolidated subsidiaries.

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures. Prudential's ability to exercise management control over its joint venture operations and its investment in them depends on the terms of the joint venture agreements, in particular, the allocation of control among, and continued co-operation between, the joint venture participants. Prudential may also face financial or other exposure in the event that any of its joint venture partners fails to meet its obligations under the joint venture or encounters financial difficulty. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements could affect Prudential's results of operations.

Prudential's Articles of Association contain an exclusive jurisdiction provision.

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings between a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

FORWARD-LOOKING STATEMENTS

This annual report may contain certain forward-looking statements with respect to certain of Prudential's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words "believes", "intends", "expects", "plans", "seeks" and "anticipates", and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Prudential's control including among other things, economic and business conditions in the countries in which Prudential operates, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal actions and disputes, together with other factors discussed in "Risk Factors". This may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result, Prudential's actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in Prudential's forward-looking statements.

In particular, the following are forward-looking in nature:

- certain statements in Item 4, "Information on the Company" with regard to strategy and management objectives, trends in market shares, prices, market standing and product volumes and the effects of changes or prospective changes in regulation, and

- certain statements in Item 5, "Operating and Financial Review and Prospects" with regard to trends in results, prices, volumes, operations, margins, overall market trends, risk management and exchange rates and with regard to the effects of changes or prospective changes in regulation.

Prudential may also make or disclose written and/or oral forward-looking statements in reports filed or furnished to the US Securities and Exchange Commission, Prudential's annual report and accounts to shareholders, proxy statements, offering circulars, registration statements and prospectuses, press releases and other written materials and in oral statements made by directors, officers or employees of Prudential to third parties, including financial analysts. Prudential undertakes no obligation to update any of the forward-looking statements contained in this annual report or any other forward-looking statements it may make.

EEV BASIS AND NEW BUSINESS RESULTS

In addition to IFRS basis results, the Group's filings with the UK Listing Authority and Group Annual Reports include reporting by Key Performance Indicators ("KPIs"). These include results prepared in accordance with the European Embedded Value ("EEV") Principles and Guidance issued by the Chief Financial Officers' ("CFO") Forum of European Insurance Companies, and New Business measures.

The EEV basis is a value based method of reporting in that it reflects the change in the value of in-force long-term business over the accounting period. This value is called the shareholders' funds on the EEV basis which, at a given point in time, is the value of future cash flows expected to arise from the current book of long-term insurance business plus the net worth (based on statutory solvency capital (or economic capital where higher) and unencumbered capital) of the company. EEV basis results are published semi-annually by the Company in the UK Market. The EEV basis results also include disclosures regarding the movements in free surplus (the excess of available over required capital) for

the year as a result of, among other things, the generation of free surplus from the in-force operations, the investment of free surplus in new business and investment market-related movements.

New Business results are published quarterly and are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement.

The Company's KPIs also include IFRS basis operating profit based on longer-term investment returns as explained in Item 5.

Item 4. Information on the Company

BUSINESS OF PRUDENTIAL

Overview

Prudential is a leading international financial services group, providing retail financial services in the markets in which it operates, primarily the United Kingdom, the United States and Asia. At December 31, 2008, Prudential was one of the 30 largest public companies in the United Kingdom in terms of market capitalization on the London Stock Exchange. Prudential is not affiliated with Prudential Financial, Inc. or its subsidiary, The Prudential Insurance Company of America.

Prudential has been writing life insurance policies in the United Kingdom for over 160 years and has had one of the largest long-term funds in the United Kingdom for over a century. Prudential expanded its business into British Commonwealth countries, including Singapore and Malaysia, in the 1920s and 1930s. In 1986, Prudential acquired Jackson National Life Insurance Company ("Jackson"), a US insurance company writing life and fixed annuity business. A group strategy review in the early 1990s identified significant opportunities for Prudential in the Asian life sector and Prudential Corporation Asia was established in 1994 to develop a material and profitable Asian business. In 1999, Prudential acquired M&G, a leading UK fund manager. In June 2000, Prudential completed its listing on the New York Stock Exchange.

Prudential Corporation Asia is the leading foreign company or joint venture in seven of its twelve life markets[1]. Prudential Corporation Asia offers a mix of life insurance with accident and health options, mutual funds and selected personal lines property and casualty insurance with the product range tailored to suit the individual country markets. Its insurance products are distributed mainly through an agency sales-force and complementary bancassurance agreements while the majority of mutual funds are sold through banks and brokers. Its life insurance operations in China and India are conducted through joint ventures in which it holds 50 per cent and 26 per cent, respectively. In addition, in India, Prudential holds 49 per cent of a fund management joint venture with ICICI, in China it has a 49 per cent stake in a funds management joint venture with CITIC, which is called CITIC-Prudential, and in Hong Kong, it holds a 36 per cent stake in a joint venture with Bank of China International for Mandatory Provident Funds ("MPF") and mutual funds.

At December 31, 2008, Prudential Corporation Asia:

- had over eleven million life customers in 12 markets;
- had expanded and extended its bank distribution agreement with Standard Chartered;
- had one of the largest networks of agents, with approximately 425,000 agents; and
- had consistently high brand recognition, outperforming other financial services companies and was voted the most trusted brand in Malaysia, Singapore and Hong Kong[1].

In the United States, Prudential offers a range of products through Jackson, including fixed, fixed index and variable annuities; life insurance; guaranteed investment contracts; and funding agreements. Prudential distributes these products through independent insurance agents; securities broker-dealers; registered investment advisers; a small captive agency channel, consisting of approximately 100 life insurance agents; and banks, credit unions and other financial institutions. Prudential also offers fee-based separately managed accounts and investment products through Curian Capital, LLC, which is Jackson's registered investment adviser, established in 2003.

At December 31, 2008, in the United States, Jackson:

- was the 16th largest life insurance company in terms of General Account assets[2];

was ranked the top insurance company for sales support satisfaction in the Financial Research Corporate Advisor Insight Series on Marketing Effectiveness[3];

was rated as a 'World Class' service provider for the fourth successive year by Service Quality Measurement Group[4]; and

completed a record sales year with total annual premium equivalent ("APE") retail sales of £596 million, the highest level in Jackson history.

At March 31, 2009, Jackson was:

rated A1 (negative outlook) by Moody's, AA (stable outlook) by Standard & Poor's and AA (negative outlook) by Fitch in terms of financial strength rating. The ratings from Standard & Poor's and Fitch represent the third highest ratings and the rating from Moody's represents the fifth highest rating out of their respective rating categories.

In the United Kingdom, Prudential offers a range of retail financial products and services, including long-term insurance and asset accumulation and retirement income products (life insurance, pensions and pension annuities), retail investment and unit trust products, and fund management services. Prudential primarily distributes these products through financial advisers, partnership agreements with banks and other financial institutions, and direct marketing, by telephone, mail, internet and face to face advisers.

At December 31, 2008, in the United Kingdom, Prudential was:

one of the market leaders in the individual annuity market, the with-profits market, the corporate pensions market and the emerging equity release market[5];

rated first amongst Life and Pension providers for professional authority, trustworthiness and customer's choice for retirement needs among the 45+ age group[6];

named (in respect of its fund management business, M&G) the Global Group of the Year by Investment Week and by Trust Net, as well as the Lipper Large Group of the Year 2009 ; and

rated as Aa1 by Moody's (rating under review for possible downgrade), AA+ (negative outlook) by Standard and Poor's and AA+ (stable outlook) by Fitch for financial strength of the Prudential Assurance Company.

At March 31, 2009, Prudential was:

rated Aa2 (negative outlook) by Moody's, AA+ (negative outlook) by Standard & Poor's and AA+ (negative outlook) by Fitch in terms of financial strength rating. The ratings from Standard & Poor's and Fitch for the Prudential Assurance Company represent the second highest ratings and the rating from Moody's represents the third highest rating out of their respective rating categories.

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(1) Source: Reader's Digest Trusted Brands Awards 2008

(2) Source: Statutory financial data per National Underwriter Insurance Data Services from Highline Data, rankings as of December 31, 2008, latest rankings available

(3) Source: Adviser Insight Marketing Effectiveness, vol 2, 2008

(4) Source: Service Quality Measurement Group

(5) Source: Association of British Insurers ("ABI"), Safe Home Income Plan

(6) Source: HPI Brand Tracking Research, 2008

Group Strategy Overview

Prudential's objective

Prudential's overriding objective is to generate sustainable value for its shareholders by combining a clear focus on delivering the optimal level of capital efficient profitable growth in the short and medium term, with sound strategic positioning to capture long term growth opportunities in the pre- and post-retirement market.

Prudential's strategic focus

Prudential's strategy is centered on the global retirement opportunity, where it believes it has the assets and capabilities to capture a disproportionate share of this growing profit pool over the coming years.

Prudential's key markets

Geographically, Prudential will focus on expanding its existing franchises in Asia, the United States and the United Kingdom, where it already holds strong and often market-leading positions.

Prudential's assets and capabilities

Within these markets, Prudential intends to continue to leverage its brands, its product innovation skills and its investment management and risk management expertise to develop and deliver solutions that meet the changing needs of customers throughout their pre- and post- retirement years, and it will look to further strengthen its powerful distribution networks to enable it to bring those products to market successfully.

Prudential will use its local knowledge to try and ensure it tailors solutions to local market needs, while at the same time continuing to leverage the benefits of the Group as a whole in terms of greater capital efficiency, greater risk appetite and operational synergies.

Driving Growth

Asia

Prudential's strategy in Asia is to continue to build quality, multi-channel distribution that delivers customer-centric and profitable products in segments that have the potential for sustained growth, with an increasing emphasis on retirement solutions.

United States

The United States is the largest retirement savings market in the world, and Jackson's strategy is to leverage its product innovation skills, relationship-based distribution model and low cost infrastructure to capture a growing and profitable share of this market.

United Kingdom

Prudential UK's strategy is to concentrate on those areas of the retirement savings and income markets where it can generate attractive returns, capitalizing on its longevity experience, multi-asset management capabilities, brand and financial strength.

M&G

M&G's strategy is to focus on delivering superior investment performance and maximizing risk-adjusted returns for its retail, wholesale and internal clients.

2008 Priorities

A summary of the 2008 priorities and the level of achievement in respect of these for the year is detailed in the table below:

2008 Summary Priorities	2008 Summary Achievements
Group	
Improve Group holding company cash flow[1] and maintain robust capital position	Operating cash flow improved and was positive £54 million in 2008. Through prudent and proactive management the Group's Insurance Group Directive ("IGD") surplus at December 31, 2008 (after including an additional £0.3 billion that the UK Financial Services Authority ("FSA") has subsequently allowed to be included going forward) was estimated on March 19, 2009 at £1.7 billion. The surplus will increase by approximately £0.8 billion on completion of disposal of the Group's agency business in Taiwan.
Deliver growing dividend, determined after taking into account the Group's financial flexibility and opportunities to invest in areas of business offering attractive returns, targeting two- times cover over time	The full year dividend is up five per cent with 2.24 times cover.
Asia	
Expand the agency force and continue to improve productivity	Average number of agents increased to 425,000 with the largest increases in Indonesia, up 43 per cent to 57,000, and India, up 21 per cent to 287,000. Aside from Thailand, all operations grew their agency force.
Maximize the potential from non-agency distribution and add new partners	Successful bank distribution agreement with Standard Chartered Bank ("SCB") was expanded and extended. Prudential now works with SCB in nine markets and is exploring more opportunities for protection and Takaful products.
Further develop direct marketing channels and up-sell and cross-sell	Health products have been incorporated into agency incentive programs, a standalone health care product was launched into the SCB channel with simplified underwriting and eye-catching media campaigns to capture direct business and provide leads for other channels.
Increase focus on retirement services and health products	Continued to develop and launch new retirement orientated products. For example, in Korea and Malaysia, variable annuity products were launched that provide a guaranteed minimum income on retirement.

2008 Summary Priorities	2008 Summary Achievements
United States	
Continue to innovate around Prudential's key variable annuity product	Prudential introduced three new guaranteed minimum withdrawal benefits ("GMWB") and eight new portfolio investments.
Enhance further Prudential's existing World Class service model	Prudential implemented dedicated, premier service teams, resulting in overwhelmingly positive feedback from key producers.
	Prudential was recognized as a 'World Class' service provider by the Service Quality Measurement Group in its latest benchmarking study of North American contact centers.
Expand the retail distribution	Prudential retained and strengthened distribution relationships by providing the resources, guidance and services, advisers need most during difficult times.
United Kingdom	
Build on strength in the retirement market and risk products	Prudential maintained its leadership position in the individual annuity market in 2008 with a market share of 24 per cent[(2)]. During the year it also introduced lifestyle pricing and a new enhanced annuity product. Its share of the lifetime mortgage market share grew to 23 per cent[(3)] and the PruHealth business continued to evolve. With-profit bond sales increased in 2008, reflecting the strength of the with-profits offering and the increase in demand for this product as consumers look to protect themselves from market downturns.
Migrate to factory gate cautiously managed asset accumulation products	Prudential has launched PruFund as a fund link, making it available across a range of tax wrappers including the factory gate products such as individual pensions, income drawdown, onshore and offshore bonds. The launch of PruSelect, an extended range of unit-linked funds across the pensions and investments products to complement the in-house multi-asset fund range, has facilitated the growth of Prudential's market share. Additionally, Prudential has been strengthening its relationships with intermediaries, and has been successful in gaining over 40 new distribution panels with 15 key accounts. This has enabled a wider intermediary distribution of the factory gate products.
Deliver on the cost reduction program including the outsource program	Prudential started implementing an agreement with Capita to outsource a large proportion of policy administration in April 2008, and is on track to deliver cost savings of £195 million by the end of 2010.

2008 Summary Priorities	2008 Summary Achievements
Selective participation in the wholesale market	Transactions completed include the bulk annuity buy-in agreements with Goldman Sachs for the reinsurance of APE £30 million of Rothesay Life's non-profit annuity business and with the Trustee of the Cable & Wireless Superannuation Fund for the reinsurance of APE £106 million of liabilities relating to the scheme's pensioners in payment.
Determine whether it is in the best interests of policyholders and shareholders to pursue a reattribution of the inherited estate	Prudential concluded that maintaining the current operating model for the With-Profits Sub Fund is best in the long-term interest of both the current and future policy holders as well as the shareholders. In June 2008 an announcement was made stating that Prudential would not be proceeding with a reattribution of the inherited estate.
Asset Management	
Maintain superior investment performance for both internal and external funds	Gross fund inflows of £16.2 billion, up 10 per cent on prior year. 35 per cent of M&G retail funds delivered top-quartile investment performance[(4)].
Extend third-party retail and institutional business	£3.4 billion of net inflows compared to net outflows of €334 billion[(5)] across the European asset management industry and £2.1 billion net outflows from UK asset managers across retail and institutional funds[(6)].

(1) Holding company cash flow is the increase or decrease in cash and short-term investments of the holding company and related finance subsidiaries during the reporting period.

(2) Source: ABI

(3) Source: SHIP

(4) Source: Morningstar

(5) Source: EFAMA all funds excluding UK

(6) Source: IMA data including collective investments

2009 Priorities

Group

Prudential's overriding objective for 2009 remains that of continuing to create value for its shareholders by fully exploiting the power of its retirement-led strategy and continuing to expand the excellent businesses that it has in place today. On a business unit basis Prudential aims to focus on the following priorities in 2009:

Life insurance

In Asia:

Expand the agency force and continue to improve productivity

Maximize the potential from non-agency distribution and add new partners

- Further develop direct marketing channels and up-sell and cross-sell
- Increase focus on retirement services and health products

In the US:

- Continue to focus on improving efficiency of the operation
- Capital conservation

In the UK:

- Build on its strengths in the retirement income and savings market
- Strengthen distribution capabilities
- Deliver an improvement in operational performance and customer service whilst preserving the focus on costs
- Selectively participate in the wholesale market
- Make the most of core capabilities and assets, including longevity experience, multi-asset investment expertise, brand, financial strength and large customer base

Asset management

- Maintain superior investment performance for both internal and external funds
- Extend third party retail and institutional businesses

Summary

In 2008, Prudential delivered a strong performance in all its businesses and maintained a healthy capital position, despite the banking liquidity crisis and the onset of the most severe worldwide recession in more than a generation.

The combination of selective spreading of geographic risk across different continents and types of economy, a focus on the most profitable opportunities in the pre- and post- retirement sector in each of Prudential's chosen markets, and a clear focus on generating profitable growth places the Group in a strong position from which to outperform amid particularly testing times and in the longer-term.

Prudential believes that its operational expertise and excellence in the operating divisions across the world bring to bear and justify the Group's commitment to nurturing its financial strength through the prudent management of capital resources.

Prudential believes that the retirement market offers significant long-term sustainable growth opportunities as a significant demographic wave transitions out of the work-force and into retirement. The Group has a strong presence in this sector based on its financial strength, its investment and risk management skills, its brands and its product innovation and distribution expertise.

There is significant volatility and nervousness in markets and it is likely that there will be a period of less attractive economic growth trends in Asia, the US and in the UK than seen in recent years. Notwithstanding this, Prudential believes that its strategy, proactive approach to

effective capital and risk management and its business model are well placed to continue to deliver sustainable value.

In Asia, the markets did feel the impact of the global financial turmoil in 2008, and the region's economic performance has undoubtedly suffered as a consequence of the down turn. However, Asia was the only region worldwide to record high single-digit economic growth in the year. Going forward Prudential believes that Asia's fundamentals of continued economic growth, increasing mass affluence and shifting demographics will continue to be powerful drivers of profitable growth in the future.

The US remains the largest retirement market in the world. Innovation in product design and speed to the market continue to be the key drivers of Prudential's competitive advantage, and Prudential believes it is well positioned to continue its strong performance.

In the UK Prudential continues to focus on realizing value from the opportunities created by rapid growth in the need for retirement solutions, leveraging in particular on its longevity experience, multi asset investment capabilities, brand and financial strength. Prudential remains confident about the long-term growth prospects for the UK retirement market.

Prudential's asset management businesses, although more directly influenced by market movements, are well placed to capitalize on their leading market positions and strong track records in investment performance to deliver net flows and profit growth as well as strategically diversifying the Group's investment propositions in retail financial services markets worldwide.

Prudential believes that 2009 will be a challenging year and, given the uncertainty in the operating environment, has taken a prudent approach to plans for the year. This means there will be a focus on balancing new business with cash generation and ensuring that the balance sheet and capital position remain robust, whilst positioning the business to take advantage of any improvement in the market conditions. Prudential believes that this cautious but proactive strategy will allow it to outperform over the economic cycle.

Company Address and Agent

Prudential plc is a public limited company incorporated on November 1, 1978, and organized under the laws of England and Wales. Prudential's registered office is Laurence Pountney Hill, London EC4R 0HH, England (telephone: +44 20 7220 7588). Prudential's agent in the United States is Jackson National Life Insurance Company, located at 1 Corporate Way, Lansing, Michigan 48951, United States of America.

Significant Subsidiaries

The table below sets forth Prudential's significant subsidiaries.

Name of Company	Percentage Owned(1)	Country of Incorporation
The Prudential Assurance Company Limited	100%	England and Wales
Prudential Annuities Limited[(2)]	100%	England and Wales
Prudential Retirement Income Limited[(2)]	100%	Scotland
M&G Investment Management Limited[(2)]	100%	England and Wales
Jackson National Life Insurance Company[(2)]	100%	United States
Prudential Assurance Company Singapore (Pte) Limited[(2)]	100%	Singapore
PCA Life Assurance Company Limited[(2)(3)]	99%	Taiwan

(1) Percentage of equity owned by Prudential directly or indirectly. The percentage of voting power held is the same as the percentage owned. Each subsidiary has one class of ordinary shares and operates mainly in its country of incorporation, except for Prudential Retirement Income Limited which operates mainly in England and Wales.

(2) Owned by a subsidiary of Prudential.

(3) On February 20, 2009, Prudential announced that it had entered into an agreement to transfer the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance

Company Ltd of Taiwan. The business being transferred represents 94 per cent of its in-force liabilities in Taiwan.

Asian Business

Life Insurance

Market Overview

Asia's life insurance markets are very attractive with large scale and high growth rates supported by economic growth, favorable demographics and market liberalizations. However, there are some formidable barriers to successful entry, including entrenched incumbents, the pace of change and nature of regulations, mandatory domestic partners in some markets and a shortage of experienced staff.

Asia remains a very attractive region for growth opportunities due to its high levels of economic activity translating into higher levels of personal wealth, greater disposable incomes, a comparatively higher propensity to save and a growing appetite for good quality protection and savings products. Traditionally older people have relied on their children to provide for them, but within just one generation this is expected to be far less common. Within this environment, ageing demographics are also beginning to drive increased household savings rates and an emerging need for healthcare and retirement solutions.

Asian governments generally have little appetite to increase the provision of state funded retirement benefits and healthcare and are actively encouraging the development of a strong, dynamic private sector to meet people's growing need for financial solutions.

Introduction

Prudential's current strategy in Asia is to leverage its platform to generate further shareholder value by continuing to increase the scale of its operations. This is reflected in the following strategic commitments: further increasing agency scale and productivity, continuing to build distribution through partnerships, sharpening the focus on health and protection products, developing segmented retirement solutions and strengthening customer relationships.

Prudential was an early mover in recognizing the long-term growth potential in Asia. Leveraging a foothold established in the 1920s, it has created an unparalleled business in the region that holds market-leading positions in the world's most populous and dynamic economies. Although complete official market statistics are not yet available, Prudential estimates that it is the leading foreign company or joint venture in seven of its twelve life markets. Prudential grew market share in six of its 12 countries during 2008.

Prudential's operations in Asia are unified under the Prudence face icon, which retains a consistently high recognition rate, outperforming other financial service companies in the region. Prudential operates distinct life insurance businesses in 12 markets. These are all managed by local teams, with strategic leadership and technical support provided by the regional team (based in Hong Kong). Every opportunity is taken to leverage synergies and best practices around the region, and from the wider Prudential Group, particularly in areas such as product development, channel distribution and asset liability management. The Asian businesses operate with common principles and within a regionally managed risk framework. It consistently wins industry awards for the quality of its operations in Asia, including its customer service.

Underpinning Prudential's success in the region is the breadth and depth of its management teams and staff. These comprise a combination of market-leading international specialists and the very best local talent.

Although externally the highest profile measure of success is new business volumes and how this translates into market share, Prudential's internal focus is on EEV new business profit. Prudential's business in Asia maintains strict financial disciplines to ensure that there is always a strong correlation between business volumes and the value generated, as reflected in the shareholders' embedded value

metrics. As the scale of Prudential's business in Asia continues to increase, as evidenced by premium revenues of £5.5 billion in 2008, there is a greater focus on demonstrating the emergence of this value in terms of distributable IFRS profits and cash.

Given the current economic climate, a thorough review has been undertaken of all the operations' solvency positions from the local regulatory and the IGD perspectives. Optimizing capital efficiency from the Group's perspective has always been a priority, but with the worldwide collapse of market valuations and interest rates Prudential paid particular attention to this during 2008.

Disposal of PCA Life Taiwan's Agency Business

When Prudential entered the Taiwanese market in 1999, traditional "compulsory dividend" life policies were the only type of savings and protection policy permitted by the regulator. These polices are unique to Taiwan and have claims, guaranteed surrender values and local statutory reserves calculated on a prescribed actuarial basis, which includes an underlying interest rate assumption based on two-year interest rates at the time the policy is sold.

Prudential's acquisition of Chinfon Life in 1999 included a back book with interest rate assumptions at around 6.5 per cent and expected liability duration of 30 to 40 years. Since then interest rates in Taiwan have declined and despite economists' consistent projections of a rise rates stood at just 1.4 per cent at December 31, 2008. Provisions required under the local solvency requirements have been offset by profits generated from new business, particularly following the introduction of a unit-linked business in 2002. The net cash strain Prudential experienced from this back book was running at the rate of around £50 million per annum.

However, Prudential as an EU domiciled group is subject to the requirements of the IGD in measuring solvency. For IGD purposes the liability on the back book is crystallized at around £800 million, with the potential to increase significantly under the proposed Solvency II valuation rules. In reviewing the allocation of capital across the Group, Prudential saw an opportunity to materially improve its capital position by releasing the economic capital supporting the agency distribution business. Therefore on February 20, 2009, Prudential announced that it had agreed to transfer the assets and liabilities of the agency distribution business in Taiwan, including the capital consuming back book, to China Life Insurance Ltd (Taiwan), subject to regulatory approval. The transfer will include all policies previously issued by the agency, the agency contracts and the agency related support operations. Upon completion there will be a one-off negative IFRS impact of approximately £595 million after restructuring costs.

Prudential will continue to be an active and committed player in the Taiwanese life insurance market through its successful bancassurance, direct marketing and other non-agency distribution channels. Bank and direct sales accounted for 29 per cent of Prudential's new business in Taiwan in 2008.

Distribution

Agency is the predominant distribution channel in Asia and for Prudential the agency force generated 66 per cent of new business volumes in 2008. Success in agency distribution requires building and maintaining meaningful scale in terms of agent numbers whilst also providing the infrastructure to manage agent training and skills development to drive agency productivity. Prudential's agency priority depends on the stage of development of each individual market and Prudential's operation within it.

During the year, Prudential increased its average number of agents in the Asia region by 21 per cent to 425,000, with the largest increases in Indonesia (up 43 per cent to 57,000) and India (up 21 per cent to 287,000). With the exception of Thailand, all of Prudential's Asian operations expanded their agency forces during 2008.

The challenging economic environment did suppress industry-wide agency productivity in terms of APE per agent in 2008. Prudential's average productivity was 21 per cent lower than in 2007. The main driver of this decline was lower average case size, which fell by 12 per cent due to the tougher economic climate and higher proportions of (highly profitable) health and protection business. However, the average number of cases per active agent per month was only marginally lower in 2008 than in 2007 a performance that reflects the resilience of our agency force in a depressed market.

Prudential complements its agency distribution in the region with a number of distribution agreements with leading banks and brokers. The strategy for bank distribution, which accounts for 19 per cent of APE sales, is heavily influenced by its agency competencies, since it does not simply rely on bank counter staff to promote insurance products but also deploys a highly-trained and specialized sales force sitting in the bank branches. These Financial Service Consultants ("FSC's") are managed in a very similar way to the agency force; they are accountable for high standards of quality and the productivity, and they are rewarded for results. There were 8,900 FSC's at December 31, 2008, up 11 per cent on the prior year, and during 2008 FSC's generated 81 per cent of the region's new business from the bank channel.

During 2008 and in early 2009 Prudential expanded and extended its successful bank distribution agreement with Standard Chartered Bank ("SCB"). Prudential now works with SCB in nine markets[(1)] and is currently exploring further opportunities for protection and Takaful products. SCB Taiwan had a particularly impressive fourth quarter, and Prudential's overall new business from SCB in Asia increased by 35 per cent during 2008.

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(1)
Hong Kong, Singapore, Malaysia, Taiwan, Japan, Korea, Thailand, China, Vietnam

Total new business from the bank channel grew by 27 per cent during 2008 and accounted for 20 per cent of total new business.

Products

The life insurance products offered by Prudential Corporation Asia include a range of with-profits (participating) and non-participating term, whole life endowment and unit-linked policies. Prudential also offers health, disablement, critical illness and accident cover to supplement its core life products. Prudential's business in Asia is focused on regular premium products that provide both savings and protection benefits. In 2008, the new business profit mix was 50 per cent accident and health, 39 per cent unit-linked and 11 per cent non-linked products. At the end of 2008 Prudential Corporation Asia offered health and protection products in all of its markets and unit-linked products in 11 of the 12 countries in Asia in which it operates.

Unit-linked products combine savings with protection and the cash value of the policy depends on the value of the underlying unitized funds. Participating products provide savings with protection where the basic sum assured can be enhanced by a profit share (or bonus) from the underlying fund as determined at the discretion of the insurer. Non-participating products offer savings with protection where the benefits are guaranteed or determined by a set of defined market related parameters. Accident and health products provide mortality or morbidity benefits and include health, disablement, critical illness and accident covers. Accident and health products are commonly offered as supplements to main life policies but can also be sold separately.

The profits from participating policies are shared between the policyholder and insurer (typically in a 90:10 ratio) in the same way as with-profits business in the United Kingdom as detailed in " UK Business UK Products and profitability" below. Under unit-linked products the profits that arise from managing the policy, its investments and the insurance risk accrue entirely to shareholders, with investment gains accruing to the policyholder within the underlying unitized fund. The profits from

accident and health and non-participating products consist of any surplus remaining after paying policy benefits.

Prudential is implementing a structured and disciplined approach to expanding its health and protection business in Asia. A new regional team has been formed with sales management, product development, underwriting, claims, operations and business development expertise. Underwriting processes have been reengineered to improve customer service; claims turnaround is now more efficient; and quotation systems have been upgraded to alert agents to appropriate health riders as attachment opportunities e.g. life policy with critical illness cover to augment core products.

With this foundation in place, innovative products that are tailored for each market are being rolled out. For example, in the fourth quarter of 2008 our business in Malaysia launched a critical illness plan that pays the full sum assured for up to three claims, with cover until age 85. Over two thousand polices were sold within the first month.

Critical factors in Prudential's success in health and protection include integrating the product initiatives with the distribution channels and tailoring sales support activities to the agency, bank and direct channels. For example, health products have been incorporated into agency incentive programs, and a standalone health care product was launched into the SCB channel with simplified underwriting and compelling media campaigns to capture direct business and provide leads for other channels.

Like the West, Asia has rapidly ageing populations and a growing need for financial advice and products to help people save for retirement, secure an income during retirement and protect their financial well being throughout life.

Prudential has already taken a lead in raising the awareness of the need for retirement financial planning through the 'What's Your Number?' campaigns, and the retirement planning message continues to be reinforced through fully integrated marketing and promotional materials. For example, Prudential's websites in Hong Kong, Taiwan, Malaysia and Korea now include retirement calculators.

Although market conditions have not been conducive to major new initiatives in the retirement space during 2008, Prudential continues to develop and launch new retirement orientated products. For example, in Korea and Malaysia it launched variable annuity products that provide a guaranteed minimum income on retirement.

New Business Premiums

In 2008, total sales of insurance products were £2,673 million, down eight per cent from 2007 (£2,901 million). Of this amount, regular premium insurance sales were down 19 per cent to £1,457 million and single premium insurance sales increased 10 per cent to £1,216 million.

The following table shows Prudential's Asian life insurance new business premiums by territory for the periods indicated. In this table "Other Countries" includes Thailand, the Philippines and Vietnam.

	2008 £m	2007 £m
Singapore	**419**	660
Hong Kong	**661**	618
Malaysia	**127**	119
Taiwan	**342**	350
Japan	**145**	144
Korea	**289**	420
China (Group's 50% interest in joint venture with CITIC)	**95**	69
Indonesia	**261**	227
India (Group's 26% interest in joint venture with ICICI)	**262**	203
Other countries	**72**	91
Total	**2,673**	2,901

Asset Management

Prudential Asset Management ("PAM") (formerly PPM Asia) is Prudential Corporation Asia's fund management division responsible for managing Prudential Corporation Asia's life and third party institutional funds, including the Prudential group's investments in the Asia-Pacific region. PAM has offices in Singapore, Hong Kong and Tokyo.

Prudential's Asian asset management business manages funds for Prudential's Asian and UK Life businesses. It further supports the Asian Life business with the design of funds for investment linked products. Prudential is also growing its third party institutional and pension fund management business. Today it has retail operations in ten markets.

The mutual fund industry continues to diversify its investments, with expectations being for a significant increase in net flows over the coming years. Bank distribution continues to dominate in most markets in Asia, with Prudential having established strong relationships with both regional and local banks and placing great emphasis on providing good service.

Distribution

In order to capitalize on the exciting and sizeable opportunities in Asia's retail financial services market, Prudential's Asian asset management business maintained its focus in 2008 on building a strong third-party customer retail franchise. The customer proposition is driven by Prudential's strong investment capabilities, which enable it to develop innovative product suites, and distribute them through diverse channels including regional banks, local banks, private banks, and securities houses and an internal sales force. Over the last ten years, Prudential has become one of the largest and most successful domestic asset management companies in the region.

Products

Prudential offers mutual fund investment products in India, Taiwan, Japan, Singapore, Malaysia, Hong Kong, Korea, Vietnam and China, allowing customers to participate in debt, equity and money market investments. It is also licensed in United Arab Emirates. Prudential Corporation Asia earns a fee based on assets under management.

Fund innovation is essential in maintaining sales levels and distribution agreements and during 2008 Prudential's operations launched a number of new funds across its territories.

In Taiwan, PCA Securities Investment Trust Co., Ltd successfully introduced the PCA Green Solution Fund, the third-largest fund initial public offering launched in the country. On the institutional client front, Prudential secured a domestic equity mandate from Taiwan's New Labour Pension Fund for £63 million (TWD 3 billion) of assets. Similarly, in China, the Triple Benefit Bond Fund and Blue Chip Equity Fund launched in 2008 by CITIC-Prudential, raised over £253 million despite the bearish market conditions. In Korea, the focus on providing innovative variable annuities, variable unit linked and corporate pension products to third-party insurance institutions succeeded in building a more persistent customer base. The Japanese business is now the largest India funds provider in Japan, following the successful launch of the fourth India-themed fund (the India Consumer Fund). Additionally, the Employees Provident Fund Organization in India approved ICICI-Prudential Fund Management as one of the three private sector asset management companies to manage incremental flows into its fund.

Prudential continues to explore opportunities in Islamic funds, and in the United Arab Emirates it signed a Memorandum of Understanding to expand marketing co-operation and distribution of Shariah funds in Malaysia and the Middle East. Prudential's property fund management business PRUPIM delivered a solid performance that included raising £97 million for a new Fund Vietnam Property Fund launched in 2008.

Prudential Corporation Asia makes transaction charges (initial and surrender depending on the type of fund and the length of the investment) and also makes a service charge based on assets under management. The charges vary by country and fund with money market style funds generally having the lowest charges and equity funds the highest.

Net Flows and Funds under Management

Prudential's Asian asset management business's total funds under management ("FUM") as at December 31, 2008 was £36.8 billion. This included £4.9 billion of assets from the Group, £16.7 billion from Prudential Corporation Asia's life funds, and £15.2 billion from third-party customers. Compared to 2007, the overall FUM decreased by 27 per cent at constant exchange rates, primarily as a result of negative market movements. In comparison, the MSCI Asia ex-Japan Index fell by 52 per cent in 2008.

Despite volatile market conditions, Prudential's net inflows remained positive at £0.86 billion, led by the good performance in Taiwan and Japan. Of the £0.86 billion in net inflows, 66 per cent was from equity/bond funds and 34 per cent from money market funds.

US Business

Prudential conducts its US insurance operations through Jackson and its subsidiaries, including Curian Capital, LLC, a registered investment adviser. The US operations also include PPM America, Prudential's US internal and institutional fund manager, and Prudential's US broker-dealer operations (National Planning Corporation, SII Investments, Inc., IFC Holdings, Inc. and Investment Centers of America, Inc.). At December 31, 2008, Prudential's US operations had nearly 3 million policies and contracts in effect and PPM America managed approximately £46 billion of assets. In 2008, new business premiums totaled £6,941 million.

US Market Overview

The United States is the world's largest retirement savings market, and is continuing to grow rapidly. As 78 million baby boomers (Source: US Census Bureau) reach retirement age, their retirement assets are expected to shift from asset accumulation to income distribution. There are already $2 trillion of assets generating retirement income in the US and this amount is forecast to rise to some $7.3 trillion by 2029 (Source: Tiburon Strategic Advisors).

During 2008, the US financial services industry faced an unprecedented array of challenges: the S&P 500 index fell by 38.5 per cent (compared to a 3.5 per cent increase in 2007); governmental interest rates fell to historic lows; and global markets experienced a significant increase in volatility, particularly during the last four months of the year. In addition, credit markets seized and global credit spreads widened to historic levels. As a result of these conditions, many financial services firms sought to raise new capital in order to maintain their solvency.

These factors caused uncertainty in the market, as consumers and producers tried to anticipate future equity movements and questioned the financial stability of product providers. At the same time, however, increasing credit spreads and falling equity markets created favorable market conditions for the sale of fixed annuities. These developments provided a competitive advantage to companies able to participate in both the variable and fixed annuity spaces.

Jackson National Life Insurance Company

Jackson is a leading provider of retirement income and savings solutions in the mass and mass-affluent segments of the US market, primarily to those planning for retirement or in retirement already. It offers tools that help people plan for their retirement, and manufactures products with specialized features and guarantees to meet customers' needs. By seeking to add value to both the representatives who sell Jackson products, and to their customers, Jackson has built a strong position in the US retirement savings and income market with a nearly six-fold increase in variable annuity sales from 2001 to 2008. Over the same period, Jackson improved its market share from 2.3 per cent in 2001 to 4.0 per cent in 2008 and moved from 17th in total annuity sales to 11th (Source: LIMRA).

The success in the marketplace of Prudential's US business, Jackson, continues to be driven by its industry-leading distribution organization and product innovation, coupled with its sound evaluation of product economics. Prudential's long-term goals for Jackson include the continued and profitable expansion of its share of the US annuities and retail asset management markets, which it plans to achieve by building on its advantaged position in the advice-based distribution channels. Ongoing profitable growth in Jackson's share of the US annuities market largely depends on the continued enhancement and expansion of its existing product offering, increased penetration of existing distribution channels and entry into new distribution channels, as well as opportunistic inorganic growth.

Jackson markets its retail products primarily through advice-based distribution channels, including independent agents, independent broker-dealer firms, regional broker-dealers, banks and registered

investment advisers. Jackson also markets life insurance and fixed annuity products through its captive insurance agency, which is concentrated in the southeastern United States.

Innovation in product design and speed to market continue to be key drivers of Jackson's competitiveness in the variable annuity market. High-quality and cost-effective technology has allowed Jackson to offer a comprehensive product portfolio that can be customized to meet the needs of individual customers. Jackson offers products on an unbundled basis, enabling customers to select those benefits that meet their unique financial requirements and to pay only for those benefits they truly desire. In Prudential's view, leveraging this advantage is a more sustainable long-term strategy than competing on price Jackson will not sacrifice product economics for a short-term increase in market share.

In 2008, Jackson maintained its track record of continued product innovation by enhancing its variable annuity offering with the addition of three new guaranteed minimum withdrawal benefits ("GMWB") and eight new portfolio investment options. Jackson also introduced two fixed annuity products designed specifically for the bank channel, and a fixed index annuity that offers a choice between two market indexes and two contract lengths.

Inevitably, the difficult market conditions in 2008 resulted in higher call volume to Jackson's service centers. Despite this increased workload, it once again demonstrated the ability to service investors' and advisers' needs accurately and efficiently, by earning recognition as a World Class service provider in the Service Quality Measurement Group's ("SQM") latest benchmarking study of North American service centers. Historically, only 5 per cent of service centers receive World Class designation, but 2008 marked the fourth year that Jackson has achieved World Class status. Jackson also earned SQM's 'Highest Customer Satisfaction by Industry' award for having the highest rate of customer satisfaction in the financial services industry.

In 2008, the FRC Adviser Insight Series on Marketing Effectiveness found that Jackson was rated as number one in 'Sales Support Satisfaction', and was the only variable annuities provider rated in the top 10 for 'Overall Satisfaction' among advisers.

National Planning Holdings ("NPH"), Jackson's affiliated independent broker-dealer network, is comprised of four broker-dealer firms, including INVEST Financial Corporation, Investment Centers of America, National Planning Corporation, and SII Investments. NPH continues to grow through significant recruiting efforts. By leveraging its high-quality, state-of-the-art technology, NPH provides its advisers with the tools they need to operate their practices more efficiently. Through its relationship with NPH, Jackson continues to benefit from an important retail distribution outlet, in addition to receiving valuable insight into the needs of financial advisers and their clients.

Curian Capital ("Curian"), Jackson's registered investment adviser, provides innovative fee-based separately managed accounts and investment products to advisers through a sophisticated technology platform. Curian expands Jackson's access to advisers and provides a complement to Jackson's core annuity product lines.

Products

The following table shows total new business premiums in the United States by product line and distribution channel for the periods indicated. Total new business premiums include deposits for investment contracts with limited or no life contingencies.

	Year Ended December 31,	
	2008	2007
	£m	£m
By Product		
Annuities		
Fixed annuities		
Interest-sensitive	**1,629**	481
Fixed index	**501**	447
Immediate	**95**	91
Variable annuities	**3,491**	4,554
Total	**5,716**	5,573
Life insurance	**31**	26
Institutional products		
GICs, funding agreements and Federal Home Loan Bank of Indianapolis (FHLBI) advances	**560**	408
Medium term note funding agreements	**634**	527
Total	**1,194**	935
Total	**6,941**	6,534
By Distribution Channel		
Independent agents	**1,225**	623
Bank	**1,077**	812
Broker-dealer	**3,428**	4,153
Captive agents	**16**	10
Institutional products department	**1,195**	936
Total	**6,941**	6,534

Annuities

Fixed Annuities

Interest-sensitive Annuities

In 2008, interest-sensitive fixed annuities accounted for 24 per cent of total new business premiums and 29 per cent of policyholder liabilities of the US operations' interest-sensitive fixed annuities. These annuities, which allow for tax-deferred accumulation of funds, are used for asset accumulation in retirement planning and for providing income in retirement and offer flexible payout options. The contract holder pays Jackson a premium, which is credited to the contract holder's account. Periodically, interest is credited to the contract holder's account and administrative charges are deducted, as appropriate. Jackson may reset the interest rate on each contract anniversary, subject to a guaranteed minimum, in line with state regulations. When the annuity matures, Jackson either pays the contract holder the amount in the contract holder account or begins making payments to the contract holder in the form of an immediate annuity product. This latter product is similar to a UK annuity in payment.

Fixed annuity policies are subject to early surrender charges for the first six to nine years of the contract. In addition, the contract may be subject to a market value adjustment at the time of surrender. During the surrender charge period, the contract holder may cancel the contract for the surrender value.

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Jackson's profits on fixed annuities arise primarily from the spread between the return it earns on investments and the interest credited to the contract holder's account (net of any surrender charges or market value adjustment) less expenses.

Jackson's fixed annuities continue to be a profitable book of business, benefiting from favorable spread income in recent years. However, the fixed annuity portfolio could be impacted by the continued low interest rate environment as lower crediting rates could result in increased surrenders and lower sales if customers seek alternative investment opportunities. However, as alternative investment opportunities are rare in the current market environment and customers have become more risk averse to equity-based returns, fixed annuities continue to be viewed as an attractive alternative to variable annuities.

Fixed Index Annuities

Fixed index annuities accounted for 7 per cent of total new business premiums in 2008 and 8 per cent of policyholder liabilities of the US operations. Fixed index annuities are similar to fixed annuities in that the contract holder pays Jackson a premium, which is credited to the contract holder's account, and periodically, interest is credited to the contract holder's account and administrative charges are deducted, as appropriate. Jackson guarantees an annual minimum interest rate, although actual interest credited may be higher and is linked to an equity index over its indexed option period.

Jackson's profit arises from the investment income earned and the fees charged on the contract, less the expenses incurred, which include the costs of the guarantees, and the interest credited to the contract. Fixed index annuities are subject to early surrender charges for the first five to 12 years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value.

Fixed index annuities continue to be a profitable product, benefiting from favorable spread and the effective management of equity risk. The fixed index book provides a natural offsetting equity exposure to the guarantees issued in conjunction with Jackson's variable annuity products, which allows for an efficient hedging of the net equity exposure.

Immediate Annuities

In 2008, immediate annuities accounted for 1 per cent of total new business premiums and 2 per cent of policyholder liabilities of the US operations. Immediate annuities guarantee a series of payments beginning within a year of purchase and continuing over either a fixed period of years and/or the life of the policyholder. If the term is for the life of the policyholder, then Jackson's primary risk is mortality risk. This product is generally used to provide a guaranteed amount of income for policyholders and is used both in planning for retirement and in retirement itself. The implicit interest rate on these products is based on the market conditions that exist at the time the policy is issued and is guaranteed for the term of the annuity.

Variable Annuities

In 2008, variable annuities accounted for 50 per cent of total new business premiums and 39 per cent of policyholder liabilities of the US operations. Variable annuities are tax-advantaged deferred annuities where the rate of return depends upon the performance of the underlying portfolio, similar in principle to UK unit-linked products. They are also used for asset accumulation in retirement planning and to provide income in retirement.

The contract holder can allocate the premiums between a variety of variable sub-accounts with a choice of fund managers and/or a guaranteed fixed-rate option. The contract holder's premiums allocated to the variable accounts are held apart from Jackson's general account assets, in a separate

account, which is analogous to a unit-linked fund. The value of the portion of the separate account allocated to variable sub-accounts fluctuates with the underlying investments. Variable annuity policies are subject to early surrender charges for the first four to seven years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Jackson offers one variable annuity that has no surrender charges.

Jackson offers a choice of guaranteed benefit options within its variable annuity product portfolio, which customers can elect and pay for. These include the guaranteed minimum death benefit ("GMDB"), which guarantees that, upon death of the annuitant, the contract holder or beneficiary receives a minimum value regardless of past market performance. These guaranteed death benefits might be expressed as the return of original premium, the highest past anniversary value of the contract, or as the original premium accumulated at a fixed rate of interest. In addition, there are three other types of guarantees: guaranteed minimum withdrawal benefits ("GMWB"), guaranteed minimum accumulation benefits ("GMAB") and guaranteed minimum income benefits ("GMIB"). GMWBs provide a guaranteed return of the principal invested by allowing for periodic withdrawals that are limited to a maximum percentage of the initial premium. One version of the GMWBs provides for a minimum annual withdrawal amount that is guaranteed for the contract holder's life without annuitization. GMABs generally provide a guarantee for a return of a certain amount of principal after a specified period. GMIBs provide for a minimum level of benefits upon annuitization regardless of the value of the investments underlying the contract at the time of annuitization. GMIBs are reinsured with an unaffiliated reinsurer.

As the investment return on the separate account assets is attributed directly to the contract holders, Jackson's profit arises from the fees charged on the contracts, less the expenses incurred, which include the costs of guarantees.

In addition to being a profitable book of business in its own right, the variable annuity book also provides an opportunity to utilize the offsetting equity risk among various lines of business to manage Jackson's equity exposure in a cost effective fashion. Jackson believes that the internal management of equity risk coupled with the utilization of external derivative instruments where necessary, continues to provide a cost-effective method of managing equity exposure. In 2008, Jackson's hedging program performed as designed, on a US statutory accounting basis, offsetting the effect of the 38.5 per cent drop in the S&P Index.

Profits in the variable annuity book of business will continue to be subject to the impact of market movements both on sales and allocations to the variable accounts and the effects of the economic hedging program. While Jackson hedges its risk on an economic basis, the nature and duration of the hedging instruments, which are recorded at fair value through the income statement, will fluctuate and produce some accounting volatility. Jackson continues to believe that, on a long-term economic basis, the equity exposure remains well managed.

Life Insurance

Reflecting the competitive life insurance market place and the overall trend towards asset accumulation products, Jackson's life insurance products accounted for less than 1 per cent of the total new business premiums and 10 per cent of policyholder liabilities of the US operations in 2008. Jackson sells several types of life insurance, including term life, universal life and variable universal life. Term life provides protection for a defined period of time and a benefit that is payable to a designated beneficiary upon death of the insured. Universal life provides permanent individual life insurance for the life of the insured and includes a savings element. Variable universal life is a life insurance policy that combines death benefit protection and the important tax advantages of life insurance with the long-term growth potential of professionally managed investments. Jackson's life insurance book has also delivered consistent profitability, driven primarily by positive mortality and persistency experience.

Institutional Products

Institutional products consist of guaranteed investment contracts ("GICs"), funding agreements, including agreements issued in connection with participation in the Federal Home Loan Bank of Indianapolis ("FHLBI") program, and medium term note funding agreements. In 2008, institutional products accounted for 17 per cent of total new business premiums and 12 per cent of policyholder liabilities of US operations. The GICs are marketed by the institutional products department to defined contribution pension and profit-sharing retirement plans. Funding agreements are marketed to institutional investors, including corporate cash accounts and securities lending funds, as well as money market funds, and are issued to the FHLBI in connection with its program. Three types of institutional products are offered:

- Traditional GICs;
- Funding agreements; and
- Medium term note funding agreements.

Traditional Guaranteed Investment Contracts

Under a traditional GIC, the policyholder makes a lump sum deposit. Interest is paid on the deposited funds, usually on a quarterly basis. The interest rate paid is fixed and is established when the contract is issued.

Traditional GICs have a specified term, usually two to three years, and typically provide for phased payouts. Jackson tailors the scheduled payouts to meet the liquidity needs of the particular retirement plan. If deposited funds are withdrawn earlier than scheduled, an adjustment is made that approximates a market value adjustment.

Jackson sells GICs to retirement plans, in particular 401(k) plans. The traditional GIC market is extremely competitive. This is due in part to competition from synthetic GICs, which Jackson does not sell.

Funding Agreements

Under a funding agreement, the policyholder either makes a lump-sum deposit or makes specified periodic deposits. Jackson agrees to pay a rate of interest, which may be fixed but which is usually a floating short-term interest rate linked to an external index. Interest is paid quarterly to the policyholder. The average term for the funding agreements is one to two years. At the end of the specified term, policyholders may re-deposit the principal in another funding agreement. Jackson makes its profit on the spread between the yield on its investment and the interest rate credited to policyholders.

Typically, brokerage accounts and money market mutual funds are required to invest a portion of their funds in cash or cash equivalents to ensure sufficient liquidity to meet their customers' requirements. The funding agreements permit termination by the policyholder on 7 to 90 days notice, and thus qualify as cash equivalents for the clients' purposes. Funding agreements terminable by the policyholder with less than 90 days notice account for approximately 1 per cent of Jackson's total policyholder reserves.

Jackson is a member of the FHLBI. Membership allows Jackson access to advances from FHLBI that are collateralized by mortgage related assets in Jackson's investment portfolio. These advances are in the form of funding agreements issued to FHLBI. In 2008, the total premiums generated from advances from the FHLBI were £189 million.

Medium Term Note Funding Agreements

Jackson has also established European and global medium-term note programs. The notes offered may be denominated in any currency with a fixed or floating interest rate. Notes are issued to institutional investors by a special purpose vehicle and are secured by funding agreements issued by Jackson.

Distribution and Marketing

Jackson distributes products in all 50 states of the United States and in the District of Columbia, although not all products are available in all states. Operations in the state of New York are conducted through a New York insurance subsidiary.

Jackson focuses on independent distribution systems and supports its network of independent agents and advisers with education and training programs.

Independent Agents and Broker-Dealers

Jackson's subsidiary, Jackson National Life Distributors, LLC ("JNLD"), is the primary marketing and distribution organization for annuities and life insurance products. The insurance and fixed annuity products are distributed through independent agents located throughout the United States. These approximately 19,000 appointed insurance agents or brokers, who also may represent other companies, are supported by four regional marketing divisions. JNLD generally deals directly with writing agents and brokers thereby eliminating intermediaries, such as general agents. This distribution channel has enabled it to generate significant volumes of business on a low, variable cost basis. Jackson also provides agents with product information and sales materials.

JNLD's wholesalers meet directly with broker-dealers and financial planners and are supported by an extensive internal sales staff. There are more than 750 active selling agreements with regional and independent broker-dealer organizations throughout the United States, which provides Jackson access to more than 50,000 appointed agents.

Jackson provides training for its broker-dealers and also provides them with product information and sales materials.

Banks, Credit Unions and Other Financial Institutions

Jackson's Institutional Marketing Group distributes annuity and life insurance products through banks, credit unions and other financial institutions and through third-party marketing organizations that serve these institutions. Jackson is a leading provider of annuities offered through banks and credit unions and can access more than 17,000 financial institution representatives through existing relationships with banks and credit unions. Jackson has established distribution relationships with medium-sized regional banks, which it believes are unlikely to develop their own insurance product capability.

Independent Broker-Dealers

Jackson's retail distribution is managed by Prudential's independent broker-dealer network, NPH, which is made up of four firms, National Planning Corporation, SII Investments, Inc., INVEST Financial Corporation and Investment Centers of America, Inc. NPH had 3,165 registered representatives at the end of 2008.

Registered Investment Adviser

Commencing operation in early 2003, Curian Capital, LLC (Jackson's registered investment adviser channel) provides innovative fee-based separately managed accounts and investment products to advisers through a sophisticated technology platform.

The registered investment adviser industry began as a service offered to very high net worth investment clients, focusing on platforms rather than specific products, and providing institutional-quality management, custom portfolios and tax services. The industry has evolved to offer personalized investment advice, very high quality money management, good returns and reasonable costs to a broader range of clients.

Institutional Products Department

Jackson markets its institutional products through its institutional products department. It has direct contacts with banks, municipalities, asset management firms and direct plan sponsors. Institutional products are distributed and marketed through intermediaries to these groups.

Captive Agency

In connection with the acquisition of Life of Georgia in 2005, Jackson established the JNL Southeast Agency ("JNLSA"), the Company's first captive agency since 1970. JNLSA, with more than 100 life insurance agents at December 31, 2008, was formed to help retain the Life of Georgia book of business and to create a new distribution channel for Jackson's life insurance products.

Factors Affecting Pricing of Products and Asset Liability Management

Jackson prices products based on assumptions about future mortality, investment yields, expenses and persistency. Pricing is influenced by its objectives for return on capital and by competition. Although Jackson includes a profit margin in the price of its products, the variation between the assumptions and actual experience can result in the products being more or less profitable than it was assumed they would be. This variation can be significant.

Jackson designs its interest-sensitive products and conducts its investment operations to closely match the duration of the assets in its investment portfolio with the annuity, term life, whole life, universal life and guaranteed investment contract product obligations. Jackson seeks to achieve a target spread between what it earns on its assets and what it pays on its liabilities by investing principally in fixed-rate securities and in options and futures to hedge equity-related movements in the value of its products.

Jackson segregates its investment portfolio for certain investment management purposes and as part of its overall investment strategy into four portfolios: fixed annuities without market value adjustment, fixed annuities with market value adjustment, fixed index annuities and institutional liabilities. The portfolios backing fixed annuities with and without market value adjustments and the fixed index annuities have similar characteristics and differ primarily in duration. The portfolio backing the institutional liabilities has its own mix of investments that meet more limited duration tolerances. Consequently, the institutional portfolio is managed to permit less interest rate sensitivity and has limited exposure to mortgage-backed securities. At December 31, 2008, 10 per cent of the institutional portfolio was invested in residential mortgage-backed securities.

The fixed-rate products may incorporate surrender charges, market value adjustments, two-tiered interest rate structures or other limitations relating to when policies can be surrendered for cash, in order to encourage persistency. At December 31, 2008, 74 per cent of Jackson's fixed annuity reserves had surrender penalties or other withdrawal restrictions. Substantially all of the institutional portfolio had withdrawal restrictions or market value adjustment provisions.

Fixed index annuities issued by Jackson also include an equity component that is hedged using equity options and futures contracts issued on the corresponding exchange. The equity component of these annuities constitutes an embedded derivative under IAS 39, "Financial Instruments: Recognition and Measurement" that is carried at fair value, as are other derivative instruments.

Guaranteed benefits issued by Jackson in conjunction with the sales of variable annuity contracts expose Jackson to equity risk as the benefits generally become payable when equity markets decline below the guaranteed amount. Certain of these benefits are carried at fair value under IAS 39 with changes in fair value recorded in income. Jackson hedges the tail risk associated with the equity exposure using equity options and futures contracts, which are also carried at fair value under IAS 39. Jackson hedges the economic risk associated with these contracts and, therefore, has not explicitly hedged its fair value risk. In addition, certain benefits have mortality risk and are therefore precluded from being carried at fair value. As a result of these factors, the income statement may include a timing mismatch related to changes in fair value. However, as demonstrated during 2008, Jackson's hedges operated effectively, as designed, to protect statutory capital.

Reserves

Except for certain non-insurance deposit type accounts and as allowed under IFRS, Jackson uses reserves established on a US GAAP basis as the basis for consolidation into Prudential's IFRS accounts.

For the fixed and variable annuity contracts and institutional products, the reserve is the policyholder's account value. For the immediate annuities, reserves are determined as the present value of future policy benefits. Mortality assumptions are based on the 1983a Individual Annuitant Mortality Table and the Annuity 2000 Mortality Table for newer issues. Interest rate assumptions currently range from 2.0 per cent to 9.0 per cent.

For the traditional term life contracts, reserves for future policy benefits are determined using the net level premium method and assumptions as to mortality, interest, policy persistency and expenses. Mortality assumptions are generally from 25 per cent to 160 per cent of the 1975-1980 Basic Select and Ultimate tables, depending on underwriting classification and policy duration. Interest rate assumptions range from 4.0 per cent to 8.0 per cent. Persistency and expense assumptions are based on Jackson's experience.

For the interest-sensitive and single premium life contracts, reserves approximate the policyholder's account value.

Reinsurance

Jackson reinsures portions of the coverage provided by its life insurance products with other insurance companies under agreements of indemnity reinsurance. Reinsurance assumed from other companies is not material.

Indemnity reinsurance agreements are intended to limit a life insurer's maximum loss on a large or unusually hazardous risk or to obtain a greater diversification of risk for the life insurer. Indemnity reinsurance does not discharge the original insurer's primary liability to the insured. Jackson's reinsured business is ceded to numerous unaffiliated reinsurers and the amount of business ceded to any one reinsurer is not material. Typically, the reinsurers have an AM Best Co rating of A or higher.

Jackson limits the amount of risk it retains on new policies. Currently, the maximum risk that is retained on new policies is $2.0 million. Jackson is not a party to any risk reinsurance arrangement with any reinsurer pursuant to which the amount of reserves on reinsurance ceded to such reinsurer equals more than 1 per cent of total policy reserves.

Beginning in late 1995, Jackson entered into reinsurance agreements to cede 80 per cent of its new level premium term life insurance business written in the United States to take advantage of competitive pricing in the reinsurance markets. Beginning January 1, 1999, it began to cede 90 per cent of new writings of level premium term products. Jackson intends to continue to cede a significant proportion of new term life insurance business for as long as pricing in the reinsurance markets remains favorable.

Effective from December 31, 2002, Jackson cedes the guaranteed minimum death benefit coverage associated with certain variable annuities issued prior to December 31, 2002 to an affiliate, Prudential Atlantic Reinsurance Company ("PARC"), Dublin, Ireland. PARC is consolidated into the Group's financial statements.

Jackson cedes the guaranteed minimum income benefit on variable annuities to an unaffiliated reinsurer.

Policy Administration

Jackson provides a high level of administrative support for both new and existing policyholders. Jackson's ability to implement new products quickly and provide customer service is supported by integrated computer systems that issue and administer complex life insurance and annuity contracts. Jackson continues to develop its life insurance administration and underwriting systems and its fixed and variable annuity administration systems to enhance the service capabilities for both new and existing policies.

PPM America

PPM America is Prudential's US fund management operation, with offices in Chicago and New York. Its primary focus is to manage funds for Jackson and therefore the majority of funds under management are fixed interest in nature. PPM America also serves as investment adviser for certain mutual funds, several private investment funds and structured finance vehicles, and the US equity and fixed income portion of portfolios of certain affiliates within Prudential.

UK Business

Introduction

As at December 31, 2008, Prudential's UK business was structured into two business units, each focusing on its respective target customer markets. Prudential's UK business units are UK Insurance Operations and M&G.

The following discussion describes:

- the UK retail financial services market;
- Prudential's UK business units, products and distribution channels;
- Prudential's reinsurance arrangements and reserving practice; and
- shareholders' participation in Prudential's long-term insurance business.

In 2008, Prudential's UK business generated new business insurance premiums of £7,183 million and gross investment inflows of £16,154 million. As at December 31, 2008, M&G had over £141 billion of funds under management. See " M&G" below for an analysis and description of this asset manager and its funds under management.

UK Retail Financial Services Business Overview

Prudential UK (the UK insurance operations) continues to focus on realizing value from the opportunities created by rapid growth in the need for retirement solutions. Prudential's UK business targets and competes in selected areas of the UK pre and in-retirement markets, and during 2008 it demonstrated considerable resilience and discipline in a very challenging environment. Prudential remain confident about the long-term growth prospects for the UK retirement market.

In 2008, Prudential UK performed strongly against a challenging background of volatile capital and equity markets, a declining housing market, and widespread economic uncertainty. In this environment and with Association of British Insurers ("ABI") data showing a market decline in retail sales of 10 per cent during the year, its achievement in growing retail sales by 10 per cent was a particularly strong performance.

The UK is characterized by an ageing population and the concentration of wealth in the mass affluent and high net worth sectors a combination that positions the retirement and near-retirement segment as the fastest-growing in the marketplace. Low savings rates and high levels of consumer debt, coupled with an increasing shift in responsibility for providing retirement income away from the Government and employers towards individuals, have resulted in individuals in the UK being inadequately provided for during increasingly long periods of retirement.

Prudential UK has a unique combination of competitive advantages including its longevity experience, multi-asset investment capabilities, brand and financial strength. These put Prudential UK in a strong position to pursue a value driven strategy that generates attractive returns across its Retail and Wholesale businesses.

Initiatives in 2008

- Maintaining leadership position in individual annuities;
- Building share of the equity release market;
- Growing the volume of products that use Prudential's multi-asset management expertise;

Growing other income streams;

- Strengthening relationships with intermediaries;
- Maintaining strict focus on value in the bulk annuity and back-book markets;
- Cost management.

Prudential UK has a significant pipeline of internal vestings annuity business from maturing individual and corporate pension policies, which is expected to remain at least at the current level until 2025. Prudential believes it is the largest annuity provider in the UK market, with approximately 1.5 million annuities in payment. Prudential UK's strong internal annuity pipeline is supplemented by strategic partnerships with third parties, where it is the recommended annuity provider for customers vesting their pensions at retirement. Looking forward, the UK annuities market is expected to grow in the near-term, and Prudential UK expects to maintain a significant share of this market.

Prudential UK's total retail with-profits business has performed very strongly across a range of products. The strong sales growth for with-profits bonds reflects the strength of its with-profits offering and an increasing demand for this type of product as consumers increasingly look to protect themselves from market downturns, especially in an actively managed, well-run and financially strong fund.

In the wholesale business, Prudential UK's aim is to participate selectively in bulk and back book buyouts, where it is able to win business based on its financial strength, superior track record and annuitant mortality risk assessment capabilities. In the UK wholesale bulk and insurer back-book market, Prudential UK is maintaining a strict focus on value, and will only participate in transactions that meet its return on capital requirements based on its view of future longevity improvements. There continues to be a significant pipeline of potential wholesale deals but competition remains intense with a number of market participants competing for business.

Prudential UK remains on track to deliver £195 million of cost savings by the end of 2010. As announced in Prudential's 2007 full-year results, the first phase of its UK cost reduction program delivered savings of £115 million per annum. The agreement with Capita, under which Prudential UK outsourced a large proportion of its in-force and new business policy administration, commenced in April 2008 and will ultimately deliver £60 million per annum of savings.

UK Products and Profitability

In common with other UK long-term insurance companies, Prudential's products are structured as either with-profits (or participating) products, or non-participating (including 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 are supported by a with-profits sub-fund and can be single premium (for example, Prudence Bond) or regular premium (for example, certain corporate pension products). Prudential's primary with-profits sub-fund is part of Prudential Assurance Company's ("PAC") long-term fund. The return to shareholders on virtually all with-profits products is in the form of a statutory transfer to PAC shareholders' funds which is analogous to a dividend from PAC's long-term fund and is dependent upon the bonuses credited or declared on policies in that year. Prudential's with-profits policyholders currently receive 90 per cent of the distribution from the main with-profits sub-fund as bonus additions to their policies and shareholders receive 10 per cent as a statutory transfer.

The profits from almost all of Prudential's new non-participating business accrue solely to shareholders. Such business is written in the non-profit sub-fund within PAC's long-term fund, or in various shareholder owned direct or indirect subsidiaries, the most significant of which is Prudential Retirement Income Limited ("PRIL"), which also writes all new immediate annuities arising from vesting deferred annuity policies in the with-profits sub-fund of PAC. There is a substantial volume of in-force non-participating business in PAC's with-profits sub-fund and that fund's wholly owned subsidiary

Prudential Annuities Limited ("PAL"), which is closed to new business; profits from this business accrue to the with-profits sub-fund.

The defined charge participating sub-fund ("DCPSF") forms part of the Company's long-term fund and comprises the accumulated investment content of premiums paid in respect of the defined charge participating with-profits business issued in France, the defined charge participating with-profits business reassured into the Company from Prudential International Assurance plc and Canada Life (Europe) Assurance Ltd and the with-profits annuity business transferred to the Company from the Equitable Life Assurance Society on December 31, 2007. All profits in this fund accrue to policyholders in the DCPSF.

Products

The traditional life insurance product offered by UK life insurance companies was a long-term savings product with a life insurance component. The life insurance element conferred tax advantages that distinguished the traditional life insurance products offered in the United Kingdom from the savings products offered by banks, building societies and unit trust companies. The gradual reduction of these tax advantages and increasing sales of single premium life products have resulted in the distinction between life insurance and other long-term savings products becoming less important. Pension products remain tax-advantaged within certain limits.

Prudential expects demand for private personal pension and savings products to increase over the medium to long term, in part reflecting a change in the UK government's approach to social security that has encouraged long-term savings through tax advantages, but also in reaction to the growing realization that state provided pensions are unlikely to provide sufficient retirement income. An ageing population is focusing on asset accumulation and other retirement products to supplement their state benefits, while younger generations are focusing on pension and long-term savings products as well as health and income protection cover.

Distribution

Retail financial services and products are distributed face to face, through bank branches, tied agents, company sales forces and financial advisers, or directly by mail, telephone and over the internet. Tied agents are exclusive agents who represent only one insurer and must offer customers the products most suitable to their needs, but only from the range of products offered by that insurer. In recent years the high costs of company sales forces and tied agency networks, combined with customers perceiving a lack of choice, have meant that sales forces and tied agents have lost significant market share to financial advisers, with the result that many insurers, including Prudential, have chosen to close these tied agents and direct sales force networks. With the aim of meeting the perceived demand for face to face advice when purchasing equity release products, Prudential established a face to face sales team for its life time mortgage product in late 2006, and currently has thirty five advisers.

Direct and e-commerce distribution methods are generally lower-cost than other methods but have not been conducive to providing financial advice to the consumer to date. Accordingly, products distributed directly are generally more straightforward and have lower, often fee-based, charges.

The FSA, following a consultation process, implemented "depolarization" rules at the end of 2004. Advisers have the choice of being "single tied" as before, or multi-tied advising on the products of a limited range of providers, or equivalent to an independent financial adviser ("IFA"), where they offer products from the "whole of market" as now, but they also have to offer a "fee alternative", a fee-based charging structure as an alternative to commission. Prudential worked with major financial adviser groups to design and build multi tie propositions and has been appointed to a number of multi-tie panels of these major financial adviser groups.

The FSA is conducting a review of the retail distribution marketplace called the Retail Distribution Review ("RDR"). The feedback statement in November 2008 outlined a number of potential changes designed to encourage greater levels of transparency, professionalism and sustainability within the industry, with the prime aim of increasing consumers confidence in the industry and therefore their desire to engage with it. Prudential supports the concepts of adviser remuneration and the new professional standards which are included as part of the RDR and believes that this is an excellent opportunity to put in place a framework that will better align the interests of consumers, advisers and providers. The proposed implementation date for the proposals is December 31, 2012 and formal consultation papers are scheduled to be published in mid 2009.

As of December 31, 2008, Prudential's UK Insurance Operations distributes its products through the following channels:

Direct and Partnerships

The direct distribution channel is primarily charged with increasing revenue from existing Prudential customers and by seeking new customers. Direct distribution channels include the telephone, internet and face to face advisers and focuses on annuities, investments, protection, health products and lifetime mortgages. Partnerships focuses on developing strong relationships with banks, retail brands and other distributors. Partnerships also seeks to help Prudential's distribution partners in their distribution and product development strategies. Prudential now has a range of distribution partners including Barclays, Royal London Mutual, Zurich Financial Services, Openwork, Save and Prosper, National Australia Bank and St James's Place. Prudential also has a partnership with Boots through its PruHealth joint venture.

Wholesale

In 2008, Prudential UK maintained its strict focus on value in the bulk annuity and back-book markets in 2008, completing transactions generating premium income of approximately £1,420 million. These included the bulk annuity buy-in agreements with Goldman Sachs for the reinsurance of part of Rothesay Life's non-profit annuity business (generating premium income of approximately £300 million across approximately 9,200 members) and with the Trustee of the Cable & Wireless Superannuation Fund for the reinsurance of approximately £1,060 million of liabilities relating to approximately 5,200 of the scheme's pensioners in payment.

In December 2007, Prudential completed the transfer of Equitable Life's portfolio of in-force with-profits annuities. This book covers approximately 62,000 policies with assets of approximately £1.74 billion. The completion of this transaction increased Prudential's with-profits business and is expected to create value for both Equitable Life policyholders and Prudential's shareholders and policyholders.

Intermediaries

Prudential UK's intermediaries distribution channel saw significant growth in 2008. The business increased its field sales-force by an additional 10 regional sales units, and the focus is to continue developing deeper and better relationships with key accounts and through partnership arrangements. It has been successful in gaining over 40 new panel positions in 2008, meaning that its products are now more widely available to intermediaries than before. In addition, PruFund, Prudential UK's unitized and smoothed investment plan, is now paneled across almost all the major UK retail banks.

UK Business Units

Long-term Products

Prudential's long-term products in the United Kingdom consist of life insurance, pension products and pensions annuities. The following table shows Prudential's UK Insurance Operations new business insurance and investment premiums by product line for the periods indicated. New business premiums include deposits for policies with limited or no life contingencies.

	Year Ended December 31, 2008	2007
	(in £ millions)	
Life insurance		
With-profits	**968**	406
Unit-linked	**939**	899
Total life insurance	**1,907**	1,305
Pensions		
With-profits individual	**77**	29
Unit-linked individual	**89**	80
Department of Work and Pensions rebates	**153**	143
Corporate	**651**	680
Total pensions	**970**	932
Pension annuities and other retirement products		
Fixed	**2,427**	1,742
Retail Price Index	**1,404**	659
With-profits	**459**	2,228
Total pension annuities and other retirement products	**4,290**	4,629
Healthcare	**16**	13
Total new business premiums	**7,183**	6,879

Life Insurance Products

Prudential's UK life insurance products are predominantly medium to long-term savings products with life cover attached, and also include pure protection (term) products. The main savings products Prudential offers are investment bonds.

Savings Products Investment Bonds

Prudential offers customers a choice through a range of investment funds to meet different risk and reward objectives. Prudential launched the Flexible Investment Plan ("FIP") in 2003 and the Prudential Investment Plan ("PIP") in 2007. Through these plans, its customers have the option to invest in the With-Profits fund or in a range of unit linked investment funds. Advisers can build an individual portfolio and asset allocation model to accurately match a client's risk / reward profile. Both FIP and PIP also give financial advisers the opportunity to choose from different external fund management groups and the flexibility to make changes to portfolio and asset allocation over time. In 2008, sales of the unit-linked option of FIP and PIP were £104 million.

The Prudence Bond, a single premium, unitized with-profits policy with no fixed term, is one of the United Kingdom's leading investment bond products in terms of with-profits market share. In September 2004, Prudential launched the next generation with-profits investment bond, entitled PruFund which is designed to provide increased transparency and smoothed investment returns to the customer. PruFund

also offers clients an optional five year guarantee on the initial investment. In 2008, total new business premiums attributable to PruFund were £659 million.

In March 2008, Prudential launched the International Portfolio Account ("IPA") offering clients access to a wide range of quoted UK investments. Sales of Prudential's offshore bonds, the International Prudence Bond, International Prudential Portfolio Bond and International Portfolio Account were £547 million in 2008.

With-profits products aim to provide capital growth over the medium to long-term, and access to a range of investment sectors without the costs and risks associated with direct investment into these sectors. Capital growth for the policyholder on with-profits bonds apart from PruFund is achieved by the addition of reversionary or annual bonuses, which are credited to the bond on a daily basis from investment returns achieved within Prudential Assurance's long-term with-profits fund, off-set by charges and expenses incurred in the fund. A final bonus may also be added when the bond is surrendered. PruFund delivers growth through a published expected growth rate, updated quarterly, and a transparent formulaic smoothing mechanism. In contrast the capital return on unit-linked bonds directly reflects the movement in the value of the assets underlying those funds. When funds invested in Prudential Assurance's long-term with-profits fund are either fully or partially withdrawn, Prudential may apply a market value adjustment to the amount paid out.

Sales of PruFund, Prudential UK's unitized and smoothed investment plan, were particularly strong during the year. Since October 2008 PruFund has been available across Prudential UK's range of tax wrappers, including individual pensions, income drawdown and onshore and offshore bonds. Prudential also launched the new PruSelect range of unit-linked funds across its UK pensions and investments products, more than doubling the number of funds available.

The sales growth across Prudential UK's with-profits range has been achieved on the back of sustained strong investment performance in its Life Fund over a number of years, reflecting the benefits of its diversified investment policy. Prudential believes that this market will continue to see further growth as investors turn to trusted and financially strong brands and products offering an element of capital protection.

Life Protection

In October 2004 Prudential launched PruHealth, a UK healthcare product that links health and fitness to the cost of medical insurance. The product has been developed through a joint venture with Discovery of South Africa.

Since its launch, PruHealth has established itself in the marketplace and as at December 31, 2008, it had 187,000 lives insured, reflecting an emphasis on individual and SME (small-and-medium-enterprise) business, success in introducing new distribution deals, a focus on high quality corporate schemes and a strong renewal rate among individual customers.

Prudential UK and its South African joint venture partner, Discovery, launched PruProtect in September 2007, which follows the success of PruHealth by applying the Vitality points system. PruProtect's product is focused around a core philosophy of helping people become healthier while protecting and improving the quality of their lives.

Pension Products

Prudential provides both individual and corporate pension products. In 2008, new business premiums totaled £166 million for individual pensions and £651 million for corporate pensions. Pension products are tax-advantaged long-term savings products that comply with rules established by the UK Inland Revenue and are designed to supplement state-provided pensions. These rules require that, upon retirement, maturity benefits are used to purchase pension annuities by policyholder election at

retirement or at least by the age of 75, although they do permit a portion to be taken as a tax-free lump sum. Prior to retirement, these products typically have minimal mortality risk to Prudential and are primarily considered investment products. An exception is where a guaranteed annuity option has been offered on the product, with an element of risk to Prudential both in underlying mortality and investment assumptions.

Prudential ceased marketing Guaranteed Annuity Options ("GAOs") in 1987, but for a minority of corporate pension schemes GAOs still apply for new members. Current liabilities for this type of business make up less than 1 per cent of the with-profits sub-fund.

Many of the pension products Prudential offers are with-profits products or offer the option to have all or part of the contributions allocated to a with-profits fund. Where funds invested in the with-profits fund are withdrawn prior to the pension date specified by the policyholder, Prudential may apply a market value adjustment to the amount paid out. The remaining pension products are non-participating products, which include unit-linked products.

Individual Pensions

Prudential's individual pension range offers unit-linked and unitized with-profits products.

In 2001, Prudential introduced products that meet the criteria of the UK government's stakeholder pension program. The stakeholder pension is intended for individuals earning enough to be able to afford to make contributions to a pension but who are not currently doing so. The introduction of stakeholder pensions has had implications for, among other things, how Prudential designs, administers, charges for and distributes pension products. The most significant requirements involve capped charges and a low minimum contribution which must be accepted by the provider. The government has capped charges at 1.5 per cent per annum of the policyholder account balance for stakeholder pensions for the first ten years, decreasing to 1 per cent thereafter, which is below the charges on personal pension products previously offered by the UK pensions industry.

Department of Work and Pensions Rebates ("DWP Rebate")

Prudential also provides individual personal pension products through the DWP Rebate arrangement. Under this arrangement, individuals may elect to contract out of the UK's State Second Pension (referred to as S2P) which was previously known as State Earnings Related Pension Scheme, administered by the UK Department of Work and Pensions. If an individual elects to contract out, then he or she will designate a pension provider, such as Prudential. Premiums on products sold in this manner are paid through "rebates" from the Department of Work and Pensions, which represent the amount that would be otherwise paid into S2P. Rebate amounts are invested to provide benefits to the individual. Premiums from Department of Work and Pensions rebates are typically reported in the first quarter of each year.

Corporate Pensions

There are two categories of corporate pension products: defined benefit and defined contribution. Prudential has an established defined benefit plan client base covering the small to medium-sized employer market. Prudential's defined contribution client base ranges from small-unlisted companies to some of the largest companies in the United Kingdom as well as a number of clients in the public sector (in particular where Prudential offers the Additional Voluntary Contribution facility). Additional Voluntary Contribution plans enable employees to make additional pension contributions, either regularly or as a lump sum, to supplement their occupational pension plans.

Defined benefit plans and products continue to dominate the corporate pensions market in terms of funds under management. In recent years, however, most new plans established have been defined

contribution products. In addition, there is an increasing trend among companies to close the defined benefit plans to new members or to convert existing schemes from defined benefit to defined contribution in order to stabilize or reduce potential pension liabilities.

Prudential offers group unit linked policies and with-profits policies to the corporate pensions market. Prudential's defined contribution products are Additional Voluntary Contribution plans, Group Money Purchase plans, Group Personal Pension plans, Group Stakeholder Pension plans and Executive Pension plans.

In addition Prudential has a Company Pension Transfer Plan (or Bulk S32), designed to accept benefits from both defined benefit and defined contribution pension schemes which are winding-up (cease to exist or being replaced by a new type of scheme). Prudential also has the facility to accept enhanced transfers from deferred members of a corporate's defined benefit pensions scheme into the Prudential Group Personal Pension plan where the member has received advice from an independent financial adviser (often called an Enhanced Transfer Value exercise).

Pension Annuities and other retirement products

Prudential offers individual conventional immediate annuities that are either fixed or retail price indexed (referred to as RPI), where annuity payments are guaranteed from the outset, or with-profits annuities, where annuity payments are variable dependent on the investment performance of underlying assets. Prudential also offers products with an income drawdown option which allow customers greater flexibility in terms of the amount of income they take in retirement and the option to delay buying an annuity up to age 75. In 2008, Prudential sold £75 million of income drawdown products. A total of £2,800 million of individual annuities were sold in 2008. Of this total, £1,600 million were sold to existing Prudential customers with maturing pension policies. The other £1,200 million were sold to new customers, typically individuals with a pension maturing with another provider who chose Prudential to provide their annuity. Prudential also offers bulk annuities, whereby it manages the assets and accepts the liabilities, of a company pension scheme, usually when it is being wound up by the employer. Due to the nature of the product, the volume of Prudential's bulk annuity sales is unpredictable as it depends on the decision of scheme trustees. In 2008, Prudential sold £1,417 million of bulk annuities.

Prudential's immediate annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump-sum capital payment. No surrender value is available under any of these products. The primary risks to Prudential from immediate annuity products, therefore, are mortality improvements and credit risk.

Conventional Annuities

Prudential's conventional annuities include level (non-increasing), fixed increase and RPI annuities. Prudential's fixed increase annuities incorporate automatic increases in annuity payments by fixed amounts over the policyholder's life. The RPI annuities provide for a regular annuity payment to which an additional amount is added periodically based on the increase in the UK Retail Prices Index. In 2008, sales of RPI annuities were £1,404 million (including £844 million of bulk annuities). In 2008, sales of level and fixed increase annuities amounted to £2,427 million (including £562 million of bulk annuities and £63 million of unit-linked income drawdown products).

In the second half of 2008, Prudential UK introduced lifestyle rating using postcodes for pricing non-profit individual annuities. The introduction of lifestyle pricing allows Prudential UK to price in a manner more reflective of risks associated with the business it is writing.

In the final quarter of 2008, Prudential UK working in conjunction with Hannover Re launched an enhanced annuity, for which the longevity risk is shared, and which uses Hannover Re's efficient

market underwriting model. Prudential UK estimates the current market for enhanced annuities is estimated to exceed £1 billion.

With-profits Annuities

Prudential's with-profits annuities combine the income features of annuity products with the investment smoothing features of with-profits products and enable policyholders to obtain equity-type returns over time. Through this product, Prudential UK brings its product development strengths to bear while also capitalizing on people's need for protection from inflation through increasingly long periods of retirement. Prudential is one of only a few companies in the United Kingdom in the with-profits annuities market and has been operating in this market since 1991. In 2008, Prudential's premiums for this business were £459 million (including £11m of bulk annuities and £13m of with-profits income drawdown products). Prudential is now the market leader, with a market share of over 85 per cent (source: ABI).

Income drawdown

Given the UK's compulsory annuitization age of 75, an increasingly sophisticated consumer population, and the rising incidence of second careers and semi-retirement as a result of increasing longevity, the market has seen good growth in the 'bridge' between pensions and annuities through income drawdown products. Prudential UK launched an income drawdown option as a part of the Flexible Retirement Plan in late 2007 and achieved premiums of £75 million in 2008 compared to £34 million in the previous year for this and the existing product, the Flexible Income Retirement Account. These products help customers manage their pension through the various stages of retirement, and also offer flexibility while providing potential for capital growth.

Lifetime mortgage

Prudential UK entered the equity release market three years ago, and grew its share of this market to 23 per cent by the end of 2008 (source: SHIP). Investing in property has been an increasingly important component for many people saving for their retirement (source: SHIP). With around £700 billion owned by pensioners in property in the UK, pensioners can consider options such as equity release to help deliver an adequate income in retirement. Prudential believes that this is likely to become increasingly important as people live longer and the cost of living continues to rise. In an environment of falling house prices and the associated risk of negative equity, the maximum loan-to-value ratio on the product was reduced, which impacted sales in the latter part of 2008. Prudential will continue to maintain a disciplined approach to lending in this market.

Reinsurance

In view of the size and spread of Prudential Assurance's long-term insurance fund, there is little need for reinsurance to protect this business. Some limited reinsurance is maintained and treaties relating to critical illness, permanent health insurance, term insurance and certain unit linked products are in place.

Reserves

In the United Kingdom, a life insurance company's reserve and other requirements are determined by its Board, with advice from its Actuarial Function Holder, subject to minimum reserve requirements. These minimum reserve requirements are established by the rules and guidance of the Financial Services Authority ("FSA").

The reserves are published in annual returns to the FSA. In practice, similar provisions are included in the life insurance company's statutory accounts with limited adjustments. The Actuarial Function

Holder must pay due regard to the fair treatment of policyholders in making recommendations to the company's board. The Actuarial Function Holder is required to report directly to the FSA any serious concerns regarding the company's ability to treat its customers fairly.

Prudential's regulatory reserving for with-profits products, as required by UK regulation, takes into account annual bonuses/annual interest credited to policyholders because these are "attached" to the policies and are guaranteed. Realistic reserves are also calculated for with-profits products under UK regulation. These include an allowance for final bonuses based on the asset share or a prospective valuation of the policies and the cost of guarantees, smoothing and enhancements.

Prudential reserves for unit-linked products on the basis of the value of the unit fund and additional reserves are held for expenses and mortality where this is required by the contract design.

As well as the reserves, the company's assets must also cover other capital requirements set out in the FSA Prudential Sourcebook. These comprise a with-profits insurance capital component, which is a measure of the difference in the surplus assets on regulatory and realistic bases; a resilience capital requirement for entities other than PAC, which makes prudent allowance for potential future adverse movements in investment values; and the long-term insurance capital requirement, which must be held by all European Union insurance companies. See "Financial Strength of Prudential Assurance's Long-term Fund" for further information on solvency and "Realistic Financial Strength Reporting" for further information on realistic reporting.

Financial Strength of Prudential Assurance's Long-term Fund

Prudential Assurance ("PAC") at December 31, 2008 was rated Aa1 (rating under review for possible downgrade) by Moody's, AA+ (negative outlook) by Standard & Poor's, and AA+ (stable outlook) by Fitch.

The Company's with-profits fund is one of the largest and financially strongest in the UK, continuing to cover comfortably all of its regulatory solvency requirements. The fund is supported by an inherited estate of £5.4 billion (as at December 31, 2008) which provides the working capital required to support the fund for the long-term benefit of current and future policyholders.

The table below shows the change in the investment mix of Prudential's main with-profits fund:

	2008	2007
	%	%
UK equities	**34**	35
International equities	**17**	17
Property	**14**	14
Fixed Interest	**29**	28
Cash and other asset classes	**6**	6
Total	**100**	100

Despite difficult conditions in financial markets throughout 2008, the with-profits sub-fund performed strongly. With-profits, when invested in an actively managed and financially strong fund like Prudential's, continues to be an attractive medium to long-term investment, offering annualized returns which compare favorably with other investment options. The with-profits sub-fund has delivered investment returns of 67.2 per cent over ten years compared with the FTSE All-share index (total return) of 12.4 per cent over the same period (figures are to December 31, 2008, before tax and charges). Much of this excellent investment performance was achieved through the active asset allocation of the fund. As part of its asset allocation process, Prudential UK constantly evaluates prospects for different markets and asset classes. During the year PAC's long-term fund reduced its exposure to equities and increased its exposure to fixed interest securities.

Realistic Financial Strength Reporting

In accordance with the FSA Prudential Sourcebook, PAC has to demonstrate solvency on a "realistic' valuation basis as well as the regulatory basis. In the aggregate, the basis has the effect of placing a value on the liabilities of UK with-profits contracts that reflects the amounts expected to be paid based on the current value of investments held by the with-profits funds and current circumstances.

This basis makes companies' financial health more transparent to policyholders, intermediaries and regulators alike, and enables more informed choices to be made by policyholders. The PAC long-term with-profits sub-fund is very strong with the inherited estate (free assets) measured on a realistic basis, valued at approximately £5.4 billion at the year end before deducting for the risk capital margin.

Shareholders' Interests in Prudential's Long-term Insurance Business

In common with other UK long-term insurance companies, Prudential's products are structured as either with-profits products or non-participating (including unit-linked) products. For statutory and management purposes, PAC's long-term fund consists of a number of sub-funds in which shareholders and policyholders have varying interests.

With-profits Products

With-profits products provide an equity-type return to policyholders through bonuses that are "smoothed". There are two types of bonuses: "annual" and "final". Annual bonuses, often referred to as reversionary bonuses, are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are only guaranteed until the next bonus declaration. Final bonuses are only credited on a product's maturity or surrender or on the death of the policyholder. Final bonuses can represent a substantial portion of the ultimate return to policyholders.

With-profits policies are supported by a with-profits fund. Prudential's primary with-profits fund is part of Prudential Assurance's long-term fund. With-profits products provide benefits that are generally either the value of the premiums paid, less charges and fees and with the addition of declared bonuses, or the guaranteed death benefit with the addition of declared bonuses. Smoothing of investment returns is an important feature of with-profits products. It is designed to reduce the impact of fluctuations in investment return from year to year and is accomplished predominantly through the level of final bonuses declared.

The return to Prudential's shareholders in respect of with-profits business Prudential writes is an amount equal to up to one-ninth of the value of the bonuses Prudential credits or declares to policyholders in that year. Prudential has a large block of in-force with-profits business with varying maturity dates that generates a relatively stable stream of shareholder profits from year to year.

PAC's board of directors, with the advice of its Actuarial Function Holder and its With-Profits Actuary determines the amount of annual and final bonuses to be declared each year on each group of contracts.

When determining policy payouts, including final bonuses, Prudential follows an actuarial practice of considering "asset shares" for specimen policies. Asset shares broadly reflect the value of premiums paid in respect of a policy accumulated at the investment return on the assets Prudential notionally attributes to the policy. In calculating asset shares, Prudential takes into account the following items:

- the cost of mortality risk and other guarantees (where applicable),
- the effect of taxation,
- management expenses, charges and commissions,

the proportion of the amount determined to be distributable to shareholders, and

the surplus arising from surrenders, non-participating business included in the with-profits fund and other miscellaneous sources.

However, Prudential does not take into account the surplus assets of the long-term fund, or their investment return, in calculating asset shares. Asset shares are used in the determination of final bonuses together with treating customers fairly, the need to smooth claim values and payments from year to year and competitive considerations.

Prudential is required by UK law and regulation to consider the fair treatment of its customers in setting bonus levels. The concept of treating customers fairly is established by statute but is not defined. In practice, it provides one of the guiding principles for decision-making in respect of with-profits products.

The overall return to policyholders is an important competitive measure for attracting new business. The ability to declare competitive bonuses depends, in part, on the financial strength of PAC's long-term fund, enabling it to maintain high levels of investment in equities and real estate, if it wishes to do so. Equities and real estate have historically over the long-term provided a return in excess of fixed interest securities.

In 2008, Prudential declared a total surplus of £3,029 million from PAC's primary with-profits sub-fund, of which £2,730 million was added to with-profits policies and £298 million was distributed to shareholders. This includes annual bonus rates of 3.5 per cent per annum for the Prudence Bond and 3.50 per cent per annum for personal pensions. In 2007, Prudential declared a total surplus of £2,901 million from Prudential Assurance's primary with-profits sub-fund, of which £2,612 million was added to with-profits policies and £289 million was distributed to shareholders. This includes annual bonus rates of 3.25 per cent for the Prudence Bond and 3.25 per cent for personal pensions.

The closed Scottish Amicable Insurance Fund ("SAIF") declared total bonuses in 2008 of £777 million compared to £676 million in 2007. Shareholders have no interest in profits from the SAIF fund, although they are entitled to the investment management fees paid by this business. For greater detail on the SAIF fund, see " The SAIF Sub-fund and Accounts" below.

Surplus Assets in PAC's Long-term With-profits Fund

The assets of the main with-profits fund within the long-term fund of PAC comprise the amounts that it expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital. The amount payable over time to policyholders from the with-profits fund is equal to the policyholders' accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the with-profits fund is called the 'inherited estate' and has accumulated over many years from various sources.

The inherited estate, as working capital, enables PAC to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund's assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

PAC announced in March 2006 that it had begun a process to determine whether it could achieve greater clarity as to the status of the inherited estate through reattribution. In June 2008, PAC announced that it did not believe that it was in the interests of current or future policyholders or shareholders to continue the reattribution process. This announcement reflects PAC's overriding priority,

which is to maintain the long-term financial security of the with-profits fund and to continue delivering strong relative performance for the benefit of its policyholders.

Depletion of Surplus Assets and Shareholders' Contingencies

As a proprietary insurance company, Prudential Assurance is liable to meet its obligations to policyholders even if the assets of the long-term funds are insufficient to do so. The assets, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers (the excess assets) in the long-term funds, represented by the unallocated surplus of with-profits funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in mis-selling provisions. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Group's ability to treat its customers fairly was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the long-term funds to provide financial support.

In 1998, Prudential stated that deducting personal pensions mis-selling costs from the inherited estate of the with-profits sub-fund would not impact the Company's bonus or investment policy. The Company gave an assurance that if this unlikely event were to occur, it would make available support to the fund from shareholder resources for as long as the situation continued, so as to ensure that policyholders were not disadvantaged.

The assurance was designed to protect both existing policyholders at the date it was announced, and policyholders who subsequently purchased policies while the pension mis-selling review was continuing. The mis-selling review was completed on June 30, 2002 and consequently the assurance has not applied to new business issued since January 1, 2004. New business in this context consists of new policies, new members to existing pension schemes plus regular and single premium top-ups, transfers and switches to existing arrangements. The maximum amount of capital support available under the terms of the assurance will reduce over time as claims are paid on the policies covered by it.

The bonus and investment policy for each type of with-profits policy is the same irrespective of whether or not the assurance applies. Hence removal of the assurance for new business has had no impact on policyholder returns and this is expected to continue for the foreseeable future.

In February 2009, the FSA issued a revised consultation paper 09/09 proposing that future payments of compensation and redress for events occurring after July 31, 2009 may only be paid from assets attributable to shareholders.

The SAIF Sub-fund and Accounts

The SAIF sub-fund is a ring-fenced sub-fund of PAC's long-term fund and was formed following the acquisition of the mutual Scottish Amicable Life Assurance Society in 1997. No new business may be written in SAIF, although regular premiums are still being paid on policies in-force at the time of the acquisition and "top-ups" are permitted on these policies.

This fund is solely for the benefit of those Scottish Amicable Life Assurance Society policyholders whose policies were transferred to SAIF. Shareholders have no interest in the profits of this fund, although they are entitled to the investment management fees paid on this business. The brand name and rights to profit on new business were transferred to a new Prudential subsidiary, Scottish Amicable Life plc, which operated for the benefit of shareholders.

At the time of the acquisition, PAC's long-term fund made payments of £276 million to the SAIF sub-fund for the unit-linked life business and non-participating life business and the future profits from unitized with-profits life business. PAC also agreed to set up a memorandum account of £1.3 billion that

is considered in determining SAIF's investment policy. The SAIF sub-fund pays an annual charge to the other part of PAC's long-term fund in respect of this memorandum account.

PAC's long-term fund made a further payment of £185 million to qualifying Scottish Amicable Life Assurance Society policyholders for the use of the Scottish Amicable brand and future expense synergies. This payment will be recovered by the long-term fund by means of a combination of a service agreement and a license fee agreement with Craigforth Services Limited (now renamed Prudential UK Services Limited), a shareholder-owned service company set up at the time of the acquisition.

In addition to the payments described above, shareholders paid £415 million to qualifying Scottish Amicable Life Assurance Society policyholders, representing goodwill, and £70 million for certain Scottish Amicable Life Assurance Society strategic investments.

The adoption on January 1, 2005 of realistic reporting of liabilities in SAIF has had the effect of including the surplus assets over declared bonuses in liabilities rather than as unallocated surplus.

With the exception of certain guaranteed annuity products, referred to below, the majority of SAIF with-profits policies do not guarantee minimum rates of return to policyholders. Should the assets of SAIF be inadequate to meet the guaranteed benefit obligations to the policyholders of SAIF, the PAC long-term fund would be liable to cover any such deficiency. Due to the quality and diversity of the assets in SAIF and the ability of SAIF to revise guaranteed benefits in the event of an asset shortfall, the directors believe that the probability of either the PAC's long-term fund or Prudential's shareholders' funds having to contribute to SAIF is remote.

Non-participating Business

The majority of Prudential-branded non-participating business is written in the non-profit sub-fund of PAC's long-term fund or in subsidiaries owned by Prudential. Since mid-2004, Prudential has written all of its new non-profit annuity business through Prudential Retirement Income limited ("PRIL"), from which the profits are attributed solely to shareholders. Prior to that time, certain non-profit annuity business was written through Prudential Annuities Limited ("PAL"), which is wholly owned by PAC's with-profits fund. The profits on this business are attributable to the fund and not to shareholders, although indirectly shareholders get one ninth of additional amounts paid to policyholders through the declaration of bonuses.

The unit-linked business written by PAC and Prudential International Assurance is written with capital provided by shareholders.

Guaranteed Annuities

PAC used to sell guaranteed annuity products in the United Kingdom and held a provision of £42 million at December 31, 2008, within the main with-profits fund to honor guarantees on these products. The Company's main exposure to guaranteed annuities in the United Kingdom is through SAIF and a provision of £391 million was held in SAIF at December 31, 2008, to honor the guarantees. As SAIF is a separate sub-fund of the Company's long-term business fund, this provision has no impact on shareholders.

M&G

M&G is Prudential's fund management business in the United Kingdom and continental Europe and comprises retail, institutional and internal fund management activities. Its key metrics of performance are profits, net sales and investment performance.

Fund Management

M&G is an investment-led business which aims to deliver superior investment performance and maximize risk-adjusted returns in a variety of macro-economic environments. Through M&G Prudential seeks to add value to its Group by generating attractive returns on internal funds as well as growing profits from the management of third party assets. Such external funds now represent a third of M&G's total funds under management ("FUM").

In the retail market, M&G's strategy is to maximize the value of its centralized investment function through a multi-channel, multi-geography distribution approach. Key themes in recent years have included the growing proportion of business sourced from intermediated channels and the growth of cross-border products. M&G's has benefited from having a diverse product portfolio during the recent turmoil as, for example, bond funds have become more popular than equity based products.

M&G's institutional strategy centers on leveraging capabilities developed primarily for internal funds into higher margin external business opportunities. In recent years this has allowed M&G to operate at the forefront of a number of specialist fixed income strategies, including leveraged finance and infrastructure investment. The recent chaos in capital markets has resulted in a renewed focus on more traditional credit and equity mandates, again drawing on its core research and investment expertise.

Key initiatives and performance

Delivering fund performance remains critical and is a key determinant of success for an asset management business. M&G has continued to deliver market-leading investment performance in 2008 with impressive results. M&G's retail funds have performed strongly. The global financial crisis has had a negative impact on asset values across classes and geographies. At M&G, this has a direct impact on its FUM as well as important consequences for new business sales and existing client persistency. In this challenging environment investment performance is more critical than ever, further illustrating the value of its core strategy.

In the three years to December 2008, 35 per cent of M&G's retail funds delivered top-quartile investment performance (Source: Morningstar).

In Europe, the asset management industry has seen net outflows of €334 billion in 2008, while the UK market reported £2.1 billion of net outflows from UK asset managers across Retail and Institutional funds.

Against this background M&G performed extremely well in 2008, with record gross inflows from external customers of £16.2 billion, up from £14.7 billion in 2007. Higher redemption rates resulted in somewhat lower net inflows of £3.4 billion, compared to £4.9 billion in 2007 and £6.1 billion in 2006, which was M&G's record year to date.

M&G's strategy of maximizing diversity across the business delivered results in 2008, as demonstrated by increased net inflows to retail bond funds of £1.4 billion, up from £0.2 billion in 2007. These helped to offset a decline in equity fund net inflows, which fell to £0.7 billion, down from £1.7 billion in 2007.

M&G's net retail inflows in the UK were up 62 per cent on 2007 at £1.9 billion, while the more challenging European market resulted in net flows of zero, compared to £0.8 billion of inflow in 2007. A significant achievement for its retail distribution team has been the development of the discretionary manager channel (including stockbrokers, family offices and fund of funds managers), with net sales of £0.7 billion in 2008, up from £0.4 billion in 2007.

Among M&G's institutional businesses, a difficult year for its Macro Investment Business (net outflows of £0.9 billion) was more than offset by strong net inflows of £0.3 billion to its infrastructure fund and £0.8 billion to segregated equity funds. M&G's high quality of client servicing and diverse

product offering enabled it to maintain positive inflows of £1.3 billion during a period that saw net institutional outflows for asset managers of £6.3 billion according to market reports (Source: IMA data, which is for the UK only and includes collective investments).

During 2008, M&G continued to focus on effective cost management to limit the impact of falling FUM on bottom-line results. M&G's overall overhead costs fell 16 per cent in 2008. However, this partially reflects a one-off reduction in long term incentive costs.

A key cost management initiative in 2008 was the outsourcing of M&G Retail's direct customer servicing. As well as generating immediate annual savings of around £3 million, this will allow it to move from a fixed to a variable cost base for this channel.

M&G's cost/income ratio was 60 per cent in 2008, down from 66 per cent in 2007, having improved from 75 per cent in 2004.

The following table shows funds managed by M&G at the dates indicated.

	At December 31,	
	2008	**2007**
	(In £ Billions)	
Retail fund management	**19**	22
Institutional fund management	**28**	29
Internal fund management	**94**	116
Total	**141**	167

Prudential Capital

Prudential Capital (re-branded from Prudential Finance in 2007) manages Prudential's balance sheet for profit through leveraging Prudential's market position. The business has three strategic objectives: to operate a first class wholesale and capital markets interface; to realize profitable proprietary opportunities within a tightly controlled risk framework; and to provide professional treasury services to Prudential. Prudential Capital generates revenue by structuring transactions, providing bridging finance, and operating a securities lending and cash management business for Prudential and its clients.

The business has continued to grow in terms of investment, infrastructure and personnel in a controlled way while maintaining the dynamism and flexibility that it requires to identify and realize opportunities for profit. Prudential Capital is committed to working closely with other Group business units to deliver opportunities and to improve value creation for the Group. Prudential Capital is also involved in the hedging strategy, liquidity and capital management for the Group.

Group Risk Framework

Risk and Capital Management

Introduction

As a provider of financial services, including insurance, Prudential recognizes that the managed acceptance of risk lies at the heart of its business. As a result, effective risk management capabilities represent a key source of competitive advantage for the Group. To maximize this advantage, Prudential have embedded a risk and capital management framework and culture that drives the rigorous risk and capital management and optimization of risk adjusted returns across the Group.

The Group's risk appetite framework sets out its tolerance to risk exposures as well as its approach to risk management and return optimization. Under this approach, Prudential monitors its risk profile continuously against agreed limits. Prudential's main strategies for managing and mitigating risk include

asset liability management, using derivatives to hedge relevant market risks, and implementing reinsurance and corporate insurance programs. More detail on our Group's risk governance system and risk policies is provided on pages 64 to 66.

Risk oversight

Group risk appetite

Prudential defines and monitors aggregate risk limits for its earnings volatility and its capital requirements:

(a) Earnings volatility: the objectives of the limits are to ensure that (a) the volatility of its earnings is consistent with its stakeholders' expectations, (b) the Group has adequate earnings (and cash flows) to service debt, expected dividends and to withstand unexpected shocks, and (c) earnings (and cash flows) are managed properly across geographies and are consistent with its funding strategies. The two measures Prudential applies to monitor the volatility of its earnings are EEV operating profit and IFRS operating profit.

(b) Capital requirements: the limits aim to ensure that (a) the Group meets its solvency capital requirements at all times, (b) the Group achieves its desired target rating to meet its business objectives, and (c) supervisory intervention is avoided. The two measures Prudential applies are the EU Insurance Groups Directive ("IGD") capital requirements and economic capital requirements.

Prudential's risk appetite framework forms an integral part of its annual business planning cycle. Throughout the year, its Group Risk function monitors the Group's risk profile against the agreed limits. Using submissions from business units, Group Risk calculates its position (allowing for diversification effects between business units) relative to the limits implied by the risk appetite statements.

Local limits are agreed with each of Prudential's business units to ensure that the aggregate risk exposure remains within the defined Group-level risk appetite. Each business unit determines its own individual risk position by calculating the impacts (on earnings and capital measures) of a shock to its market, credit, insurance and operational risk exposures and agrees them with Group Risk and the Group Asset and Liability Committee ("ALCO").

Prudential use a two-tier approach to apply the limits at business unit level. Firstly, it calculates business unit risk limits. These ensure that, provided each business unit keeps within its limits, the Group risk position will remain within the Group limits. Secondly, the impact on the risk position is considered as part of Group Risk's scrutiny of large transactions or departures from plan proposed by individual business units.

In the event that any of the business unit plans imply risk limits will be exceeded, this will necessitate a dialogue between Group Head Office ("GHO") and the relevant business unit or units. Exceeding Group limits may be avoided if, for example, limits in other business units are not fully utilized, or if the diversification effect at Group level of a particular risk with other business units means the Group limit is not breached. Ultimately, authorization to breach limits would require approval from GHO.

The continuing market dislocation and the increased risk of default has increased emphasis on the management of market and credit risk in the course of 2008. Market risk is managed such that as conditions evolve the risk profile is maintained within risk appetite, and in addition to business unit operational limits on credit risk, Prudential set counterparty risk limits at Group level. Limits on its total Group-wide exposures to a single counterparty are specified within different credit rating 'categories'. Group Risk and the Group ALCO monitor its actual exposures against these limits on a monthly basis.

Risk exposures

The Group Risk Framework deploys a common risk language, allowing meaningful comparisons to be made between different business units. Risks are broadly categorized as shown below.

Category	Risk type	Definition
Financial risks	Market risk	The risk that arises from adverse changes in the value of, or income from, assets and changes in interest rates or exchange rates.
	Credit risk	The risk of loss if another party fails to meet its obligations, or fails to do so in a timely fashion.
	Insurance risk	The inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. This includes adverse mortality, morbidity and persistency experience.
	Liquidity risk	The risk that a business, though solvent on a balance sheet basis, either does not have the financial resources to meet its obligations as they fall due or can secure them only at excessive cost.
Non-financial risks	Operational risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes, people or systems, or from external events. This includes legal and regulatory compliance risk.
	Business environment risk	Exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall objectives and strategy.
	Strategic risk	Ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Group's capabilities.

Market risk

Equity risk

Most of the equity exposure in Prudential's UK business arises from the with-profits fund which is partially protected against falls in equity markets through an active hedging policy. The fund also includes a large inherited estate estimated at £5.4 billion at December 31, 2008. The inherited estate itself is partially protected against falls in equity markets through an active hedging policy.

In Asia, a high proportion of Prudential's in-force book is made up of unit-linked products with limited shareholder exposure to equities. Prudential has minimal direct shareholder exposure to Asian equity markets outside its unit-linked holdings.

In the US, where Jackson is a leading provider of variable annuities, there are well-understood risks associated with the guarantees embedded in its products. Jackson provides guarantees for minimum death benefit ("GMDB") on all policies in this class, minimum withdrawal benefits ("GMWB") on 67 per cent of the book, and minimum income benefits ("GMIB") on only 11 per cent. To protect the shareholder against the volatility induced by these embedded options, Jackson uses both a comprehensive hedging program and reinsurance.

In Jackson's variable annuity sales activities, it focuses on meeting the needs of conservative and risk averse customers who are seeking reliable income in retirement, and who display little tendency to arbitrage their guarantees. These customers select conservative investment options and, importantly, buy fewer guarantee products compared to the industry as a whole. Jackson is able to achieve this because its unique and market leading operational platform allows it to tailor more than 3,000 product combinations, thereby ensuring that its customers are not sold guarantees they do not need. Jackson seeks to sell at a price where it can hedge or reinsure its risks. Many of its competitors offer 'bundled' products where the customer pays for guarantees that they do not require. In contrast, Jackson's more tailored offering avoids the sale of unnecessary guarantees, enabling it to remain globally price competitive while pricing each of its individual guarantees appropriately. This enables Jackson to be price-competitive while not over-exposing its business to guarantee risk. Also, the conservative nature of its investment options makes hedging a more straightforward process.

It is Jackson's philosophy not to compete on price. Jackson's individual guarantees tend to be more expensive than the market average, because it seeks to sell at a price where it can hedge or reinsure its risks.

Jackson does not actively market GMIB, and where it is selected it reinsures. It uses reinsurance to cover both the in-force book and new business for the life of the policy. If reinsurance were not available, Jackson would not sell GMIB options.

Jackson takes a macro approach to hedging that covers market risk in the US business, including all exposure to GMDB and GMWB guarantees. Within this macro approach Jackson makes use of the natural offsets that exist between the variable annuity guarantees and the fixed-indexed annuity book, and then use a combination of Over The Counter ("OTC") options and futures to hedge the residual risk, allowing for significant market shocks and limiting the amount of capital it is putting at risk. The hedging program covers both the in-force book and new business for the 'greeks' i.e. changes in equity market levels, the rate of change in market levels and equity market volatility, as well as interest rate movements. In addition Jackson hedges the fees on variable annuity guarantees.

Jackson's dynamic hedging of its variable annuity guarantees meant that Jackson's equity hedging gains offset the effect of the 38.5 per cent drop experienced in US equity markets in 2008 on a statutory capital basis. This outcome compared favorably to the industry as a whole. Indeed, Jackson was one of only a handful of US life insurance companies to achieve this level of success with its variable annuity hedging program in 2008.

Interest rate risk

Interest rate risk arises primarily from Prudential's investments in long-term debt and fixed income securities. Interest rate risk also exists in policies that carry investment guarantees on early surrender or at maturity, where claim values can become higher than the value of backing assets as a result of rises or falls in interest rates.

Interest rates primarily impact Prudential's Asia, US and UK with-profit businesses. In Asia, its exposure will be reduced following its agreement with China Life Insurance Company Ltd (Taiwan) to transfer the agency-based business in Taiwan, which includes Prudential's legacy products which contain interest rate risk. The remaining exposure in Asia arises mainly from guarantees on traditional shareholder-backed life products and asset-liability mismatches, primarily in Japan and Korea. This exposure is within Prudential's risk appetite, and it manages it carefully on an ongoing basis. Prudential has a range of risk mitigation options available to it should it wish to reduce this exposure further. However, it is important to note that interest rates in some territories are currently at historically low levels, which has the effect of mechanistically reducing its downside risk.

In the US there is interest rate risk across the portfolio. Prudential manages fixed annuity interest rate exposure through a combination of interest rate swaps and interest rate options, to protect capital against rates rising quickly, and through the contractual ability to reset crediting rates annually. The average traditional fixed annuity crediting rate is 91bps above the guaranteed crediting rate. Historically, it has had a significant IGD sensitivity relating to the mark-to- market accounting of interest rate derivatives. During the final quarter of 2008, Prudential worked with the Michigan State regulator to recognize the effectiveness of interest rate hedging, and the statutory valuation now accounts for hedges and the hedged items on a consistent basis.

In the UK the investment policy for the shareholder backed annuity business is to match investment returns with annuity payments. Where these cash flows are not matched exactly there is some exposure to asset and liability mismatches and this exposure can be increased by, for example, the current low interest rate environment. There is an interest rate risk in the UK with-profits fund.

Foreign exchange risk

Prudential operates in the UK, the US, Continental Europe and 13 countries in Asia. Inevitably, the geographical diversity of its businesses means that it is subject to the risk of exchange rate fluctuations. Prudential's international operations in the US and Asia, which represent a significant proportion of its operating profit and shareholders' funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in its consolidated financial statements when results are expressed in pounds sterling.

Prudential do not generally seek to hedge foreign currency revenues, as these are substantially retained locally to support the growth of the Group's business and meet local regulatory and market requirements. However, in cases where a foreign surplus is deemed to be supporting Group capital or shareholders' interests, this exposure is hedged if it deems it economically optimal to do so. Currency borrowings and derivatives are used to manage exposures within the set limits.

Credit risk

1. Information regarding the 2008 results

The global debt markets experienced unprecedented conditions in 2008, with illiquidity and credit spreads reaching all-time highs. Prudential's debt portfolio on an IFRS basis was £95 billion at December 31, 2008.

Of this total, £59 billion was in the UK insurance operations, of which £38 billion was within the UK with-profits fund. The fund also includes a large inherited estate estimated at £5.4 billion. Outside the with-profits fund, £4 billion was held in unit-linked funds where the shareholder risk is limited, and there was £17 billion backing the shareholder annuity business and other non-linked business, of which £13 billion related to corporate bonds and £4 billion was in government securities, or equivalent.

Within the UK shareholder annuity funds, Prudential has built up a significant credit reserve of £1.4 billion to allow for future defaults on a statutory basis. This reserve can withstand the equivalent of the average default experience during the Great Depression occurring every year over the life of the portfolio.

In 2008, Prudential has experienced credit defaults for UK operations of £93 million that relate to shareholder funds (0.5 per cent of the portfolio).

Asia's debt portfolio totaled £11 billion at December 31, 2008. Of this, approximately 64 per cent was invested in Unit-Linked and with-profits funds with minimal shareholder risk. The remaining 36 per

cent is shareholder exposure and is invested predominantly (85 per cent) in government bonds. For Asia, the portfolio has performed very well, with 2008 defaults totaling only £20 million.

The final and most significant area of exposure to credit risk for the shareholder is Jackson in the US. At December 31, 2008 Jackson's fixed income portfolio was estimated at £24 billion, comprised of £16 billion of Corporate Debt, £2 billion of Commercial Mortgage Backed Securities ("CMBS"), £4 billion of Residential Mortgage Backed Securities ("RMBS") and £2 billion of other instruments. Jackson entered the cycle in a defensive position and continues to manage the portfolio rigorously.

The US Corporate Debt portfolio of £16 billion is 92 per cent investment grade. Concentration risk is low, with the top ten holdings accounting for only five per cent of the portfolio. The high-yield portfolio is also well diversified with an average holding of £8 million. Jackson's single largest sector exposure in the investment grade portfolio is Utilities at 13 per cent. Jackson actively manages the portfolio and will sell exposure as events dictate; for example, it reduced its holding in both Lehman and Washington Mutual early in 2008.

Within the RMBS portfolio of £4 billion, the agency guaranteed portion is 50 per cent. Another 25 per cent of the portfolio relates to investments with pre-2006/2007 vintages, where experience has been much more positive than later vintages. Jackson's exposure to the 2006/2007 vintages totals £946 million of which £617 million is invested in the senior part of the capital structure, thereby significantly reducing the risk of defaults and the magnitude of loss if a shortfall does occur. The actual exposure to non-senior 2006/2007 Prime and Alt-A RMBS is only £329 million.

The CMBS £2 billion portfolio is performing strongly, with 85 per cent of the portfolio being AAA and only one per cent below investment grade. Jackson materially reduced its non-AAA purchases after 2004 in response to the significant deterioration in underwriting standards observed in the market and in line with rating agencies' guidelines. The entire portfolio has an average credit enhancement level of 30 per cent. This provides significant protection, since it means the bond has to incur a 30 per cent loss, net of recoveries, before it is at risk.

In 2008, Jackson's total defaults were £78 million of which £5 million were incurred in the fourth quarter. As part of its active management of the book it incurred net losses of £127 million on the sale of impaired bonds, of which £67 million was incurred in the fourth quarter of 2008.

IFRS write-downs excluding defaults for the year were £419 million, of which £228 million arose in the fourth quarter of 2008.

The impairment process reflects a rigorous review of every single bond and security in its portfolio. Jackson believes that the accounting rules for impairments are necessarily conservative and not always consistent with economic losses. So, while the accounting requires it to book them as losses through its income statement, it would expect only a proportion of these impairments eventually to turn into defaults, and some of the impaired securities to recover in price over time.

In considering potential future losses for Jackson, it is essential to examine the key components of the debt portfolio. As at December 31, 2008, 93 per cent of Jackson's total debt portfolio of £24 billion consisted of investment grade securities and seven per cent were high yield.

Applying peak global annual default rates and making conservative assumptions for recoveries to Prudential's portfolio would generate losses of approximately £350 million for one year that could be absorbed by its current IGD surplus as estimated at December 31, 2008.

2. Information regarding the position at March 31, 2009

On May 14, 2009, Prudential published its first quarter 2009 Interim Management Statement with the UK Listing Authority. In light of the unusual prevailing credit market conditions, this statement included details on credit risk as at March 31, 2009 as follows:

The Group's debt portfolio on an IFRS basis was estimated at £86 billion at March 31, 2009 excluding holdings attributable to external unit holders.

Of this total, £53 billion was in the UK of which £33 billion was within the UK with-profits fund where protection is primarily provided by the inherited estate. Outside the with-profits fund, £3 billion was held in unit linked funds where shareholder risk is limited and there was £17 billion backing the shareholder annuity business and other non-linked business of which 79 per cent was rated AAA to A, 18 per cent BBB and three per cent non investment grade.

As previously mentioned, UK insurance operations have maintained a significant and it believes appropriate credit reserve at £1.4 billion within the shareholder-backed annuity funds to provide for future defaults. This would be sufficient to provide for 80bps of losses per annum over the life of the portfolio. In the first quarter of 2009, UK insurance operations have experienced credit defaults of £11 million, or 6.5bps, in relation to shareholder funds.

Asia's debt portfolio totals £8 billion of which £5 billion was invested in unit linked and with-profits funds with minimal shareholder risk and, of the £3 billion held by shareholder backed non-linked business, 87 per cent was in respect of government bonds. This portfolio has performed very well with no defaults in the first quarter of 2009.

Jackson's fixed income portfolio at March 31, 2009 was estimated at £23.5 billion, in line with year end 2008, 92 per cent being investment grade and eight per cent high yield. This portfolio comprises corporate debt of £16.3 billion, CMBS of £1.8 billion, RMBS of £4.3 billion and other securities totaling £1.1 billion. Jackson's fixed income portfolio at March 31, 2009 is shown in the table below:

	March 31, 2009 £m	**December 31, 2008 £m**
Corporate securities (91% investment grade)	**16,301**	16,471
Residential mortgage backed securities (59% government agency; 21% for pre 2006/2007 vintages; £596m for 2006/2007 vintages of which £372m is for the senior part of the capital structure)	**4,269**	4,509
Commercial mortgage backed securities	**1,780**	1,869
CDO funds	**269**	320
Other debt securities	**911**	1,080
Total	**23,530**	24,249

Jackson did not experience any losses on defaults during the first quarter of 2009. As part of its active management of the book it incurred net losses on sales of impaired bonds of £15 million. Additional write downs of impaired securities for the first three months of the year were £152 million, including £82 million on corporate bonds and £70 million on RMBS, of which £58 million related to the 2006/2007 vintage.

Within the RMBS portfolio of £4.3 billion, £2.5 billion was agency guaranteed, £269 million was sub-prime (which was fixed collateral, all originally AAA rated and senior tranches so well protected) and £896 million related to investments in pre-2006/2007 vintages, where experience has been positive. At March 31, 2009, exposure to the 2006/2007 vintages was £596 million. Of the £596 million, £372 million was invested in the senior part of the capital structure. Jackson's actual exposure to non-senior 2006/2007 Prime and Alt-A RMBS was £224 million.

Unrealized Credit Losses

1. Information regarding the 2008 results

Jackson's gross unrealized losses moved from £439 million at December 31, 2007 to £3,178 million at December 31, 2008. This change was largely due to a market-wide re-pricing of risk and not to specific problems within Jackson's portfolio. The entire market for fixed income securities has been re-priced downwards from historically tight spreads of approximately 100 bps during the first half of 2007 to historically wide spreads of over 640 bps on investment grade paper at the end of 2008. Wider credit and liquidity spreads are causing the average investment grade security to trade around the mid to high 80s as a percentage of nominal value. Unrealized losses on securities priced at less than 80 per cent of face value were £1.9 billion at December 31, 2008. It is Jackson's intention to hold these fixed income securities to maturity, an approach which in economic terms limits the impact of the current market dislocation.

Jackson's unrealized losses rose in the fourth quarter by £1.3 billion as credit spreads moved to all-time highs and bond prices to all-time lows. Of the increase of £1.3 billion in the fourth quarter of 2008, about £446 million was directly due to the depreciation of sterling against the US dollar. Jackson believes that the accounting impact of these unrealized losses significantly overstates the risk of economic losses on its portfolio at current price levels.

2. Information regarding the position at March 31, 2009

Prudential's first quarter 2009 Interim Management Statement as mentioned above also included updates on the Jackson's unrealized losses position as at March 31, 2009 as follows. Further information on Jackson's unrealized losses position at March 31, 2009 is also provided in Item 5 *" Factors Affecting Results of Operations IFRS Critical Accounting Policies".*

Jackson's gross unrealized losses across the entire portfolio for the first quarter of 2009 have increased by £283 million to £3.5 billion, or 13 per cent of the portfolio.

Unrealized losses on securities priced below 80 per cent of book value were £2.3 billion at March 31, 2009 compared to £1.9 billion at year end 2008. The Group continues to believe that the accounting impact of these unrealized losses significantly overstates the risk of economic losses on its portfolio at current price levels.

Whilst continuing wider credit and liquidity spreads are causing the average investment grade security to trade around the mid to high 80's, the Group has no intention to sell these fixed income securities prior to maturity, limiting the impact of ongoing market volatility.

Insurance risk

The processes of determining the price of Prudential's products and reporting the results of its long-term business operations require it to make a number of assumptions. In common with other industry players, the profitability of its businesses depends on a mix of factors including mortality and morbidity trends, persistency, investment performance, unit cost of administration and new business acquisition expenses.

For example, the assumption that Prudential makes about expected levels of mortality is particularly relevant for its UK annuity business, where in exchange for their accumulated pension fund pension annuity policyholders receive a lifetime guaranteed payment. Prudential conducts rigorous research into longevity risk using data from its substantial annuitant portfolio. As part of its pension annuity pricing and reserving policy, Prudential UK assumes that current rates of mortality continuously improve over time, at levels based on adjusted data from the Continuous Mortality Investigations ("CMI") projections published by the Institute and Faculty of Actuaries.

Prudential's persistency assumptions reflect recent experience for each relevant line of business, and any expectations of future persistency. Where appropriate, allowance is also made for the relationship either assumed or historically observed between persistency and investment returns, and for the resulting additional risk.

Liquidity risk

Prudential remains comfortable with its liquidity position both at holding and subsidiary company level. The holding company has significant internal sources of liquidity which are sufficient to meet all of its requirements for the foreseeable future without having to make use of external funding. In aggregate the Group has £2.1 billion of undrawn committed facilities, of which it renewed £1.4 billion of the undrawn syndicated committed banking facility in February 2009 for a further three years as well as renewing the £500 million securities lending back-up facility.

Non-financial risk

Prudential is exposed to operational, business environment and strategic risk in the course of running its businesses. It processes a large number of complex transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. Prudential also has a significant number of third-party relationships that are important to the distribution and processing of its products, both as market counterparties and as business partners. More detail on the risk factors that may affect Prudential's operating results and financial condition, and accordingly the trading price of our shares, is provided on pages 5 to 10.

Prudential uses quantitative analysis of operational risk exposures material to the Group to inform its decisions on the overall amount of capital held and the adequacy of the corporate insurance program.

Capital Management

Regulatory capital

Group regulatory capital (IGD)

Prudential is subject to the capital adequacy requirements of the Insurance Groups Directive ("IGD") as implemented by the FSA in the UK. The IGD pertains to groups whose activities are primarily concentrated in the insurance sector.

The IGD capital adequacy requirements involves aggregating surplus capital held in the regulated subsidiaries, from which Group borrowings, except those subordinated debt issues that qualify as capital, are deducted. No credit for the benefit of diversification is allowed for under this approach. The IGD test is passed when this aggregate number is positive. A negative result at any point in time is a notifiable breach of UK regulatory requirements.

Prudential's capital position is strong, driven by its prudent but proactive risk management. Prudential's IGD capital surplus at December 31, 2008 was estimated on March 31, 2009 at £1.7 billion before allowing for the 2008 final dividend, giving a solvency ratio of 162 per cent. This was composed of its IGD surplus at December 31, 2008 estimated on March 19, 2009 at £1.4 billion (subsequently finalized at £1.5 billion on April 30, 2009), and in addition £0.3 billion that the FSA has subsequently allowed it to include in its IGD surplus going forward, as a result of an innovative structure it has developed. Prudential's IGD capital surplus on a consistent basis (i.e. before allowing for a dividend) at the end of 2007 and at the end of the third quarter 2008 stood at £1.9 billion and £1.4 billion respectively. The movement from £1.9 billion at December 31, 2007 to the March 19, 2009 estimate of £1.7 billion benefited from the £0.3 billion allowed by the FSA. The remaining decrease of £0.5 billion to the March 19, 2009 estimate of the 2008 surplus comprised net earnings of £0.8 billion, management actions of £0.6 billion and positive foreign exchange movements of £0.2 billion, offset by the 2007 final

dividend of £0.3 billion, market related risk of £0.4 billion, strengthening of UK credit reserves of £0.8 billion and £0.6 billion of credit related impairments and default losses in the US.

The £0.3 billion additional IGD capital reflects Prudential's ability to realize a portion of the shareholders' economic interest in the future transfers from the UK With-Profits Fund, which in total was worth £1.7 billion at December 31, 2008 as estimated on March 19, 2009.

On February 20, 2009 Prudential announced that it had entered into an agreement to transfer the assets and liabilities of its agency distribution business in Taiwan to China Life Insurance Company Ltd (Taiwan) pending regulatory approval. The business to be transferred includes Prudential's legacy interest rate products in Taiwan, and the agreement is significantly value enhancing for the Group. On completion the transfer will give rise to a net increase in the Group's IGD surplus of approximately £0.8 billion, further strengthening its already robust capital position.

On May 14, 2009, Prudential published its first quarter 2009 Interim Management Statement with the UK Listing Authority. In light of the unusual prevailing market conditions this statement included details on the capital position as at March 31, 2009 as follows:

Prudential's capital position remains strong. Faced with a volatile and uncertain environment Prudential has continued to take action to position itself defensively. The Group's IGD capital surplus is estimated at £2.0 billion after taking into account the 2008 final dividend. This is composed of the estimated IGD surplus at March 31, 2009 of £1.6 billion and £0.4 billion raised during May 2009 from a hybrid debt placement.

Furthermore, upon completion of the transfer of the assets and liabilities of Prudential's agency distribution business in Taiwan to China Life Insurance Company Ltd (Taiwan), there will be a net increase in the Group's IGD surplus of approximately £800 million to reach £2.8 billion.

The estimated IGD surplus at March 31, 2009, of £1.6 billion has been further strengthened post quarter end as Prudential has taken advantage of the recent improvements in debt markets to issue hybrid debt of £0.4 billion (all of which counts as capital for IGD purposes) in part to replace the £249 million of senior debt that matured on May 11, 2009.

Prudential actively manages its IGD capital position and has a range of capital management options e.g. reinsurance and further hedging strategies. The Group is positioned to withstand further significant deteriorations in market conditions should they occur.

- An instantaneous 40 per cent fall in equity markets is estimated to reduce the IGD surplus by £350 million as at March 31, 2009

- A 150bps reduction in interest rates is estimated to reduce the IGD surplus by £300 million as at March 31, 2009. This would be further reduced post the completion of the sale of Prudential's Taiwan legacy agency book

- Credit defaults of ten times the long term assumption would be estimated to reduce IGD surplus by £500 million in excess of the annual reserve release

Prudential has maintained its prudent equity hedging strategy during 2009. Prudential believes that the benefits from maintaining this protection (including balance sheet protection, and the additional flexibility to manage its business) continue to outweigh the associated costs. Prudential dynamically adjusts its level of hedging to reflect the evolution of its IGD position, market conditions and cost of hedging.

In addition, the total credit reserve for the UK shareholder annuity funds at March 31, 2009 remains unchanged from the 2008 year end at £1.4 billion.

Prudential has also been proactively managing its investment in new business to achieve its capital management targets. The Group's investment in new business for the first quarter is in line with its expectations and has been achieved through the discipline of each of its businesses in their approach to growth and new business.

Solvency II

The EU is developing a new solvency framework for insurance companies, referred to as 'Solvency II'. The application of Solvency II to international groups is still unclear and there is a risk of inconsistent application in different EU member states, which may place Prudential at a competitive disadvantage to other European and non-European financial services groups.

Like Basel II in the banking industry, the new approach is expected to be based on the concept of three pillars minimum capital requirements, supervisory review of firms' assessments of risk, and enhanced disclosure requirements. However, the scope is wider than Basel II and will cover valuations, the treatment of insurance groups, the definition of capital and the overall level of capital requirements.

A key aspect of Solvency II is that the focus on risks and capital requirements will be aligned more closely with economic capital methodologies. Solvency II will encourage companies to improve their risk management processes and may allow companies to make use of internal economic capital models if approved by the local Regulator.

Capital allocation

Prudential's approach to capital allocation takes into account a range of factors, especially risk adjusted returns on capital, the impact of alternative capital measurement bases (accounting, regulatory, economic and ratings agency assessments), tax efficiency, and wider strategic objectives.

Prudential optimizes capital allocation across the Group by using a consistent set of capital performance metrics across all business units to ensure meaningful comparison. Capital utilization, return on capital and new business value creation are measured at a product level. The use of these capital performance metrics is embedded into its decision-making processes for product design and product pricing.

Prudential's capital performance metrics are based on economic capital, which provides a view of its capital requirements across the Group, allowing for realistic diversification benefits. Economic capital also provides valuable insights into its risk profile and is used both for risk measurement and capital management.

Stress testing

Prudential uses regular stress testing and sensitivity analysis to monitor the robustness of the Group's regulatory and economic capital position.

Stress testing has been carried out to assess the resilience of the Group's regulatory capital position (IGD) to withstand significant further deterioration in market conditions. The findings include:

An instantaneous further 40 per cent fall in equity markets from December 31, 2008 levels would reduce the IGD surplus by £350 million.

A 150bps reduction (subject to a floor of zero) in interest rates from December 31, 2008 would reduce the IGD surplus by £300 million (the effect would be less following completion of the sale of the Taiwan legacy agency book).

Credit defaults of ten times the expected level would have an impact of £500 million in excess of the annual reserve release.

Prudential also test the impact of a range of 'shock' scenarios on the Group's regulatory and economic capital. The scenarios for this testing are selected using both in-house views and external assessments such as the FSA's annual Financial Risk Outlook. The purpose is to assess the resilience of the Group's capital position to a range of key threat scenarios.

Shareholders' borrowings and financial flexibility

The core structural borrowings of Prudential's shareholder-financed operations at December 31, 2008 totaled £2,958 million on an IFRS basis, compared with £2,492 million at the end of 2007. The increase during the year reflected exchange conversion losses amounting to £468 million predominantly on its long term borrowings of €500 million, US$1 billion, US$300 million, US$250 million and US$250 million surplus notes.

After adjusting for holding company cash and short-term investments of £1,165 million, its net core structural borrowings at December 31, 2008 were £1,793 million, compared with £1,036 million a year earlier. The increase on the 2007 figure reflected net cash inflows of £54 million, exchange conversion losses of £816 million including the £468 million on long-term borrowings identified above, and £354 million in respect of a US$2 billion net investment hedge of the currency exposure of the net investments in the US operations.

Prudential's core structural borrowings at December 31, 2008 included £1,761 million borrowed at fixed rates of interest, with maturity dates ranging from 2009 to perpetuity. A significant proportion amounting to £1,232 million of the core borrowings was denominated in US dollars, in order to provide partial hedging of the currency exposure arising from the Group's investment in Jackson.

Prudential has also put in place an unlimited global commercial paper program. As at December 31, 2008, commercial paper totaling £278 million, US$916 million, €359 million and CHF10 million has been issued under this program. Prudential also has a £5,000 million medium-term note (MTN) program, under which the outstanding subordinated debt at December 31, 2008 was £435 million and €520 million, while the senior debt outstanding was £200 million and US$12 million.

In addition, Prudential's holding company has access to £1,600 million of committed revolving credit facilities, provided by 15 major international banks, and renewable between December 2010 and February 2012; and an annually renewable £500 million committed securities lending liquidity facility. Apart from a small drawdown to test the process, these facilities were not drawn on during the year, and there are no amounts outstanding under the committed credit facilities at December 31, 2008. The commercial paper program, the MTN program, the committed revolving credit facilities and the committed securities lending liquidity facility are all available for general corporate purposes and to support the liquidity needs of the holding company.

Prudential manages the Group's core debt within a target level consistent with its current debt ratings. At December 31, 2008, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus debt) was 10.7 per cent, compared with 6.6 per cent at December 31, 2007.

Prudential plc has strong debt ratings from Standard & Poor's, Moody's and Fitch. As at March 31, 2009 Prudential's long-term senior debt is rated A+ (stable outlook), A2 (negative outlook) and A+ (negative outlook) from Standard & Poor's, Moody's and Fitch, while short-term ratings are A-1, P-1 and F1+ respectively.

The financial strength of PAC is rated AA+ (negative outlook) by Standard & Poor's, Aa2 (negative outlook) by Moody's and AA+ (negative outlook) by Fitch Ratings.

Jackson's financial strength is rated AA (stable outlook) by Standard & Poor's, A1 (negative outlook) by Moody's and AA (negative outlook) by Fitch.

Risk mitigation and hedging

Prudential manages its actual risk profile against its tolerance of risk. To do this, it maintains risk registers that include details of the risks it has identified and of the controls and mitigating actions it employs in managing them. Any mitigation strategies involving large transactions, such as a material derivative transaction, are subject to scrutiny at Group level before implementation.

Prudential uses a range of risk management and mitigation strategies. The most important of these include: adjusting asset portfolios to reduce investment risks (such as duration mismatches or overweight counterparty exposures); using derivatives to hedge market risks; implementing reinsurance programs to limit insurance risk; implementing corporate insurance programs to limit the impact of operational risks; and revising business plans where appropriate.

During 2008, its risk management and mitigation initiatives resulted in the rebalancing of the Group's USD hedge to reflect its exposure to IGD regulatory surplus held in USD. Since the year-end it has also implemented additional equity hedging in Jackson to reduce the exposure to further falls in the level of the S&P index. A wide range of capital management initiatives and risk mitigation options remain available to the Group to manage the IGD capital position. These include the use of reinsurance and similar structures to crystallize the value of future cash flows, the implementation of further hedging strategies, and taking steps to conserve and/or release capital.

Prudential has contingency plans in place for a range of operational risk scenarios, including incident management and business continuity plans. As a contingency plan for liquidity risk, the Group has arranged access to committed revolving credit facilities and committed securities lending facilities.

Risk Governance

Organization

Prudential's risk governance framework requires that all of the Group's businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Group. The framework is based on the concept of 'three lines of defense': risk management, risk oversight and independent assurance.

Risk management

Primary responsibility for strategy, performance management and risk control lies with the Board, Group Chief Executive and the chief executives of each business unit.

Risk oversight

Risk exposures are monitored and reviewed by the following Group-level risk committees, each of which is chaired by the Chief Financial Officer and includes representation from business unit and Group Head Office oversight functions:

Group Asset Liability Committee: Meets monthly to oversee the Group's financial risk (market, credit, liquidity and insurance risks) exposures.

Balance Sheet and Capital Management Committee: Meets monthly to manage the Group's balance sheets and oversee the activities of the Prudential Capital business unit.

Group Operational Risk Committee: Meets quarterly to oversee the Group's non-financial risk (operational, business environment and strategic risks) exposures.

The committees' oversight is supported by the Group Chief Risk Officer, with functional oversight provided by:

Group Security: Develop, and deliver, appropriate security measures to protect the Group's staff, physical assets and intellectual property.

Group Compliance: Verifies compliance with regulatory standards and informs the Group's senior management and the Board on key regulatory issues affecting the Group

Group Risk: Establishes and embeds a capital management and risk oversight framework and culture consistent with Prudential's risk appetite that protects and enhances the Group's embedded and franchise value.

Independent assurance

The Group Audit Committee, supported by Group-wide Internal Audit, provides independent assurance and oversight of the effectiveness of the Group's system of internal control and risk management.

Principles and objectives

Risk is defined as the uncertainty that Prudential faces in successfully implementing its strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of Prudential.

The control procedures and systems established within the Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. They can only provide reasonable and not absolute assurance against material misstatement or loss, and focus on aligning the levels of risk-taking with the achievement of business objectives.

Material risks will only be retained where this is consistent with Prudential's risk appetite framework, i.e.:

The retention of the risk contributes to value creation.

The Group is able to withstand the impact of an adverse outcome.

The Group has the necessary capabilities, expertise, processes and controls to manage the risk.

The Group has the following five objectives for risk and capital management:

a) *Framework:* Design, implement and maintain a capital management and risk oversight framework consistent with the Group's risk appetite and Risk-Adjusted Profitability ("RAP") model.

b) *Monitoring:* Establish a 'no surprises' risk management culture by identifying the risk landscape, assessing and monitoring risk exposures and understanding change drivers.

c) *Control:* Implement risk mitigation strategies and remedial actions where exposures are deemed inappropriate and manage the response to extreme events.

d) *Communication:* Communicate the Group risk, capital and profitability position to internal and external stakeholders and rating agencies.

e)

Culture: Foster a risk management culture, providing quality assurance and facilitating the sharing of best practice risk measurement and management across the Group and industry.

Reporting

The Group Executive Committee and the Board are provided with regular updates on the Group's economic capital position, overall position against risk limits and RAP. They also receive the annual financial condition reports prepared by the Group's insurance operations.

The Group Audit Committee is provided with minutes of the Group Operational Risk Committee, and regular updates on financial and operational risk exposures.

Group Head Office oversight functions have clear escalation criteria and processes for the timely reporting of risks and incidents by business units. As appropriate, these risks and incidents are escalated to the various Group-level risk committees and the Board.

Internal business unit routine reporting requirements vary according to the nature of the business. Each business unit is responsible for ensuring that its risk reporting framework meets both the needs of the business unit (for example reporting to the business unit risk and audit committees) and the minimum standards set by the Group (for example, to meet Group-level reporting requirements).

Business units review their risks as part of the annual preparation of their business plans, and review opportunities and risks against business objectives regularly with Group executive management. Group Risk reviews, and reports to Group executive management, on the impact of large transactions or divergences from the business plan.

Investments

General

The overall financial strength of the Prudential group and the results, both current and future, of the insurance business are in part dependent upon the quality and performance of the various investment portfolios in the United Kingdom, the United States and Asia.

Prudential's Total Investments

The following table shows Prudential's insurance and non-insurance investments at December 31, 2008. In addition, at December 31, 2008 Prudential had £55.5 billion of external mutual funds under management. Assets held to cover linked liabilities relate to unit-linked and variable annuity products. In this table, investments are valued as set out in note A4 to the consolidated financial statements.

	At December 31, 2008								
	UK Insurance £m	**US Insurance £m**	**Asia Insurance £m**	**Total Insurance £m**	**Asset Mgmt(a) £m**	**Other £m**	**Total £m**	**Less: assets to cover linked liabilities and external unit holders(b) £m**	**Group excluding assets to cover linked liabilities and external unit holders £m**
Investment properties	**11,959**	**13**	**20**	**11,992**	**0**	**0**	**11,992**	**(710)**	**11,282**
Investments accounted for using the equity method	**0**	**0**	**0**	**0**	**0**	**10**	**10**	**0**	**10**
Financial investments:									
Loans	**1,902**	**5,121**	**1,705**	**8,728**	**1,763**	**0**	**10,491**	**(113)**	**10,378**
Equity securities	**38,880**	**15,142**	**8,077**	**62,099**	**23**	**0**	**62,122**	**(26,301)**	**35,821**
Debt securities(c)	**58,871**	**24,249**	**11,113**	**94,233**	**991**	**0**	**95,224**	**(10,295)**	**84,929**
Other investments	**4,160**	**1,256**	**144**	**5,560**	**462**	**279**	**6,301**	**(204)**	**6,097**
Deposits	**6,090**	**390**	**750**	**7,230**	**64**	**0**	**7,294**	**(903)**	**6,391**
Total financial investments	**109,903**	**46,158**	**21,789**	**177,850**	**3,303**	**279**	**181,442**	**(37,816)**	**143,616**
Total investments	**121,862**	**46,171**	**21,809**	**189,842**	**3,303**	**289**	**193,434**	**(38,526)**	**154,908**

(a)

Investments held by asset management operations are further split in note E2 to the consolidated financial statements.

(b)

Assets to cover external unit holders relate to assets attributable to unit holders of consolidated unit trusts and similar funds for which an equivalent liability is held in the balance sheet.

(c)

Excluding debt securities held by with-profits funds the debt securities relating to shareholder backed operations at December 31, 2008, totaled £45.9 billion, of which approximately £6 billion is exposed to the banking sector. Exposure to Tier 1 hybrid debt amounted to £824 million (UK £366 million, US £200 million and Other £258 million). Of the UK £366 million Tier 1 exposures to UK banks, £64 million was to Barclays, £50 million to HSBC, £91 million to Lloyd's Group, £5 million to RBS and £156 million other. On May 14, 2009, Prudential published its first Quarter 2009 Interim Management Statement with the UK Listing Authority. In this statement, Prudential published that at March 31, 2009, it had exposure of £98 million of investments in Tier 1 borrowings of Lloyds Banking Group, Barclays and RBS.

The disclosure below has been provided on a consistent basis as that included in previous Form 20-F submissions, with analysis focusing on the investments attributable to shareholders and consequently excluding those held to cover linked liabilities or attributable to unit holders of consolidated unit trusts and similar funds.

In addition to the detail provided below further analysis is included in the consolidated financial statements, with the adoption in 2007 of IFRS 7 "Financial Instruments: Disclosures" together with the provision of voluntary detail further enhancing the disclosure provided in previous years. The further

analysis is included in notes D2(b), D2(j), D3(b), D3(j), D4(b), D4(j), E2, G1 and G2 to Prudential's consolidated financial statements.

Prudential's Investment Yields

The following table shows the income from the investments of Prudential's operations by asset category for the periods indicated. This table does not include investment income from assets held to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds. Yields have been calculated using the average of opening and closing balances for the appropriate asset.

	Year Ended December 31,					
		2008		2007		2006
	Yield	Amount	Yield	Amount	Yield	Amount
		£m		£m		£m
Investment properties						
Net investment income	**5.6%**	**676**	4.9%	611	5.7%	686
Net realized investment gains (losses)	**(0.4)%**	**(51)**	1.2%	147	6.3%	761
Net unrealized investment gains (losses)	**(28.2)%**	**(3,372)**	(5.8)%	(723)	4.2%	504
Ending assets		**11,282**		12,658		12,258
Investments accounted for using the equity method						
Net investment income	**0%**	**0**	0%	0	0%	0
Net realized investment gains (losses)	**0%**	**0**	0%	0	0%	0
Net unrealized investment gains (losses)	**0%**	**0**	0%	0	0%	0
Ending assets		**10**		12		0
Loans						
Net investment income	**6.0%**	**549**	6.4%	425	6.9%	386
Net realized investment gains (losses)	**2.3%**	**210**	0.7%	47	(0.1)%	(3)
Net unrealized investment gains (losses)	**0%**	**0**	0%	0	0%	0
Ending assets		**10,378**		7,887		5,362
Equity securities						
Net investment income	**3.8%**	**1,731**	4.5%	2,388	6.5%	3,373
Net realized investment gains	**4.5%**	**2,014**	8.7%	4,633	6.8%	3,546
Net unrealized investment gains (losses)	**(39.7)%**	**(17,897)**	(3.0)%	(1,589)	4.4%	2,302
Ending assets		**35,821**		54,452		52,475
Debt securities						
Net investment income	**1.3%**	**1,071**	5.9%	4,335	6.8%	4,832
Net realized investment gains (losses)	**(0.7)%**	**(573)**	0%	(18)	0.2%	170
Net unrealized investment gains (losses)	**(2.9)%**	**(2,348)**	(1.5)%	(1,129)	(3.5)%	(2,539)
Ending assets		**84,929**		75,114		71,239
Other investments						
Net investment income	**3.0%**	**155**	2.5%	119	2.9%	129
Net realized investment gains	**(33.6)%**	**(1,745)**	6.4%	306	0.4%	18
Net unrealized investment gains (losses)	**(34.8)%**	**(1,805)**	14.4%	687	7.5%	333
Ending assets		**6,097**		4,275		5,240

Deposits						
Net investment income	**8.4%**	**534**	5.5%	365	4.5%	305
Net realized investment gains	**0%**	**0**	0%	0	0%	0
Net unrealized investment gains (losses)	**0%**	**0**	0%	0	0%	0
Ending assets		**6,391**		6,353		7,020
Total						
Net investment income	**3.0%**	**4,716**	5.2%	8,243	6.4%	9,711
Net realized investment gains	**(0.1)%**	**(145)**	3.3%	5,115	3.0%	4,492
Net unrealized investment gains (losses)	**(16.1)%**	**(25,422)**	(1.8)%	(2,754)	0.4%	600
Ending assets		**154,908**		160,751		153,594

Prudential's Insurance Investment Strategy and Objectives

Prudential's insurance investments support a range of businesses operating in many geographic areas. Each of the operations formulates a strategy, based on the nature of its underlying liabilities, its level of capital and its local regulatory requirements.

Internal funds under management

Prudential manages 88 per cent of its group funds principally through its fund management businesses, M&G in the United Kingdom, together with PPM America in the United States and Prudential Asset Management in Singapore, Hong Kong and Japan. The remaining 12 per cent of the Group's funds mainly relate to assets held to back unit-linked, unit trust and variable annuity liabilities.

In each of the operations, local management analyzes the liabilities and determines asset allocation, benchmarks and permitted deviations from these benchmarks appropriate for its operation. These benchmarks and permitted deviations are agreed with internal fund managers, who are responsible for implementing the specific investment strategy through their local fund management operations.

Investments Relating to UK Insurance Business

Strategy

In the United Kingdom, Prudential tailors its investment strategy for long-term business, other than unit-linked business, to match the type of product a portfolio supports. The primary distinction is between with-profits portfolios and non-participating portfolios, which include the majority of annuity portfolios. Generally, the objective is to maximize returns while maintaining investment quality and asset security and adhering to the appropriate government regulations.

With-profits contracts are long-term contracts with minimal guaranteed amounts. Accordingly, the with-profits fund investment strategy emphasizes a well-diversified equity portfolio (containing some international equities), real estate (predominantly in the United Kingdom), UK and international fixed income securities and cash.

For Prudential's UK pension annuities business and other non-participating business the objective is to maximize profits while ensuring stability by closely matching the cash flows of assets and liabilities. To achieve this matching, the strategy is to invest in fixed income securities of appropriate maturity dates.

For Prudential's unit-linked business, the primary objective is to maximize investment returns subject to following an investment policy consistent with the representations Prudential has made to its unit-linked product policyholders.

Investments

The following table summarizes the total investments of the UK insurance business at December 31, 2008.

	At December 31, 2008					
	SAIF £m	PAC £m	Other £m	Total £m	Less: assets to cover linked liabilities and external unit holders £m	Total excluding assets to cover linked liabilities and external unit holders £m
Investment properties	882	9,029	2,048	11,959	(710)	11,249
Financial investments:						
Loans	194	1,151	557	1,902	0	1,902
Equity securities	3,718	25,303	9,859	38,880	(9,445)	29,435
Debt securities	4,218	33,546	21,107	58,871	(4,919)	53,952
Other investments	777	2,980	403	4,160	(136)	4,024
Deposits	649	4,134	1,307	6,090	(489)	5,601
Total financial investments	9,556	67,114	33,233	109,903	(14,989)	94,914
Total investments	10,438	76,143	35,281	121,862	(15,699)	106,163

The following table shows additional analysis of the investments relating to Prudential's UK insurance business, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at December 31, 2008. The "Other" column includes investments relating to solvency capital of unit-linked funds and investments relating to non-life long-term business.

	At December 31, 2008					
	With-Profits £m	Shareholder-backed Annuities £m	SAIF £m	Other £m	Total £m	Total %
Investment properties	9,029	1,334	882	4	11,249	10.6
Financial investments:						
Loans:						
Mortgage loans	151	37	0	514	702	
Policy loans	18	0	11	0	29	
Other loans	982	6	183	0	1,171	
Total loans and receivables	1,151	43	194	514	1,902	1.8
Equity securities:						
United Kingdom:						
Listed	16,003	13	2,390	10	18,416	
Unlisted	265			0	265	
Total United Kingdom	16,268	13	2,390	10	18,681	17.6
International:						
United States	1,802	0	264	0	2,066	
Europe (excluding the United Kingdom)	3,369	0	453	0	3,822	
Japan	1,097	0	181	0	1,278	
Pacific (excluding Japan)	1,716	0	243	9	1,968	
Other	1,433	0	187	0	1,620	
Total international	9,417	0	1,328	9	10,754	10.1
Total equity securities	25,685	13	3,718	19	29,435	27.7
Debt securities:						
UK government	2,084	1,286	74	432	3,876	
US government	585		1		586	
Other	30,367	12,999	4,143	1,981	49,490	
Total debt securities	33,036	14,285	4,218	2,413	53,952	50.8
Other investments:						
Participation in investment pools	1,116	0	243		1,359	
Other financial investments	1,068	0	324		1,392	
Derivative asset	796	251	210	16	1,273	
Total other investments	2,980	251	777	16	4,024	3.8
Deposits	4,134	259	649	559	5,601	5.3
Total investments	76,014	16,185	10,438	3,525	106,163	100.0

Equity Securities

Prudential's UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, had £29,435 million invested in equities at December 31, 2008. Most of these equities support Prudential Assurance's with-profits fund and the SAIF fund, both of which are managed using the same general investment strategy. The following table shows the geographic spread of this equity portfolio by market value in accordance with the policies described in note A4 to the consolidated financial statements.

	At December 31, 2008	
	Market Value £m	%
United Kingdom	18,681	65.1
United States	2,066	5.5
Europe (excluding United Kingdom)	3,822	12.6
Japan	1,278	2.9
Pacific (excluding Japan)	1,968	8.9
Other	1,620	5.0
Total	29,435	100.0

The UK equity holdings are well diversified and broadly mirror the FTSE All-Share share index. Prudential held equities in 474 UK companies at December 31, 2008. The ten largest holdings in UK equities at December 31, 2008 amounted to £8,761 million, accounting for 47.1 per cent of the total UK equity holdings of £18,681 million supporting the UK insurance operations. The following table shows the market value of the ten largest holdings in UK equities at December 31, 2008.

	At December 31, 2008	
	Market Value £m	%
BP	1,729	9.3
Vodafone Group	1,258	6.7
GlaxoSmithKline	1,207	6.5
HSBC Holdings	1,179	6.3
Royal Dutch Shell	1,078	5.8
British American Tobacco	571	3.1
BG Group	459	2.5
Tesco	458	2.5
Astrazeneca	412	2.2
Diageo	410	2.2
Total	8,761	47.1

All industry sectors are represented in Prudential's equity portfolio. At December 31, 2008, within the £18,681 million in UK equities supporting the UK insurance operations, Prudential had £12,635 million, or 67.6 per cent of the holdings, invested in ten industries. The following table shows the primary industry concentrations based on market value of the portfolio of UK equities relating to the UK insurance business at December 31, 2008.

	At December 31, 2008	
	Market Value £m	**%**
Oil and Gas Producers	**3,436**	**18.4**
Banks	**1,959**	**10.5**
Pharmaceuticals and Biotech	**1,755**	**9.4**
Mobile Telecommunications	**1,275**	**6.8**
Mining	**1,070**	**5.7**
Tobacco	**978**	**5.2**
Travel & Leisure	**611**	**3.3**
Gas, Water & Multi Utilities	**570**	**3.1**
Electricity	**494**	**2.6**
Food & Drug Retailers	**489**	**2.6**
Total	**12,637**	**67.6**

Debt Securities

At December 31, 2008, of the debt securities held by the UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, 91.7 per cent were issued by corporations and overseas governments other than the US, 7.2 per cent were issued or guaranteed by the UK government and 1.1 per cent were issued or guaranteed by the US government. These guarantees relate only to payment and, accordingly, do not provide protection against fluctuations in market price that may occur during the term of the fixed income securities.

The following table shows the market value of the debt securities portfolio by maturity at December 31, 2008, in accordance with the policies described in note A4 to the consolidated financial statements.

	At December 31, 2008	
	Market Value £m	**%**
Securities maturing:		
Within one year	**1,449**	**2.7**
Over one year and up to five years	**8,420**	**15.7**
Over five years and up to ten years	**11,479**	**21.3**
Over ten years and up to fifteen years	**7,467**	**13.8**
Over fifteen years	**25,137**	**46.5**
Total debt securities	**53,952**	**100.0**

The following table shows debt securities by rating:

	At December 31, 2008	
	Market Value £m	%
S&P AAA	16,014	29.7
S&P AA+ to AA-	5,497	10.2
S&P A+ to A-	14,938	27.7
S&P BBB+ to BBB-	7,126	13.2
S&P Other	898	1.7
	44,473	82.5
Moody's Aaa	672	1.2
Moody's Aa1 to Aa3	833	1.5
Moody's A1 to A3	678	1.3
Moody's Baa1 to Baa3	454	0.8
Moody's Other	162	0.3
	2,799	5.2
Fitch	560	1.0
Other	6,120	11.3
Total debt securities	53,952	100.0

Real Estate

At December 31, 2008, Prudential's UK insurance operations, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, had £11,249 million of investments in real estate. The following table shows the real estate portfolio by type of investment. The real estate investments are shown at market value in accordance with the policies described in note A4 to the consolidated financial statements.

	At December 31, 2008	
	Market Value £m	%
Office buildings	5,815	51.7
Shopping centers/commercial	2,962	26.3
Retail warehouses/industrial	1,799	16.0
Development	51	0.5
Other	622	5.5
Total	11,249	100.0

Approximately 44.7 per cent of the UK held real estate investment is located in London and Southeast England (Buckinghamshire, Berkshire, East and West Sussex, Hampshire, Isle of Wight, Kent, Oxfordshire and Surrey) with 34.3 per cent located throughout the rest of the United Kingdom and the remaining 21.1 per cent located overseas.

Investments Relating to Prudential's US Insurance Business

Strategy

The investment strategy of the US insurance operations, for business other than the variable annuity business, is to maintain a diversified and largely investment grade debt securities portfolio that maintains

a desired investment spread between the yield on the portfolio assets and the rate credited on policyholder liabilities. Interest rate scenario testing is continually used to monitor the effect of changes in interest yields on cash flows, the present value of future profits and interest rate spreads.

The investment portfolio of the US insurance operations consists primarily of debt securities, although the portfolio also contains investments in mortgage loans, policy loans, common and preferred stocks, derivative instruments, cash and short-term investments and miscellaneous other investments.

Investments

The following table shows total investments relating to the US insurance operations at December 31, 2008.

	At December 31, 2008		
	Variable annuity separate account assets £m	Fixed annuity, GIC and other business £m	Total £m
Investment properties	**0**	**13**	**13**
Financial investments:			
Loans	**0**	**5,121**	**5,121**
Equity securities	**14,538**	**604**	**15,142**
Debt securities	**0**	**24,249**	**24,249**
Other investments	**0**	**1,256**	**1,256**
Deposits	**0**	**390**	**390**
Total financial investments	**14,538**	**31,620**	**46,158**
Total investments	**14,538**	**31,633**	**46,171**

The following table further analyzes the insurance investments of the US insurance operations, excluding the separate account investments supporting the variable annuity business, at December 31, 2008.

	December 31, 2008	
	£m	%
Non-institutional		
Investment properties	13	0.0
Loans	4,453	14.1
Equity securities	526	1.7
Corporate securities and commercial loans	13,198	41.7
Residential mortgage-backed securities	4,004	12.7
Commercial mortgage-backed securities	1,394	4.4
Other debt securities	780	2.5
Total debt securities	19,376	61.3
Other investments	1,193	3.8
Deposits	390	1.2
Total non-institutional	25,951	82.1
Institutional		
Investment properties	0	0.0
Loans	668	2.1
Equity securities	78	0.2
Corporate securities and commercial loans	3,273	10.3
Residential mortgage-backed securities	505	1.6
Commercial mortgage-backed securities	475	1.5
Other debt securities	620	2.0
Total debt securities	4,873	15.4
Other investments	63	0.2
Deposits	0	0.0
Total institutional	5,682	17.9
Total		
Investment properties	13	0.0
Loans	5,121	16.2
Equity securities	604	1.9
Corporate securities and commercial loans	16,471	52.0
Residential mortgage-backed securities	4,509	14.3
Commercial mortgage-backed securities	1,869	5.9
Other debt securities	1,400	4.5
Total debt securities	24,249	76.7
Other investments	1,256	4.0
Deposits	390	1.2
Total	31,633	100.0

Under IFRS, debt securities are shown at fair value and loans are at amortized cost. Equity securities and investment properties are shown at fair value. The fair value of unlisted securities is estimated by Jackson using independent pricing services or analytically determined values.

Debt Securities

Corporate Securities and Commercial Loans

At December 31, 2008, the US insurance operations had £16,471 million of corporate securities and commercial loans, representing 52.0 per cent of US insurance operations total investments. Of the £16,471 million, £13,198 million consisted of debt securities that are publicly traded or trade under Rule 144A under the Securities Act of 1933, as amended ("Rule 144A") and £3,273 million consisted of investments in non-Rule 144A privately placed fixed income securities.

For statutory reporting in the United States, debt securities are classified into six quality categories specified by the Securities Valuation Office of the National Association of Insurance Commissioners ("NAIC"). The categories range from Class 1 (the highest) to Class 6 (the lowest). Performing securities are designated Classes 1-5. Securities in or near default are designated Class 6. Securities designated as Class 3, 4, 5 and 6 are non-investment grade securities. Generally, securities rated AAA to A by nationally recognized statistical ratings organizations are Class 1, BBB in Class 2, BB in Class 3 and B and below in Classes 4 through 6. If a designation is not currently available from the NAIC, Jackson's investment adviser, PPM America, provided the designation for the purposes of the disclosure contained herein.

The following table shows the credit quality of the portfolio of publicly traded and Rule 144A fixed income securities at December 31, 2008.

	At December 31, 2008	
	Book Value £m	**%**
NAIC Designation		
1	**5,380**	**41**
2	**6,849**	**52**
3	**690**	**5**
4	**200**	**1**
5	**75**	**1**
6	**4**	
Total	**10,345**	**100.0**

The following table shows the credit quality of the non-Rule 144A private placement portfolio at December 31, 2008.

	At December 31, 2008	
	Book Value £m	%
NAIC Designation		
1	**1,268**	**39**
2	**1,655**	**50**
3	**285**	**9**
4	**54**	**2**
5	**11**	**0**
6		
Total	**3,273**	**100.0**

Residential Mortgage-Backed Securities

At December 31, 2008, the US insurance operations had £4,509 million of residential mortgage-backed securities, representing 14.3 per cent of US insurance operations total investments. At December 31, 2008, 83.3 per cent of the US insurance operations' residential mortgage-backed securities were rated AAA or the equivalent by a nationally recognized statistical ratings organization (these include Standard & Poor's, Moody's and Fitch) and 94.1 per cent were rated NAIC 1.

The primary investment risk associated with residential mortgage-backed securities is that a change in the interest rate environment or other economic conditions could cause payment of the underlying obligations to be made more slowly or more quickly than was anticipated at the time of their purchase. If interest rates decline, then this risk is called "pre-payment risk" and the underlying obligations will generally be repaid more quickly when the yields on reinvestment alternatives are lower. Alternatively, if interest rates rise, the risk is called "extension risk" and the underlying obligations will generally be repaid more slowly when reinvestment alternatives offer higher returns. Residential mortgage-backed securities offer additional yield to compensate for these risks. The US Operations can manage pre-payment risk, in part, by reducing crediting rates on its products.

Commercial Mortgage-Backed Securities

At December 31, 2008, the US insurance operations had £1,869 million of commercial mortgage-backed securities, representing 5.9 per cent of US insurance operations total investments. 84.9 per cent of this total was rated AAA or the equivalent by a nationally recognized statistical ratings organization (these include Standard & Poor's, Moody's and Fitch) and 97.1 per cent was rated NAIC 1. Due to the structures of the underlying commercial mortgages, these securities do not present the same pre-payment or extension risk as residential mortgage-backed securities.

Other Debt Securities

At December 31, 2007, the US insurance operations had £1,400 million of other debt securities, representing 4.5 per cent of US insurance operations total investments.

Loans

Loans totaled £5,121 million, representing 16.2 per cent of US insurance operations total investments at December 31, 2008. Of the total, £4,534 million related to commercial mortgage loans and £587 million to policy loans.

Commercial Mortgage Loans

Commercial mortgage loans represented 14.3 per cent of US insurance operations total investments at December 31, 2008. This total included 619 first mortgage loans with an average loan balance of approximately £7.3 million, collateralized by properties located in the United States and Canada.

Jackson has addressed the risk of these investments by building a portfolio that is diverse both in geographic distribution and property type, emphasizing four main institutional property types: multi-family residential, retail, suburban office and warehouse/distribution facilities.

As of December 31, 2008, approximately 29.5 per cent of the portfolio was industrial, 21.2 per cent multi-family residential, 20.6 per cent suburban office, 17.0 per cent retail, 9.9 per cent hotel and 1.8 per cent other. Approximately 14.4 per cent of the portfolio is collateralized by properties in California, 7.4 per cent by properties in Arizona, 7.6 per cent by properties in Illinois and 8.9 per cent by properties in Texas. No other state represents more than 5.6 per cent.

Commercial mortgages generally involve more credit risk than residential mortgages due to several factors, including larger loan size, general and local economic conditions, local real estate conditions and the credit quality of the underlying tenants for the properties. Jackson's investment policy and strict underwriting standards are designed to reduce these risks while maintaining attractive yields. In contrast to residential mortgage loans, commercial mortgage loans have minimal or no pre-payment and extension risk.

Policy Loans

Policy loans represented 1.9 per cent of US insurance operations total investments at December 31, 2008. Policy loans are fully secured by individual life insurance policies or annuity policies and are contractual arrangements made under the policy.

Equity Securities

Equity securities supporting US insurance operations, excluding separate account investments, totaled £604 million at December 31, 2008.

Other

Other financial investments of £1,256 million, representing 4.0 per cent of US insurance operations total investments at December 31, 2008, were made up of £581 million of limited partnership interests and derivative assets of £675 million

The largest investment in the limited partnerships category is a £133 million interest in the PPM America Private Equity Fund. The remainder of this category consists of diversified investments in 157 other partnerships managed by independent money managers that generally invest in various equity and fixed income loans and securities.

Investments Relating to Asian Insurance Business

Prudential's Asian insurance operations' investments, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, largely support the business of Prudential's Singapore, Hong Kong, Malaysia, Japan and Taiwan operations.

The following table shows Prudential Corporation Asia's investments at December 31, 2008. In this table, investments are valued in accordance with the policies described in note A4 to the consolidated financial statements.

	At December 31, 2008						
	With-profits business £m	Unit-linked assets £m	Other £m	Total £m	Less: assets to cover linked liabilities and external unit holders £m	Total excluding assets to cover linked liabilities and external unit holders £m	%
Investment properties	0	0	20	20	0	20	0.2
Financial investments:							
Loans	809	113	783	1,705	(113)	1,592	11.9
Equity securities	2,800	4,846	431	8,077	(2,318)	5,759	43.0
Debt securities	5,201	1,889	4,023	11,113	(5,376)	5,737	41.8
Other investments	11	68	65	144	(68)	76	0.6
Deposits	45	414	295	750	(414)	336	2.5
Total financial investments	8,866	7,330	5,593	21,789	(8,289)	13,500	99.8
Total investments	8,866	7,330	5,613	21,809	(8,289)	13,520	100.0

Prudential manages interest rate risk in Asia by matching liabilities with fixed interest assets of the same duration to the extent possible. Asian fixed interest markets however generally have a relatively short bond issue term, which makes complete matching challenging. A large proportion of the Hong Kong liabilities are denominated in US dollars and Prudential holds US fixed interest securities to back these liabilities.

Debt Securities

The following table shows rating categorization of the debt security investments of Prudential Corporation Asia's long-term insurance fund, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at December 31, 2008.

	At December 31, 2008	
	Market Value £m	%
S&P AAA	**1,382**	**24.1**
S&P AA+ to AA-	**2,494**	**43.5**
S&P A+ to A-	**164**	**2.8**
S&P BBB+ to BBB-	**538**	**9.4**
S&P Other	**142**	**2.5**
	4,720	**82.3**
Moody's Aaa	**219**	**3.8**
Moody's Aa1 to Aa3	**37**	**0.6**
Moody's A1 to A3	**38**	**0.7**
Moody's Baa1 to Baa3	**14**	**0.2**
Moody's Other	**3**	**0.1**
	311	**5.4**
Fitch	**5**	**0.1**
Other	**701**	**12.2**
Total debt securities	**5,737**	**100.0**

Equity Securities

The following table shows a geographic analysis of equity security investments of Prudential Corporation Asia's long-term insurance fund, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, at December 31, 2008.

	At December 31, 2008	
	Market Value £m	%
Hong Kong	**3,450**	**59.9**
Singapore	**1,817**	**31.6**
Taiwan	**167**	**2.9**
Vietnam	**42**	**0.7**
Malaysia	**80**	**1.4**
Other	**203**	**3.5**
Total	**5,759**	**100.0**

Description of Property Corporate Property

As at December 31, 2008, Prudential's UK based businesses occupied approximately 32 properties in the United Kingdom, Europe, Mumbai, South Africa and Namibia. These properties are primarily offices with some ancillary storage or warehouse facilities. Prudential's global headquarters are located in London. Of the remainder, the most significant are offices in London and Reading in England, Stirling in Scotland and Mumbai in India. The property in Stirling is held on a freehold basis, and is leased by the business from Prudential Assurance's long-term fund. The rest of the properties occupied by Prudential's UK based businesses, in the UK, Mumbai, South Africa and Namibia, are held leasehold. In Europe four of the properties are occupied leasehold and the rest (five) are short term serviced offices. The leasehold properties range in size from 500 to 160,000 square feet. Overall, the UK, Europe, Mumbai, South Africa and Namibia occupied property portfolio totals approximately 580,000 square feet.

In addition to these properties, the Prudential Group owns the freehold of a sports facility in Reading for the benefit of staff.

The Prudential Group also holds approximately 54 other leasehold properties in the United Kingdom, spread geographically throughout the country. There are also three properties in Dublin, Ireland and one property in Cape Town, South Africa. This surplus accommodation totals approximately 620,000 square feet.

In the United States, Prudential owns Jackson National Life's executive and principal administrative office located in Michigan. Prudential owns a total of six facilities in Lansing, Michigan, which total 537,311 square feet. Prudential also leases premises in Michigan, Colorado, California, Illinois, New York, New Jersey, Georgia, Florida, Wisconsin, Massachusetts, Connecticut, New Hampshire, Pennsylvania, Virginia, Indiana and North Dakota for certain of its operations. Prudential holds 30 operating leases with respect to office space, throughout the United States. The leasehold properties range in size from 500 to 180,000 square feet. In the United States, Prudential owns and leases a total of approximately 884,398 square feet of property.

In Asia, Prudential owns or leases properties principally in Hong Kong, Singapore, Malaysia, Indonesia, Thailand, Philippines, China (JV), Taiwan, Japan, Vietnam, India (JV) and Korea.

Within these countries, Prudential owns 76 property assets, ranging from office space to land holdings. The break down of these owned assets by country is as follows:

Malaysia: Six owned assets all office space totaling 12,315 sq ft

Philippines: Two owned assets all office space totaling 4,278 sq ft

Singapore: One owned asset all office space totaling 11,883 sq ft

Thailand: 11 owned assets all land holdings totaling 73,832 sq ft

Taiwan: 56 owned assets all Office space totaling 379,318 sq ft

Prudential also has a total of 742 operating leases (excluding India) totaling approximately 5.6 million square feet of property. In India, Prudential holds through the joint venture with ICICI bank approximately 1,200 properties, totaling approximately 3.2 million sq ft.

Prudential Corporation Asia's real estate strategy going forward involves consolidating its existing property portfolio to take advantage of the downturn in regional and global markets and secure cost savings to the business while maintaining its competitive advantage.

Prudential believes that its facilities are adequate for its present needs in all material respects.

Competition

General

There are other significant participants in each of the financial services markets in which Prudential operates. Its competitors include both mutual and stock financial companies. In addition, regulatory and other developments in many of Prudential's markets have obscured traditional financial service industry lines and opened the market to new competitors and increased competition. In some of Prudential's markets, other companies may have greater financial resources, allowing them to benefit from economies of scale, and may have stronger brands than Prudential does in that market.

The principal competitive factors affecting the sale of Prudential's products in its chosen markets are:

- price and yields offered,
- financial strength and ratings,
- commission levels, charges and other expenses,
- range of product lines and product quality,
- brand strength, including reputation and quality of service,
- distribution channels,
- investment management performance, and
- historical bonus levels.

An important competitive factor is the ratings Prudential receives in some of its target markets, most notably in the United States, from recognized rating organizations. The intermediaries with whom Prudential works, including financial advisers, tied agents, brokers, wholesalers and financial institutions consider ratings as one factor in determining which provider to purchase financial products from.

Prudential Assurance Company was rated Aa2 (negative outlook) by Moody's, AA+ (negative outlook) by Standard & Poor's, and AA+ (negative outlook) by Fitch at March 31, 2009. The ratings from Standard & Poor's and Fitch represent the second highest ratings and the rating from Moody's represents the third highest rating out of their respective rating categories.

Jackson was rated A1 (negative outlook) by Moody's, AA (stable outlook) by Standard & Poor's and AA (negative outlook) by Fitch at March 31, 2009. The ratings from Moody's represent the fifth highest rating category and the ratings from Standard & Poor's and Fitch represent the third highest rating category of their respective rating categories.

Prudential offers different products in its different markets in the United Kingdom, the United States and Asia and, accordingly, faces different competitors and different types of competition in these markets. In all of the markets in which Prudential operates its products are not unique and, accordingly, it faces competition from market participants who manufacture a varying range of similar and identical products.

Asia

Competition in the Asian markets in which Prudential operates is mainly focused on distribution, with particular emphasis on the size and competency of the agency sales force. Within Asia, Prudential is second to AIG in terms of penetration and overall life market share across the region. Other main regional competitors are Allianz, ING and Manulife. While there are large local participants in individual markets, for

example, Great Eastern Life in Singapore and Malaysia, Nippon Life in Japan, Cathay Life in

Taiwan, and LIC in India, none of these has pan-regional businesses. Regional players are typically of North American or European origin.

In addition, Prudential also competes with smaller competitors for talented and skilled employees with local experience, who are in particular demand in Asia. See Item 3 "Key Information-Risk Factors".

In the regional mutual fund market Prudential ranks alongside leading international participants such as Templeton and Fidelity in terms of market presence and position.

United States

Jackson's competitors in the United States include major stock and mutual insurance companies, mutual fund organizations, banks and other financial services companies. National banks, in particular, may become more significant competitors in the future for insurers who sell annuities, as a result of recent legislation, court decisions and regulatory actions. Jackson's principal life insurance company competitors in the United States include AXA Financial Inc., Hartford Life Inc., Lincoln National, AIG, ING, MetLife, Prudential Financial and TIAA-CREF.

Jackson does not have a significant career agency sales force to distribute its annuity products in the United States and, consequently, competes for distributors such as banks, broker-dealers and independent agents.

United Kingdom

Prudential's principal competitors include many of the major stock and mutual retail financial services and fund management companies operating in the United Kingdom. These companies include Aviva, Legal & General, Standard Life, Friends Provident, Lloyds Banking Group, Aegon, AXA, Zurich Financial Services, Fidelity, Invesco, Jupiter, Threadneedle and Schroders. Prudential competes with other providers of financial products to be included on financial advisers panels of preferred providers.

In the United Kingdom, the level of bonuses on Prudential's with-profits products is an important competitive measure for attracting new business through financial advisers. The ability to declare competitive bonuses depends, in part, on a company's financial strength, which enables it to adopt an investment approach with a higher weighting in equities and real estate and allows it to smooth the fluctuations in investment performance upon which bonuses are based.

M&G's principal competitors are the main fund management companies operating in the United Kingdom and Europe. These companies include Fidelity, Invesco Perpetual, Jupiter, Threadneedle, Artemis, Schroders, Aviva Investors, Legal and General, Friends Provident, Aegon, AXA and Zurich Financial Services.

Intellectual Property

Prudential does not operate in the United States under the Prudential name and there have been long-standing arrangements between it and Prudential Financial, Inc. and its subsidiary, the Prudential Insurance Company of America, relating to their respective uses of the Prudential name. Under these arrangements Prudential Financial, Inc. has the right to use the Prudential name in the Americas and certain parts of the Caribbean, Japan, Korea and Taiwan and Prudential has the right to use the name everywhere else in the world although third parties have rights to the name in certain countries.

Legal Proceedings

Prudential Group

Prudential and its subsidiaries are involved in various litigation matters. While an adverse ruling in any individual case may not in itself be material to Prudential, if applied across all similar cases, the

potential liabilities may be more significant. Although the outcome of such matters cannot be predicted with certainty, management believes that the ultimate outcome of such litigation will not have a material adverse effect on the Group's financial condition, results of operations or cash flows.

Jackson

Jackson is involved as a defendant in class action litigation substantially similar to class action litigation pending against many life insurance companies that allege misconduct in the sale and administration of insurance products. Jackson generally accrues a liability for legal contingencies with respect to pending litigation once management determines that the contingency is probable and estimable. Accordingly, at April 30, 2009, Jackson had recorded an accrual of $31.0 million for class action litigation. Management, based on developments to date, believes that the ultimate disposition of the litigation is not likely to have a material impact on Jackson's financial condition or results of operations.

Sources

Throughout this annual report, Prudential describes the position and ranking of its overall business and individual business units in various industry and geographic markets. The sources for such descriptions come from a variety of conventional sources generally accepted as relevant business indicators by members of the financial services industry. These sources include information available from the Association of British Insurers, the UK Department of Trade and Industry, Association of Unit Trusts and Investment Funds, Investment Management Association, Neilsen Net Ratings, Moody's, Standard & Poor's, Fitch, UBS, Life Insurance Marketing and Research Association, the Variable Annuity Research Data Service, referred to as VARDS, LIMRA International, Townsend and Schupp, The Advantage Group, the Life Insurance Association of Singapore, the Hong Kong Federation of Insurers, Life Insurance Association of Malaysia, Life Insurance Association of Taiwan and the Taiwanese Securities Investment Trust Consulting Association.

SUPERVISION AND REGULATION OF PRUDENTIAL

Prudential's principal insurance and investment operations are in the United Kingdom, the United States and Asia. Accordingly, it is subject to applicable United Kingdom, United States and Asian insurance and other financial services regulation which is discussed below.

UK Supervision and Regulation

The Financial Services and Markets Act 2000

Prudential's insurance and investment businesses in the United Kingdom are regulated by the FSA, the statutory regulator granted powers under the Financial Services and Markets Act 2000 (the "2000 Act"). In addition, those businesses are subject to various United Kingdom laws (for example, the Data Protection Act 1998 in relation to the processing of customer data) some of which require the relevant Prudential entity to be licensed or registered.

Risk-Based Regulation

The FSA employs a risk-based regulatory approach to supervision under the 2000 Act pursuant to which each regulated firm's risk is assessed by the FSA using a risk assessment methodology known as ARROW (Advanced, Risk-Responsive Operating Framework). This is a high-level review aimed at assessing the significance of a particular risk posing a threat to the FSA's statutory objectives under the 2000 Act. These objectives relate to market confidence, public awareness, consumer protection and the reduction of financial crime.

The ARROW framework, supported by a 'close and continuous' relationship, is the core of the FSA's risk-based approach to regulation. Using this process, the FSA will consider the particular risks a firm might pose to its statutory objectives by assessing the impact and probability of particular risks materializing.

Prudential is regarded by the FSA as a high impact firm in view of the nature and complexity of its business and as such receives ARROW assessments once in every 2 year regulatory period. The last ARROW assessment across the Prudential Group (including Prudential UK) was conducted in July 2008, and the final letter setting out the results of the assessment and the accompanying Risk Mitigation Program which sets out the intended outcomes and follow-up work associated with the assessment was received by the Prudential Group in December 2008.

Between ARROW visits, the FSA meets regularly with members of senior management and persons holding controlled functions to understand developing strategy and challenges and key issues arising and in particular any significant risks identified and how Prudential are mitigating these. This 'close and continuous' monitoring is supported by focused (relating to firm) and themed (relating to industry) visits where appropriate. In advance of discussions, the FSA request relevant mandatory management information at prescribed intervals, which helps to frame the agenda for these meetings.

Overview of 2000 Act Regulatory Regime

Single Regulator

The FSA is the single regulator for all authorized persons with respect to regulated activities in the financial services sector. In this regard, the FSA is authorized to make rules and issue guidance in relation to a wide sphere of activity encompassing the governance of a firm, the way it conducts its business and the prudential supervision of firms.

Permission to carry on "Regulated Activities"

Under the 2000 Act, no person may carry on or purport to carry on a regulated activity by way of business in the United Kingdom unless he is an authorized person or is an exempt person. A firm which is authorized by the FSA to carry on regulated activities becomes an authorized person for the purposes of the 2000 Act. "Regulated activities" are currently prescribed in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended) and include insurance and investment business, as well as certain other activities such as establishing, operating and winding up stakeholder or personal pension schemes, the mediation of general insurance and certain mortgage mediation and lending activities. When authorizing a firm, the FSA will limit the permissions it grants to those which represent the activities in which the firm is intending to engage.

Authorization Procedure

In granting an application for authorization by a firm, the FSA may delineate the scope of, and include such restrictions on, the grant of permission as it deems appropriate. In granting or varying the terms of a firm's permissions, the FSA must ensure that the firm meets certain threshold conditions, which, among other things, require the firm to have adequate resources for the carrying on of its business, and to be a fit and proper person, having regard to all the circumstances.

Once authorized, and in addition to continuing to meet the threshold conditions to authorization, firms are obliged to comply with the FSA Principles for Businesses, which are high level principles for conducting financial services business in the United Kingdom. These include the maintenance of adequate systems and controls, treating customers fairly and communicating with customers in a manner that is clear, fair and not misleading.

Moreover, the 2000 Act obliges firms to secure the FSA's prior approval of the appointment of individuals performing certain important functions within a firm or on its behalf with respect to the carrying on of regulated activities (approved persons).

Principles for Businesses

A key feature of the FSA regime is the existence of 11 "Principles for Businesses", by which all firms are expected to abide. These cover key areas such as firms' relationship with the FSA and the need to act with integrity as well as to treat customers fairly.

The FSA has been moving away from a detailed rules-based regime in favor of a more principles based approach to regulation, much of which would be directed by the Principles for Businesses mentioned above. While firms may welcome this, they are also likely to face greater uncertainty as what would be deemed to be "compliant' under such a regime and this is a concern in the industry.

Application of 2000 Act Regulatory Regime to Prudential

Each of Prudential's principal UK insurance and investment businesses is subject to regulation and supervision by the FSA in the carrying on of its regulated activities. The following discussion considers, in turn, the main features of the 2000 Act regime applicable to Prudential's insurance and investment businesses in the United Kingdom.

Regulation Applicable to Prudential's Insurance and Investment Businesses

Supervision of Management and Change of Control of Authorized Firms

The FSA closely supervises the management of authorized firms through the approved persons regime, under which any appointment of persons who exercise positions of significant influence over an authorized firm must be pre-approved by the FSA.

The FSA also regulates the acquisition and increase of control over authorized firms. Under the 2000 Act, any person proposing to acquire control of or increase control over an authorized firm must first obtain the consent of the FSA. In considering whether to grant or withhold its approval to the acquisition of control, the FSA must be satisfied both that the acquirer is a fit and proper person and that the interests of consumers would not be threatened by his acquisition of or increase in control.

"Control" for these purposes includes a shareholding of 10% or more in an authorized firm or its parent undertaking. In order to determine whether a person or a group of persons is a "controller" for the purposes of the 2000 Act, the holdings (shares or voting rights) of the person and his "associates", if any, are aggregated. A person will be treated as increasing his control over an authorized firm, and therefore requiring further approval from the FSA, if the level of his shareholding in the authorized firm or, as the case may be, its parent undertaking, increases by any threshold step. The threshold steps occur at 20 per cent, 33 per cent and 50 per cent.

The Acquisitions Directive was implemented across the EU on March 21, 2009, establishing EU wide procedural and evaluation criteria for the Prudential assessment of acquisitions and increases of holdings in the financial sector. Regulations have given effect to the Acquisitions Directive in the UK by making various changes to the 2000 Act.

Intervention and Enforcement

The FSA has extensive powers to investigate and intervene in the affairs of an authorized firm. The 2000 Act imposes on the FSA statutory obligations to monitor compliance with the requirements imposed by, and to enforce the provisions of, the 2000 Act, related secondary legislation and the rules made thereunder.

The FSA's enforcement powers, which may be exercised against both authorized firms and approved persons, include public censure, imposition of unlimited fines and, in serious cases, the variation or revocation of permission to carry on regulated activities or of an approved person's approved status. In addition, the FSA may vary or revoke an authorized firm's permission if it is desirable to protect the interests of consumers or potential consumers, or if the firm has not engaged in regulated activity for 12 months, or if it is failing to meet the threshold conditions for authorization. The FSA has further powers to obtain injunctions against authorized persons and to impose or seek restitution orders where persons have suffered loss. Once the FSA has made a decision to take enforcement action against an authorized or approved person (other than in the case of an application to the court for an injunction or restitution order), the person affected may refer the matter to the Financial Services and Markets Tribunal. Breaches of certain FSA rules by an authorized firm may also give a private person who suffers loss as a result of the breach a right of action against the authorized firm for damages.

In addition to its ability to apply sanctions for market abuse, the FSA has the power to prosecute criminal offences arising under the 2000 Act and insider dealing under Part V of the Criminal Justice Act 1993 and breaches of money laundering regulations. The FSA has indicated that it is prepared to prosecute more cases in the criminal courts where appropriate.

The FSA, although not a creditor, may seek administration orders under the Insolvency Act 1986 (as amended), present a petition for the winding-up of an authorized firm or have standing to be heard in the voluntary winding-up of an authorized firm. It should be noted that insurers carrying on long-term insurance business cannot voluntarily be wound up without the consent of the FSA.

FSA Conduct of Business Rules

The FSA's Conduct of Business Rules apply to every authorized firm carrying on regulated activities and regulate the day-to-day conduct of business standards to be observed by authorized persons in carrying on regulated activities. The Conduct of Business rules incorporate the requirements of the Markets in Financial Investments Directive ("MiFID") which relate to investment business, and now place greater reliance on principles and higher-level rules.

The scope and range of obligations imposed on an authorized firm under the Conduct of Business Rules varies according to the scope of its business and the range of its clients. Generally speaking, however, the obligations imposed on an authorized firm by the Conduct of Business Rules will include the need to classify its clients according to their level of sophistication, provide them with information about the firm, meet certain standards of product disclosure, ensure that promotional material which it produces is clear, fair and not misleading, assess suitability when advising on certain products, manage conflicts of interest, report appropriately to its clients and provide certain protections in relation to client assets.

Treating Customers Fairly

The FSA's Treating Customers Fairly initiative ("TCF") is an important example of its principles-based approach to regulation. This initiative is based upon Principle 6 of the FSA's Principles for Businesses (that a firm must pay due regard to the interests of its customers and treat them fairly).

Although the FSA has, with the exception of rules relating to with-profits policyholders, refrained from making detailed rules on how to comply with TCF, it has published a number of case studies providing an indication of its expectations of authorized firms in the areas of product development, complaint handling, financial promotions and systems and controls. TCF assessments of firms will be incorporated into the ARROW assessment process.

Prudential Supervision

As set out above, in order to maintain authorized status under the 2000 Act, a firm must continue to satisfy the threshold conditions, which, among other things, require the firm to have adequate resources for the carrying on of its business. The FSA has published detailed rules relating to the maintenance of minimum levels of regulatory capital for all authorized firms including insurance and investment businesses in the Prudential Standards section of its Handbook. The capital adequacy requirements set out in the Handbook which include the type of capital held must be satisfied at all times by authorized firms.

The FSA's regulatory capital rules for insurers and investment firms are primarily contained in the FSA's General Prudential Sourcebook, Prudential Sourcebook for Banks, Building Societies and Investment Firms and Prudential Sourcebook for Insurers. Although it has been the intention in recent years of the FSA to move towards a unified prudential regime for firms which it authorizes, the FSA has been obliged to revise this approach and its rules to accommodate developments at an international level, including EU legislation relating to the regulatory capital requirements for investment firms and financial groups.

The Financial Ombudsman Service

Authorized firms must have appropriate complaints handling procedures and the principles of complaint handling are defined in the FSA Handbooks. However, once these procedures have been exhausted, qualifying complainants may turn to the Financial Ombudsman Service which is intended to provide speedy, informal and cost effective dispute resolution of complaints made against authorized firms by individuals and small-business customers. The Ombudsman is empowered to order firms to pay fair compensation for loss and damage and may order a firm to take such steps as it determines to be just and appropriate to remedy a complaint. The Financial Ombudsman Service is funded by levies and case fees payable by businesses covered by the Ombudsman.

The Financial Services Compensation Scheme ("FSCS")

The FSCS is intended to compensate individuals and small businesses for claims against an authorized firm where the authorized firm is unable or unlikely to be able to meet those claims (generally, when it is insolvent or has gone out of business). The scheme is divided into five sub-schemes of deposits, investments, insurance mediation, insurance business (life and general) and home finance, reflecting the different kinds of business undertaken by authorized firms. The scheme is funded by contributions from industry participants referable to the particular sub-schemes so as to minimize cross-subsidy between authorized persons whose businesses are not similar. The recent defaults by a number of deposit-takers have led to a large payout by the FSCS, which have been funded mainly by loans from the Bank of England and HM Treasury to the FSCS. The interest costs on the loans will be funded out of the deposits sub-scheme alone. However the repayment of the loans is likely to be funded to an extent by the 'general pool' with such payments commencing 2011/12. The 'general pool' is in part funded by levies on the Insurance sub-scheme in which Prudential sits. The latest change to FSCS funding model will see a move to fee tariffs based on an element of technical liabilities & mathematical reserves from business attributable to eligible claimants. Most of these changes will be implemented from the 2010/11 fee period. There will also be changes to the FSCS compensation limits which will come to effect from January 1, 2010. The compensation limit for non-compulsory insurance will be changed to 90% of a claim with no upper limit.

Regulation of Insurance Business

Effecting and carrying out contracts of insurance as principal are regulated activities for the purposes of the 2000 Act, and the carrying on of such regulated activities is referred to as insurance

business. Some of Prudential's subsidiaries, including The Prudential Assurance Company Limited, Prudential Annuities Limited, Prudential Retirement Income Limited, Prudential Pensions Limited, Prudential Holborn Life Limited and Prudential (AN) Limited carry on insurance business in the United Kingdom with the permission of the FSA and are regulated by the FSA under the 2000 Act.

Conduct of business requirements for insurance business

The Conduct of Business rules issued by the FSA apply differing requirements to the sale of general and long term insurance contracts, as well as applying certain requirements to transactions in other designated investments. Authorized firms which advise and sell to private customers packaged products such as life insurance policies are subject to detailed conduct of business obligations relating to product disclosure, assessment of suitability, the range and scope of the advice which the firm provides, and fee and remuneration arrangements.

The FSA launched a Retail Distribution Review in 2006 with the specific aim of improving the retail investment market. In November 2008 it published a Feedback Statement that contained the points that they intend to consult on in June 2009. The main areas to be addressed are changes to the market structure, remuneration of advisers and professional standards. The aim is fully to implement the proposals by December 2012.

Capital requirements for insurers

The FSA's rules which govern the prudential regulation of insurers are found in the Prudential Sourcebook for Insurers, the General Prudential Sourcebook and the Interim Prudential Sourcebook for Insurers. Overall, the requirements of the General Prudential Sourcebook are intended to align the capital adequacy requirements for insurance businesses 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.

The FSA's rules now require an insurer to prepare and submit to the FSA its own assessment of its capital requirements, known as an individual capital assessment ("ICA"), based on the risks it faces. The FSA will use the ICA in order to form its own view of a firm's capital requirements and if it disagrees with the ICA it will issue individual capital guidance ("ICG") which it can impose as a requirement.

The rules also require that insurance companies maintain assets sufficient to meet the relevant capital requirement at all times in respect of both any long-term insurance and general insurance undertaken by the insurance company, the calculation of which requirement in any particular case being dependent on the type and amount of insurance business a company writes. The method of calculation of the capital requirement is set out in the General Prudential Sourcebook and the level of an insurer's capital resources is also determined in accordance with the rules set out in that Sourcebook. Failure to maintain the required capital resources requirement is one of the grounds on which wide powers of intervention conferred upon the FSA may be exercised.

Under the rules in the General Prudential Sourcebook, an insurer must hold capital resources equal at least to the Minimum Capital Requirement (the "MCR"). Insurers with with-profits liabilities of £500 million or more must hold capital equal to the higher of MCR and the Enhanced Capital Requirement (the "ECR"). The ECR is intended to provide a more risk responsive and "realistic" measure of a with-profits insurer's capital requirements, whereas the MCR is broadly speaking equivalent to the previous required minimum margin under the Interim Prudential Sourcebook for Insurers and satisfies the minimum EU standards.

Determination of the ECR involves the comparison of two separate measurements of the firm's financial resources requirements, which the FSA refers to as the "twin peaks" approach. The term twin peaks is meant to reflect the fact that capital is determined by reference to the higher of the two bases

for calculating liabilities (regulatory or realistic). The regulatory basis reflects strict contractual liabilities whereas the realistic one includes more discretionary but expected benefits, including those required to treat customers fairly.

Long-term business assets and liabilities those assets and liabilities relating to, broadly, life and health insurance policies must be segregated from the assets and liabilities attributable to non-life insurance business or to shareholders. Separate accounting and other records must be maintained and a separate fund must be established to hold all receipts of long-term business.

The extent to which long-term fund assets may be used for purposes other than long-term business is restricted by the rules in the Prudential Sourcebook for Insurers. Only the "established surplus" the excess of assets over liabilities in the long-term fund, as determined by an actuarial investigation may be transferred so as to be available for other purposes. Restrictions also apply to the payment of dividends by the insurance company, as described below. The rules in the Prudential Sourcebook for Insurers require, in addition to the capital requirements referred to above, the maintenance of sufficient assets in the separate long term insurance fund to cover the actuarially determined value of the insurance liabilities.

Actuarial functions

The rules in the FSA's Supervision Manual require that every insurance company that carries on long-term business must appoint one or more actuaries to perform the "actuarial function" in respect of all classes of its long-term insurance business and, if it has any with-profits business, the "with-profits actuary function" in respect of all classes of that with-profits business.

The actuary performing the "actuarial function" must prepare an annual report for the company's directors quantifying the company's long-term liabilities attributable to the insurance company's long-term insurance business, determining the value of any excess over those liabilities of the assets representing the long-term insurance fund and where any rights of long-term policyholders to participate in profits relate to particular parts of such a fund, a valuation of any excess of assets over liabilities in respect of each of those parts.

The actuary performing the "with-profits actuary function" must advise the firm's management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting those classes of the with-profits business of the firm in respect of which he has been appointed. He must also, at least once a year report to the firm's governing body on key aspects (including those aspects of the firm's application of its Principles and Practices of Financial Management ("PPFM") on which the advice described has been given) of the discretion exercised in respect of the period covered by his report affecting those classes of with-profits business of the firm.

Distribution of Profits and With-profits Business

The Interim Prudential Sourcebook for Insurers provides that, once an allocation of surplus in a with-profits fund has been made to policyholders, no transfer of assets representing any part of a subsequent surplus can be made, to shareholders or otherwise, unless either the "relevant minimum" (as defined in the Interim Prudential Sourcebook for Insurers) of the surplus has been allocated to policyholders or a statutory notification procedure has been followed. Calculation of the relevant minimum is based upon the percentage of the relevant surplus previously allocated to eligible policyholders.

There has been considerable public debate about the rights and legitimate expectations of with-profits policyholders to assets forming part of an insurance company's surplus, particularly where such assets do not derive from the payment of current policyholders' premiums but are rather "inherited" from previous generations of policyholders or from other entities. In December 2007 the

FSA published guidance on the reattribution of a firm's inherited estate. In 2008, the Treasury Select Committee of the House of Commons conducted an inquiry into the inherited estate held by life assurance companies. In June 2008, the FSA published a consultation paper proposing that inherited estates should not be used to cover any costs or compensation arising from claims that with-profits policies have been mis-sold. In February 2009, the FSA published a further consultation paper proposing that amended rules relating to compensation and redress payments arising from operation failures that life insurance companies may charge to their with-profits funds should only apply to payments resulting from events that take place after the new rules come into force. The FSA is expected to publish a policy statement and finalize the draft changes to the rules after the consultation closes in May 2009.

The FSA has also mandated that firms carrying on with-profits business must:

- define and make publicly available the PPFM applied in their management of with-profits funds,
- ensure their governance arrangements offer assurance that they have managed their funds in line with the PPFM they have established and published,
- produce annual reports for with-profits policyholders on how they have complied with this obligation, including how they have addressed any competing or conflicting rights, interests or expectations of policyholders and, if applicable, shareholders,
- comply with (i) modified regulatory reporting requirements designed to achieve the FSA's objective of making directors and senior management more explicitly responsible for setting up technical provisions and other decisions taken on actuarial advice and (ii) new audit requirements for liabilities, and
- comply with consequential changes to certification in the insurance returns.

Since April 1, 2004, firms carrying on with-profits business have been required to produce PPFM and to make them publicly available. From the same date, firms have also been required to have in place the relevant governance arrangements and reporting procedures to with-profits policyholders.

Treating Customers Fairly and with-profits business

One of the areas of focus of the FSA's TCF initiative has been with-profit business. The FSA has issued specific rules on this area in relation to with-profits policyholders, which address, among other things, the costs charged to a with-profits fund by the firm managing the fund; penalties and charges levied on policyholders who surrender their policies early, the need for funds to be managed with the objective of ensuring that maturity payouts fall within a target range set for the fund; and the provision of information to with-profits policyholders or potential policyholders in a format that they can more readily understand through the introduction of "Consumer Friendly Principles and Practices of Financial Management" ("CFPPFMs").

In addition, life insurers writing with-profits business must provide information to with-profits policyholders within 28 working days of a decision to close a fund to new business or of the appointment of a policyholder advocate to protect the interest of policyholders should a firm decide to make a reattribution of its inherited estate.

Reporting Requirements

The main financial reporting rules for insurers are contained in the Interim Prudential Sourcebook for Insurers. Insurance companies must file a number of items with the FSA, including their audited annual accounts and balance sheets and life insurers annual reports from the actuary performing the actuarial function. Returns enumerating policy sales are submitted by firms, including insurance companies on a quarterly basis. Non-insurance companies must also file quarterly returns which include

details of sales, numbers of advisers, tests of capital adequacy, balance sheets and profit and loss accounts.

Transfer of Insurance Business

Before any transfer of insurance business may take place, the 2000 Act requires a scheme of transfer to be prepared and approved by the High Court.

Winding-Up Rules

The general insolvency laws applicable to UK companies are modified in certain respects in relation to insurance companies. Since the introduction of the Financial Services and Markets Act 2000 (Administration Orders Relating to Insurers) Order 2002 (the "2002 Order"), which came into force in May 2002, insurance companies in the United Kingdom have become subject to the administration procedures contained in Part II of the Insolvency Act 1986 (which previously did not apply). These administration procedures have, however, also been slightly modified by the 2002 Order in relation to, for example, the power of an administrator to make any payments due to a creditor.

Additionally, in the United Kingdom, all FSA authorized insurance companies, except for pure reinsurers, are subject to the Insurers (Reorganization and Winding-up) Regulations 2004, which came into force in February 2004.

These Regulations provide, among other things, that direct insurance claims will have priority over the claims of other unsecured creditors (with the exception of preferred creditors), including reinsurance creditors, on a winding-up by the court or a creditors' voluntary winding up of the insurance company. Furthermore, instead of making a winding-up order when an insurance company has been proved unable to pay its debts, a UK court may, under Section 377 of the 2000 Act, reduce the amount of one or more of the insurance company's contracts on terms and subject to conditions (if any) which the court considers fit. Where an insurance company is in financial difficulties but not in liquidation, the Financial Services Compensation Scheme may take measures for securing the transfer of all or part of the business to another insurance company.

Section 376 of the 2000 Act provides further insolvency protection to policyholders of insurance companies effecting or carrying out contracts of long-term insurance. Unless the court orders otherwise, a liquidator must carry on the insurer's business so far as it consists of carrying out the insurer's contracts of long-term insurance with a view to it being transferred as a going concern to a person who may lawfully carry out those contracts. In carrying on the business, the liquidator may agree to the variation of any contracts of insurance in existence when the winding-up order is made, but must not effect any new contracts of insurance.

EU Directives on groups

Prudential is subject to the capital adequacy requirements of the IGD as implemented in the FSA rules. The IGD pertains to groups whose activities are primarily concentrated in the insurance sector, and applies for Prudential from December 2007, following the sale of Egg Banking during 2007. Prior to this, Prudential was required to meet the requirements of the Financial Conglomerates Directive ("FCD") as implemented in the FSA rules, as Prudential was classified as an insurance conglomerate.

Prudential's move during 2007 from being treated as an insurance conglomerate to being treated as an insurance group under the FSA rules did not have a significant impact on the Group, as the FSA's prudential requirements pertaining to insurance groups are very similar to those applying to insurance conglomerates.

Due to the geographically diverse nature of Prudential's operations, the application of these requirements to Prudential is complex. In particular, for many of our Asian operations, the assets,

liabilities and capital requirements have to be recalculated based on FSA regulations as if the companies were directly subject to FSA regulation.

New EU Solvency Framework

The European Commission is continuing to develop a new prudential framework for insurance companies, 'the Solvency II project' that will update the existing life, non-life, re-insurance and insurance groups directives. The main aim of this framework is to ensure the financial stability of the insurance industry and protect policyholders through establishing solvency requirements better matched to the true risks of the business. Like Basel 2, the new approach is expected to be based on the concept of three pillars minimum capital requirements, supervisory review of firms' assessments of risk and enhanced disclosure requirements. However, the scope is wider than Basel 2 and will cover valuations, the treatment of insurance groups, the definition of capital and the overall level of capital requirements.

A key aspect of Solvency II is the focus on a supervisory review at the level of the individual legal entity. Insurers will be encouraged to improve their risk management processes and will be allowed to make use of internal value-at-risk models to calculate capital charges for market risks. In addition Solvency II requires firms to develop and embed an effective risk management system as a fundamental part of running the firm.

The European Commission ("EC") published a proposal for a Directive setting out high-level principles. The proposed Directive was approved by the European Parliament on April 22, 2009. These principles will be supplemented by implementing measures that will be adopted by the EC and transposed into national law by EU Member States. These implementing measures are then expected to come into force around 2012.

Other EU Measures

On November 16, 2005, the Council and the European Parliament adopted Directive 2005/68/EC on reinsurance (the "Reinsurance Directive"), which Member States were obliged to transpose into national law by December 10, 2007. The Reinsurance Directive requires all reinsurance undertakings to seek authorization in their home Member State. Once they have obtained authorization, they will be free to conduct business in other EEA states. In the UK, where reinsurance is already fully regulated, the FSA has made the necessary changes to its rules to implement the Reinsurance Directive.

Regulation of Investment Business

Certain of Prudential's subsidiaries are authorized by the FSA to carry on investment business. These entities are subject to regulation and supervision by the FSA and must comply with the FSA Conduct of Business and Prudential Rules made under the 2000 Act.

Conduct of business requirements for investment businesses and the Markets in Financial Instruments Directive ("MiFID")

MiFID, unlike its predecessor legislation, the Investment Services Directive, sets out detailed and specific requirements in relation to organizational and conduct of business matters for investment firms and regulated markets. In particular, MiFID and its implementing measures make specific provision in relation to, among other things, organizational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling and suitability and appropriateness, and investment research and financial analysis, pre- and post trade transparency obligations, transaction reporting and substantial changes to the responsibility for the supervision of cross border investment services.

Capital requirements for investment businesses

The FSA's capital requirements for investment businesses are also contained in the Prudential Standards section of its Handbook, primarily in the General Prudential Sourcebook and the Prudential Sourcebook for Banks, Building Societies and Investment firms. These rules implement the requirements of European Union legislation relating to the prudential supervision of investment firms, including the Capital Adequacy Directive (Directive 93/6/EEC), as re-cast by the Capital Requirements Directive (Directive 2006/49/EC).

US Supervision of M&G Investment Management

One of Prudential's UK subsidiaries, M&G Investment Management Limited, is also regulated by the United States' Securities and Exchange Commission (the "SEC") so that it can act as investment adviser to a US mutual fund.

US Supervision and Regulation

General

Prudential conducts its US insurance activities through Jackson, a stock life insurance company licensed to transact its insurance business in, and subject to regulation and supervision by, the District of Columbia, the Cayman Islands and 49 of the 50 states; Jackson operates a subsidiary, Jackson National Life Insurance Company of New York, in the state of New York. The extent of such regulation varies, but most jurisdictions have laws and regulations governing the financial aspects of insurance companies, including standards of solvency, reserves, reinsurance and capital adequacy and the business conduct of insurance companies. In addition, statutes and regulations usually require the licensing of insurers and their agents and the approval of policy forms and related materials. These statutes and regulations in Jackson's state of domicile, which is Michigan, also regulate the investment activities of insurers.

Insurance regulatory authorities in the jurisdictions in which Jackson does business require it to file detailed quarterly and annual financial statements, and these authorities have the right to examine its operations and accounts. In addition, Jackson is generally subject to federal and state laws and regulations that affect the conduct of its business. New York and Michigan require their state insurance authorities to conduct an examination of an insurer under their jurisdiction at least once every five years. The New York insurance authorities completed an examination of Jackson National Life of New York in 2007 for the exam period of January 1, 2003 through December 31, 2005. The final report of examination did not include any material findings. Michigan insurance authorities completed a routine examination of Jackson in 2006 for the period January 1, 2001 through December 31, 2004. The final report of examination did not include any material findings. Jackson has been notified by Michigan insurance authorities that in the first quarter of 2009, they will begin a routine examination of the company for the period January 1, 2005 through December 31, 2008. Jackson National Life of New York has been notified by New York insurance authorities that in 2009 they will be conducting an examination of the company as of December 31, 2008, primarily covering formula reserves, risk-based capital and other solvency related items.

Jackson's ability to pay shareholder dividends is limited under Michigan insurance law. The Commissioner of the Michigan Office of Financial and Insurance Regulation (the "Michigan Insurance Commissioner") may limit, or not permit, the payment of shareholder dividends if the Michigan Insurance Commissioner determines that an insurer's surplus, as regards policyholders, is not reasonable in relation to its outstanding liabilities and is not adequate to meet its financial needs as required by Michigan insurance law. Jackson must report any shareholder dividends to the Michigan Insurance Commissioner before they can be paid. In the case of an extraordinary shareholder dividend or distribution, an insurer may not pay the dividend or distribution until 30 days after the Michigan Insurance Commissioner has received notice of the declaration and has not disapproved, or has approved, the payment within that period. For this purpose, an extraordinary dividend or distribution means any dividend or distribution of cash or other property where the fair market value, together with that of other dividends or distributions that an insurer made within the preceding twelve months, exceeds the greater of 10 per cent of the insurer's surplus, as regards policyholders as of December 31 of the immediately preceding year, or the net gain from operations of the insurer, not including realized capital gains, for the prior year. In 2006, 2007 and 2008, Jackson paid shareholder dividends of $209.10 million, $246.0 million, and $313.10 million, respectively.

State regulators also require prior notice or regulatory approval of changes in control of an insurer or its holding company and of certain material transactions with affiliates. Under New York and Michigan insurance laws and regulations, no person, corporation or other entity may acquire control of an insurance company or a controlling interest in any parent company of an insurance company, unless that person, corporation or entity has obtained the prior approval of the regulator. For the purpose of each of New York and Michigan law, any person acquiring, directly or indirectly, 10 per cent or more of the

voting securities of an insurance company is presumed to have acquired "control" of the company. To obtain approval of any change in control, the proposed acquiror must file an application with the New York Superintendent of Insurance or the Michigan Insurance Commissioner, as appropriate. This application requires the proposed acquiror to disclose, among other information, its background, financial condition, the financial condition of its affiliates, the source and amount of funds by which it will effect the acquisition, the criteria used in determining the nature and amount of consideration to be paid for the acquisition, proposed changes in the management and operations of the insurance company and other related matters.

Guaranty Associations and Similar Arrangements

Each of the 50 states of the United States, the District of Columbia and the Commonwealth of Puerto Rico have laws requiring insurance companies doing business within their jurisdictions to participate in various types of guaranty associations or other similar arrangements. These associations and arrangements provide certain levels of protection to policyholders from losses under insurance policies issued by insurance companies that become impaired or insolvent. Typically, these associations levy assessments, up to prescribed limits, on member insurers on a basis that is related to the member insurer's proportionate share of the business in the relevant jurisdiction of all member insurers in the lines of business in which the impaired or insolvent insurer is engaged. Some jurisdictions permit member insurers to recover assessments that they paid through full or partial premium tax offsets, usually over a period of years. Prudential estimated its reserve for future guarantee fund assessments for Jackson to be £18.1 million ($26.0 million) at December 31, 2008. Prudential believes this reserve to be adequate for all anticipated payments for known insolvencies.

Asset Valuation Reserve

State regulators generally require that insurers establish an asset valuation reserve that consists of two components: a "default component" to provide for future credit-related losses on fixed income investments and an "equity component" to provide for losses on all types of equity investments. The asset valuation reserve establishes statutory reserves for fixed maturity securities, equity securities, mortgage loans, real estate and other invested assets. The reserve is designed to provide for a normalized level of future losses based on the credit rating of each individual investment. The level of reserves is based on both the type of investment and its rating. Contributions to the reserve may result in a slower growth in surplus or a reduction of Jackson's unassigned surplus, which, in turn, may reduce funds available for shareholder distributions. The extent of the impact of the asset valuation reserve on Jackson's statutory surplus depends in part on the future composition of the investment portfolio.

Interest Maintenance Reserve

State regulators generally require that insurers establish an interest maintenance reserve to defer non-credit-related realized capital gains and losses, net of taxes, on fixed income investments (primarily bonds and mortgage loans) which are amortized into net income over the estimated remaining periods to maturity of the investments sold and to defer material gains or losses, net of taxes, resulting from market value adjustments on policies and contracts backed by assets carried at book value. The extent of the impact of the interest maintenance reserve on earnings and surplus depends on the amount of future interest-rate related realized capital gains and losses on fixed maturity investments and deferred gains or losses resulting from market value adjustments on policies and contracts backed by assets that are valued at book value.

The National Association of Insurance Commissioners Ratios

On the basis of statutory financial statements that insurers file with state insurance regulators, the National Association of Insurance Commissioners annually calculates twelve financial ratios to assist state

regulators in monitoring the financial condition of insurance companies. A usual range of results for each ratio is used as a benchmark and departure from the usual range on four or more of the ratios can lead to inquiries from individual state insurance departments. In 2008, Jackson had one ratio fall outside of the usual range due to Jackson's statutory net loss of $623.4 million, primarily arising from credit losses (any net loss is outside the usual range).

Policy and Contract Reserve Sufficiency Analysis

State insurance laws require life insurance companies to conduct annually an analysis of the sufficiency of its life and annuity reserves. A qualified actuary must submit an opinion that states that the reserves, when considered in the light of the assets that an insurance company holds with respect to such reserves, make good and sufficient provision for the associated contractual obligations and related expenses of the insurance company. If a qualified actuary cannot provide such an opinion, then the insurance company must set up additional reserves by moving funds from surplus. The 2008 opinion has been submitted to the Michigan Office of Financial and Insurance Regulation without any qualifications.

Jackson's Capital and Surplus

Michigan insurance law requires Jackson, as a domestic stock life insurance company, to maintain at least $7,500,000 in unimpaired capital and surplus. In addition, insurance companies are required to have sufficient capital and surplus to be safe, reliable and entitled to public confidence.

As a licensed insurer in the District of Columbia and every state but New York, where it operates through a subsidiary, Jackson is subject to the supervision of the regulators of each jurisdiction. In connection with the continual licensing of Jackson, regulators have discretionary authority to limit or prohibit the new issuance of business to policyholders when, in their judgment, the regulators determine that such insurer is not maintaining minimum surplus or capital or if the further transaction of business will be hazardous to policyholders.

Jackson has received approval from the Michigan Office of Financial and Insurance Regulation regarding the use of three permitted accounting practices. The permitted practices are effective December 31, 2008 and expire October 1, 2009, unless extended by the Michigan Insurance Commissioner. The effects of these permitted practices may not be considered by the company when determining the surplus available for dividends, nor the nature of dividends as ordinary or extraordinary. Further analysis is provided in note D5(b)(ii) to the consolidated financial statements.

Risk-based Capital

The National Association of Insurance Commissioners has developed risk-based capital standards for life insurance companies as well as a model act for state legislatures to enact. The model act requires that life insurance companies report on a formula-based, risk-based capital standard that they calculate by applying factors to various asset, premium and reserve items. The formula takes into account the risk characteristics of a company, including asset risk, insurance risk, interest rate risk and business risk. The National Association of Insurance Commissioners designed the formula as an early warning tool to identify potentially inadequately capitalized companies for purposes of initiating regulatory action. The National Association of Insurance Commissioners intended the formula as a regulatory tool only and did not intend it as a means to rank insurers generally. The model act imposes broad confidentiality requirements on those engaged in the insurance business (including insurers, agents, brokers and others) and on state insurance departments as to the use and publication of risk-based capital data.

Any state adopting the model act gives the state insurance commissioner explicit regulatory authority to require various actions by, or take various actions against, insurance companies whose adjusted capital does not meet minimum risk-based capital standards. The Michigan Insurance

Commissioner takes into account the National Association of Insurance Commissioners' risk-based capital standards to determine compliance with Michigan insurance law.

Effective December 31, 2005, the National Association of Insurance Commissioners implemented new requirements, referred to as C-3 Phase II, for calculating risk based capital in connection with variable annuity products with death and living benefit guarantees. These changes did not have a material effect on Jackson. At December 31, 2008, due in part to the permitted practice noted in "Jackson's Capital and Surplus" above, the Company's total adjusted capital under the National Association of Insurance Commissioners' definition substantially exceeded Michigan standards.

Regulation of Investments

Jackson is subject to state laws and regulations that require diversification of its investment portfolio, limit the amount of investments in certain investment categories such as below investment grade fixed income securities, common stock, real estate and foreign securities and forbid certain other types of investments altogether. Jackson's failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated by the Michigan Insurance Commissioner as non-admitted assets for purposes of measuring surplus and, in some instances, the Michigan Insurance Commissioner could require divestiture of non-qualifying investments.

USA Patriot Act

The USA Patriot Act, enacted in 2001, includes numerous provisions designed to fight international money laundering and to block terrorist access to the US financial system. The US Treasury Department has issued a number of regulations implementing the Patriot Act that apply certain of its requirements to financial institutions including broker dealers and insurance companies. Among other things, the regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. Jackson and, to the extent applicable, certain of its affiliates, has established policies and procedures to ensure compliance with the Patriot Act's provisions and the Treasury Department regulations.

Securities Laws

Jackson, certain of its affiliates and certain policies and contracts that Jackson issues are subject to regulation under the federal securities laws administered by the US Securities and Exchange Commission the SEC.

The primary intent of these laws and regulations is to protect investors in the securities markets and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with such laws and regulations. Jackson may also be subject to similar laws and regulations in the states in which it provides investment advisory services, offers the products described above or conducts other securities-related activities.

Jackson National Asset Management, LLC ("JNAM") is registered with the SEC as an investment adviser pursuant to the Investment Advisers Act of 1940, as amended (the "Investment Advisers Act"). JNAM is registered as a transfer agent pursuant to the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act"). The investment companies (mutual funds) for which JNAM serves as an investment adviser are subject to SEC registration and regulation pursuant to the Securities Act of 1933, as amended (the "Securities Act"), and the Investment Company Act of 1940, as amended (the "Investment Company Act"). In addition, each variable annuity and variable life product sponsored by Jackson is subject to SEC registration and regulation pursuant to the Securities Act and the Investment Company Act, and applicable state insurance and securities laws. Each variable annuity and variable life product are organized as separate accounts that are unit investment trusts.

Curian Capital, LLC and Jackson Investment Management LLC are registered with the SEC pursuant to the Investment Advisers Act and are also registered or notice filed in all applicable states.

Curian Clearing, LLC is registered as a broker-dealer with the SEC pursuant to the Securities Exchange Act, and is registered as a broker-dealer in all applicable states. In addition, Curian Clearing, LLC is a member firm of the Financial Industry Regulatory Authority (the "FINRA") which was founded in 2007 following the merger of the NASD with the self-regulatory functions of the New York Stock Exchange (the "NYSE").

Jackson National Life Distributors, LLC is registered as a broker-dealer with the SEC pursuant to the Securities Exchange Act, and is registered as a broker-dealer in all applicable states. In addition, Jackson National Life Distributors, LLC is a member firm of the FINRA.

National Planning Holdings, Inc. ("NPH") owns four retail broker dealers, being SII Investments, Inc., ("SII"), National Planning Corporation ("NPC"), Investment Centers of America, Inc. ("ICA"), and IFC Holdings, Inc. (which does business under the name INVEST Financial Corporation) ("IFC"). These entities are registered as broker-dealers, investment advisers, and insurance agencies (or affiliated with insurance agencies), and are licensed and qualified to transact business pursuant to their respective registration and/or membership with the SEC, the FINRA, the Municipal Securities Rulemaking Board, applicable state securities and insurance authorities, and all other applicable jurisdictional authorities. NPC and SII are also members of the National Futures Association ("NFA") and ICA's application to be a member is pending. Membership of the NFA is required for commodities and futures trading.

Prudential also conducts certain of its US institutional investment management activities through PPM America, Inc. (PPMA), which is registered with the SEC as an investment adviser under the Investment Advisers Act. PPMA serves as the investment adviser to Jackson and as an adviser or sub-adviser to other US, UK and Asian entities affiliated with Prudential, other institutional clients such as CDOs or similar structured vehicles and private investment funds (in which PPMA affiliates such as Prudential UK entities and Jackson are generally investors), US mutual funds and other foreign pooled investment vehicles primarily sponsored by affiliated entities, UK based unit trusts or OEICs, a SICAV and similar vehicles sponsored by affiliates, unaffiliated US and foreign institutional accounts, as well as a limited number of trusts of individuals and their family members. Currently, only a limited number of PPMAs clients are unaffiliated or have underlying investors who are unaffiliated institutions, trusts or individuals. The US mutual funds for which PPMA serves as investment adviser or sub-adviser are subject to regulation under the Securities Act and the Investment Company Act, and other similar vehicles organized outside of the US may be subject to regulation under applicable local law.

PPMA and certain of its subsidiaries are subject to various levels of regulation under the federal securities laws that the SEC administers as well as state securities laws. In connection with providing investment advisory services to certain of its clients, PPMA may also be subject to regulation under applicable foreign laws.

To the extent that PPMA or the NPH broker-dealers manage assets of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 ("ERISA"), or the Internal Revenue Code, it may be subject to certain restrictions imposed by ERISA and taxes imposed by the Internal Revenue Code. Such restrictions are summarized in " Employee Benefit Plan Compliance" in this section below. The US Department of Labor (the "Department of Labor") and the US Internal Revenue Service have interpretive and enforcement authority over the applicable provisions of ERISA and the Internal Revenue Code.

Employee Benefit Plan Compliance

Jackson issues certain types of general account stable value products, such as GICs and funding agreements, to employee benefit plans and to investment vehicles that pool the investments of such plans. Many of these plans are retirement plans that are subject to the fiduciary standards of ERISA and that are tax-qualified under the Internal Revenue Code. As such, Jackson may be subject to certain restrictions imposed by ERISA and taxes imposed by the Internal Revenue Code. These restrictions include:

- the requirement under ERISA that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries,
- the requirements under ERISA that fiduciaries may not engage in "conflict of interest" transactions, and
- the requirements under ERISA that a fiduciary may not cause a covered plan to engage in certain "prohibited transactions" with certain persons who provide services to the plan or are affiliated with the plan sponsor or a plan service provider.

In general, the Internal Revenue Code imposes taxes on persons involved in certain of the transactions described above.

The Department of Labor and the Internal Revenue Service have interpretive and enforcement authority over the applicable provisions of ERISA and the Internal Revenue Code.

In the instance where an insurer issues a guaranteed benefit policy to a plan, ERISA provides that the insurer need not become a fiduciary with respect to the plan solely as a result of the issuance of the policy. Under Section 401 of ERISA, a guaranteed benefit policy means an insurance policy to the extent such policy provides for benefits the amount of which the insurer guarantees.

In 1993, in John Hancock Mutual Life Insurance Company v. Harris Trust & Savings Bank, the US Supreme Court held that a portion of the funds held under a certain type of general account annuity contract did not constitute a "guaranteed benefit policy" within the meaning of ERISA, a holding which potentially exposes insurers with similar types of contracts to the application of ERISA's fiduciary and prohibited transaction provisions in connection with the management of assets in their general accounts.

Although no assurances can be given, Jackson believes that none of its contracts are of the type to which the holding in Harris Trust would be applicable. Moreover, the Department of Labor has issued PTE 95-60, which generally exempts external, unaffiliated investment transactions from ERISA's prohibited transaction provisions. If the Harris Trust holding is applied to its contracts, Jackson would be subject to ERISA's fiduciary and prohibited transaction provisions described above.

Financial Services Regulatory and Legislative Issues

Proposals to change the laws and regulations governing the financial services industry are frequently introduced in the US Congress, in the state legislatures and before the various regulatory agencies. The likelihood and timing of any proposals or legislation and the impact they might have on Jackson and its subsidiaries cannot be determined at this time.

State legislatures and/or state insurance regulatory authorities frequently enact laws and/or regulations that significantly affect insurers supervised by such authorities. Although the US federal government does not directly regulate the insurance business, federal initiatives may also have an impact on the insurance industry.

The US President has in the past proposed to increase the taxes levied against the insurance industry to increase the federal budget revenues. The industry has been very successful in resisting these proposals on the grounds that an increase in taxes on insurance companies or insurance policies

would have a negative affect on US citizens saving for their retirement. The insurance industry is very vigilant in monitoring these proposals and taking action to oppose them, as well as to support proposals that would provide more favorable tax treatment for certain annuity products.

In 2008, Jackson advocated successfully for legislation providing for the formation of captive insurance companies in Michigan. Captive insurance companies are subsidiaries of non-insurers that are formed primarily to insure some or all of the risks of its parent or an affiliated company. Special purpose financial captives may be used to undertake insurance securitization transactions. The legislation successfully passed both chambers of the Michigan legislature and was signed into law. This legislation could assist Jackson in the future as it pursues strategic acquisition targets.

A coalition of national insurance and banking organizations has supported the introduction of US federal legislation that would allow insurance companies to obtain a federal charter as a regulatory alternative to a state charter. A coalition of insurers has been formed that is opposed to the so-called optional federal charter. Though the idea of creating mandatory federal charter has also been discussed and publicly debated recently. Prudential cannot predict whether either the optional or mandatory federal charter or any other federal (or state) legislative initiative to change the nature or scope of the regulation of the insurance industry will be enacted into law. A U.S. Government Accounting Office report, recently noted that the "fragmented U.S. regulatory structure has complicated some efforts to coordinate internationally with other regulators, such as negotiations on Basel II and certain insurance matters...The establishment of a federal insurance charter and regulator could help alleviate some of these challenges, but such an approach could also have unintended consequences for state regulatory bodies and for insurance firms as well." Jackson continues to voice its opposition to the optional federal charter.

Federal and state regulators have focused on the mutual fund and variable annuity and insurance product industries including the broker-dealer system. As a result of publicity relating to widespread perceptions of industry abuses, including fraudulent and anticompetitive practices among insurance brokers and mutual funds, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. It is difficult to predict at this time whether changes resulting from industry investigations and/or new laws and regulations will affect Prudential's insurance or investment management businesses, and, if so, to what degree.

Federal regulators have determined that fixed indexed annuities, previously regulated by the states, should instead be regulated at the federal level. In early 2009, the SEC issued a release adopting a new rule (151A) that will bring fixed-indexed annuities under the jurisdiction of the federal regulatory system. This rule will apply prospectively to annuities that are issued on or after January 12, 2011. Jackson is well positioned to operate under this change of regulatory structure.

In response to recent fraud and regulatory issues, state regulators through the North American Securities Administrator Association ("NASAA") have also supported federal legislation that would roll back federal preemption of certain regulatory modifications that were adopted under the National Securities Markets Improvement Act of 1996 limiting states' power to regulate the securities industry (including broker-dealers and investment advisers).

Asian Supervision and Regulation

Regulation of Insurance Business

Prudential's businesses in Asia are subject to all relevant local regulatory and supervisory schemes. These laws and regulations vary from country to country, but the regulators typically grant (or revoke) licenses and therefore control the ability to operate a business.

The industry regulations are usually widely drawn and will include provisions governing both financial matters and the way business is conducted in general. Examples include the registration of agents, the approval of products, asset allocation, minimum capital and the basis for calculating the company's solvency and reserves and the valuation of policyholder liabilities. Regulatory authorities may also regulate affiliations with other financial institutions, shareholder structures and the injection of capital and payment of dividends. Financial statements and other returns are filed with the regulators. The regulators may also conduct physical inspections of the operations from time to time.

A number of jurisdictions across Asia require insurance companies to participate in policyholder protection schemes (i.e., contribute to a fund to support policyholders in the event of an insurance company failing).

To date Prudential Corporation Asia has had no regulatory issues giving rise to a material impact on its results.

For Prudential Corporation Asia's insurance operations the details of the regulatory regimes are as follows:

Korea PCA Life Insurance Company Limited

Korea's financial supervision structure underwent major change on February 29, 2008, when the Financial Supervisory Commission was integrated with the Financial Policy Bureau of the former Ministry of Finance and Economy to become the Financial Services Commission (the "FSC"). As Korea's principal supervisory authority, the new FSC is given broad statutory mandate to carry out three key functions, financial policy formulation, financial institution and market oversight, and anti-money laundering. The FSC thus has the statutory authority to draft and amend financial laws and regulations and issue regulatory licenses to financial institutions. The Financial Supervisory Service (the "FSS") acts as the executive supervisory authority for the FSC and principally carries out examination of financial institutions along with enforcement and other oversight activities as directed or charged by the FSC. Therefore, detailed rules under the supervisory regulation are prepared by the FSS.

In respect of anti-money laundering, Korea Financial Intelligence Unit (KoFIU), which was also integrated into the FSC as part of the reorganization, leads the government's anti-money laundering and counter-terrorism financing efforts.

PCA Life Korea is licensed by and registered with the FSC as a life insurance company. Currently, the country does not permit a company to operate both life and non-life insurance at the same time.

The Republic of Korea operates a civil law system, with the FSC prescribing many detailed regulations for insurers to comply with. In the past, the FSC has also been very interventionist in setting and enforcing rules on the insurance industry. However, the style of regulation has been gradually changing along with the trend of liberalization of financial services. This is most pronounced with the regulator focusing on the deregulation in asset management and product design activities. Furthermore, the FSS is setting an aggressive insurance supervisory agenda that would strengthen supervision while promoting deregulation. The regulator is moving towards risk-based supervision focusing on various risks of insurers' operations. As part of the shift to risk-based supervision, the FSS has introduced the Risk Assessment and Application System ("RAAS") to assess insurers' various risks and relevant internal control and Risk-Based Capital (RBC) solvency requirement.

Both the Insurance Law and Insurance Regulations have been silent on the entity's responsibilities for the suitability of products. There is no explicit requirement for an insurer to consider the suitability of the product for the potential customer. However, on November 4, 2008, the FSC announced a revised bill for an Insurance Business Act which will become effective provided the National Assembly passes it. It establishes the definition of an insurance product and also strengthens consumer protection measures. It overhauls the examination procedure for an insurance product and allows insurance companies to conduct payment/settlement businesses providing an institutional basis for providing one-stop financial service to customers. It also establishes a basis for fair competition among businessess in various financial sectors.

The FSS also operates a Consultation Team and a Dispute Settlement Office in the Customer Protection Centre to resolve and prevent customer complaints and disputes relating to insurance companies.

Korea currently allows many different forms of channels for distributing life insurance products including brokers, agents, telemarketing, direct mailing, bancassurance and mass media television selling.

India ICICI Prudential Life Insurance Company Limited

Insurance is subject to federal regulation in India. The primary legislation is the Insurance Act, 1938, and the Insurance Regulatory & Development Authority Act, 1999. The Insurance Regulatory & Development Authority (the "IRDA") is the key regulator for Prudential's Indian joint venture, ICICI Prudential Life Assurance.

The IRDA's duties include the issue of certificates of registration to insurance companies, and it has a mandate to protect the interests of the policy holders. Regulatory direction is currently focusing on consumer disclosure and sales practices. A number of regulations also encourage the sale of insurance to customers in rural parts of India.

Hong Kong The Prudential Assurance Company Limited

The Insurance Companies Ordinance (the "ICO") empowers a Commissioner of Insurance to establish an office for the administration of the industry including approvals for a company to conduct insurance business. The Office of the Commissioner of Insurance (the "OCI") acts as the supervisory arm. The major duties of the OCI include: (i) authorization of insurers to carry on insurance business in Hong Kong; (ii) regulation of insurers' conduct primarily through the examination of the annual audited financial statements and business returns submitted by the insurers; and (iii) development of legislation and guidelines on insurance supervision. The Hong Kong branch of The Prudential Assurance Company Ltd is authorized to carry on both long-term business and general business under a composite license.

The branch is also subject to the codes and guidance stipulated by a self-regulatory body the Hong Kong Federation of Insurers (the "HKFI"). HKFI actively promotes its self-regulatory regime with respect to areas like conduct of insurers and insurance agents, cooling off initiative, policy replacement and initiative on needs analysis, etc. It is also responsible for the licensing of insurance agents and provides enquiry services to and handles complaints from the public relating to insurance agents.

In addition, the selling of MPF products by our agents is regulated by the Mandatory Provident Fund Authority (the "MPFA"). The MPFA is responsible for the licensing of MPF intermediaries and the supervision of the conduct of MPF intermediaries.

In addition, the branch is regulated by the Hong Kong Securities and Futures Commission (the "SFC") for its operations of Investment Linked products.

Currently, the government is researching into the possibility of making the OCI an independent governing body as this would give the OCI more flexibility in operations and prepare Hong Kong for the risk-based capital regulatory regime. On the other hand, OCI is also exploring with the HKFI the possibility of setting up a policyholder protection fund.

Taiwan PCA Life Assurance Company Limited

The Financial Supervisory Commission (the "FSC") is responsible for regulating the entire financial services sector. The FSC's responsibilities include supervision, examination and investigation. The Insurance Bureau (the "IB") of the FSC is responsible for the insurance sector. Currently, composite licenses to sell both life and non-life insurance are not granted and PCA Life Taiwan is licensed for life insurance business only.

Taiwanese laws are based on a civil code model and each competent authority is given powers to develop and issue regulation on specific topics or issues. Many of the current insurance regulations were revised and promulgated in 2007 and 2008 in response to the latest amendment of the Insurance Act in 2007. Similar to many Asian countries, the provisions of insurance regulations tend to be prescriptive.

In 2007, the FSC promulgated the guidance notes related to foreign currency denominated traditional life business. Insurers must satisfy several requirements related to disciplinary performance, risk-based capital, risk management controls, and complaints efficiency in order to qualify. At this stage, only life insurance and annuity products denominated in US dollars are permitted. Prior approval from the Central Bank and IB is required and the underlying foreign portfolio is also subject to the 45% foreign investment limit as per the Insurance Act.

In 2008, the FSC promulgated a regulation governing the engagement by insurers in the insurance trust business. Before engaging in the insurance trust business, an insurer is required to meet certain qualifying requirements and to apply to the IB for approval. The insurer may invest the entrusted money into cash, bank deposits, bonds, financial debentures, short-term bills, and other instruments otherwise approved by the authority. Further, it is required not only to segregate the trust assets from its own assets by establishing a separate account for the trust assets, but also to build a risk management and internal control system to ensure the proper management of the business.

Generally, the insurance law and regulations focus mainly on administrative supervision of insurance operations rather than conduct of business. An exception is the Regulation, Guideline and Self-Discipline Regulation related to sale of investment-linked insurance products, where specific requirements such as the obligation by insurers to disclose to prospective customer the costs of the product and the risks involved to set up "Know Your Customers" operating principles and to perform needs analysis in identifying risk appetite and financial objectives of policy applicants are established. Other requirements include establishing risk classes for structured notes products, sample testing of new business to determine appropriateness of sales process and policy suitability, and conducting regular inspection to avoid the use of inappropriate sale materials.

Indonesia P.T. Prudential Life Assurance

The insurance industry is regulated by the Insurance Bureau of the Ministry of Finance. Previously, insurance industries in Indonesia were supervised by the Directorate of Insurance under the Ministry of Finance (the "MoF"). In November 2004, the Government of Indonesia merged the directorates for insurance and pensions under the Ministry of Finance under a single Capital Markets & Financial Institution Supervisory Agency (the "Bapepam LK"). The role of the Bapepam LK is to establish integrated control, as an independent agency, over integrated capital markets, banking, pensions funds, insurance and other financial institutions with the objective to manage risks in the financial sector, as well as to increase consumer and market confidence and promote transparency and strong business practices and standards.

The MoF issued decrees on business conduct, auditing, solvency, and the licensing of insurance companies. These degrees were supplemented by implementation guidelines issued by the Bapepam LK.

The local Life Insurance Association (the "AAJI") continues to act as a conduit between insurers and the MOF and Bapepam LK in terms of the development of new regulations and guidelines.

The implementation of anti-money laundering controls in the insurance industry is monitored by the Indonesian Financial Transaction Reports and Analysis Center (the "PPATK"). The PPATK is an institution with the mission of preventing and eradicate money laundering in Indonesia. The Money Laundering Criminal Act Law (UU-TPPU) is the governing statute that positions and empowers the PPATK as the key authority in the anti- money laundering regime in Indonesia.

Prudential distributes both life and Syariah (unit linked) products in Indonesia. Whilst the regulations for life products are fully developed (in accordance to current market conditions), the regulator is in the process of promulgating new regulations with regard to Syariah products.

Singapore Prudential Assurance Company Singapore (Pte.) Limited

The Monetary Authority of Singapore (the "MAS") is responsible for insurance company regulation and supervision. In order to sell insurance in Singapore, companies need to be licensed by the MAS. Prudential Assurance Company Singapore is registered and licensed to manufacture and sell both life and general insurance business.

The MAS also has responsibility for supervising compliance with anti-money laundering ("AML") provisions, though suspicious transactions must be notified to the Commercial Affairs Department, an enforcement agency of the Singapore Police Force. In 2007, new regulations were introduced to further strengthen the AML requirements.

Another relevant regulatory authority for the business is the Central Provident Fund (the "CPF") Board. The CPF is a social security savings scheme jointly supported by employees, employers and the Government. CPF members are employees and self-employed persons in Singapore with the CPF Board acting as the trustee. The CPF Board regulates the life insurers in the operation of various CPF schemes including the CPF Investment Scheme where CPF monies are used by policyholders to purchase insurance policies such as annuities and investment-linked policies.

The MAS is empowered under the Insurance Act to make regulations for the sector and it also issues Notices, Circulars and Guidelines. In practice, the MAS and CPF Board have very detailed legislation frameworks to govern the insurance companies and the distribution of insurance products in Singapore. Despite the detailed requirements, an examination of the Notices suggests MAS in many respects do in fact focus on outcomes rather than processes.

An RBC framework was introduced in recent years to better reflect the relevant risks being faced by insurance companies. The framework introduces changes in the valuation methodology for assets and liabilities, fine-tunes the operations of life insurance funds, establishes new capital requirement rules, updates the role of actuaries, and introduces a new set of statutory reporting standards. An insurer has to notify the MAS when it has failed or is likely to fail to comply with the mandated RBC indicators or when a financial resources warning event has occurred or is likely to occur.

The MAS has also issued Notices that cover the market conduct standards for life insurers including such areas as appointing and training Representatives, maximum tier in agency structure, loans and advances, disciplinary action, disclosure, sales process and replacement of life polices. In addition, the MAS has recently published a consultation paper entitled "Guidelines on Fair Dealing Board and Senior Management Responsibility for delivering Fair Dealing Outcomes to Consumers". The proposed approach is similar to that of the UK FSA Treating Customers Fairly (TCF) Principle.

Malaysia Prudential Assurance Malaysia Berhad

In Malaysia, Bank Negara Malaysia ("BNM") is the regulatory body responsible for supervising and regulating the conduct of financial services including insurance business. All insurance companies must be licensed with the Ministry of Finance. In addition, they are required to be a member of the Life Insurance Association of Malaysia and/or Persatuan Insurans Am Malaysia (for general insurers). Prudential Assurance Malaysia Berhad has a license for both life and general insurance business.

Although BNM is committed to migration towards a "disclosure-based" regime, there are still "prescriptive" requirements from the past which remain. For example, pre-approval from BNM is required for some actions which in the UK are matters for management decision. These include such matters as opening new branches, entering into outsourcing contracts, and introducing new annuity and investment-linked products.

At the end of Year 2006, BNM carried out an exercise of realignment of its regulatory and supervisory functions which resulted in the establishment of a Consumer and Market Conduct Department. More emphasis has been placed on fair market conduct by the insurance industry and protection of the consumers' interests. With the objective of promoting greater transparency in the sale of insurance products, BNM has issued guidelines on the minimum disclosure requirements to be observed by insurers and their intermediaries in their interaction with prospective policy owners. The guidelines specify the minimum information that must be disclosed to a prospective policy owner at the point of sale to enable them to make informed decisions. This information includes, details of types of cover offered, benefits, restrictions, and exclusions of the policy as well as any significant conditions, warranties and obligations which the policy owner must meet.

BNM has formulated a framework on proper advice practices for life insurance business to ensure that intermediaries make greater effort to effectively evaluate the insurance requirements of consumers. The guidelines under the framework set the minimum standards for proper advice as well as structured process for selling life insurance products. They also require the intermediaries to obtain sufficient information on prospective policy owners before rendering appropriate advice on the suitability of a particular insurance product.

In an effort to further reform the regulation of insurers and better reflect the risks being faced by each entity, BNM has implemented a Risk-Based Capital Framework ("RBC Framework") for Insurers, which took effect on January 1, 2009. Compliance with the RBC Framework is a condition of license for all insurers, and any failure to comply with the RBC Framework could result in the revocation of an insurers' license. The RBC Framework sets out the capital adequacy ratio calculations, capital requirements to mitigate major risks, the valuation bases for assets and liabilities, and supervisory expectations relating to the investment of insurance funds. Additionally in early 2008, BNM has released a consultation paper on risk governance framework for insurers. The consultation paper outlines the risk governance function of an insurer, including the roles and responsibilities of the board of directors and management in relation to risk governance. The paper further outlines the function of risk management, compliance and internal audit and their respective oversight responsibilities relating to risk management.

In its risk-based approach in regulating and supervising the insurance industry, more specific responsibilities have been placed on the board of directors and the senior management in managing the risks of the business. BNM continues to assess the performance of an insurer by analyzing its statutory returns and reports submitted and regular communication with the insurer concerned.

Japan PCA Life Insurance Company Limited

The Financial Services Agency of Japan (the "JFSA") regulates insurance companies and other financial institutions. The Insurance Business Division of the JFSA specifically undertakes the supervision

of insurance companies. The fundamental principles of insurance regulation are set out in the Insurance Business Law. PCA Life Japan is licensed by and registered with the JFSA as a life insurance company.

After a number of false starts, the government finally lifted all restrictions on insurance product sales by banks in December 2007. The biggest impact is expected to be in the health/medical insurance market, which accounts for about a quarter of the overall individual insurance market, which had previously been closed to sales by banks. PCA Life Japan sees this change as very positive and a potentially large opportunity.

For the first time in a century, the "insurance contract law" under the Commercial Code of Japan is under deliberation as a response to the increasingly diverse needs of today's society. The proposed revision was passed at the National Diet on May 30, 2008. Japanese regulation provides that the amended law should be effective within two years. It is expected that the law will be effective in January 2010. In this connection, the Life Insurance Association of Japan (the "LIAJ") is creating the model policy provisions and the final version of which was published in February 2009.

Recent deregulatory measures in the Insurance Business Law and the privatization program of the Japan Post group companies, which includes a large life insurance company, have enhanced the level of competition in the Japanese insurance industry.

China CITIC-Prudential Life Insurance Company Limited

The body responsible for regulation of the insurance sector is the China Insurance Regulatory Commission ("CIRC") established in 1998. CIRC reports directly to the State Council. The main laws and regulations that govern the CITIC-Prudential joint venture in China are the Insurance Law of the People's Republic of China (enacted in 1995) and the Regulation on the Administration of Foreign-funded Insurance Companies (enacted in 2001) and the Regulation on the Administration of Insurance Companies (enacted in 2004).

CIRC is authorized to conduct administration, supervision and regulation of the Chinese insurance market, and to ensure that the insurance industry operates in a stable manner in compliance with the law. It drafts relevant laws and regulations regarding insurance supervision, examines and approves the establishment of insurance companies and their branches and supervises market conduct. In November 2008, to ensure enforcement of the regulations, CIRC established a special department, namely the inspection bureau, to strengthen the function of investigating significant non-compliance issues and the conduct of insurance companies and handling complaints. CIRC has local offices in all the provinces and selected direct administrative cities and regions across the country. One of the key responsibilities of the local offices is to set and administer implementation rules and guidelines in the application of the laws and regulations introduced by CIRC. The local offices will also regulate many aspects of the insurance companies' activities within the locations for which they are responsible, including but not limited to business, sales and agent conducts, sales licensing practices, approving new sales offices and assessing minor administrative penalties.

CIRC has focused specific attention on the area of risk prevention. Accordingly, it has identified five lines of defense against risks, namely internal management and control systems, supervision of solvency adequacy, on-site inspection, fund management regulation and insurance security fund. In 2008, due to the outbreak of the global financial crisis, more importance has been attached to the supervision of internal control systems, corporate governance, marketing conduct and information disclosure of insurance companies. In addition to the introduction of additional regulations and rules, a classified supervision system was developed by the regulator to detect and monitor the operation and financial risks of the industry. Under the system, insurance companies will be classified into four groups based on the risk indicators relating to solvency margins, corporate governance, capital management, financial status and market conduct. Different administrative measures such as risk warning, on-site inspection, restriction of business expansion and investment etc will be imposed on different groups.

China promulgated a new Anti-Money Laundering ("AML") Law applicable to all financial institutions in November 2006. The People's Bank of China ("PBOC") was entrusted with the responsibility and authority for regulating all AML activities in China. PBOC also introduced several additional AML measures between November 2006 to June 2007 to provide specific rules and guidelines in the application of the AML Law. The areas covered would include customer identification, reporting of large volume and other suspicious transactions, record keeping and reporting of suspicious transactions involving terrorism financing.

Vietnam Prudential Vietnam Assurance Private Limited

The Ministry of Finance (the "MOF") of Vietnam is responsible for carrying out state administration of insurance business for and on behalf of the Government. The Insurance Division of the MOF specifically undertakes the supervision of insurance companies. The fundamental principles of operation of insurance companies are set out in the Insurance Business Law. Prudential Vietnam is licensed and regulated by the MOF as a life insurance company. Currently, the applicable law does not permit an insurance company to operate both life and non-life insurance at the same time.

The first insurance regulation that was implemented in Vietnam was the governmental decree on insurance No. 100/CP which was issued in late 1993. As the Vietnamese insurance market grew, the first law on insurance business the Insurance Business Law was passed in 2000 by the National Assembly of Vietnam. In 2001, the Government promulgated further regulations relating to the implementation of the Insurance Business Law.

At the end of 2007, many of the current insurance regulations were revised and a number of new regulations were introduced, including: minimum legal capital requirements for insurance enterprise equivalent to VND 600 billion (approximately USD 5 million), security deposit requirements equivalent to 2% of legal capital, new regulations for investment linked products such as universal life and unit linked products. The MOF has also provided specific regulations on establishing new insurance companies, modification of licenses or opening/closure of insurers' branches/representative offices and agent recruitment and training.

Generally, the Insurance Business Law and its guiding regulations focus mainly on administrative supervision of insurance operations. In practice, the Insurance Business Law reserves most of its items for insurance contract (the terms and conditions of policy) in order to protect policy holders' interests. Furthermore, the MOF is setting a proactive insurance supervisory agenda on controlling the solvency of insurance companies in order to take timely intervention to the insurance market by issuing the new regulation on bankruptcy procedures for insurers, securities, financial institutions in late 2008.

Takaful, Malaysia Prudential BSN Takaful Berhad

In addition to gaining the first overseas insurer's Takaful License in Malaysia (a Prudential joint venture with Bank Simpanan Nasional known as Prudential BSN Takaful Berhad), the Takaful business in Malaysia is also governed by BNM similarly to the insurance companies. In addition, the business is required to be a member of the Malaysian Takaful Association ("MTA"), which is an association for Takaful operators to improve industry self regulation through uniformity in market practice and to promote a higher level of co-operation amongst operators. Takaful in Malaysia is considered to be part of mainstream mercantile law, and hence part of civil law, and is therefore subject to the civil court structure of Malaysia. It is not regulated by Syariah Law in Syariah Courts. However, the operation system of a Takaful Operator must conform to the rules and requirements of Syariah as regulated in the Takaful Act 1984, which elevates the Syariah Advisory Council to the position as the sole authority on Syariah matters. To further strengthen the Syariah and legal infrastructure, the Guidelines on the Governance of Syariah Committee for Islamic institutions were issued in 2004 to streamline the functions and duties of Syariah Committee of Takaful operators and strengthened their independence.

Although the Takaful operator is also governed by the same regulator (BNM), the industry is regulated slightly differently from the insurance companies. The differences relate in the main to matters where the regulators still find the Takaful Operators not ready. For example, the regulator is working towards a 'launch and file' approach for the insurers, but they still have reservations on providing the same for the Takaful Operators in light of the nature of the business, (i.e. Shariah compliant) and the maturity of the industry. The risk-based capital framework that has been implemented for insurers will also not be implemented yet for the same reasons. In other areas regulation is similar to the insurance industry.

The regulators acknowledge that comprehensive regulatory and supervisory frameworks need to be developed to support the sound expansion of the Takaful industry. The regulators are taking steps to, among other things: (i) review the Takaful Act 1984 and subsidiary legislation to address existing inadequacies of the acts; (ii) progressively increase the statutory minimum paid up capital for Takaful operators, (iii) introduce accounting standards for Takaful businesses and draft model accounts for Takaful operators and (iv) monitor and refine further code of ethics and standard market practices for Takaful operators.

Thailand Prudential Life Assurance (Thailand) Public Company Limited

In Thailand, the insurance business is regulated and supervised by the Office of Insurance Commission ("OIC"). The OIC came about as a result of the September 2007 statutory transformation of the Department of Insurance of the Ministry of Commerce. The OIC is now the independent regulatory organization handling day-to-day insurance business affairs and reporting to the Ministry of Finance. The Secretary General of the OIC holds the statutory appointment of Insurance Registrar.

The Insurance Commission Act B.E.2550 (2007) embodies the Insurance Commission, the principal decision-marker for the insurance business. The Insurance Commission consists of a 13 member Board, chaired by the Permanent Secretary of Finance and includes the Permanent Secretary of Commerce, the Secretary General of the Consumer Protection Board, the Governor of the Bank of Thailand and the Secretary General of the Securities and Exchange Commission as ex-officio commissioners. The other six to eight Commissioners are selected from experts in the fields of law, accountancy, business administration, finance, economics and insurance.

The insurance business is governed by the Life Insurance Act B.E. 2535 (1992) as amended by the Life Insurance Act (No.2) B.E. 2551 (2008). As well as governing the operations of the Life business, this Act regulates funds, investments, insurance policies and imposes a variety of statutory requirements. The OIC has the power to manage and supervise insurance companies, protect insured persons and the general public, implement policies with respect to Life Insurance Funds, and regulate the professional conduct, qualifications and licensing of insurance brokers, agents and actuaries.

In the private sector, the Thai Life Assurance Association ("TLAA") plays an active development role for its membership and supports the insurance business as its representative body.

Philippines Pru Life Insurance Corporation of UK

The Insurance Code of the Philippines gives the power to supervise and regulate the operations and business of insurance companies and their representatives to the Insurance Commission (the "IC"). The IC is a government agency under the Department of Finance, and is headed by the Insurance Commissioner. The IC is a part of the Anti-Money Laundering Council (the "AMLC") together with the BSP (Banko Sentral ng Pilipinas and the SEC (Securities and Exchange Commission).

The mandate of the IC is to regulate and supervise the insurance industry in accordance with the provisions of the Insurance Code in order to ensure that adequate insurance protection is available to the public at a fair and reasonable cost and to ensure the financial stability of the insurance industry so

that all legitimate claims of the insuring public are met promptly and equitably. The objectives of the IC are to promote growth and financial stability of insurance companies, to develop professionalism in the insurance services industry to develop insurance consciousness among the general populace, to establish a sound national insurance market, and to safeguard the rights and interest of the insured people.

The IC issues licenses to insurance companies, agents, general agents, resident agents, underwriters, brokers, adjusters and actuaries. It also has the authority to suspend or revoke such licenses.

The Insurance Code, as amended, empowers the IC to adjudicate insurance claims and complaints involving any loss, damage or liability where the amount involved does not exceed Php 100,000.00 for any single claim. Decisions or orders of the IC may be appealed to the Court of Appeals. Moreover, informal and administrative complaints against malpractices by insurance companies or agents may also be filed with the IC. The IC is available to render assistance in settling any controversy between an insurance company and a policyholder relating to insurance.

Others

In late 2007 Prudential also opened a separate consumer finance business in Vietnam authorized by the State Bank of Vietnam.

Regulation of Funds Business

Prudential conducts its fund business through subsidiaries or joint ventures in the following countries in Asia: The People's Republic of China, Dubai (Dubai International Financial Centre), Hong Kong Special Administrative Region, Republic of India, Japan, Republic of Korea, Malaysia, Republic of Singapore, Taiwan, Republic of China and Socialist Republic of Vietnam. All operations are authorized and licensed by the relevant authorities.

Hong Kong

Prudential Asset Management (Hong Kong) Limited ("PAMHK"), incorporated in Hong Kong, is ultimately a wholly owned subsidiary of Prudential plc. PAMHK is licensed with the Hong Kong Securities and Futures Commission ("HKSFC"), a Hong Kong regulator and is authorized to carry out Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities in Hong Kong.

PAMHK is registered with China Securities Regulatory Commission ("CSRC") as a QFII (Qualified Foreign Institutional Investors) license holder.

BOCI-Prudential Asset Management Limited ("BOCIP"), incorporated in Hong Kong, is a joint venture between Prudential and BOCI Asset Management Limited. BOCIP is licensed with the HKSFC, and is authorized to carry out Type 1, Type 4, Type 5 (Advising on Futures Contracts), Type 6 (Advising on Corporate Finance) and Type 9 regulated activities in Hong Kong. BOCIP offers a comprehensive range of investment products, including Hong Kong Mandatory Provident Fund ("MPF") scheme, pension funds, retail unit trusts, institutional mandates and other advisory funds. It also offers private investors and institutional clients investment portfolios and charity fund management services. As one of the pioneers in the asset management industry in Hong Kong, BOCIP launched a series of capital guaranteed funds linked to various underlying indices or basket of stocks with varying currencies and maturities.

The Securities and Futures Ordinance ("SFO") and other subsidiary legislation comprise the laws in Hong Kong relating to financial services which govern the fund management companies. HKSFC is the statutory body responsible for the administration of this Ordinance and these related subsidiary legislations and rules.

Japan

PCA Asset Management Limited ("PCA AM") is registered with the Financial Services Agency to provide (a) second financial instrument business, (b) investment management business, (c) investment advisory & agency business and (d) ancillary business under the Financial Instruments & Exchange Law ("FIEL") which became effective as of September 30, 2007.

Under the registration of the second financial instrument business, PCA AM concentrates on explanation of the products to investors without solicitation while maintaining no account as the Business of Particulars is limited to just explanation. The investment advisory & agency business is limited to the investment advisory business excluding agency business.

Korea

Prudential conducts fund business in Korea through an indirect, wholly-owned subsidiary, **PCA Investment Trust Management Co. Ltd** ("PCA Investment Trust").

The bodies responsible for the regulation of an Asset Management Company ("AMC"), Investment Advisory Company ("IAC") or Discretionary Investment Company ("DIC") are the Ministry of Strategy and Finance ("MOSF"), the Financial Services Commission ("FSC") and its executive arm, the Financial Supervisory Service ("FSS").

Traditionally, the FSC in Korea operates in a prescriptive way, with a significant amount of detailed regulation that AMCs must comply with. In recent years, the style of regulation of the indirect investment industry has been changing in line with the trend towards liberalization of financial services. In particular, the regulator is focusing on deregulation in asset management and product design activities and shifting towards a principles-based regulatory regime.

Taiwan

The body responsible for regulation of the Securities Investment Trust Enterprise ("SITE"), Securities Investment Consulting Enterprise ("SICE"), and Discretionary investment business is the Securities and Futures Bureau ("SFB") under the Financial Supervisory Commission ("FSC").

PCA Securities Investment Trust Co., Ltd is registered as a SITE with the FSC. It is compulsory that all SITEs are members of the self-regulatory organization ("SRO") in Taiwan Securities Investment Trust and Consulting Association ("SITCA"). SITE and SICE may not commence business without being admitted as members of the Association.

SFB is the first line of supervisory body responsible for declaration of laws, regulations and policies. The missions of the SRO are to support the regulatory and administrative operations entrusted by the SFB, including adopting self-regulatory rules and overseeing self-regulation by its members, establishing membership disciplinary framework, and carrying out matters that SFB has authorized it to handle such as previewing product filing document before submission for SFB's final review. The SRO also acts as liaison between the SFB and its members for matters of business development.

China

CITIC-Prudential Fund Management Company Limited, a joint venture between Prudential and CITIC Group (China International Trust and Investment Corporation), is regulated by the China Securities Regulatory Commission ("CSRC"). The CSRC supervises the establishment of fund management companies ("FMCs") and the launch of securities investment funds.

The legislative framework of China's fund industry comprises the China Securities Investment Funds Law (the "Fund Law") and a set of ancillary regulations (the "Fund Regulations"). While the Fund Law and Fund Regulations spell out the rules and requirements which must be adhered to by all FMCs, the

supervisory approach of CSRC, to a certain extent, is also principles-based. The Chinese authorities aim to protect the legitimate rights and interests of the investors and other relevant parties, and thereby to promote the healthy development of securities investment funds and securities markets.

India

ICICI Prudential Asset Management Company Limited ("the AMC"), a joint venture between Prudential plc and ICICI Bank Ltd., is approved by Securities and Exchange Board of India ('SEBI') under SEBI (Mutual Funds) Regulations, 1996 to act as Investment Manager of ICICI Prudential Mutual Fund (the Fund). The Fund was set up as a Trust sponsored by Prudential plc (through its wholly owned subsidiary namely Prudential Corporation Holdings Ltd) and ICICI Bank Ltd. ICICI Prudential Trust Limited (the Trust Company), a company incorporated under the Companies Act, 1956, is the Trustee to the Fund.

Mutual funds in India are regulated by the guidelines and statutes promulgated under the SEBI (Mutual Funds) Regulations, 1996, the Indian Trusts Act, 1882 and relevant provisions of the Companies Act 1956.

As specified by the Indian Trusts Act 1882 and reiterated by the SEBI regulations, all mutual funds are required to be in the form of trusts. The trustee functions are carried out by separately established trust companies or boards of trustees. In all cases, the trust deed must be approved by SEBI.

The AMC has obtained registration from SEBI to act as a Portfolio Manager under SEBI (Portfolio Managers) Regulations 1993.

Also, SEBI via its letter dated May 31, 2005 conveyed it had no objection to the AMC undertaking Advisory Services to Offshore Funds. The AMC has commenced the provision of Advisory Services.

The AMC also received a mandate from the Central Board of Trustees, Employees Provident Fund Organisation to act as a Portfolio Manager for the Funds of Employees Provident Fund, Staff Provident Fund and Pension and Gratuity Fund.

Singapore

Prudential Asset Management (Singapore) Limited ("PAMS"), an indirect wholly owned subsidiary of Prudential plc, holds a Capital Markets Services ("CMS") license, to conduct the regulated activities of fund management and dealing in securities, issued by the Singapore MAS under the Securities and Futures Act, Cap 289. The MAS' supervisory approach has evolved over the years and is now more risk-focused and disclosure-based than it was previously.

PAMS is also registered with the CPF Board, Singapore, to offer unit trusts included under the CPF Investment Scheme ("CPFIS"). In addition, PAMS is registered with the SEC under the Investment Advisers Act; the Korean FSC, as a Cross-border Investment Advisory under Capital Market Consolidation Act,; and the Securities and Exchange Board of Indian SEBI under the SEBI (Foreign Institutional Investors) Regulations, 1995.

Malaysia

Prudential Fund Management Berhad ("PFMB") is part of Prudential plc (United Kingdom). PFMB was incorporated in November 2000 and is a wholly owned subsidiary of a Malaysian resident holding company, which is in turn a subsidiary of the Prudential group of companies.

PFMB is regulated by the Securities Commission (the "SC"), which supervises the establishment of unit trust funds and asset management products.

The SC's Guidelines on Unit Trust Funds stipulates the rules and requirements to be adhered by any person intending to establish a unit trust fund in Malaysia and issue, offer or invite any person to subscribe or purchase units of the unit trust fund. Whilst the rules are principles based, the SC encourages a disclosure based regime. This provides a healthy environment in promoting unit trust funds and capital markets.

Dubai

Prudential Asset Management Limited ("PAMD") was incorporated in the Dubai International Financial Centre ("DIFC") in September 2006. PAMD is an indirect wholly owned subsidiary of Prudential plc.

PAMD is regulated by the Dubai Financial Services Authority ("DFSA"), which is the independent regulator for the DIFC. PAMD holds a license for Dealing in Investments as Agent, Managing Assets, Arranging Credit or Deals in Investments, Advising on Financial Products or Credit, Arranging Custody, Operating a Collective Investment Fund, Providing Fund Administration and Operating an Islamic Window and a retail endorsement.

The supervisory approach of DFSA, is to a large extent, risk-based.

With effect from 1 July 2008, DFSA has allowed retail access in the DIFC. Accordingly, an application was submitted to the DFSA for retail endorsement on the license of PAMD. DFSA granted the endorsement to PAMD's license to carry on authorized Financial Services with or for Retail Clients with effect from July 23, 2008. Hence PAMD is no longer restricted to dealing with Wholesale clients only.

Vietnam

Prudential Vietnam Fund Management Private Limited Company ("PVN FMC") was established and currently operates under the Business Registration Certificate No. 410400113 issued by the Department of Planning and Investment of Ho Chi Minh City on May 24, 2005 and the License No. 03/UBCK-GPHDQLQ dated May 26, 2005 and Decision No. 459/QD-UBCK dated August 13, 2007 by the State Securities Commission of Vietnam (SSC) for operation in securities investment fund management and securities portfolio management.

Prudential Vietnam Assurance Private Limited is the sole owner of PVN FMC.

PVN FMC is regulated by the State Securities Commission of Vietnam ("SSC"), which is overseen by Ministry of Finance ("MOF"). Given the mandate to establish and develop the securities markets, the SSC supervises the organization, and operation of securities investment funds and fund management companies.

Item 4A. Unresolved staff comments

None

Item 5. Operating and Financial Review and Prospects

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with Prudential's consolidated financial statements and the related notes to Prudential's consolidated financial statements included elsewhere in this document. Prudential's consolidated financial statements have been prepared in accordance with IFRS. A summary of the critical accounting policies which have been applied to these statements is set forth in the section below entitled " Factors Affecting Results of Operations IFRS Critical Accounting Policies".

The results discussed below are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on current expectations, which involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in these forward-looking statements due to a number of factors, including those set forth in the section below entitled " Factors Affecting Results of Operations", in Item 3, "Key Information Risk Factors" and elsewhere in this document.

Introduction

Prudential is an international retail financial services group with significant operations in Asia, the US and the UK. Prudential's aim is to promote the financial well-being of its customers and their families, with a particular focus on saving for retirement and security in retirement.

Prudential is structured around four main business units; Prudential Corporation Asia, Jackson, Prudential UK insurance operations and M&G. These are supported by central functions which are responsible for leading Group strategy, cash and capital management, leadership development and succession, reputation management, and other core Group functions.

Prudential Corporation Asia is the leading European-based life insurer in Asia in terms of market coverage and the number of top five market positions. The Company has life insurance and asset management operations in 13 markets covering China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Vietnam and the United Arab Emirates. On February, 20, 2009, Prudential announced it had entered into an agreement, subject to regulatory approval, to transfer the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan. Further details are set out in note I10 to the consolidated financial statements.

Jackson provides retirement savings and income solutions in the mass and mass-affluent segments of the US market, primarily to retirees and those nearing retirement.

Prudential UK insurance operations is a leading provider of retirement savings and income solutions and life assurance in the UK and believes it has a unique combination of competitive advantages, including its significant longevity experience, multi-asset management capabilities and its brand and financial strength. Prudential provides a range of financial products and services, including annuities, corporate pensions, with-profits and unit-linked bonds, savings and investment products, protection, equity release and health insurance products.

M&G is Prudential's UK and European fund management business and has £141 billion of assets under management as at December 31, 2008, of which £94 billion relates to Prudential's long-term business funds. M&G aims to maximize profitable growth by operating in markets where it has leading positions and competitive advantages, including the markets for retail fund management, institutional fixed income, pooled life and pension funds, property and private finance.

Factors Affecting Results of Operations

Prudential's results of operations are affected, to a greater or lesser degree, by a variety of factors, including demographics, general economic and market conditions, government policy and legislation and regulation, as discussed in greater detail below. In addition changes in interest rates and returns from equity, real estate and other investments as well as volatility in these items may affect Prudential's profitability.

See Item 3, "Key Information Risk Factors" for more information on risks associated with these and other factors. In addition, changes to the composition of its businesses and the execution of its growth strategy may result in increased variation in profits from year to year.

General Economic and Market Conditions

Prudential believes that as demographic and welfare trends worldwide continue to reinforce the need for personal savings to provide income in retirement, and as the 'baby-boomer' generation in the Western world makes the transition from employment into retirement, its strong presence, assets and capabilities in the sector will position it to capture a disproportionate share of this growing profit pool over the coming years.

In all Prudential's operations, its aim is to have a suite of products that delivers good value and meets customers' needs without being unduly capital intensive or leaving the Group overly exposed to the economic cycle. The need to fund retirement savings and provide for income in retirement is not going to go away and this makes revenue streams highly resilient, even though at different points in the cycle customers may prefer to achieve their goals through different products and investment options.

The events of 2008 have put the balance sheets and capital positions of all insurance companies under close scrutiny. Few anticipated the depth of the banking crisis or the speed of onset of recession in the western economies.

Despite the downturn, the capital position of the Prudential Group remained strong in 2008, in the face of a testing combination of highly volatile and declining equity markets, falling interest rates, widening spreads on corporate bonds, and rapidly deteriorating credit conditions. The Group's defensive stance on credit exposure in particular served it well as did the comprehensive equity hedging strategies that had been put in place in the US to protect against product guarantees.

Given the crisis in the global banking industry in 2008, it is worth restating the fundamental differences between life insurers and banks a distinction that extends to the two industries' business models, capital ratios and regulatory needs. Insurers do not borrow short and lend long, do not give out credit, are structurally long in terms of liquidity, and are much better able to hold assets to maturity without risk of forced selling at depressed prices.

Particular features for the Group's geographic areas of operations are shown below:

Asia

Like the West, Asia has rapidly ageing populations and a growing need for financial advice and products to help people save for retirement, secure an income during retirement and protect their financial well being throughout life.

Asian markets did feel the impact of the global financial turmoil in mid-2008, and the region's economic performance has undoubtedly suffered as a consequence of the downturn in Western markets for its goods. Nevertheless, Asia was the only region worldwide to record high single-digit economic growth in 2008. Going forward, Prudential believes that Asia's fundamentals of continued economic

growth, increasing mass affluence and shifting demographics will continue to be powerful drives of profitable growth in the future.

Overall Prudential believes that its strategy, and the consistency with which it executes it, are the core factors that differentiates it from its peers.

In Asia, the Group continued to benefit in 2008 from its focus on regular premium products, as sales of single premium products suffered amid the market dislocation experienced in the second half of the year. In addition, the breadth of offering enabled the Group to refocus its energies on higher-margin health and protection products, and also on with-profits for the more cautious investor.

Although market conditions have not been conducive to major new initiatives in the retirement space during 2008, Prudential continues to develop and launch new retirement orientated products.

US

The United States is the world's largest retirement savings market, and is continuing to grow rapidly. As 78 million baby boomers (Source: US Census Bureau) reach retirement age, their retirement assets are expected to shift from asset accumulation to income distribution. There are already $2 trillion of assets generating retirement income in the US and this amount is forecast to rise to some $7.3 trillion by 2029 (Source: Tiburon Strategic Advisors).

During 2008, the US financial services industry faced an unprecedented array of challenges: the S&P 500 index fell by 38.5 per cent (compared to a 3.5 per cent increase in 2007); governmental interest rates fell to historic lows; and global markets experienced a significant increase in volatility, particularly during the last four months of the year. In addition, credit markets seized and global credit spreads widened to historic levels. As a result of these conditions, many financial service businesses sought to raise new capital in order to maintain their solvency.

These factors caused uncertainty in the market, as consumers and producers tried to anticipate future equity movements and questioned the financial stability of product providers. At the same time, however, increasing credit spreads and falling equity markets created favorable market conditions for the sale of fixed annuities. These developments provided a competitive advantage to companies able to participate in both the variable and fixed annuity spaces.

Jackson was predominantly a spread-based business until recently, with the majority of its assets invested in fixed income securities. Recently its fee-based business has become more prominent and now represents a significant part of Jackson's business mix.

In general, Jackson's results are heavily affected by fluctuations in economic and market conditions, especially interest rates, credit conditions and equity markets.

The profitability of Jackson's spread-based business depends in large part on its ability to manage interest rate spreads, as well as the credit and other risks inherent in its investment portfolio. Prudential designs its US products and manages the investments supporting this business to reduce interest rate sensitivity. This has the effect of moderating the impact on Prudential's results of changes in prevailing interest rates.

Changes in interest rates either upward or downward, including changes in the difference between the levels of prevailing short-term and long-term rates, can expose Jackson to the risk of not earning anticipated spreads between the rate earned on investments and the rate credited on its policies. For example, if interest rates go up and/or competitors offer higher crediting rates, withdrawals on annuity contracts may increase as policyholders seek higher investment returns elsewhere. In response, Jackson could (1) raise its crediting rates to stem withdrawals, decreasing its spread; (2) sell assets which may have depressed values in a high interest rate environment, creating realized investment losses; or (3) pay out existing cash which would otherwise have earned interest at the higher interest rates. Moreover, to

the extent that Jackson holds illiquid private placements and commercial mortgages, there is a risk that it will incur losses if it needs to sell those assets. Conversely, if interest rates decrease, withdrawals from annuity contracts may decrease relative to original expectations, creating more cash than expected to be invested at lower rates. Jackson may have the ability to lower the rates it credits to policyholders as a result, but may be forced to maintain crediting rates for competitive reasons or because there are minimum interest rate guarantees in certain contracts. In either case, the spread earned by Jackson would be lowered.

The profitability of Jackson's fee-based business depends in large part on its ability to manage equity market risk. As the investment return on the separate account assets is attributed directly to the contract holders, Jackson's profit arises from the fees charged on the contracts, less the expenses incurred, which include the costs of guarantees. In addition to being a profitable book of business in its own right, the variable annuity book also provides an opportunity to utilize the offsetting equity risk among various lines of business to manage Jackson's equity exposure in a cost-effective fashion. Jackson believes that the internal management of equity risk coupled with the utilization of external derivative instruments where necessary, continues to provide a cost effective method of managing equity exposure. Profits in the variable annuity book of business will continue to be subject to the impact of market movements both on sales and allocations to the variable accounts and the effects of the economic hedging program. While Jackson hedges its risk on an economic basis, the nature and duration of the hedging instruments, which are recorded at fair value through the income statement, will fluctuate and produce some accounting volatility. Jackson continues to believe that, on a long-term economic basis, its equity exposure remains well managed. See Item 11, "Quantitative and Qualitative Disclosures about Market Risk" for a discussion of the management of Prudential's exposure to such market risk.

UK

In 2008, Prudential UK performed strongly against a challenging background of volatile capital and equity markets, a declining housing market, and widespread economic uncertainty. In this environment and with ABI data showing a market decline in retail insurance sales of 10 per cent during the year, the achievement of Prudential UK in growing retail sales by 10 per cent was a particularly strong performance.

The UK is characterized by an ageing population and the concentration of wealth in the mass affluent and high net worth sectors a combination that positions the retirement and near-retirement segment as the fastest-growing in the marketplace. Low savings rates and high levels of consumer debt, coupled with an increasing shift in responsibility for providing retirement income away from Government and employers towards individuals, have resulted in individuals in the UK being inadequately provided for during increasingly long periods of retirement.

Prudential UK has a unique combination of competitive advantages, including its longevity experience, multi-asset investment capabilities, brand and financial strength. These, it believes, puts it in a strong position to pursue a value driven strategy that generates attractive returns across its Retail and Wholesale businesses.

Prudential UK has a significant pipeline of internal vestings annuity business from maturing individual and corporate pension policies, which is expected to remain at least at the current level until 2025. It is the largest annuity provider in the UK market, with approximately 1.5 million annuities in payment. Looking forward, the UK annuities market is expected to grow in the near term, and Prudential expects to maintain a significant share of this market.

In the United Kingdom, where Prudential's with-profits fund invests in debt and other fixed income securities, equity securities and real estate, shareholders' profits under IFRS are strongly related to the bonuses it declares. The most important influences on the bonus rates are the overall rate of return

earned on investments and Prudential's expectation of future investment returns. See " Analysis by Geographic Region United Kingdom Basis of Profits", " With-profits Products" and " Bonus Rates" below. Prudential's bonus policy and its impact on profitability are addressed in more detail in "IFRS Critical Accounting Policies" below. In addition, the shareholders' profits under IFRS are significantly influenced by the contribution from the growing shareholder backed annuity business. The key factors affecting the profitability of this business are described in note D2 to the consolidated financial statements.

Government Policy and Legislation

Changes in government policy or legislation applying to companies in the financial services and insurance industries in any of the jurisdictions in which Prudential operates, particularly in the United Kingdom, the United States and Asia, may adversely affect the result of its operations. These include possible changes in the tax treatment of financial products and services, government pension arrangements and policies, the regulation of selling practices and solvency standards. These changes may affect Prudential's existing and future business by, for example, causing customers to cancel existing policies, requiring Prudential to change its range of products and services, redesign its technology or other systems, retrain staff, pay increased tax or incur other costs.

Regulation

In recent years, the insurance sectors in the markets in which Prudential operates have seen considerable regulatory change. Failure to comply with local regulation may result in sanctions, which could take the form of a financial penalty.

Additional regulation, scrutiny and related costs have put pressure on the margins on new business. In the United States, Prudential has been the subject of regulatory sanctions and class actions. These legal proceedings are discussed in more detail under Item 4, "Information on the Company Business of Prudential Legal Proceedings". Changes in pension, financial services and tax regulation could have an impact on Prudential's results. See Item 4, "Information on the Company Supervision and Regulation of Prudential" for a summary of the current regulatory environment in which Prudential conducts its business.

Exchange Rates

Due to the geographical diversity of Prudential's businesses, it is subject to the risk of exchange rate fluctuations. Prudential's international operations in the United States, Asia and Europe, which represent a significant proportion of total group income and expenses, generally write policies and invest in the same local currency, which although limiting the effect of exchange rate fluctuations on local operating results, can lead to fluctuations in Prudential's consolidated financial statements upon translation of results into pounds sterling.

IFRS Critical Accounting Policies

Prudential's discussion and analysis of its financial condition and results of operations are based upon Prudential's audited consolidated financial statements, prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (collectively "IFRS"). Were the Group to apply International Financial Reporting Standards as adopted by the European Union as opposed to those issued by the International Accounting Standards Board, no additional adjustments would be required.

The preparation of these financial statements requires Prudential to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, Prudential evaluates its estimates, including those

related to long-term business provisioning, the fair value of assets and the declaration of bonus rates. Prudential bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially give rise to materially different results under different assumptions and conditions. Prudential believes that its critical accounting policies are limited to those described below.

The critical accounting policies in respect of the items discussed below are critical for the Group's results insofar as they relate to the Group's shareholder financed business. In particular, this applies for Jackson, which is the largest shareholder-backed business in the Group. The policies are not critical in respect of the Group's with-profits business. Accordingly, explanation is provided in this section as to why the distinction between with-profits business and shareholder-backed business is relevant.

The items discussed below explain the effect of changes in estimates and the effect of reasonably likely changes in the key assumptions underlying these estimates as of the latest balance sheet date so as to provide analysis that recognizes the different accounting effects on profit and loss or equity. In order to provide relevant analysis that is appropriate to the circumstances applicable to the Group's businesses, the explanations refer to types of business, fund structure, the relationship between asset and policyholder liability measurement, and the differences in the method of accounting permitted under IFRS 4 for accounting for insurance contract assets, policyholder liabilities and unallocated surplus of the Group's with-profits funds.

Investments

Determining the fair value of financial investments where the markets are not active

The Group holds certain financial investments for which the markets are not active. These include financial investments which are not quoted on active markets and financial investments for which markets are no longer active as a result of market conditions e.g. market illiquidity. When the markets are not active, there is generally no or limited observable market data for the financial investments. The determination of whether an active market exists for a financial investment requires management's judgment.

If the market for a financial investment of the Group is not active, the fair value is determined in full or in part by using valuation techniques. The Group establishes fair value for these financial investments by using quotations from independent third-parties, such as brokers or pricing services or by using internally developed pricing models. Priority is given to publicly available prices from independent sources, when available, but overall, the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The 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, if applicable, 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.

The fair values of financial investments, net of derivative liabilities, valued using a valuation technique either internally by the Group or by independent third-parties at December 31, 2008 was £40,252 million (2007: £33,822 million). Of these amounts, financial investments net of derivative liabilities with a fair value of £24,833 million (2007: £19,748 million) were held by the US operations. Financial investments valued using valuation techniques held by UK operations were £15,399 million

(2007: £14,139 million) and of this amount £14,695 million (2007: £13,580 million) related to securities held by with-profits operations and £704 million (2007: £559 million) related to securities held by the UK shareholder-backed business.

The majority of the financial investments valued using valuation techniques were debt securities. The debt securities include private debt securities such as private placements, project finance, asset securitizations and local authority securities. The securities are mainly long-dated and not regularly traded and are valued internally using market standard practices. The majority of the debt securities are valued using matrix pricing, which is based on assessing credit quality of the underlying borrower to derive a suitable discount rate relative to government securities. Under matrix pricing, the debt securities are priced by taking the credit spreads on comparable quoted public debt securities and applied to the equivalent debt instruments factoring a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

Debt securities valued using valuation techniques held for UK insurance operations were £13,026 million (2007: £11,149 million) and of this amount £12,341 million (2007: £10,640 million) related to securities held by with-profits operations and £685 million (2007: £509 million) related to securities held by the UK shareholder-backed business.

Of the debt securities valued using valuation techniques held by the UK with-profits fund of £12,341 million at December 31, 2008 (2007: £10,640 million), £8,647 million (2007: £7,638 million) have been priced by independent third parties and £3,694 million (2007: £3,002 million) determined using internal valuation techniques.

The debt securities held by the UK with-profits fund at December 31, 2008 of £12,341 million included US securities managed by PPM America with a value of £8,773 million. This amount comprised £8,738 million in respect of securities for which the fair value had been measured using valuation techniques for which all inputs significant to the measurement were based on observable market data. This categorization corresponds to "Level 2" assets under proposed amendments to IAS 39. £35 million was in respect of securities for which the fair value has been measured using valuation techniques for any input significant to the measurement was not based on observable market data i.e. "Level 3" securities.

For the UK operations, in accordance with the Group's Risk Management Framework, all internally generated calculations are subject to independent assessment by the Group's Fair Value Committees which comprise members who are independent of the fund managers involved in the day-to-day trading in these assets.

Of the debt securities valued using valuation techniques of £37,319 million (2007: £30,145 million) at December 31, 2008, debt securities with a fair value of £24,246 million (2007: £18,996 million) were held by the US insurance operations. The £24,246 million value at December 31, 2008 comprised "Level 2" and "Level 3" securities with values of £20,564 million and £3,681 million, respectively. Typical inputs used in pricing these debt securities include, but are not limited to, reported trades, benchmark yields, credit spreads, liquidity premiums, and/or estimated cash flows based on default and prepayment assumptions.

The majority of the debt securities of the US insurance operations are priced by independent pricing services and included as "Level 2" securities. As a result of typical trading volumes and the lack of quoted market prices for most debt securities, independent pricing services will normally derive the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable information. If there are no reported trades, the independent pricing services and brokers may use matrix or pricing model processes to

develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at relevant market rates.

Debt securities of US insurance operations valued using internally derived valuation techniques in 2008 include certain asset-backed securities which had previously been valued using prices provided by a pricing service or brokers in the context of active markets. The current market dislocations have caused a reassessment of the valuation process for these asset-backed securities. In particular, beginning at the end of the third quarter of 2008, the external prices obtained for certain asset-backed securities were deemed to be inappropriate in the current market conditions. For the valuations at December 31, 2008, the US operations therefore utilized internal valuation models, provided by PPM America, to derive fair values for all non-agency residential mortgage-backed securities and asset-backed securities and certain commercial mortgage-backed securities. Details of these asset-backed securities are provided in notes B4 and D3 to the consolidated financial statements. The techniques used by PPM America include cash flow models based on spreads and, when available, market indices. The models used begin with current spread levels of similarly-rated securities to determine the market discount rate for the security. Additional risk premiums for illiquidity and non-performance are incorporated, if warranted, and included in the discount rate. Cash flows, as estimated by PPM America using issuer-specific default statistics and prepayment assumptions, are discounted to determine an estimated fair value. The use of internal valuation models has resulted in a fair value of these securities that was higher than those provided from pricing services and brokers of £760 million on a total amortized cost of £3.5 billion.

The equity securities and other investments which included property and other partnerships in investment pools, venture investments and derivative assets and derivative liabilities are valued using valuation techniques which apply less readily observable market factors and more non-observable factors than the matrix pricing technique as used for the majority of the debt securities.

The total amount of the change in fair value estimation using valuation techniques, including valuation techniques based on assumptions not wholly supported by observable market prices or rates, recognized in the income statement in 2008 was a gain of £355 million (2007: gain of £288 million) for the with-profits fund investments. The gain in 2008 reflects an underlying loss which was more than offset by the exchange gains of the foreign currency denominated investments of the with-profits fund. Changes in values of assets of the with-profits funds are reflected in policyholder liabilities and unallocated surplus. Due to the liability accounting treatment of unallocated surplus, changes in values of securities held by with-profits funds have no direct effect on the profit or loss attributable to shareholders or shareholders' equity.

The total amount of the change in fair value estimation using valuation techniques, including those based on assumptions not wholly supported by observable market prices or rates, recognized in the income statement in 2008 and which was attributable to shareholders, was a loss of £685 million (2007: gain of £116 million).

Determining impairments relating to financial assets

Available-for-sale securities

1. Information regarding the 2008 and 2007 results

Financial investments carried on an available-for-sale basis are represented by Jackson's and debt securities portfolio. The consideration of evidence of impairment requires management's judgment. In making this determination the factors considered include, for example, whether the decline is substantial, the ability and intent to retain the investment long enough to allow for an estimated full recovery in value, the duration and extent to which the amortized cost exceeds fair value, the financial condition and prospects of the issuer, or any other objectively observable conditions that indicate that the investment may be impaired. For Jackson's residential mortgage-backed securities, the model used to

analyze cash flows, begins with the current delinquency experience of the underlying collateral pool for the structure, by applying assumptions about how much of the currently delinquent loans will eventually default, and multiplying this by an assumed loss severity. Additional factors are applied to anticipate ageing effect. After applying a cash flow simulation an indication is obtained as to whether or not the security has suffered a principal payment shortfall. If a shortfall applies an impairment charge is generally recorded.

Unrealized losses that are considered to be primarily the result of market conditions, such as increasing interest rate movements, unusual market volatility, or industry-related events, and where the Group also believes there is a reasonable expectation for recovery and, furthermore, it has the intent and ability to hold the investment until maturity or the market recovers, are usually determined to be temporary. Prudential's review of fair value involves several criteria including economic conditions, credit loss experience, other issuer-specific developments and future cash flows. These assessments are based on the best available information at the time. Factors such as market liquidity, the widening of bid/ask spreads and a change in cash flow assumptions can contribute to future price volatility. If actual experience differs negatively from the assumptions and other considerations used in the consolidated financial statements, unrealized losses currently in equity may be recognized in the income statement in future periods. See " Investments Determining the fair value of financial investments where the markets are not active".

In 2008 impairment losses recognized on available-for-sale securities amounted to £497 million (2007: £35 million). Of this amount, 8 per cent (2007: 14 per cent) has been recorded on structured asset-backed securities, primarily due to reduced cash flow expectations on such securities that are collateralized by diversified pools of primarily below investment grade securities. 27 per cent (2007: 57 per cent) of the losses related to the impairment of fixed maturity securities of the top five individual corporate issuers, reflecting a deteriorating business outlook of the companies concerned.

In 2008, the Group realized gross losses on sales of available-for-sale securities of £184 million (2007: £86 million). 55 per cent (2007: 46 per cent) of these losses related to the disposal of fixed maturity securities of six (2007: six) individual issuers, which were disposed of to rebalance the portfolio in the US operations in response to the unstable mortgage lending market in the US.

The effect of those reasonably likely changes in the key assumptions underlying the estimates that underpin the assessment of whether impairment has taken place depends on the factors described above. A key indicator of whether such impairment may arise in future, and the potential amounts at risk, is the profile of gross unrealized losses for fixed maturity and equity securities accounted for on an available-for-sale basis by reference to the time periods by which the securities have been held continuously in an unrealized loss position and by reference to the maturity date of the securities concerned.

The unrealized losses in the US insurance operations balance sheet on unimpaired fixed maturity securities classified as available-for-sale under IFRS were (£3,178) million at December 31, 2008 (2007: £(439) million). This reflects assets with fair market value and book value of £17,422 million and £20,600 million respectively.

The following table shows the fair value of the debt securities in a gross unrealized loss position for various percentages of book value and by maturity of security at December, 31, 2008:

Fair value of securities as a percentage of book value	2008 Fair value £m	2008 Unrealized loss £m	2007 Fair value £m	2007 Unrealized loss £m
Between 90% and 100%	**8,757**	**(431)**	9,370	(274)
Between 80% and 90%	**4,581**	**(809)**	784	(122)
Below 80%	**4,084**	**(1,938)**	137	(43)
	17,422	**(3,178)**	10,291	(439)

By maturity of security	2008 Unrealized loss £m	2007 Unrealized loss £m
Less than 1 year	**(21)**	(1)
1 to 5 years	**(537)**	(54)
5 to 10 years	**(1,236)**	(164)
More than 10 years	**(395)**	(60)
Mortgage-backed securities	**(989)**	(160)
Total	**(3,178)**	(439)

As shown in the table above, £1,938 million of the £3,178 million of gross unrealized losses at December, 31, 2008 related to securities whose fair value were below 80 per cent of the book value. The analysis of the £1,938 million, by category of debt securities and by age analysis indicating the length of time for which their fair value was below 80 per cent of the book value, are as follows:

Category analysis	2008 Fair value £m	2008 Unrealized loss £m	2007 Fair value £m	2007 Unrealized loss £m
Residential Mortgage-backed Securities				
Prime	**287**	**(115)**	2	(1)
Alt-A	**144**	**(127)**	27	(10)
Sub-prime	**48**	**(39)**		
	479	**(281)**	29	(11)
Commercial Mortgage-backed Securities	**198**	**(86)**	4	(1)
Other asset-backed securities	**811**	**(375)**	4	(1)
Total structured securities	**1,488**	**(742)**	37	(13)
Corporates	**2,596**	**(1,196)**	100	(30)
Total	**4,084**	**(1,938)**	137	(43)

Age analysis	2008 Fair value £m	2008 Unrealized loss £m	2007 Fair value £m	2007 Unrealized loss £m

Less than 3 months	**3,118**	**(1,364)**	137	(43)
3 months to 6 months	**696**	**(403)**		
More than 6 months	**270**	**(171)**		
	4,084	**(1,938)**	137	(43)

The following table shows the aged analysis for all the unrealized losses in the portfolio by reference to the length of time the securities have been in an unrealized loss position at December 31, 2008 and 2007:

Aged analysis of unrealized losses for the periods indicated	2008 Non-investment grade £m	2008 Investment grade £m	2008 Total £m	2007 Non-investment grade £m	2007 Investment grade £m	2007 Total £m
Less than 6 months	**(108)**	**(362)**	**(470)**	(9)	(58)	(67)
6 months to 1 year	**(125)**	**(1,164)**	**(1,289)**	(21)	(115)	(136)
1 year to 2 years	**(154)**	**(622)**	**(776)**	(2)	(21)	(23)
2 years to 3 years	**(15)**	**(91)**	**(106)**	(34)	(140)	(174)
3 years to 4 years	**(56)**	**(418)**	**(474)**	(1)	(8)	(9)
4 years to 5 years	**(5)**	**(31)**	**(36)**		(27)	(27)
5 years to 6 years		**(27)**	**(27)**			
6 years to 7 years				(1)	(2)	(3)
	(463)	**(2,715)**	**(3,178)**	(68)	(371)	(439)

Included within the table above are amounts relating to sub-prime and Alt-A securities of:

Fair value of securities as a percentage of book value	2008 Fair value £m	2008 Unrealized loss £m	2007 Fair value £m	2007 Unrealized loss £m
Between 90% and 100%	**479**	**(27)**	572	(24)
Between 80% and 90%	**120**	**(19)**	132	(22)
Below 80%	**192**	**(166)**	28	(10)
	791	**(212)**	732	(56)

Sub-prime and Alt-A securities with unrealized losses of £91 million (2007: £37 million) in the balance sheet at December 31, 2008 have been in an unrealized loss position for less than one year with the remaining securities with unrealized losses of £121 million (2007: £19 million) being in an unrealized loss position for more than one year.

2. Information regarding the position as at March 31, 2009

On May 14, 2009, Prudential published its first quarter 2009 Interim Management Statement with the UK Listing Authority. In light of the unusual prevailing credit market conditions, market participants' potential focus on Jackson's available-for-sale securities, and the changes to the value of such securities since December 31, 2008, this statement included details on the financial position as at March 31, 2009 as follows:

Defaults, losses from sales of impaired and deteriorating bonds and write-downs for non-linked shareholder backed business

In general, the debt securities of Jackson are purchased with the intention and the ability to hold them for the longer-term.

The majority of Jackson's debt securities are classified as available-for-sale under IAS 39. Under this classification realized losses from defaults, sales of impaired and deteriorating bonds and write-downs are recorded in the income statement. Changes in unrealized appreciation and depreciation are recorded as a movement directly in shareholders' equity.

Jackson continues to review its investments on a case-by-case basis to determine whether any decline in fair value represents an other-than-temporary impairment and therefore requiring an accounting write-down. IFRS requires available-for-sale debt securities which are impaired to be written down to fair value through the profit and loss account.

The defaults, losses on sales of impaired and deteriorating bonds (net of recoveries) and write-downs for the three months to March 31, 2009 were as follows:

	Defaults £m	Bond write downs £m	Losses on sales of impaired and deteriorating bonds (net of recoveries) £m
Corporate debt securities		82	17
Residential mortgage backed securities			
Prime		58	
Alt-A		6	
Sub-prime		6	
Other			(2)
		152	15

Debt securities in an unrealized loss position

For Jackson's securities classified as available-for-sale under IAS 39, at March 31, 2009 there was a net unrealized loss position of £3,225 million. This amount comprised £236 million of gross unrealized gains and £3,461 million of gross unrealized losses on individual securities. Under IFRS unrealized losses are only applicable for securities which have not been impaired during the period. Securities impaired during the period are written down to fair value through the profit and loss in full. The table above shows the element of write downs in 2009. Included within the gross unrealized losses is £2,290 million for securities which are valued at less than 80 per cent of book value, of which 77 per cent have been at this level for less than six months.

IFRS requires securities to be carried at fair value, being the amount for which the security would be exchanged between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value is quoted prices in an active market, but if the market is not active then a valuation technique is used to establish fair value.

Due to market illiquidity resulting from markets not being active, Jackson have since the third quarter 2008 valued certain structured securities using valuation techniques in accordance with IAS39. The techniques include discounted cash flow models and, where available, reflect the use of observable market data and other factors that are likely to affect the fair value of the securities. At March 31, 2009, for those securities where the use of internal valuation models is appropriate the determined value was £410 million higher than those provided from pricing services and brokers. At December 31, 2008 the equivalent amount for the relevant securities at that date was £760 million. The reduction primarily reflects an increased level of liquidity in certain sectors of the asset backed securities portfolio, which has enabled the use of external prices to be applied as the most appropriate measure of fair value.

(a)

Movements in the values for the three months to March 31, 2009:

Movements in the values of available-for-sale securities for the three months to March 31, 2009 are included in the table shown below:

		Changes reflected directly in shareholders' equity			
	March 31, 2009 £m	Movement in Quarter 1 £m	Foreign exchange translation* £m	Quarter 1 including foreign exchange £m	December 31, 2008 £m
Assets fair valued at below book value					
Book value	**18,808**	(1,855)	63	(1,792)	20,600
Unrealized loss	**(3,461)**	(272)	(11)	(283)	(3,178)
Fair value (as included in balance sheet)	**15,347**	(2,127)	52	(2,075)	17,422
Assets fair valued at or above book value					
Book value	**7.715**	1,399	20	1,419	6,296
Unrealized gain	**236**	(46)	1	(45)	281
Fair value (as included in balance sheet)	**7,951**	1,353	21	1,374	6,577
Total					
Book value	**26,523**	(456)	83	(373)	26,896
Net unrealized (loss) gain	**(3,225)**	(318)	(10)	(328)	(2,897)
Fair value (as included in balance sheet)*	**23,298**	(774)	73	(701)	23,999

(b)

Fair value of securities in an unrealized loss position as a percentage of book value

(i)

Fair value of securities as a percentage of book value

The unrealized losses in the Jackson balance sheet on unimpaired securities at March 31, 2009 were £3,461 million (December 31, 2008: £3,178 million) relating to assets with fair market value and book value of £15,347 million (December 31, 2008: £17,422 million) and £18,808 million (December 31, 2008: £20,600 million) respectively.

The following table shows the fair value of the securities in a gross unrealized loss position for various percentages of book value :

	Fair value March 31, 2009 £m	Unrealized loss March 31, 2009 £m	Fair value December 31, 2008 £m	Unrealized loss December 31, 2008 £m
Between 90% and 100%	**7,433**	**(424)**	8,757	(431)
Between 80% and 90%	**3,953**	**(747)**	4,581	(809)
Below 80%	**3,961**	**(2,290)**	4,084	(1,938)

15,347	**(3,461)**	17,422	(3,178)

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(ii)

Fair value of sub-prime and Alt-A securities as a percentage of book value

Included within the table above are amounts relating to sub-prime and Alt-A securities in a gross unrealized loss position for various percentages of book value of:

	Fair value March 31, 2009 £m	Unrealized loss March 31, 2009 £m	Fair value December 31, 2008 £m	Unrealized loss December 31, 2008 £m
Between 90% and 100%	**199**	**(9)**	479	(27)
Between 80% and 90%	**90**	**(15)**	120	(19)
Below 80%	**356**	**(308)**	192	(166)
	645	**(332)**	791	(212)

(c)

Securities whose fair value were below 80 per cent of the book value

As shown in the table above, £2,290 million (December 31, 2008: £1,938 million) of the £3,461 million (December 31, 2008: £3,178 million) of gross unrealized losses at March 31, 2009 related to securities whose fair value were below 80 per cent of the book value. The age analysis for this £2,290 million (December 31, 2008: £1,938 million), indicating the length of time for which their fair value was below 80 per cent of the book value, is as follows:

	Fair value March 31, 2009 £m	Unrealized loss March 31, 2009 £m	Fair value December 31, 2008 £m	Unrealized loss December 31, 2008 £m
Less than 3 months	**1,439**	**(743)**	3,118	(1,364)
3 months to 6 months	**1,877**	**(1,027)**	696	(403)
More than 6 months	**645**	**(520)**	270	(171)
	3,961	**(2,290)**	4,084	(1,938)

For securities valued at less than 80 per cent of book value, 83 per cent were investment grade. The analysis by category of debt securities whose fair value were below 80 per cent of the book value is as follows:

	Fair value March 31, 2009 £m	Unrealized loss March 31, 2009 £m	Fair value December 31, 2008 £m	Unrealized loss December 31, 2008 £m
RMBS				
Prime	**178**	**(159)**	287	(115)
Alt-A	**277**	**(246)**	144	(127)
Sub-prime	**80**	**(62)**	48	(39)
	535	**(467)**	479	(281)
Commercial mortgage backed securities	**813**	**(437)**	811	(375)
Other asset backed securities	**162**	**(187)**	198	(86)
Total structured securities	**1,510**	**(1,091)**	1,488	(742)
Corporates	**2,451**	**(1,199)**	2,596	(1,196)

	3,961	**(2,290)**	4,084	(1,938)

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* Balance sheet items for Jackson National Life have been translated at the closing rate for the period, being $1.43 at March 31, 2009. Jackson National Life income statement movements have been translated at the average exchange rate for the period, being $1.43 for three months to March 31, 2009.

Assets held at amortized cost

Financial assets classified as loans and receivables under IAS 39 are carried at amortized cost using the effective interest rate method. The loans and receivables include loans collateralized by mortgages, deposits and loans to policyholders. In estimating future cash flows, the Group looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks that has been adjusted for conditions in the historical loss experience which no longer exist or for conditions that are expected to arise. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred.

The risks inherent in reviewing the impairment of any investment include the risk that market results may differ from expectations; facts and circumstances may change in the future and differ from estimates and assumptions; or the Group may later decide to sell the asset as a result of changed circumstances.

Changes in estimates of credit risk in any reporting period could result in a change in the allowance for losses on the loans and advances.

Insurance contracts

Product classification

IFRS 4 requires contracts written by insurers to be classified as either "insurance contracts" or "investment contracts" depending on the level of insurance risk transferred. If significant insurance risk is transferred by the contract then it is classified as an insurance contract. Contracts that transfer financial risk but not significant insurance risk are termed investment contracts. Furthermore, some contracts, both insurance and investment, contain discretionary participation features representing the contractual right to receive additional benefits as a supplement to guaranteed benefits:

(a) that are likely to be a significant portion of the total contractual benefits;

(b) whose amount or timing is contractually at the discretion of the insurer; and

(c) that are contractually based on asset or fund performance, as discussed in IFRS 4.

Accordingly, insurers must perform a product classification exercise across their portfolio of contracts issued to determine the allocation to these various categories. IFRS 4 permits the continued usage of previously applied GAAP for insurance contracts and investment contracts with discretionary participating features. Except for UK regulated with-profits funds, as described below, this basis has been applied by the Group.

For investment contracts that do not contain discretionary participating features, IAS 39 and, where the contract includes an investment management element, IAS 18, apply measurement principles to assets and liabilities attaching to the contract.

Valuation assumptions

(i) Contracts of with-profits funds

The Group's insurance contracts and investment contracts with discretionary participating features are primarily with-profits and other protection type policies. For UK regulated with-profits funds, the contract liabilities are valued by reference to the FSA realistic basis. In aggregate this basis has the effect of placing a value on the liabilities of UK with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the with-profits funds and current circumstances.

The basis of determining liabilities for the Group's with-profits business has little or no effect on the results attributable to shareholders. This is because movements on liabilities of the with-profits funds are absorbed by the unallocated surplus. The unallocated surplus represents the excess of assets over liabilities that have yet to be appropriated between policyholders and shareholders. Except through indirect effects, or in remote circumstances as described below, changes to liability assumptions are therefore reflected in the carrying value of the unallocated surplus, which is accounted for as a liability, rather than shareholders' equity.

A detailed explanation of the basis of liability measurement is contained in note D2(g)(ii) to the consolidated financial statements. Key elements of the value placed on the liabilities are that:

(a) The component for the with-profits benefit reserve is based on retrospective calculation of documented asset shares. Asset shares are calculated as the accumulation of all items of income and outgo that are relevant to each policy type; and

(b) The component for future policyholder related liabilities includes a market consistent valuation of costs and guarantees, options and smoothing determined using either a stochastic approach, hedging costs or a series of deterministic projections with attributed probabilities.

The Group's other with-profits contracts are written in with-profits funds that operate in some of the Group's Asian operations. The liabilities for these contracts and those of Prudential Annuities Limited, which is a subsidiary company of the PAC with-profits funds, are determined differently. For these contracts the liabilities are estimated using actuarial methods based on assumptions relating to premiums, interest rates, investment returns, expenses, mortality and surrenders. The assumptions to which the estimation of these reserves is particularly sensitive are the interest rate used to discount the provision and the assumed future mortality experience of policyholders.

For liabilities determined using the basis described above for UK regulated with-profits funds, and the other liabilities described in the preceding paragraph, changes in estimates arising from the likely range of possible changes in underlying key assumptions have no direct impact on the reported profit.

This lack of sensitivity reflects the with-profits fund structure, basis of distribution, and the application of previous GAAP to the unallocated surplus of with-profits funds as permitted by IFRS 4. Changes in liabilities of these contracts that are caused by altered estimates are absorbed by the unallocated surplus of the with-profits funds with no direct effect on shareholders' equity. The Company's obligations and more detail on such circumstances are described in note H14 to the consolidated financial statements.

(ii) Other contracts

Contracts, other than those of with-profits funds, are written in shareholder-backed operations of the Group. The significant shareholder-backed product groupings and the factors that may significantly affect IFRS results due to experience against assumptions or changes of assumptions vary significantly between business units. For some types of business the effect of changes in assumptions may be significant, whilst for others, due to the nature of the product, assumption setting may be of less significance. The nature of the products and the significance of assumptions are discussed in notes D2, D3 and D4 to the consolidated financial statements. From the perspective of shareholder's results, the key sensitivities relate to assumptions for allowance for credit risk for UK annuity business and assumed future investment returns for the Taiwan life operation.

Jackson

Jackson offers individual fixed annuities, fixed index annuities, immediate annuities, variable annuities, individual and variable life insurance and institutional products. With the exception of institutional products and an incidental amount of business for annuity certain contracts, which are

accounted for as investment contracts under IAS 39, all of Jackson life assurance contracts are accounted for under IFRS 4 as insurance contracts by applying US GAAP, the previous GAAP used before IFRS adoption. Under US GAAP the requirements of SFAS 60 'Accounting and Reporting for Insurance Enterprises' and SFAS 97 'Accounting and Reporting by Insurance Enterprises for certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments' apply to these contracts. The accounting requirements under these standards and the effect of changes in valuation assumptions are considered below for fixed annuity, variable annuity and traditional life insurance contracts.

Fixed annuity contracts, which are treated as investment contracts under US GAAP terminology, are accounted for by applying in the first instance a retrospective deposit method to determine the liability for policyholder benefits. This is then augmented by potentially three additional amounts, namely deferred income, any amounts previously assessed against policyholders that are refundable on termination of the contract, and any premium deficiency, i.e., any probable future loss on the contract. These types of contract contain considerable interest rate guarantee features. Notwithstanding the accompanying market risk exposure, except in the circumstances of interest rate scenarios where the guarantee rates included in contract terms are higher than crediting rates that can be supported from assets held to cover liabilities, the accounting measurement of Jackson's fixed annuity products is not generally sensitive to interest rate risk. This position derives from the nature of the products and the US GAAP basis of measurement.

Variable annuity contracts written by Jackson may provide for guaranteed minimum death, income, or withdrawal benefit features. In general terms, liabilities for these benefits are accounted for under US GAAP by using estimates of future benefits and fees under best estimate assumptions. For variable annuity business the key assumption is the expected long-term level of equity market returns which for 2008 and 2007 was 8.4 per cent per annum (net of fund management fees) determined using a mean reversion methodology. This rate reflects a long-term assumption applied from year to year that is appropriate in the context of 'grandfathered' US GAAP under IFRS 4 for accounting for Jackson's insurance assets and liabilities. Under the mean reversion methodology, projected returns over the next five years are flexed (subject to capping) so that, combined with the actual rates of return for the current and the previous two years the 8.4 per cent rate is maintained. The projected rates of return are capped at no more than 15 per cent for each of the next five years. Further details are explained in note D3(i) to the consolidated financial statements.

These returns affect the level of future expected profits through their effects on the fee income with consequential impact on the amortization of deferred acquisition costs as described below and the required level of provision for guaranteed minimum death benefit claims.

For traditional life insurance contracts, provisions for future policy benefits are determined under SFAS 60 using the net level premium method and assumptions as of the issue date as to mortality, interest, policy lapses and expenses plus provisions for adverse deviation.

Except to the extent of mortality experience, which primarily affects profits through variations in claim payments and the guaranteed minimum death benefit reserves, the profits of Jackson are relatively insensitive to changes in insurance risk.

Asian operations

The insurance products written in the Group's Asian operations principally cover with-profits business, unit-linked business, and other non-participating business. The results of with-profits business are relatively insensitive to changes in estimates and assumptions that affect the measurement of policyholder liabilities. As for the UK business, this feature arises because unallocated surplus is accounted for by the Group as a liability. The results of Asian unit-linked business are also relatively insensitive to changes in estimates or assumptions.

The principal non-participating business in the Group's Asian operations, for which changes in estimates and assumptions are important from year to year, is the traditional whole-life business written in Taiwan. The premiums for the in-force business for these contracts have been set by the regulator at different points for the industry as a whole. Premium rates were set to give a guaranteed minimum sum assured on death and a guaranteed surrender value on early surrender based on prevailing interest rates at the time of policy issue. Premium rates also included an allowance for mortality and expenses. The required rates of guarantee have fallen over time as interest rates have reduced from a high of eight per cent to current levels of around 1.4 per cent. The current low bond rates in Taiwan gives rise to a negative spread against the majority of these policies. The current cash costs of funding in-force negative spread in Taiwan is around £50 million a year.

The profits attaching to these contracts are particularly affected by the rates of return earned, and estimated to be earned on, the assets held to cover liabilities and on future investment income and contract cash flows. Under IFRS, the insurance contract liabilities of the Taiwan business are determined on the US GAAP basis as applied previously under UK GAAP. Under this basis the policy liabilities are calculated on sets of assumptions, which are locked-in at the point of policy inception, and a deferred acquisition cost asset is held in the balance sheet.

The adequacy of the insurance contract liabilities is tested by reference to best estimates of expected investment returns on policy cash flows and reinvested income. The assumed earned rates are used to discount the future cash flows. The assumed earned rates consist of a long-term best estimate determined by consideration of long-term market conditions and rates assumed to be earned in the trending period. In determining the long-term estimate, external advice of expert macroeconomic consultants has been obtained. At December 31, 2008, it has been assumed that the longer-term bond rate of 5.5 per cent will be attained by December 31, 2018 (2007: 5.5 per cent by December 31, 2013)

The liability adequacy test results are sensitive to the attainment of the trended rates during the trending period and the level of the projected long-term rate. Based on the current asset mix, margins in other contracts that are used in the assessment of the liability adequacy tests and currently assumed future rates of return, if interest rates were to remain at current levels in 2009 and 2010 and the target date for attainment of the long-term bond yield deferred to December 31, 2020, the premium reserve, net of deferred acquisition costs, would be sufficient. If interest rates were to remain at current levels beyond the end of 2009 with the date of the attainment of the long-term rate further delayed, the margin within the net GAAP reserve will reduce further.

However, the need to write off deferred acquisition costs or increase the liabilities, and by how much, would be affected by the impact of new business written between December 31, 2008 and the future reporting dates to the extent that the business is taken into account as part of the liability adequacy testing calculations for the portfolio of contracts.

The adequacy of the liability is also sensitive to the level of the projected long-term rate on bonds. The current long-term assumption of 5.5 per cent has been determined on a prudent best estimate basis by reference to detailed assessments of the financial dynamics of the Taiwanese economy. In the event that the rate applied was altered, the carrying value of the deferred acquisition costs and policyholder liabilities would potentially be affected.

At December 31, 2008, if the assumed long-term bond yield applied had been reduced by both 0.5 per cent and 1.0 per cent from 5.5 per cent and continued to apply the same progression period to December 31, 2018, by assuming bond yields increase from current levels in equal annual installments to the long-term rate, the premium reserve, net of deferred acquisition costs, would have been sufficient. An additional 0.5 per cent reduction in the assumed long-term rate from 4.5 per cent to 4.0 per cent would lead to a charge of some £150 million.

Whole of life contracts with floor levels of policyholder benefits that accrue at rates set at inception are also written in the Korean life operations, though to a much less significant extent than in Taiwan. The business is much less sensitive to returns than Taiwan with the higher proportion of linked and health business.

The other area of note in respect of guarantees is the Japanese business where pricing rates are higher than current bond yields. Lapse risk is a feature in that policyholders could potentially surrender their policies on guaranteed terms if interest rates significantly increased leaving the potential for losses if bond values had depreciated significantly. However, the business is matched to a relatively short realistic liability duration.

For the Korean and Japanese life business exposures described above, the results are comparatively unaffected by changes of assumption. The accounts basis value of liabilities for both operations are of a similar order of magnitude to those that apply for the purposes of Group solvency calculations under the IGD.

Deferred acquisition costs

Significant costs are incurred in connection with acquiring new insurance business. Except for acquisition costs of with-profits contracts of the UK regulated with-profits funds, which are accounted for under the realistic FSA regime, these costs, which very with, and are primarily related to, the production of new business, are capitalized and amortized against margins in future revenues on the related insurance policies. The recoverability of the asset is measured and the asset is deemed impaired if the projected future margins are less than the carrying value of the asset. To the extent that the future margins differ from those anticipated, then an adjustment to the carrying value of the deferred acquisition cost asset will be necessary.

The deferral and amortization of acquisition costs is of most relevance to the Group's results for shareholder-financed long-term business of Jackson and Asian operations. The majority of the UK shareholder-backed operations is for individual and group annuity business where the incidence of acquisition costs is negligible.

Jackson

For term business, acquisition costs are deferred and amortized in line with expected premiums. For annuity business, acquisition costs are deferred and amortized in line with expected gross profits on the relevant contracts. For interest-sensitive business, the key assumption is the long-term spread between the earned rate and the rate credited to policyholders, which is based on the annual spread analysis. In addition, expected gross profits depend on mortality assumptions, assumed unit costs and terminations other than deaths (including the related charges), all of which are based on a combination of actual experience of the Jackson companies, industry experience and future expectations. A detailed analysis of actual experience is measured by the internally developed mortality studies.

For variable annuity business, as described above, the key assumption is the expected long-term level of equity market returns, which for 2008 and 2007 was 8.4 per cent per annum determined using a mean reversion methodology.

Asian operations

The key shareholder-backed Asian operation is the Taiwan life business. In 2008, a number of changes have been made to the basis of estimating the level of deferred acquisition costs, as described in note D4(i)(b) to the consolidated financial statements.

The carrying value of the deferred acquisition costs of the Taiwan operation are potentially sensitive to changes in current assumed future interest rates as described above.

There was no write-off of DAC made in 2008 or 2007.

Pensions

The Group applies the requirements of IAS 19, "Employee Benefits" to its defined benefit pension schemes. Due to the inclusion of actuarial gains and losses in the income statement rather than being recognized directly in equity, the results of the Group are affected by changes in interest rates for corporate bonds that affect the rate applied to discount projected pension payments and changes in mortality assumptions.

The economic participation in the surplus or deficits attaching to the main Prudential Staff Pension Scheme ("PSPS") and the smaller Scottish Amicable Pension Scheme ("SAPS") are shared between the PAC WPSF and shareholder operations. The economic interest reflects the source of contributions over the scheme life, which in turn reflects the activity of the members during their employment.

In the case of PSPS, movements in the apportionment of the surplus or deficit for PSPS between the WPSF and shareholders' funds in 2008 reflect the 70/30 ratio applied to the base deficit position as at December 31, 2005 but with service cost and contributions for ongoing service apportioned by reference to the cost allocation for activity of current employees.

For SAPS the ratio is estimated to be 50/50 between the WPSF and shareholders' funds.

On January 1, 2008, the Group adopted IFRIC 14 'IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. IFRIC 14 provides guidance on the recognition of IAS 19 surpluses in, and funding obligations for, defined benefit pension schemes. As a result of the adoption of this interpretation, in respect of the position at December 31, 2008, the Group did not recognize the underlying PSPS pension surplus of £728 million (£615 million net of deferred tax), reflecting the difference between the market value of the scheme assets and the discounted value of the liabilities, which would have otherwise been recognized as an asset on its balance sheet under the previous policy. In addition, the Group recognized a liability for deficit funding to April 5, 2010 of £65 million (£55 million net of deferred tax) in respect of PSPS. Of these, the amounts attributable to shareholders were £223 million (£160 million net of deferred tax) for the surplus not recognized as an asset and £20 million (£15 million net of deferred tax) for the additional liability for deficit funding. In total the impact on shareholders' equity at December 31, 2008 was a reduction of £175 million.

The table below shows the sensitivity of the underlying PSPS, Scottish Amicable and M&G pension scheme liabilities at December 31, 2008, of £4,075 million, £398 million and £180 million respectively to changes in discount rates and inflation rates.

Assumption	Change in assumption	Impact on scheme liabilities on IAS 19 basis	
Discount rate	Decrease by 0.2% from 6.1% to 5.9%	Increase scheme liabilities by:	
		PSPS	3.3%
		Scottish Amicable	4.9%
		M&G	4.5%
Discount rate	Increase by 0.2% from 6.1% to 6.3%	Decrease scheme liabilities by:	
		PSPS	3.1%
		Scottish Amicable	4.6%
		M&G	4.2%
Rate of inflation	Decrease by 0.2% from 3.0% to 2.8%	Decrease scheme liabilities by 1.3%	
	with consequent reduction in salary	PSPS	0.8%
	increases	Scottish Amicable	4.5%
		M&G	3.8%

Deferred tax

Deferred tax assets are recognized to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets. For the 2008 results and balance sheet position at December 31, 2008, the possible tax benefit of approximately £211 million (2007: £280 million), which may arise from capital losses valued at approximately £1 billion (2007: £1.4 billion), is sufficiently uncertain that it has not been recognized. In addition, a potential deferred tax asset of £678 million (2007: £112 million), which may arise from tax losses and other potential temporary differences totaling £2.2 billion (2007: £350 million), is sufficiently uncertain that it has not been recognized.

Goodwill

Goodwill impairment testing requires the exercise of judgment by management as to prospective future cash flows. Further analysis is provided in note H1 to the consolidated financial statements.

Other features of IFRS accounting that are of particular significance to an understanding of Prudential's results

The other features that are of significance relate to the timing of adoption of certain IFRS standards and their consequential impact upon the financial statements; the accounting for UK with-profits funds; and the presentation of certain items in the financial statements.

Insurance contract accounting

With the exception of certain contracts described in note D1 to the consolidated financial statements, the Group's life assurance contracts are classified as insurance contracts and investment contracts with discretionary participating features. As permitted by IFRS 4, assets and liabilities of these contracts (see below) are accounted for under previously applied generally accepted financial principles ("GAAP"). Accordingly, except as described below, the modified statutory basis ("MSB") of reporting as set out in the revised Statement of Recommended Practice ("SORP") issued by the ABI in November 2003 has been applied.

The application of previously applied GAAP is of particular relevance to the treatment of the unallocated surplus, overseas operations and product options and guarantees.

Unallocated surplus represents the excess of assets over policyholder liabilities for the Group's with-profits funds that have yet to be appropriated between policyholders and shareholders. The Group has opted to account for unallocated surplus wholly as a liability with no allocation to equity. This treatment reflects the fact that shareholders' participation in the cost of bonuses arises only on distribution. Shareholder profits on with-profits business reflect one-ninth of the cost of declared bonus.

For Jackson, applying the MSB as applicable to overseas operations, the assets and liabilities of insurance contracts are accounted for under insurance accounting prescribed by US GAAP. For the assets and liabilities of insurance contracts of Asian operations, the local GAAP is applied with adjustments, where necessary, to comply with UK GAAP. For the operations in Taiwan, Vietnam and Japan, countries where local GAAP is not appropriate in the context of the previously applied MSB, accounting for insurance contracts is based on US GAAP. For participating business the liabilities include provisions for the policyholders' interest in realized investment gains and other surpluses that, where appropriate, and in particular for Vietnam, have yet to be declared as bonuses.

The usage of these bases of accounting has varying effects on the way in which product options and guarantees are measured. For UK regulated with-profits funds, options and guarantees are valued on a market consistent basis. The basis is described in note D2(g)(ii) to the consolidated financial statements. For other operations a market consistent basis is not applied under the accounting basis described in note A4. Details of the guarantees, basis of setting assumptions, and sensitivity to altered assumptions are described in notes D3 and D4 to the consolidated financial statements.

Valuation and accounting presentation of fair value movements of derivatives and debt securities of Jackson

Under IAS 39, derivatives are required to be carried at fair value. Unless net investment hedge accounting is applied, value movements on derivatives are recognized in the income statement. Except in respect of variable annuity business, the value movements on derivatives held by Jackson are separately identified within the short-term fluctuations in investment returns identified as part of the Group's supplementary analysis of results described under "Item 5" Additional analysis of consolidated results reflecting the basis used by management and reported externally to UK shareholders and the UK financial market". Derivative value movements in respect of variable annuity business are included within the operating profit based on longer-term investment returns also as described in that additional analysis section.

For derivative instruments of Jackson, the Group has considered at length whether it is appropriate to undertake the necessary operational changes to qualify for hedge accounting so as to achieve matching of value movements in hedging instruments and hedged items in the performance statements. In reaching the decision a number of factors were particularly relevant. These were:

- IAS 39 hedging criteria has been designed primarily in the context of hedging and hedging instruments that are assessable as financial instruments that are either stand-alone or separable from host contracts, rather than, for example, duration characteristics of insurance contracts;

- the high hurdle levels under IAS 39 of ensuring hedge effectiveness at the level of individual hedge transactions for specific transactions;

- the difficulties in applying the macro hedge provisions under IAS 39 (which are more suited to banking arrangements) to Jackson's derivative book;

- the complexity of asset and liability matching of US life insurers such as those with Jackson's product range; and finally

- whether it is possible or desirable, without an unacceptable level of costs and restraint on commercial activity, to achieve the accounting hedge effectiveness required under IAS 39.

In this regard, the issues surrounding the IAS 39 application are very similar to those considered by other US life insurers when the US financial reporting standards SFAS 133 was first applied for US GAAP reporting. Taking account of these considerations the Group has decided that, except for certain minor categories of derivatives, it is not appropriate to seek to achieve hedge accounting under IAS 39. As a result of this decision, the total income statement results are more volatile as the movements in the value of Jackson's derivatives are reflected within it.

Under IAS 39, unless carried at amortized cost (subject to impairment provisions where appropriate) under the held-to-maturity category, debt securities are also carried at fair value. The Group has chosen not to classify any financial assets as held-to-maturity. Debt securities of Jackson are designated as available-for-sale with value movements, unless impaired, being recorded as movements within shareholders' equity. Impairments are recorded in the income statement.

Accounting for with-profits business

For with-profits business (including non-participating business of Prudential Annuities Limited which is owned by the PAC with-profits fund), adjustments to liabilities and any related tax effects are recognized in the income statement. However, except for any impact on the annual declaration of bonuses, shareholder profit for with-profits business is unaffected. This is because IFRS basis profits for with-profits business, which are determined on the same basis as on preceding UK GAAP, solely reflect one-ninth of the cost of bonuses declared for the year.

Adjustments to the long-term business provision for the PAC with-profits fund would normally reflect changes that have also been reflected in the annual regulatory returns submitted to the FSA. Except to the extent of any second order effects on other elements of the regulatory returns, such changes can be expected to have a consequent effect on the excess of assets over liabilities of the fund for the purposes of solvency calculations, and the related free asset ratio which is an indicator of the overall financial strength of the fund. Similar principles apply to the Group's Asian with-profits business.

Profits Recognition

As outlined in " Analysis by Business Segment and Geographic Region United Kingdom Basis of Profits" below, Prudential's results include an annual profit distribution to shareholders from long-term with-profits funds that represents an amount of up to one-ninth of the value of that year's bonus declarations to policyholders. The distribution corresponds directly to the post-tax basis profit for with-profits business. The boards of directors of the subsidiary companies that have with-profits operations, using actuarial advice, determine the amount of annual and final bonuses to be declared each year on each group of contracts.

Unallocated surplus

As discussed above, the unallocated surplus represents the excess of assets over policyholder liabilities of the Group's with-profits funds. The annual excess or shortfall of income over expenditure of the with-profits funds after declaration and attribution of the cost of bonuses to policyholders and shareholders is transferred to, or from, the unallocated surplus through a charge or credit to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance of the unallocated surplus is determined after full provision for deferred tax on unrealized appreciation on investments.

Changes to the level of the unallocated surplus do not directly impact shareholders' results or funds. After allowing for differences in the basis of preparation of the financial statements and UK regulatory returns, movements in the level of the unallocated surplus are broadly indicative of movements in the excess of regulatory basis assets over liabilities of the fund. In turn, movements in this excess as a proportion of liabilities are indicative of changes in the financial strength of the fund. Differences in the basis of preparation of financial statements and UK regulatory returns arise principally from the treatment of certain regulatory basis liabilities, such as mismatching reserves (that are accounted for as reserves within the unallocated surplus), recognition of deferred acquisition costs in the financial statements, and asset valuation differences and admissibility deductions reflected in the regulatory returns.

Fair Value of Assets

Changes in the fair value of assets of Prudential's long-term with-profits funds will primarily be reflected in the excess of assets over liabilities recorded as the unallocated surplus. Shareholders' profits from with-profits business and shareholders' funds are not directly impacted by movements in the fair values of the assets. However, current investment performance is a factor that is taken into account in

the setting of the annual declaration of bonuses which, in turn, affects UK shareholder profits to the extent of one-ninth of the cost of bonus.

Changes in the fair value of assets of unit-linked (separate account) funds are normally accompanied by a matching change in unit-linked business liabilities that is also recognized in the income statement.

Investment Returns

For with-profits business, investment returns together with other income and expenditure are recorded within the income statement. However, the difference between net income of the fund and the cost of bonuses and related statutory transfers is reflected in an amount transferred to or from the unallocated surplus within the income statement. Except to the extent of current investment returns being taken into account in the setting of bonus policy, the investment returns of with-profits fund in a particular year do not affect shareholder profits or with-profits funds.

Presentation of results before tax

The total tax charge for the Group reflects tax that in addition to relating to shareholders' profits is also attributable to policyholders and unallocated surplus of with-profits funds and unit-linked policies. This is explained in more detail in note F5 to the consolidated financial statements. However, pre-tax profits are determined after transfers to or from unallocated surplus of with-profits funds. These transfers are in turn determined after taking account of tax borne by with-profits funds. Consequently reported profit before the total tax charge is not representative of pre-tax profits attributable to shareholders. In order to provide a measure of pre-tax profits attributable to shareholders the Group has chosen to adopt an income statement presentation of the tax charge and pre-tax results that delineates between policyholder and shareholder components.

Overview of Consolidated Results

Introduction

The following table shows Prudential's IFRS consolidated total profit for the periods indicated.

	Year Ended December 31,		
	2008	**2007***	**2006***
	£m	**£m**	**£m**
Total revenue, net of reinsurance	**(10,267)**	32,870	35,044
Total charges, net of reinsurance	**8,193**	(31,812)	(32,933)
(Loss) profit before tax *(being tax attributable to shareholders' and policyholders' returns)***	**(2,074)**	1,058	2,111
Tax attributable to policyholders' returns	**1,624**	5	(830)
(Loss) profit before tax attributable to shareholders	**(450)**	1,063	1,281
Tax credit (charge)	**1,683**	(349)	(1,195)
Less: tax credit (charge) attributable to policyholders' returns	**(1,624)**	(5)	830
Tax credit (charge) attributable to shareholders' profits	**59**	(354)	(365)
(Loss) profit from continuing operations after tax	**(391)**	709	916
Discontinuing operations (net of tax)		241	(105)
(Loss) profit for the year	**(391)**	950	811

*

The Company has adopted the principles of IFRIC 14 in accounting for pension schemes. This adoption gives rise to consequential changes to the comparative results for 2007 and 2006.

**

This measure is the formal (loss) profit before tax measure under IFRS but is not the result attributable to shareholders.

Basis of preparation of overview

In Prudential's interim and annual financial statements that appear in Prudential's distributions to UK shareholders and the UK financial market, and in Prudential's preliminary results release and its UK Annual Report, the structure of the operating and financial review has been prepared in accordance with the basis for financial reporting used by Prudential's management. Prudential's management analyze IFRS profit before shareholder tax between management's chosen performance measure of operating profit based on longer-term investment returns and other items.

In preparing this Form 20-F, it has been necessary for the structure of the overview of the consolidated results to be reconfigured to meet US reporting requirements.

Under IFRS the pre-tax GAAP measure of profits is profit before policyholder and shareholder taxes. This measure is not relevant for reflecting pre-tax results attributable to shareholders for two reasons. First, this profit measure represents the aggregate of pre-tax results attributable to shareholders and a pre-tax amount attributable to policyholders. Second, the amount is determined after charging the transfer to the liability for unallocated surplus, which in turn is determined in part by policyholder taxes borne by the ring-fenced with-profits funds. It is noted that this circular feature is specific to with-profits funds in the UK, and other similarly structured overseas funds, and should be distinguished from other products, which are referred to as 'with-profits' and the general accounting treatment of premium or other policy taxes.

Accordingly, Prudential has chosen to explain its consolidated results by reference to profits for the year, reflecting profit after tax for continuing and discontinued operations. In explaining movements in profit for the year reference is made to trends in profit before shareholder tax and the shareholder tax charge.

Loss for the year

Loss for 2008 was £391 million compared with a profit of £950 million in 2007. This £1,341 million decrease reflects a movement from a profit from continuing operations after tax of £709 million in 2007 to a loss from continuing operations of £391 million in 2008 and a profit from discontinued operations of £241 million in 2007.

The movement from a profit to a loss from continuing operations after tax reflects a movement from a profit to a loss before tax attributable to shareholders of £1,513 million, from a profit of £1,063 million in 2007 to a loss of £450 million in 2008, partially offset by a £413 million decrease in the tax attributable to shareholders, which fell from a charge of £354 million in 2007 to a credit of £59 million in 2008. The effective tax rate in 2008 was 13 per cent compared with 33 per cent in 2007. Further details are provided in note F5 to the consolidated financial statements.

The movement from a profit before tax attributable to shareholders on continuing operations to a loss in 2008 reflects an increase in underlying profits (as described in the additional analysis of consolidated results reflecting the basis used by management and reported externally to UK shareholders and the UK financial market) on continuing operations of £146 million, from £1,201 million in 2007 to £1,347 million in 2008, which was more than offset primarily by a £1,646 million negative movement in short-term fluctuations in investment returns taken to income, which increased from a charge of £137 million in 2007 to a charge of £1,783 in 2008.

Profit for 2007 was £950 million compared with £811 million in 2006. This £139 million increase reflects an increase of £346 million in the net of tax result for discontinued operations, from a loss of £105 million in 2006 to a profit of £241 million reported in 2007, which was partially offset by a decrease in the profit from continuing operations after tax of £271 million, from £916 million to £709 million.

The decrease in profit from continuing operations after tax reflects a decrease in profits before tax attributable to shareholders of £218 million, from £1,281 million in 2006 to £1,063 million in 2007, partially offset by a £11 million decrease in the tax charge attributable to shareholders, which fell from £365 million in 2006 to £354 million in 2007. The effective tax rate in 2007 was 33 per cent compared with 28 per cent in 2006, both of which were similar to the expected tax rates. Further details are provided in note F5 to the consolidated financial statements.

The decrease in profit before tax attributable to shareholders on continuing operations in 2007 reflects an increase in underlying profits (as described in the additional analysis of consolidated results reflecting the basis used by management and reported externally to UK shareholders and the UK financial market) on continuing operations of £151 million, from £1,050 million in 2006 to £1,201 million in 2007, which was more than offset by a £77 million negative movement against the prior year in actuarial gains and losses on defined benefit pension schemes, from a gain of £76 million in 2006 to a loss of £1 million in 2007, and a negative movement in short-term fluctuations in investment returns taken to income, which decreased £292 million from a £155 million credit in 2006 to a £137 million charge in 2007.

Discontinued operations in 2007 and 2006 relate to the discontinued banking operations.

Analysis by Business Segment and Geographic Region

The Group's reportable segments are based on the organizational structure used by management for making operating and investment decisions and for assessing performance. The Group's business segments are insurance operations, asset management and, prior to the disposal of Egg, banking whilst its geographical segments comprise the territories in which the Group conducts business, which are the United Kingdom, the United States and Asia.

The following table shows Prudential's IFRS consolidated total loss (profit) for the periods indicated divided by business segment and geographic region. The accounting policies applied to the segments below are the same as those used in the Group's consolidated accounts and are described in note A4 to the consolidated financial statements.

Total (loss) profit for the year reflecting (loss) profit after tax for continued and discontinued operations:

2008	**UK £m**	**US £m**	**Asia £m**	**Total £m**
Insurance operations	**313**	**(580)**	**19**	**(248)**
Asset management	**55**	**1**	**39**	**95**
Unallocated corporate	**(238)**			**(238)**
Total (loss) profit from continuing operations	**130**	**(579)**	**58**	**(391)**
Discontinued operations				
Total (loss) profit for the year	**130**	**(579)**	**58**	**(391)**

2007	**UK £m**	**US £m**	**Asia £m**	**Total £m**
Insurance operations	305	300	55	660
Asset management	182	4	57	243
Unallocated corporate	(194)			(194)
Total profit from continuing operations	293	304	112	709
Discontinued operations	241			241
Total profit for the year	534	304	112	950

2006	UK £m	US £m	Asia £m	Total £m
Insurance operations	317	301	227	845
Asset management	166	22	37	225
Unallocated corporate	(154)			(154)
Total profit from continuing operations	329	323	264	916
Discontinued operations	(105)			(105)
Total profit for the year	224	323	264	811

Loss from insurance operations

Total loss from insurance operations in 2008 was £248 million compared to a profit of £660 million in 2007. This movement was driven by a movement in profit before shareholder tax from a profit of £1,003 million in 2007 to a loss of £193 million in 2008, which was partially offset by a decrease in the shareholder tax charge from £343 million in 2007 to £55 million in 2008.

The effective shareholder tax rate on (losses) profits from continuing insurance operations decreased from 34 per cent in 2007 to (28) per cent in 2008 resulting from a number of factors including:

in Asia, tax losses which are not expected to be available against future profits and losses on investments in jurisdictions which do not provide corresponding tax relief;

in the US, the inability to fully recognize deferred tax assets on losses being carried forward; and

in the UK, prior year adjustments arising from routine revisions of tax returns, the settlement of outstanding issues with HM Revenue and Customs and the different tax bases for UK life business partially offset by the inability to recognize a deferred tax asset on various tax losses.

Total profit from insurance operations in 2007 was £660 million compared to £845 million in 2006. This decrease was driven by a 15 per cent decrease in profit before shareholder tax, from £1,186 million in 2006 to £1,003 million in 2007, and an increase in the shareholder tax charge from £341 million in 2006 to £343 million in 2007.

The effective shareholder tax rate on profits from continuing insurance operations increased from 29 per cent in 2006 to 34 per cent in 2007 resulting from a number of factors including disallowed expenses and prior year adjustments in the UK, and tax losses in Asia which are not expected to be available against future profits.

In order to understand how Prudential's results are derived it is necessary to understand how profit emerges from its business. This varies from region to region, primarily due to differences in the nature of the products and regulatory environment in which Prudential operates.

United Kingdom

Basis of profits

Prudential's results comprise an annual profit distribution to shareholders from its UK long-term with-profits fund, hereafter referred to as the with-profits fund, as well as profits from its other businesses. For most of Prudential's operations, other than its UK long-term insurance businesses, the IFRS basis of accounting matches items of income and related expenditure within the same accounting period. This is achieved through the deferral of acquisition costs and application of the accruals concept.

With-profits products

For Prudential's UK insurance operations, the primary annual contribution to shareholders' profit comes from its with-profits products. With-profits products are designed to provide policyholders with smoothed investment returns through a mix of annual and final bonuses. Shareholders' profit in respect of bonuses from with-profits products represents an amount of up to one-ninth of the value of that year's bonus declaration to policyholders. The smoothing inherent in the bonus declarations provides for relatively stable annual shareholders' profit from this business.

Bonus rates

The main factors that influence the determination of bonus rates are the return on the investments of the with-profits fund, the effect of inflation, taxation, the expenses of the fund chargeable to policyholders and the degree to which investment returns are smoothed. The overall rate of return earned on investments and the expectation of future investment returns are the most important influences on bonus rates. The assets backing the with-profits business are predominantly invested in equities and real estate. If the financial strength of the with-profits fund were adversely affected, then a higher proportion of fixed interest or similar assets might be held by the fund.

Unallocated surplus

The annual excesses of premiums and investment returns over claim payments, operating expenses and the change in policyholder provisions within Prudential's with-profits fund that are not distributed in that year as bonuses and related shareholders' profit are transferred to the liability for unallocated surplus by a charge to the income statement of the with-profits fund. Any shortfall in such amounts would result in a transfer from the unallocated surplus by a credit to the income statement of the long-term fund. Current year amounts in respect of premiums, investment returns, operating expenses and unusual charges or credits do not directly affect the distribution of profit to shareholders from the with-profits business in that year. Current year claims, which include final bonus payments, do have an effect on shareholders' profit through the shareholders' proportion of the value of those final bonuses.

Surplus assets and their use

The liability for unallocated surplus comprises amounts Prudential expects to pay to policyholders in the future, the related shareholder transfers and surplus assets. These surplus assets, which are described in more detail under Item 4, "Information on the Company Business of Prudential UK Business Shareholders' Interests in Prudential's Long-term Insurance Business Surplus Assets in Prudential Assurance's Long-term With-profits Fund", have accumulated over many years from a variety of sources and provide the with-profits fund with working capital. This working capital permits Prudential to invest a substantial portion of the assets of the with-profits fund in equity securities and real estate, smooth investment returns to with-profits policyholders, keep its products competitive, write new business without being constrained as to cash flows in the early policy years and demonstrate solvency.

In addition, Prudential can use surplus assets to absorb the costs of significant events, such as fundamental strategic change in its long-term business and, with the consent of the UK regulator, the cost of its pension mis-selling, without affecting the level of distributions to policyholders and shareholders. The costs of fundamental strategic change may include investment in new technology, redundancy and restructuring costs, cost overruns on new business and the funding of other appropriate long-term insurance related activities, including acquisitions.

The "SAIF" and "PAL" funds

Prudential's with-profits fund also includes the SAIF and the wholly-owned subsidiary, PAL. All assets of the SAIF business are solely attributable to former policyholders of Scottish Amicable Life Assurance Society (predating the acquisition of Scottish Amicable by Prudential in October 1997). The SAIF with-profits fund is discussed in more detail under Item 4, "Information on the Company Business of Prudential UK Business Shareholders' Interests in Prudential's Long-term Insurance Business The SAIF Sub-fund and Accounts". Since PAL is a wholly owned subsidiary of the with-profits fund, profits from this business affect shareholders' profits only to the extent that they affect the annual with-profits bonus declaration and resultant transfer to shareholders.

Comparison of total profit arising from UK insurance operations

Profit from UK insurance operations increased from £305 million in 2007 to £313 million in 2008. This increase reflects a decrease of £115 million in the shareholder tax charge, from £169 million in 2007 to £54 million in 2008, which was partially offset by a decrease in profit before shareholder tax of £107 million from £474 million in 2007 to £367 million in 2008.

The decrease in profit before tax attributable to shareholders of £107 million primarily reflects an increase in short-term fluctuations in investment returns charged to income of £165 million from a £47 million charge in 2007 to a £212 million charge in 2008, partially offset by growth in underlying profits of £58 million from £521 million in 2007 to £579 million in 2008.

The effective shareholder tax rate on profits from UK insurance operations decreased from 35 per cent in 2007 to 15 per cent in 2008. The decrease mainly related to prior year adjustments arising from routine revisions of tax returns, the settlement of outstanding issues with HM Revenue and Customs at an amount previously provided and the different tax bases of UK life business.

Profit from UK insurance operations decreased from £317 million in 2006 to £305 million in 2007. This decrease reflects an increase of £60 million in the shareholder tax charge, from £109 million in 2006 to £169 million in 2007, which was partially offset by an increase in profit before shareholder tax of £48 million from £426 million in 2006 to a £474 million in 2007.

The growth in profit before tax attributable to shareholders of £48 million primarily reflected growth in underlying profits of £52 million from £469 million in 2006 to £521 million in 2007 partially offset by an increase in short-term fluctuations in investment returns charged to income of £4 million from a £43 million charge in 2006 to a £47 million charge in 2007.

The effective shareholder tax rate on profits from UK insurance operations increased from 26 per cent in 2006 to 36 per cent in 2007. This increase mainly related to disallowed expenses and prior year adjustments arising from routine revisions of tax returns.

United States

Basis of profits

The profit on Jackson's business predominantly arises from spread income from interest-sensitive products, such as fixed annuities, institutional products and fee income on variable annuities. Except for institutional products and certain term annuities which are classified as investment products under IAS 39, for the purposes of IFRS reporting, deposits into these products are recorded as premiums, withdrawals and surrenders and are included in benefits and claims and the resulting net movement is recorded under other reserve movements within benefits and claims. Benefits and claims also include interest credited to policyholders in respect of deposit products less fees charged on these policies.

Comparison of total profit arising from US insurance operations

Profit from US insurance operations decreased from a profit of £300 million in 2007 to a loss of £580 million in 2008. This £880 million decrease reflects a decrease in profit before shareholder tax from a profit of £426 million in 2007 to a loss of £652 million in 2008, which was offset by shareholder tax moving from a charge of £126 million in 2007 to a credit of £72 million for 2008.

The £1,078 million decrease in 2008 of profit before tax attributable to shareholders reflects the change in short-term fluctuations in investment returns of £1,040 million, from a loss of £18 million in 2007 to a loss of £1,058 million in 2008 and a decrease in underlying profits of £38 million, from £444 million in 2007 to £406 million in 2008.

Profit from US insurance operations decreased from £301 million in 2006 to £300 million in 2007. This £1 million decrease reflects a decrease in profit before shareholder tax from £451 million in 2006 to £426 million in 2007, which was offset by a decrease in shareholder tax from £150 million to £126 million over the same period.

The £25 million decrease in 2007 of profit before tax attributable to shareholders reflects the change in short-term fluctuations in investment returns of £71 million, from a gain of £53 million in 2006 to a loss of £18 million in 2007, offset by growth in underlying profits of £46 million, from £398 million in 2006 to £444 million in 2007.

Asia

Basis of profits

The assets and liabilities of contracts classified as insurance under IFRS 4 are determined in accordance with methods prescribed by local GAAP and adjusted to comply, where necessary, with UK GAAP. Under IFRS 4, subject to the conditions of that standard, the continued application of UK GAAP in this respect is permitted.

For Asian operations in countries where local GAAP is not well established and in which the business is primarily non-participating and linked business, US GAAP is used as the most appropriate reporting basis. Of the more significant Asia operations, this basis is applied in Taiwan, Japan and Vietnam. For with-profits business in Hong Kong, Singapore and Malaysia the basis of profit recognition is bonus driven as described in the section " United Kingdom with-profits products".

Comparison of total profit arising from Asian insurance operations

Profit from Asian long-term business decreased from £55 million in 2007 to £19 million in 2008. This £36 million decrease reflects a fall in profit before shareholder tax from £103 million to £92 million and an increase in shareholder tax charge from £48 million to £73 million during the same period.

The £11 million decrease in profit before tax attributable to shareholders in 2008 arose primarily from an increase in short-term fluctuations in investment returns included in the IFRS income statement of £129 million, which fell from a loss of £71 million in 2007 to a loss of £200 million in 2008. The short-term fluctuations for Asian operations in 2008 primarily relates to £80 million for Vietnam, reflecting a significant fall in the Vietnamese bond and equity markets, and £65 million for Taiwan, which reflects the fall in Taiwanese equity markets and a £40 million reduction in the value of an investment in a CDO fund.

The effective shareholder tax rate increased from 47 per cent in 2007 to 79 per cent in 2008. This increase was due to tax losses in several jurisdictions which are not expected to be available against future profits, and losses on investments in jurisdictions which do not provide corresponding tax relief.

Profit from Asian long-term business decreased from £277 million in 2006 to £55 million in 2007. This £172 million decrease reflects a fall in profit before shareholder tax from £309 million to £103 million, which was partially offset by a decrease in shareholder tax charge from £82 million to £48 million during the same period.

The £206 million decrease in profit before tax attributable to shareholders in 2007 arose primarily from a decrease in short-term fluctuations in investment returns included in the IFRS income statement of £205 million, which fell from a profit of £134 million in 2006 to a loss of £71 million in 2007. The short-term fluctuations for Asian operations in 2007 primarily reflect value movements in Vietnam offset by value movements in Taiwan on the value of debt securities arising from increases in interest rates and a £30 million reduction of an investment in a CDO fund, which were partially offset by strong equity market movements in Vietnam. For 2006, the £134 million of short-term fluctuations mainly arose in Vietnam due to strong equity returns.

The effective shareholder tax rate increased from 27 per cent in 2006 to 47 per cent in 2007. This increase was due to tax losses in several jurisdictions which are not expected to be available against future profits, and losses on investments in jurisdictions which do not provide corresponding tax relief.

Profit from asset management operations

In 2008, total profit from asset management decreased by £148 million from £243 million in 2007 to £95 million in 2008. This decrease primarily results from a decrease in profit earned from M&G's UK and European operations, from £182 million in 2007 to £55 million in 2008, a decrease in the Group's Asian operations' profit, from £57 million in 2007 to £39 million in 2008, and a decrease in the Group's US operations' profit, from £4 million in 2007 to £1 million in 2008.

The decrease of £148 million in total profit reflects a decrease of £204 million in profit before shareholder tax, from £344 million in 2007 to £140 million in 2008, partially offset by a decrease in tax charge of £56 million, from £101 million in 2007 to £45 million in 2008.

The decrease in profit before tax attributable to shareholders of £204 million primarily reflects a change in short-term fluctuations in investment returns included in the IFRS income statement of £200 million, which fell from a gain of £5 million in 2007 to a loss of £195 million in 2008. In addition in 2008 there was a charge of £15 million for actuarial gains and losses attributable to the M&G defined benefit pension scheme, from a gain of £5 million in 2007 to a loss of £10 million in 2008, partially offset by growth in underlying profits of £11 million from £334 million in 2007 to £345 million in 2008.

In 2007 total profit from asset management increased by £18 million, from £225 million in 2006 to £243 million in 2007. This increase primarily resulted from an improvement in profit earned from M&G's UK and European operations, from £166 million in 2006 to £182 million in 2007, and an increase in profits from the Group's Asian operations from £37 million in 2006 to £57 million in 2007, partially offset by a decrease in the Group's US operations' profit from £22 million in 2006 to £4 million in 2007.

The increase of £18 million in total profit reflects an increase of £61 million in profit before shareholder tax, from £283 million in 2006 to £344 million in 2007 and an increase in the tax charge of £43 million, from £58 million in 2006 to £101 million in 2007.

The growth in profit before tax attributable to shareholders of £61 million primarily reflects growth in underlying profits of £73 million, from £263 million in 2006 to £445 million in 2007, partially offset by a charge of £17 million in actuarial gains attributable to the M&G defined benefit pension scheme, from £22 million in 2006 to £5 million in 2007.

Unallocated corporate

The total net of tax charges for unallocated corporate activity increased by £44 million, from £194 million in 2007 to £238 million in 2008. The change primarily reflects a £113 million increase in pre-tax expenditure, from £284 million in 2007 to £397 million in 2008, offset by an increase of £69 million in the tax credit, from £90 million in 2007 to £159 million in 2008.

The increase in pre-tax expenditure primarily reflects an increase in losses on short-term fluctuations, an increase in shareholders' share in actuarial losses on defined benefit pension schemes, and an increase in the level of underlying expenditure and losses.

The total net of tax charges for unallocated corporate activity increased by £40 million, from £154 million in 2006 to £194 million in 2007. The change primarily reflects a £87 million increase in pre-tax expenditure, from £97 million in 2006 to £181 million in 2007, offset by an increase of £54 million in the tax credit, from £8 million in 2006 to £62 million in 2007.

The increase in pre-tax expenditure primarily reflects a decrease in shareholders' share in actuarial gains and losses on defined benefit pension schemes, an increase in the level of underlying expenditure and losses on short-term fluctuations in investment returns.

Discontinued operations

The Group's discontinued operations relate to the UK banking business following the sale of Egg. The profit (loss) from discontinued operations moved from a loss of £105 million in 2006 to a profit of £241 million in 2007 primarily as a result of a £290 million profit on the sale of Egg, which was partially offset by a £49 million trading loss incurred by Egg prior to its disposal. There was no impact on the results for 2008. The £105 million loss in 2006 relates to trading losses incurred by Egg during the period. Additional information is set forth in note I9 to the consolidated financial statements.

Business Segment and Geographical Analysis by Nature of Revenue and Charges

The following table shows Prudential's consolidated total revenue and consolidated total charges for the following periods

	Year Ended December 31,		
	2008	2007*	2006*
	£m	£m	£m
Gross earned premiums (note a)	**18,993**	18,359	16,157
Outward reinsurance premiums	**(204)**	(171)	(171)
Earned premiums, net of reinsurance	**18,789**	18,188	15,986
Investment return (note b)	**(30,202)**	12,225	17,141
Other income	**1,146**	2,457	1,917
Total revenue, net of reinsurance	**(10,267)**	32,870	35,044
Benefits and claims and movement in unallocated surplus of with-profits funds (note c)	**10,824**	(26,785)	(28,267)
Acquisition costs and other operating expenditure (note d)	**(2,459)**	(4,859)	(4,489)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(172)**	(168)	(177)
Goodwill impairment charge			
Total charges, net of reinsurance	**8,193**	(31,812)	(32,933)
(Loss) profit before tax*(being tax attributable to shareholders' and policyholders' returns)***	**(2,074)**	1,058	2,111
Tax attributable to policyholders' returns	**1,624**	5	(830)
(Loss) profit before tax attributable to shareholders	**(450)**	1,063	1,281
Tax attributable to shareholders' profits	**59**	(354)	(365)
(Loss) profit from continuing operations after tax	**(391)**	709	916
Discontinued operations (net of tax)		241	(105)
(Loss) profit for the year	**(391)**	950	811

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* The Company has adopted the principles of IFRIC 14 in accounting for pension schemes. The adoption gives rise to consequential changes to the comparative results for 2007 and 2006.

** measure is the formal (loss) profit before tax measure under IFRS but is not the result attributable to shareholders.

(a) Gross earned premiums

	Year Ended December 31,		
	2008	2007	2006

	£m	**£m**	**£m**
Asian Operations	**5,333**	5,022	3,739
US Operations	**6,032**	5,860	5,390
UK Operations	**7,628**	7,477	7,028
Total	**18,993**	18,359	16,157

Gross earned premiums, net of reinsurance, for long-term business totaled £18,789 million in 2008 compared to £18,188 million in 2007. The increase in gross earned premiums in 2008 against 2007 was driven by growth across all regions during the year.

Asia

Gross earned premiums increased by 6 per cent to £5,333 million in 2008 compared to £5,022 million in 2007, aided by exchange rate movements during the year.

Prudential is a pioneer in capital efficient unit-linked products in Asia, and is particularly strong in the regular premium savings sector. More recently Prudential has increased its focus on higher-margin protection products, both as riders to savings policies and on a standalone basis.

Gross earned premiums increased by 34.3 per cent to £5,022 million in 2007 compared to £3,739 million in 2006 due to a rise in single premiums and the accumulative effects of the growth in regular premium income.

Prudential distributes its products in Asia predominantly through a network of agents. The average number of agents in 2008 increased by 43 per cent in Indonesia to 57,000 agents and in India by 21 per cent to 287,000. Prudential also has a large partnership distribution network in Asia and has continued to broaden its range of linked products.

The agent numbers at the end of 2007 increased by 123 per cent in India to 277,000 agents and by 38 per cent to 20,500 in China.

United States

Gross earned premiums increased by 3 per cent from £5,860 million in 2007 to £6,032 million in 2008. This increase was mainly as a result of exchange rate movements during the year, with a decrease in underlying variable annuity sales reflecting continued volatility in US equity markets and intense price competition partially offset by increases in fixed annuity sales reflecting changing customer demands.

Gross earned premiums increased by 9 per cent from £5,390 million in 2006 to £5,860 million in 2007. This increase was driven primarily by a continued increase in variable annuity sales. Fixed index annuity sales however were down, affected by the impact of low interest rates on caps and participation rates that are offered.

United Kingdom

Gross earned premiums for Prudential UK increased by 2 per cent in the year from £7,477 million in 2007 to £7,628 million in 2008, primarily driven by strong growth in with-profits bonds supplemented by growth in lifetime mortgages, offshore products and PruHealth.

Gross earned premiums for Prudential UK increased by 6 per cent in the year from £7,028 million in 2006 to £7,477 million in 2007, primarily driven by an increase in bulk transfers, which was partially offset by a reduction in credit life insurance sales following the non-renewal of the credit life contact previously held with Lloyds TSB.

(b) Investment return

	Year Ended December 31,		
	2008	**2007**	**2006**
	£m	**£m**	**£m**
Asian Operations	**(4,156)**	1,818	1,719
US Operations	**(5,409)**	2,140	2,937
UK Operations	**(20,637)**	8,267	12,485
Total	**(30,202)**	12,225	17,141

Investment return principally comprises interest income, dividends, realized and unrealized gains and losses on investments designated as fair value through profit and loss and realized gains and losses, including impairment losses, on securities designated as available-for-sale.

Investment return is attributable to policyholders and shareholders. Investment returns for unit-linked and similar products have a reciprocal impact on benefits and claims, with a decrease in market returns on the attached pool of assets affecting policyholder benefits on these products. Similarly there is a close correlation between increases or decreases in the values of assets of funds and the level of combined charge for benefits and movement on unallocated surplus of with-profit funds.

Asia

In Asia, investment income decreased from a £1,818 million credit in 2007 to a £4,156 million charge in 2008. This decrease is mainly driven by an increase in unrealized losses on investments of £4,010 million compared to 2007 and a decrease in realized gains of £1,804 million as a result of the volatility of Asian financial markets, including a significant downturn in equity markets.

In Asia, investment income increased from £1,719 million in 2006 to £1,818 million in 2007. This increase was mainly driven by an increase in realized gains on investments.

United States

In the United States, investment income decreased from a £2,140 million credit in 2007 to a £5,409 million charge in 2008. The decrease in investment return in 2008 is mainly due to a negative movement of £6,303 million in unrealized gains, a decrease of £641 million in income received such as dividends and interest, primarily in respect of linked liabilities, and a decrease of £605 million in realized gains.

The negative movements in 2008 were driven by a reduction in returns on investments held for variable annuity separated account business as a result of adverse movements in US equity markets. In addition there were losses on debt securities for defaults, losses on the sale of impaired bonds and write downs, with the impairments reflecting a rigorous review of every single bond and security in the portfolio.

In the United States, investment income decreased from £2,937 million in 2006 to £2,140 million in 2007. The decrease in investment income in 2007 is mainly due to a decrease of £752 million in income received such as dividends and interest, primarily in respect of linked liabilities, and a decrease of £41 million in realized gains.

United Kingdom

In the United Kingdom, investment income decreased from £8,267 million credit in 2007 to a £20,637 million charge in 2008. This decrease is due to an increase of £23,015 million in net unrealized losses, a decrease of £2,398 million in interest and dividends, and a decrease of £3,491 million in net realized gains reflecting difficult conditions in financial markets with negative returns from holdings in equities, property or bonds.

In the United Kingdom, investment income decreased from a £12,485 million credit in 2006 to a £8,267 million credit in 2007. This decrease is due to a reduction of £3,735 million in net unrealized gains reflecting the decrease in market returns in 2007 compared to 2006 and a decrease of £491 million in interest and dividends, which is partially offset by an increase of £8 million in net realized gains.

The investment income for UK operations primarily represents the return on the assets supporting the PAC long-term fund. The PAC with-profits sub-fund delivered investment returns of 67.2 per cent

compared with the FTSE All-share index (total return) of 12.4 per cent over the same period (before tax and charges). Prudential UK continuously evaluates prospects for different markets and asset classes. During the year PAC's long-term fund reduced its exposure to equities and increased its exposure to fixed interest securities.

(c) Benefits and claims and movement in unallocated surplus of with-profits funds

	Year Ended December 31,		
	2008	**2007**	**2006**
	£m	**£m**	**£m**
Asian Operations	**(192)**	(5,722)	(4,100)
US Operations	**(947)**	(7,096)	(7,291)
UK Operations	**11,963**	(13,967)	(16,876)
Total	**10,824**	(26,785)	(28,267)

Benefits and claims represent payments, including final bonuses, to policyholders in respect of maturities, surrenders and deaths plus the change in technical provisions (which primarily represents the movement in amounts owed to policyholders). Movement in unallocated surplus of with-profits funds represents the transfer to (from) the unallocated surplus each year through a charge (credit) to the income statement of the annual excess (shortfall) of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders.

Total benefits and claims and movement in unallocated surplus of with-profits funds decreased by £37,609 million in 2008 to a credit of £10,824 million compared to a charge of £26,785 million in 2007. Total benefits and claims decreased by £1,482 million in 2007 to a charge of £26,785 million, compared to a charge of £28,267 million in 2006. These movements principally reflect the movement in policyholder liabilities as a result of the decrease or increase in investment income discussed above, which has been passed on to the policyholders in the form of bonus declaration for with-profits products or through the corresponding decrease or increase in policyholder liabilities for unit-linked and similar products, or transfer to unallocated surplus.

Asia

In 2008, benefits and claims and movements in unallocated surplus of with-profits funds totaled £193 million, a 97 per cent decrease from £5,722 million in 2007, primarily reflecting a decrease in policyholder liabilities and unallocated surplus of with-profit funds from a £4,293 million charge in 2007 to a £1,046 million credit in 2008 and a reduction in policyholder benefits of 13 per cent from £1,420 million in 2007 to £1,238 million in 2008. A high proportion of the Asian operations business in unit-linked. For unit-linked and similar products, there is a direct relationship between policyholder benefits and asset returns on the attached pool of assts, and accordingly the charge for benefits and claims reflects the investment return (charged) credited to policyholder balances. Accordingly, due to the significant decrease in market returns in 2008 compared to 2007, there was a related decrease in the charge for benefits and claims in the period.

In 2007, benefits and claims totaled £5,722 million, an increase of 40 per cent from £4,100 million in 2006, reflecting primarily an increase in policyholder benefits of 27 per cent from £1,117 million in 2006 to £1,420 million in 2007 and an increase in the movement in policyholder liabilities and unallocated surplus of with-profit funds of 44 per cent from £2,974 million in 2006 to £4,293 million in 2007.

United States

In 2008, the accounting charge for benefits and claims decreased by 87 per cent to £947 million compared to 2007 principally due to reductions in technical provision reflecting negative valuation movements in investments held for variable annuity separate account business. In 2007, the accounting charge for benefits and claims decreased by 3 per cent to £7,096 million compared to 2006.

The charges in 2008, 2007 and 2006 reflect underlying movements in claims, benefits and maturities for contracts classified as insurance products under IFRS 4.

United Kingdom

Overall benefits, claims and the transfer to unallocated surplus decreased to a £11,963 million credit in 2008 from a £13,967 million charge in 2007 and a £16,876 million charge in 2006. As detailed above there is a direct relationship between policyholder benefits and asset returns on the related pool of assets. As a result of the negative market returns in 2008 there has been a corresponding impact on benefit claims and movements in unallocated surplus of with-profits funds in the year, moving from a net charge in 2007 to a credit in 2008. The 2006 benefits and claims included an increase in reserves relating to the Royal London in-force annuity book transaction.

(d) Acquisition costs and other operating expenditure

	Year Ended December 31,		
	2008	**2007**	**2006**
	£m	**£m**	**£m**
Asian Operations	**(1,032)**	(1,077)	(950)
US Operations	**(613)**	(730)	(800)
UK Operations	**(814)**	(3,052)	(2,739)
Total	**(2,459)**	(4,859)	(4,489)

Total acquisition costs and other operating expenditure of £2,459 million in 2008 was 49 per cent lower than the £4,859 million incurred in 2007. Total acquisition costs and other operating expenditure of £4,859 million in 2007 was 8 per cent higher than the £4,489 million incurred in 2006.

Asia

Total Asian acquisition costs and other operating expenses in 2008 were £1,032 million, a decrease of £45 million compared to £1,077 million in 2007. This increase mainly reflects a decrease in operating costs from £508 million in 2007 to £380 million in 2008.

Total Asian acquisition costs and other operating expenses in 2007 were £1,077 million, an increase of £127 million compared to £950 million in 2006. This increase mainly reflects an increase in operating costs from £440 million in 2006 to £508 million in 2007.

United States

Acquisition costs and other operating expenses of £613 million in 2008 were 16 per cent lower than expenses in 2007 of £730 million. The decrease primarily reflects a decrease amortization of DAC from £303 million in 2007 to £227 million in 2008.

Acquisition costs and other operating expenses of £730 million in 2007 were 9 per cent lower than expenses in 2006 of £800 million. The decrease primarily reflects a decrease in interest payable from £269 million in 2006 to £148 million in 2007 partially offset by higher amortization of DAC from £203 million in 2006 to £303 million in 2007.

United Kingdom

Total UK acquisition costs and other operating expenses in 2008 were £814 million, compared to £3,052 million in 2007. The decrease of £2,238 million in 2008 mainly relates to a decrease in other operating expenses from £2,075 million to £557 million and lower acquisitions costs from £229 million in 2007 to £222 million in 2008.

The decrease of £1,518 million in other operating expenses principally relates to the non-consolidation in 2008 of entities held by way of venture fund investments following the disposal of PPM Capital in the second half of 2007, which meant that the Group was no longer deemed to control these operations. Included within other operating expenses for 2007 was £1,289 million in respect of consolidated venture fund investments. Corresponding revenue for the investments of £1,418 million was included within other income for 2007.

Total UK acquisition costs and other operating expenses in 2007 were £3,052 million, compared to £2,739 million in 2006. The increase of £313 million in 2007 mainly relates to an increase in operating expenses from £1,434 million to £2,075 million, offset by lower acquisition costs from £619 million in 2006 to £229 million in 2007.

Additional analysis of consolidated results reflecting the basis used by management and reported externally to UK shareholders and the UK financial market

For many years, the assessment of performance by management has been, and continues to be, applied to profit before shareholder tax by analysis of the result between operating profit based on longer-term investment returns and other reconciling items. The focus on profit before shareholder tax, rather than profit before policyholder and shareholder tax, reflects the shareholders' interests in surpluses as they arise and the regulatory basis of ring-fenced long-term funds in the United Kingdom. In particular, taxes borne by policyholders of with-profits contracts are borne by the liability for unallocated surplus of with-profits funds.

Until the adoption of IFRS, operating profit based on longer-term investment returns was a GAAP measure arising from the specific recommendation of the Statement of Recommended Practice (SORP) for accounting for insurance business issued by the ABI. With the adoption of IFRS, the ABI SORP is no longer authoritative literature for the purposes of determining GAAP measures. Nevertheless, it continues to be the basis applied by the Company for internal performance assessment and a fundamental element of the analysis provided to shareholders and the UK stock market. The analysis that follows reflects information published with the Group's results on March 19, 2009.

The Group uses a performance measure of operating profit based on longer-term investment returns, excluding charges for goodwill impairment and actuarial and other gains and losses on defined benefit pension schemes. The directors believe that this performance measure better reflects underlying performance. It is the basis used by management for the reasons outlined below. It is also the basis on which analysis of the Group's results has been provided to UK shareholders and the UK financial market for some years under long standing conventions for reporting by proprietary UK life assurers.

Longer-term investment returns included within the performance measure are determined by reference to expected long-term rates of return. These are intended to reflect historical rates of return on assets and, where appropriate, current inflation expectations adjusted for consensus economic and investment forecasts. The overriding reason for distinguishing longer-term investment returns from short-term fluctuations is that the investments are generally held for the longer-term to back long duration insurance contract liabilities and solvency capital rather than for short-term trading purposes.

Furthermore, the income statement recognition of investment appreciation, short-term value movements on derivatives, and the charge for the policyholder benefits under IFRS 4 give rise to

accounting mismatches that Prudential believes are not representative of the underlying economic position.

In determining profit on this basis the following key elements are applied to the results of the Group's shareholder-financed operations.

i Debt and equity securities

Longer-term investment returns comprise income and longer-term capital returns. For debt securities the longer-term capital returns comprise two elements. These are a risk margin reserve ("RMR") based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and amortization of interest-related realized gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured. The shareholder-backed operation for which the risk margin reserve charge is most significant is Jackson. The RMR charge for Jackson is based on long-term average default and recovery data as published by Moody's.

Longer-term equity returns comprise aggregate long-term income and capital returns.

ii Derivative value movements

Value movements for Jackson's equity-based derivatives and variable annuity product embedded derivatives are included in operating profits based on longer-term investment returns. The inclusion of these movements is so as to broadly match with the results on the Jackson variable annuity book that pertain to equity market movements.

Other derivative value movements are excluded from operating results based on longer-term investment returns. These derivatives are primarily held by Jackson as part of a broadly-based hedging program for features of Jackson's bond portfolio (for which value movements are booked directly to shareholders' equity rather than income statement) and product liabilities (for which US GAAP accounting does not reflect the economic features being hedged).

The key elements described above are particularly important in determining the operating results based on longer-term investment returns of Jackson.

There are two exceptions to the basis described above for determining operating results based on longer-term investment returns. These are for:

a) Unit-linked and US variable annuity business. For such business the policyholder liabilities are directly reflective of the asset value movements. Accordingly, all asset value movements are recorded in the operating results based on longer-term investment returns; and

b) Assets covering non-participating business liabilities that are interest rate sensitive. For UK annuity business policyholder liabilities are determined by reference to current interest rates. The value movements of the assets covering liabilities are closely correlated with the related change in liabilities. Accordingly, asset value movements are recorded within the operating results based on longer-term investment returns. Policyholder liabilities include a margin for asset defaults which, if they occur, are recorded as a component of short-term fluctuations in investment returns.

iii Liabilities to policyholders and embedded derivatives for product guarantees

Under IFRS, the degree to which the carrying values of liabilities to policyholders are sensitive to current market conditions varies between territories depending upon the nature of the 'grandfathered' measurement basis. In general, in those instances where the liabilities are particularly sensitive to routine changes in market conditions, the accounting basis is such that the impact of market movements on the assets and liabilities are broadly equivalent in the income statement, and operating profit based on

longer-term investment returns is not distorted. In these circumstances there is no need for the movement in the liability to be bifurcated between the element that relates to longer-term market conditions and short-term effects.

However, some types of business movements in liabilities do require bifurcation to ensure that at the net level (i.e. after allocated investment returns and change for policyholder benefits) the operating result reflects longer-term market returns.

Examples where such bifurcation is necessary are:

a Asia

Vietnamese participating business

For the participating business in Vietnam the liabilities include policyholders' interest in investment appreciation and other surplus. Bonuses paid in a reporting period and accrued policyholder interest in investment appreciation and other surpluses primarily reflect the level of realized investment gains above contract specific hurdle levels. For this business operating profit based on longer-term investment returns includes the aggregate of longer-term returns on the relevant investments, a credit or charge equal to movements on the liability for the policyholders' interest in realized investment gains (net of any recovery of prior deficits on the participating pool), less amortization over five years of current and prior movements on such credits or charges.

The overall purpose of these adjustments is to ensure that investment returns included in operating results equal longer-term returns but that in any one reporting period movements on liabilities to policyholders caused by investment returns are substantially matched in the presentation of the supplementary analysis of profit before tax attributable to policyholders.

Non-participating business

Bifurcation for the effect of determining the movement in the carrying value of liabilities to be included in operating results based on longer-term investment returns, and the residual element for the effect of using year end rates in the balance sheet.

Guaranteed Minimum Death Benefit product features

For unhedged GMDB liabilities accounted for under IFRS using 'grandfathered' US GAAP, such as in the Japanese business, the change in carrying value is determined under SOP 03-01, which partially reflects changes in market conditions. Under the company's supplementary basis of reporting, the operating profit reflects the change in liability based on longer-term market conditions, with the difference between the charge to the operating result and the movement reflected in the total result included in short-term fluctuations in investment returns.

b US operations embedded derivatives for variable annuity guarantee features

Under IFRS, the Guaranteed Minimum Withdrawal Benefit (GMWB) and Guaranteed Minimum Income Benefit (GMIB) reinsurance are required to be fair valued as embedded derivatives. The movements in carrying values are affected by changes in the level of observed implied equity volatility and changes to the discount rate applied from period to period. For these embedded derivatives, as described in note D3(i) to the consolidated financial statements, the discount rate applied reflects AA corporate bond curve rates. For the purposes of determining operating profit based on longer-term investment returns the charge for these features is determined using historical longer-term equity volatility levels and long-term average AA corporate bond rate curves.

c UK shareholder-backed annuity business

With one exception, the operating result based on longer-term investment returns reflects the impact of all value movements on policyholder liabilities for annuity business in PRIL and the PAC non-profit sub-fund.

The exception is for the impact on credit risk provisioning of actual downgrades during the year. As this feature arises due to short-term market conditions the effect on the altered valuation rate of interest is included in the category of short-term fluctuations in investment returns.

The effects of other changes to credit risk provisioning, including the introduction of the short-term allowance for credit risk described in note D2(g) and D2(i) to the consolidated financial statements, are included in the operating result, as in the net effect of changes to the valuation rate of interest applied to portfolio rebalancing to align more closely with management benchmark.

iv Fund management and other non-insurance businesses

For these businesses, where the business model is more conventional than for life assurance, it is inappropriate to include returns in the operating result on the basis described above. Instead it is appropriate to generally include realized gains and losses (including impairments) in the operating result with unrealized gains and losses being included in short-term fluctuations. In some instances it may also be appropriate to amortize realized gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying substance of the arrangements.

Actuarial and other gains and losses on defined benefit pension schemes principally reflect short-term value movements on scheme assets and the effects of changes in actuarial assumptions. Under the Group's accounting policies these items are recorded within the income statement, rather than through other comprehensive income, solely due to the interaction of the Group's approach to adoption of IFRS 4 for with-profits funds and the requirements of IAS 19. In analyzing profit before shareholder tax the separate identification of these gains and losses is analogous to the more normal treatment of inclusion as a movement on other comprehensive income, i.e. not within profit for the period.

Reconciliation of total (loss) profit by business segment and geography to underlying performance measure

A reconciliation of (loss) profit before all taxes to (loss) profit before tax attributable to shareholders and (loss) profit for the year is shown below.

	Year Ended December 31,		
	2008	2007*	2006*
	£m	£m	£m
(Loss) profit before tax	**(2,074)**	1,058	2,111
Tax credit (charge) attributable to policyholders' returns	**1,624**	5	(830)
(Loss) profit before tax attributable to shareholders	**(450)**	1,063	1,281
Tax credit (charge)	**1,683**	(349)	(1,195)
Less: tax attributable to policyholders' returns	**(1,624)**	(5)	830
Tax credit (charge) attributable to shareholders' profits	**59**	(354)	(365)
(Loss) profit from continuing operations after tax	**(391)**	709	916
Discontinued operations (net of tax)		241	(105)
(Loss) profit for the year	**(391)**	950	811

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* The Company has adopted the principles of IFRIC 14 in accounting for pension schemes. This adoption gives rise to consequential changes to the comparative results for 2007 and 2006.

A reconciliation of (loss) profit from continuing operations before tax attributable to shareholders to operating profit based on longer-term investment returns is provided below:

	Year Ended December 31,		
	2008	**2007**	**2006**
	£m	**£m**	**£m**
Performance measure: operating profit from continuing operations based on long-term investments returns(i)	**1,347**	1,201	1,050
Short-term fluctuations in investment returns on shareholder-backed business(ii)	**(1,783)**	(137)	155
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes(iii)	**(14)**	(1)	76
(Loss) profit from continuing operations before tax attributable to shareholders	**(450)**	1,063	1,281

Notes:

(i)

Operating profit based on longer-term investment returns

Operating profit based on longer-term investment returns is a supplemental measure of results. For the purposes of measuring operating profit, investment returns on shareholder financed business and movements in policyholders' liabilities are based on expected long-term rates of return as disclosed above. The long-term rates of return are intended to reflect historical real rates of return and, where appropriate, current inflation expectations adjusted for consensus economic and investment forecasts. The significant operations that require adjustment for the difference between actual and longer-term investment returns are the US operations and certain businesses of the Group's Asian operations. The amounts included in operating results for long-term returns for debt securities incorporate a risk margin reserve based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and amortization of interest-related realized gains and losses to the date when sold bonds would otherwise have matured.

(ii)

Short-term fluctuations in investment returns on shareholder- backed business

	Year Ended December 31,		
	2008	**2007**	**2006**
	£m	**£m**	**£m**
Insurance operations:			
Asia	**(200)**	(71)	134
US	**(1,058)**	(18)	53
UK	**(212)**	(47)	(43)
Other operations	**(313)**	(1)	11
Total short-term fluctuations in investment returns.	**(1,783)**	(137)	155

General

The short-term fluctuations in investment returns for 2008 primarily reflect temporary market value movements on the portfolio of investments held by the Group's shareholder-backed operations. Default losses were incurred during 2008 in respect of Lehman Brothers and Washington Mutual, with total losses (including losses on sale) for these in respect of the Group's shareholder-backed business operations being £110 million and £91 million, respectively, of which the majority was incurred in Jackson. Excluding Lehman Brothers and Washington Mutual there was only one other default in 2008 which resulted in a loss of £5 million. There were no default losses in 2007.

Asian insurance operations

The fluctuations for Asian operations in 2008 primarily relates to £(81) million for Vietnam, reflecting a significant fall in the Vietnamese bond and equity markets, and £(65) million for Taiwan, which reflects the decrease in Taiwanese equity markets and a £(40) million reduction in the value of an investment in a CDO fund. For 2007, the £(71) million of short-term fluctuations primarily reflect value movements in Taiwan on the value of debt securities arising from increases in interest rates and a £(30) million reduction of the investment in a CDO fund, partially offset by strong equity market movements in Vietnam.

US insurance operations

The short-term fluctuations in investment returns for US insurance operations for the year comprise of the following items:

	2008 £m	2007 £m	2006 £m
Short-term fluctuations related to debt securities			
Charges in the year*			
Defaults	**(78)**	0	0
Losses on sale of impaired and deteriorating bonds	**(130)**	(51)	(3)
Bond write downs	**(419)**	(35)	(32)
Recoveries/reversals	**3**	8	10
	(624)	(78)	(25)
Less: risk margin charge included in operating profit based on longer-term investment returns	**54**	48	54
	(570)	(30)	29
Interest related gains (losses)			
Arising in the year	**(25)**	31	(15)
Less: amortization gains and losses arising in current and prior years to operating profit based on longer-term investment returns	**(28)**	(37)	(45)
	(53)	(6)	(60)
Related change to amortization of deferred acquisition costs	**88**	9	6
Total short-term fluctuations related to debt securities	**(535)**	(27)	(25)
Derivatives (other than equity related): market value movements (net of related change to amortization of deferred acquisition costs)	**(369)**	(19)	34
Equity type investments: actual less longer-term return (net of related change to amortization of deferred acquisition costs)	**(69)**	42	21
Other items (net of related change to amortization of deferred acquisition costs)	**(85)**	(14)	23
Total	**(1,058)**	(18)	53

*

The charges on debt securities incurred in 2008 of £624 million comprise the following:

	Defaults	Bond write downs	Losses on sale of impaired and deteriorating bonds	Recoveries/ reversals	Total
	£m	£m	£m	£m	£m
Residential mortgage-backed securities					
Prime		25			**25**
Alt-A		138			**138**
Sub-prime		4			**4**
Total residential mortgage-backed securities		167			**167**
Public fixed income	78	233	130		**441**
Other		19		(3)	**16**
Total	**78**	**419**	**130**	**(3)**	**624**

Further details on the impairment losses for Jackson are described in note D3(a) to the consolidated financial statements.

The £369 million value movement is for freestanding derivatives held to manage the fixed annuity and other general account business. Under IAS 39, unless hedge accounting is applied, value movements on derivatives are recognized in the income statement. Except in respect of variable annuity business, the value movements on derivatives held by Jackson are separately identified within short-term fluctuations in investment returns.

Derivative value movements in respect of variable annuity business are included within the operating profit based on longer-term investment returns to broadly match with the commercial effect to which the variable annuity derivative program relates.

For the derivatives program attaching to the fixed annuity and other general account business the Group has continued its approach of not seeking to apply hedge accounting under IAS 39. This decision reflects the inherent constraints for hedge accounting investments and life assurance assets and liabilities under 'grandfathered' US GAAP under IFRS 4.

The £85 million charge for 2008 for other items shown above comprises £70 million for the difference between the charge for embedded derivatives included in the operating result and the charge to the total result, and £15 million of other items. For embedded derivatives the operating result reflects the application of 10-year average AA corporate bond rate curves and a static historical equity volatility assumption.

The total result reflects the application of year end AA corporate bond rate curves and current equity volatility levels. Additional details are explained in note D3(i) to the consolidated financial statements.

In addition, for US insurance operations, included within the statement of changes in equity, is a net reduction (translated at the 2008 year-end exchange rate of 1.44) in the value of debt securities classified as available-for-sale of £2,710 million (2007: £244 million). This reduction reflects the effect of widened credit spreads and global credit concerns partially offset by the effect of reductions in US interest rates and a steepening yield curve. These temporary market value movements do not reflect defaults or impairments. Additional details on the movement in the value of the Jackson portfolio are included in note D3 to the consolidated financial statements.

UK insurance operations

The short-term fluctuations charge for UK insurance operations of £212 million for 2008 reflects £170 million for asset value movements, principally for shareholder-backed annuity business, and £42 million for the effect of credit downgrades on the calculation of liabilities for shareholder-backed annuity business in PRIL and the PAC non-profit sub-fund, as discussed in note D2(g)(iii) to the consolidated financial statements. The short-term fluctuation charge for 2007 arose mostly in PRIL. The fluctuation principally reflected the impact of widened credit spreads on the corporate bond securities backing the shareholders' equity of the business.

Other

The charge of £313 million for short-term fluctuations of other operations in 2008 arises from:

	2008 £m
Sale of investment in India Mutual fund in May 2008 giving rise to a transfer to operating profit of £47 million for the crystallized gain, and value reduction in the period, prior to sale, of £24 million	**(71)**
Unrealized value movements on swaps held centrally to manage Group assets and liabilities	**(38)**
Unrealized value movements on Prudential Capital's bond portfolio	**(190)**
Unrealized value movements on centrally held investments	**(14)**
	(313)

(iii)

Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes

	Year Ended December 31,		
	2008	**2007**	**2006**
	£m	**£m**	**£m**
Actuarial gains and losses			
Actual less expected return on scheme assets	**(97)**	4	156
Experience gains (losses) on liabilities	**18**	(4)	18
Gains (losses) on changes of assumptions for scheme liabilities (based on long-term inflation of 2.8%)	**71**	(7)	311
2006 transitional effect of the derecognition of PSPS surplus as a result of adoption of IFRIC 14			(141)
	(8)	(7)	344
Less: amount attributable to the PAC with-profits sub-fund	**(2)**	6	(225)
Total	**(10)**	(1)	119
Other gains and losses			
Movement in the provision for deficit funding of PSPS	**(13)**		(143)
Less: amount attributable to the PAC with-profits fund	**9**		100
	(4)		(43)
Total	**(14)**	(1)	76

The 2008, 2007 and 2006 actuarial gains and losses shown in the table above related to the Scottish Amicable, M&G and the small Taiwan defined benefit pension schemes. The amounts did not include actuarial gains and losses for the Prudential Staff Pension Scheme ("PSPS"). Following the Group's adoption of IFRIC 14 for pension schemes in 2008, PSPS pension surplus was not recognized in the Group's financial statements, with the 2007 and 2006 comparatives adjusted accordingly. In addition, as a result of the adoption of IFRIC 14, the Group has recognized a liability for deficit funding to April 5, 2010 in respect of PSPS. The change in the period in relation to this liability is recognized above as other gains and losses on defined benefit pension schemes.

The gains of £71 million on change of assumptions comprises the effect of an increase in the risk discount rate combined with the effect of decreases in inflation rates.

The following tables reconcile "Operating profit based on longer-term investment returns", the Group's chosen performance measure, to "Profit from continuing operations before tax attributable to

shareholders", the Group's reported performance within the consolidated IFRS income statement, by business segment and geography.

	2008			
	UK £m	US £m	Asia £m	Total £m
Insurance operations:				
Performance measure: operating profit based on longer-term investment returns	579	406	295	1,280
Short-term fluctuations in investment returns	(212)	(1,058)	(200)	(1,470)
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes			(3)	(3)
Reported performance: (loss) profit before tax attributable to shareholders	367	(652)	92	(193)
Asset management:				
Performance measure: operating profit based on longer-term investment returns	286	7	52	345
Short-term fluctuations in investment returns	(195)			(195)
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes	(10)			(10)
Reported performance: profit before tax attributable to shareholders	81	7	52	140
Unallocated corporate:				
Performance measure: operating profit based on longer-term investment returns	(278)			(278)
Short-term fluctuations in investment returns	(118)			(118)
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes	(1)			(1)
Reported performance: (loss) profit before tax attributable to shareholders	(397)			(397)
Total:				
Performance measure: operating profit based on longer-term investment returns	587	413	347	1,347
Short-term fluctuations in investment returns	(525)	(1,058)	(200)	(1,783)
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes	(11)		(3)	(14)
Reported performance: profit from continuing operations before tax attributable to shareholders	51	(645)	144	(450)

	2007			
	UK £m	US £m	Asia £m	Total £m
Insurance operations:				
Performance measure: operating profit based on longer-term investment returns	521	444	174	1,139
Short-term fluctuations in investment returns	(47)	(18)	(71)	(136)
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes				
Reported performance: profit before tax attributable to shareholders	474	426	103	1,003
Asset management:				
Performance measure: operating profit based on longer-term investment returns	254	8	72	334
Short-term fluctuations in investment returns	4	1		5
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes	5			5
Reported performance: profit before tax attributable to shareholders	263	9	72	344
Unallocated corporate:				
Performance measure: operating profit based on longer-term investment returns	(272)			(272)
Short-term fluctuations in investment returns	(6)			(6)
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes	(6)			(6)
Reported performance: profit before tax attributable to shareholders	(284)			(284)
Total:				
Performance measure: operating profit based on longer-term investment returns	503	452	246	1,201
Short-term fluctuations in investment returns	(49)	(17)	(71)	(137)
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes	(1)			(1)
Reported performance: profit from continuing operations before tax attributable to shareholders	453	435	175	1,063

	2006			
	UK £m	US £m	Asia £m	Total £m
Insurance operations:				
Performance measure: operating profit based on longer-term investment returns	469	398	175	1,042
Short-term fluctuations in investment returns	(43)	53	134	144
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes				
Reported performance: profit before tax attributable to shareholders	426	451	309	1,186
Asset management:				
Performance measure: operating profit based on longer-term investment returns	202	10	49	261
Short-term fluctuations in investment returns	(1)	1		
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes	22			22
Reported performance: profit before tax attributable to shareholders	223	11	49	283
Unallocated corporate:				
Performance measure: operating profit based on longer-term investment returns	(253)			(253)
Short-term fluctuations in investment returns	11			11
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes	54			54
Reported performance: profit before tax attributable to shareholders	(188)			(188)
Total:				
Performance measure: operating profit based on longer-term investment returns	418	408	224	1,050
Short-term fluctuations in investment returns	(33)	54	134	155
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes	76			76
Reported performance: profit on continuing operations before tax attributable to shareholders	461	462	358	1,281

Group operating profit based on longer-term investment returns

Group operating profit based on longer-term investment returns from continuing operations in 2008 was £1,347 million, which represents a 12% increase against the 2007 operating profit of £1,201 million. The 2008 operating profit amount includes £28 million of restructuring costs.

Group operating profit based on longer-term investment returns from continuing operations in 2007 was £1,201 million compared to the 2006 operating profit of £1,050 million. The 2007 operating profit amount included £19 million of restructuring costs.

Starting with its UK filing in 2009, Prudential has prepared and provided supplementary analysis of its operating profit based on longer-term investment returns for the year ended December 31, 2008 (and comparative information for the year ended December 31, 2007). Given that operating profit based on longer-term investment returns is an important performance measure used by management, shareholders and the financial market, the directors believe that additional analysis breaking down such operating profit into its principal drivers provides an additional insight into Prudential's performance. The

analysis of the Group's 2008 and 2007 operating profit based on longer-term investment returns using these drivers is provided below:

	2008 £m	2007 £m
Investment spread	**731**	788
Asset management fees	**747**	698
Net expense margin	**(365)**	(426)
DAC amortization (Jackson only)	**(450)**	(286)
Net Insurance margin	**369**	322
With-profits business	**425**	420
Other	**204**	(21)
Corporate expenses	**(314)**	(294)
Group operating profit based on longer-term investment returns	**1,347**	1,201

The analysis classifies the Group's operating profit based on longer-term investment returns from long-term insurance operations into the underlying drivers of those profits, using four broad categories:

(i) Investment spread and asset management fees This represents profits driven by investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses and profits derived from spread, being the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to policyholder accounts. The table above separately identifies net investment spread income from net asset management fee income.

(ii) Net expense margin This represents expenses charged to the profit and loss account (excluding those borne by the with-profits fund and those products where earnings are purely protection driven), including amounts relating to movements in deferred acquisition costs, net of any fees or premium loadings related to expenses. Jackson DAC amortization (net of hedging effects), which is intended to be part of the net expense margin, has been separately highlighted in the table above.

(iii) Net insurance margin This represents profits derived from the insurance risks of mortality, morbidity and persistency including fees earned on variable annuity guarantees.

(iv) With-profits business This represents the shareholders' transfer from the with-profits fund in the period.

Other represents a mixture of other income and expenses that are not directly allocated to the underlying drivers identified above, including non-recurring items.

Under the basis of preparation, the effect of operating assumption changes have been included within net insurance margin unless another category is more suitable. In 2008 the only significant assumption change included outside of net insurance margin was operating assumption change for shareholder annuity business in the UK which was principally driven by changes to the credit default reserving methodology and hence was included within investment spread. No such allocations were made in 2007.

In addition, the results from the non-life operations and unallocated corporate expenses are included in the table above as follows:

(i) The results of Group asset management operations have been included within asset management fees.

(ii) UK General Insurance commission of £44 million (2007: £4 million) has been included within the other income line.

Corporate expenses consist of other operating income and expenditure, UK restructuring costs and development costs.

Insurance operations

Prudential Corporation Asia's operating profit based on longer-term investment returns in 2008 was £295 million (including £26 million of development expenses), which compares with the 2007 operating profit of £174 million (including £15 million of development expenses). In Indonesia the result increased from £35 million to £55 million whilst in the established operations (Singapore, Hong Kong and Malaysia) the growth was more muted, growing from £153 million to £162 million. In Korea the loss of £13 million in 2007 improved to a profit of £12 million in 2008, principally due to a local regulatory change in accounting basis for acquisition costs. India posted a loss of £6 million, before charging development expenses related to the investment in the agency force. The result also reflects that as the business matures it is appropriate to now defer and amortize acquisition costs, resulting in a benefit of £19 million. In Taiwan, where the IFRS basis of reporting reflects US GAAP for the insurance assets and liabilities of the business. the result increased by £15 million to £60 million. The result for other operations increased from £12 million to £38 million reflecting mainly reserve releases in the Japanese operation.

Prudential Corporation Asia's operating profit based on longer-term investment returns in 2007 was £174 million (including £15 million of development expenses), which compares with the 2006 operating profit of £175 million (including £14 million of development expenses). The established markets (Singapore, Hong Kong and Malaysia) generated £153 million, up 15 per cent from 2006. The North Asia markets (Taiwan, Japan and Korea) generated £16 million, down 20 per cent from 2006, reflecting increased losses in Japan of £16 million. Excluding Japan, profits from North Asia almost doubled reflecting a strong increase in Taiwan of 47 per cent due to in-force profits, especially from long-term health products. Losses from the joint ventures in India increased to £43 million, reflecting the fast pace of new business growth and investment in growing the branch networks. Losses from the joint venture in China reduced to £6 million. In the other markets (Vietnam, Thailand, Indonesia and the Philippines), profits grew by 58 per cent to £68 million, reflecting the expected emergence of IFRS profits and a one-off £16 million favorable item in Vietnam.

In the United States operating profit based on longer-term investment returns in 2008 was £406 million, down by nine per cent from £444 million in 2007. This decline was primarily due to accelerated DAC amortization in the declining equity market, which was partially offset by equity hedging gains.

Operating profit based on longer-term investment returns for US operations in 2007 was £444 million, which compares with the 2006 operating profit of £398 million and represents a 12 per cent increase. The operating profit primarily reflects an increase in fee income and continued low mortality rates during 2007. Higher fee income was driven primarily by higher separate account assets given the growth in variable annuity sales, and an improvement in the average fees generated from those assets given the increase in election of guaranteed optional benefits.

In the United Kingdom, operating profit based on longer-term investment returns increased 11 per cent to £579 million in 2008 compared to 2007. This reflects profits attributable to the with-profits business of £395 million and 15 per cent growth from the long-term shareholder backed business. For shareholder-backed annuity business, the operating profit includes a charge of £413 million for strengthening the allowance for credit defaults. Partially offsetting this is £390 million for the impact of rebalancing the credit portfolio, also in the shareholder annuity fund. At the start of 2008 the portfolio was overweight in gilts with an average rating of AA versus a benchmark A. The rebalancing has led to

the fund now having an average rating of A+, thereby remaining ahead of benchmark. The profit for general insurance commission increased to £44 million as cash now begins to emerge following the 2002 sale of the business to Churchill. Prudential expect general insurance commission to continue to emerge around this level in the near term. The result includes restructuring costs of £10 million in 2008 and £7 million in 2007 in respect of implementation costs associated with cost saving initiatives announced in July 2006.

Operating profit based on longer-term investment returns increased 11 per cent to £521 million in 2007 compared to 2006. This reflects a 7 per cent increase in profits attributable to the with-profits business which contributed £394 million, reflecting strong investment performance and its impact on terminal bonuses. The net impact of the mortality strengthening and release of other margins held in other assumptions under the IFRS basis was a positive net £34 million. The result includes restructuring costs of £7 million in 2007 and £31 million in 2006 in respect of implementation costs associated with cost saving initiatives announced in July 2006.

A supplementary analysis of the operating profit based on longer-term investment returns by drivers for the insurance operations for 2008 and 2007 is provided in the table below. The analysis by drivers has been made using the categorization as described above under "Group operating profit based on longer-term investment returns".

Performance measure: operating profit based on longer-term investment returns

	2008			
	Asia £m	**US £m**	**UK £m**	**Total £m**
Investment spread	**38**	**550**	**143**	**731**
Asset management fees	**53**	**292**	**57**	**402**
Net expense margin	**(59)**	**(192)**	**(114)**	**(365)**
DAC amortization (Jackson only)		**(450)**		**(450)**
Net insurance margin	**259**	**122**	**(12)**	**369**
With-profits business	**30**	**0**	**395**	**425**
Other		**84**	**76**	**160**
Life insurance operations total	**321**	**406**	**545**	**1,272**
Asian development expenses	**(26)**			**(26)**
UK general insurance commission			**44**	**44**
UK restructuring costs			**(10)**	**(10)**
Insurance operations total	**295**	**406**	**579**	**1,280**

	2007			
	Asia £m	**US £m**	**UK £m**	**Total £m**
Investment spread	36	533	219	788
Asset management fees	38	266	60	364
Net expense margin	(102)	(186)	(138)	(426)
DAC amortization (Jackson only)		(286)		(286)
Net insurance margin	191	122	9	322
With-profits business	26	0	394	420
Other		(5)	(20)	(25)
Life insurance operations total	189	444	524	1,157
Asian development expenses	(15)			(15)
UK general insurance commission			4	4
UK restructuring costs			(7)	(7)
Insurance operations total	174	444	521	1,139

Asset management business

M&G's operating profit based on longer-term investment returns in 2008 was £286 million which represents a 13 per cent increase against the 2007 operating profit of £254 million. This included £43 million (2007: £28 million) in performance related fees ("PRF") and £58 million operating profit from Prudential Capital (2007: £51 million). Prudential Capital, rebranded from Prudential Finance in 2007, manages Prudential's balance sheet for profit by leveraging Prudential's market position.

Underlying profits, excluding PRF and Prudential Capital, were £185 million for 2008, an increase of 6 per cent compared to 2007. In 2008 M&G benefited from, and continued to promote, greater diversity in terms of profit-generating activities, with profitability spread across internal (30 per cent), retail (47 per cent) and institutional markets (23 per cent). Revenue, excluding PRF and Prudential Capital, decreased by 6 per cent to £455 million in 2008.

M&G's operating profit based on longer-term investment returns in 2007 was £254 million which represents a 26 per cent increase against the 2006 operating profit of £202 million. This included £28 million (2006: £27 million) in PRF and £51 million operating profit from Prudential Capital (2006: £43 million)

Underlying profits, excluding PRF and Prudential Capital, were £175 million for 2007, an increase of 31 per cent compared to 2006. Revenue, excluding PRF and Prudential Capital, increased by 12 per cent to £482 million in 2007. Profit growth was driven by four key factors: an appreciation of underlying assets, positive net sales, an increasing mix of higher-margin business and a decreasing cost/income ratio.

In Asia operating profit based on longer-term investment returns for asset management in 2008 was £52 million which represents a 28 per cent decrease against the 2007 operating profit of £72 million driven by decreasing funds under management and performance related fees as a result of the current market situation.

In Asia operating profit based on longer-term investment returns for asset management in 2007 was £72 million, which represents a 44 per cent increase against the 2006 operating profit of £50 million reflecting an increase in terms of basis points on funds under management from 18 basis points in 2006 to 21 basis points in 2007.

In the United States operating profit based on longer-term investment returns for asset management in 2008 was £7 million, which compares with the 2007 operating profit of £8 million. PPMA recorded

profits of £2 million in 2008, down from £4 million in 2007 at RER primarily due to lower investment income and performance-related fees. The US broker-dealer operations recorded profits of £8 million in 2008, down from £9 million in 2007. Curian recorded losses of £3 million in 2008, down from losses of £5 million in 2007 despite the significant impact of falling equity markets on its assets under management.

In the United States operating profit based on longer-term investment returns for asset management in 2007 was £8 million, which compares with the 2006 operating profit of £10 million and represents a 20 per cent decrease. PPMA recorded profits of £4 million in 2007, down from £12 million in 2006 primarily due to lower investment income and performance-related fees, partially offset by asset-driven fee growth. The US broker-dealer operations recorded profits of £9 million in 2007, up from £6 million in 2006, as the business continues to grow through significant recruiting efforts. Curian recorded losses of £5 million in 2007, down from £8 million in 2006, as the business continues to build its position in the US retail asset management market.

Unallocated Corporate

The operating loss based on longer-term investment returns increased by 2 per cent in 2008 to £278 million compared to £272 million in 2007. This reflected mainly an increase in interest payable on core structural borrowings from £168 million in 2007 to £172 million in 2008.

The operating loss based on longer-term investment returns increased by 8 per cent in 2007 to £272 million compared to £253 million in 2006. This reflected mainly an increase in head office costs from £83 million in 2006 to £117 million in 2007 offset by an increase in investment return from £58 million in 2006 to £86 million in 2007 and a reduction in interest payable on core structural borrowings from £177 million in 2006 to £168 million in 2007.

Liquidity and Capital Resources

Prudential operates a central treasury function, which has overall responsibility for managing the Group's capital funding program as well as its central cash and liquidity positions. Prudential arranges the financing of each of its subsidiaries primarily by raising external finance either at the Prudential parent company level (including through finance subsidiaries whose obligations the parent company guarantees) or at the operating company level.

Group Cash Flow

The Group holding company's principal cash requirements are the payment of dividends to shareholders, the servicing of debt, the payment of group activity expenses and investment in businesses.

The Group holding company received £1,033 million in cash remittances from business units in 2008, compared with £711 million in 2007. These remittances primarily comprise dividends from business units and the prior year's shareholders' statutory transfer from the PAC long-term with-profits fund (UK Life Fund).

After dividends and interest paid, there was a net cash inflow of £619 million in 2008, compared with a net inflow of £372 million in 2007.

During 2008, net interest paid increased by £32 million to £128 million compared to 2007, as lower interest rates prevailing in 2008 led to a decrease in interest received on central shareholders' funds.

During 2008, the Group holding company paid £177 million in respect of corporate activities and received £130 million in respect of Group relief on taxable losses.

In 2008, the holding company invested £518 million in its business units, of which £392 million was invested in Asia and £126 million was invested in its UK insurance operations.

In aggregate, there was an operating cash inflow of £54 million in 2008, compared to an outflow of £82 million in 2007.

During 2007, the Group holding company paid £200 million in respect of corporate activities and received £40 million in respect of Group relief on taxable losses.

In 2007, the holding company invested £294 million in its business units, of which £149 million was invested in Asia and £145 million was invested in its UK insurance operations.

In aggregate, this gave rise to a decrease in operating cash of £82 million, compared to a decrease of £104 million in 2006.

In 2007, the Group holding company received £527 million (net of expenses) from the disposal of its Egg Banking operation. As a result, the total holding company cash flow for 2007 was an inflow of £445 million, compared with an outflow of £104 million in 2006.

Liquidity Requirements

Dividend Payments

The total cost of dividends paid by Prudential were £453 million and £426 million for the years ended December 31, 2008 and 2007, respectively. The cost of the final dividend in respect of the year ended December 31, 2008 was £322 million of which £96 million was allocated as scrip dividends. The dividend will be paid on May 22, 2009.

Debt Service Costs

Debt service costs in respect of core borrowings paid by Prudential in 2008 were £172 million, compared with £168 million for 2007. Of total consolidated borrowings of £6,243 million at December 31, 2008, the parent company had core borrowings of £2,785 million outstanding, including £249 million of bonds due to mature in 2009. The remaining outstanding core borrowings are due to mature in more than five years.

Investment in Businesses

In 2008, Prudential invested £392 million into its Asian business compared to £149 million in 2007. The growth in Asia was primarily due to the injection of £186 million to meet solvency requirements. In 2008, Prudential also invested £126 million into its UK Insurance Operations compared to £145 million in 2007. Depending on the mix of business written and the opportunities available, it is expected that the UK shareholder-backed business will become cash positive in 2010.

Liquidity Sources

The parent company held cash and short-term investments of £1,165 million and £1,456 million at December 31, 2008 and 2007, respectively. The sources of cash in 2008 included dividends, loans and interest received from operating subsidiaries.

Prudential received £1,033 million in cash remittances from business units in 2008, compared to £711 million received in 2007. These remittances primarily comprise dividends from business units and the shareholders' statutory transfer from the PAC long-term with-profits fund (UK Life Fund) relating to earlier bonus declarations.

Shareholders' Statutory Transfer

In 2008, Prudential declared a total surplus of £3.0 billion from Prudential Assurance's primary with-profits fund, of which £2.7 billion was added to with-profits policies and £298 million was distributed to shareholders. In 2007, Prudential declared total surplus of £2.9 billion from Prudential Assurance's primary with-profits fund, of which £2.6 billion was added to with-profits policies and £289 million was distributed to shareholders. Regular bonus rates were increased for Prudence Bond and for personal pensions.

Dividends, Loans and Interest Received from Subsidiaries

Under UK company law, dividends can only be paid if a company has distributable reserves sufficient to cover the dividend. In PAC, Prudential's largest operating subsidiary, distributable reserves are created mainly by the statutory long-term business profit transfer to shareholders that occurs upon the declaration of bonuses to policyholders of with-profit products, see "Shareholders' Statutory Transfer" above. Prudential's insurance and fund management subsidiaries' ability to pay dividends and loans to the parent company is restricted by various laws and regulations. Jackson is subject to state laws that limit the dividends payable to its parent company. Dividends in excess of these limitations generally require approval of the state insurance commissioner.

The table below shows the dividends, loans and other amounts received by the parent company from the principal operating subsidiaries during the year ended December 31, 2008.

	Dividends, loans and interest received in	
	2008	**2007**
	£m	**£m**
Asian Operations	**397**	186
US Operations	**144**	122
UK Insurance Operations (mainly PAC)	**325**	264
M&G	**167**	139
Total	**1,033**	711

Each of Prudential's main operations generates sufficient profits to pay dividends to the parent. The amount of dividends paid by the operations is determined after considering the development, growth and investment requirements of the operating businesses. Prudential does not believe that the legal and regulatory restrictions constitute a material limitation on the ability of businesses to meet their obligations or pay dividends to the parent company.

Amounts received from UK Insurance Operations included £279 million in 2008 relating to the PAC shareholders' statutory life fund transfer, compared to £261 million in 2007.

Remittances from Asia are derived predominantly from Prudential's more established operations in Singapore, Hong Kong, Malaysia and Indonesia.

Sale of Businesses

On February 20, 2009, Prudential announced that it had entered into an agreement to transfer the assets and liabilities of its agency distribution business in Taiwan pending regulatory approval.

On November 9, 2007, Prudential announced that it had completed the sale of PPM Capital, its direct private equity business.

On January 29, 2007, Prudential announced that it had entered into a binding agreement to sell its holding in Egg to Citi. The sale completed on May 1, 2007, for a cash consideration (net of expenses) of £527 million.

Shareholders' Borrowings and Financial Flexibility

Core structural borrowings of shareholder-financed operations at December 31, 2008 totaled £2,958 million, compared with £2,492 million at the end of 2007. This increase during the year reflected exchange conversion losses amounting to £468 million predominantly on our long-term borrowings of €500 million, US$1 billion, US$300 million, US$250 million and US$250 million surplus notes.

After adjusting for holding company cash and short-term investments of £1,165 million, net core structural borrowings at December 31, 2008 were £1,793 million compared with £1,036 million at December 31, 2007. This reflects the net cash inflow of £54 million, exchange conversion losses of £816 million, including the £468 million on long-term borrowings identified above, and £354 million in respect of a US$2 billion net investment hedge of the currency exposure of the net investments in the US operations.

Core structural borrowings at December 31, 2008 included £1,761 million at fixed rates of interest with maturity dates ranging from 2009 to perpetuity. Of the core borrowings, £1,232 million were denominated in US dollars, to hedge partially the currency exposure arising from the Group's investment in Jackson.

Prudential has in place an unlimited global commercial paper program. At December 31, 2008, commercial paper of £278 million, US$916 million, €359 million and CHF10 million has been issued under this program. Prudential also has in place a £5,000 million medium-term note (MTN) program. At December 31, 2008, subordinated debt outstanding under this program was £435 million and €520 million, and senior debt outstanding was £200 million and US$12 million. In addition, the parent company has access to £1,600 million committed revolving credit facilities, provided by 15 major international banks, renewable between December 2010 and February 2012, and an annually renewable £500 million committed securities lending liquidity facility. Apart from a small drawdown to test the process, these facilities have not been drawn on during the year, and there are no amounts outstanding under the committed credit facilities at December 31, 2008. The commercial paper program, the MTN program, the committed revolving credit facilities and the committed securities lending liquidity facility are all available for general corporate purposes and to support the liquidity needs of the parent company.

Prudential plc has strong debt ratings from Moody's, Standard & Poor's and Fitch. As at March 31, 2009 Prudential's long-term senior debt is rated A2 (negative outlook), A+ (stable outlook) and A+ (negative outlook) from Moody's, Standard & Poor's and Fitch respectively, while short-term ratings are P-1, A-1 and F1+.

Securities lending and reverse repurchase agreements

The Group has entered into securities lending (including repurchase agreements) whereby blocks of securities are loaned to third parties, primarily major brokerage firms. The amounts above the fair value of the loaned securities required to be held as collateral by the agreements depend on the quality of the collateral, calculated on a daily basis. The loaned securities are not removed from the Group's consolidated balance sheet, rather they are retained within the appropriate investment classification. Collateral typically consists of cash, debt securities, equity securities and letters of credit. At December 31, 2008, the Group had lent £12,617 million (2007: £17,172 million) (of which £9,701 million (2007: £11,461 million) was lent by the PAC with-profits fund) of securities and held collateral under such agreements of £13,497 million (2007: £18,125 million) (of which £9,924 million (2007: £12,105 million) was held by the PAC with-profits fund).

At December 31, 2008, the Group had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities for the purchase price of £588 million (2007: £1,361 million), together with accrued interest.

Collateral and pledges under derivative transactions

At December 31, 2008, the Group had pledged £1,154 million (2007: £260 million) for liabilities and held collateral of £829 million (2007: £292 million) in respect of over-the-counter derivative transactions.

Insurance Groups Directive

As at December 31, 2008, Prudential met the requirements of the Insurance Groups Directive ("IGD"). The Insurance Groups Directive is discussed in greater detail in Item 4, "Information on the Company Group Risk Framework" and "Information on the Company UK Supervision and Regulation".

Derivative Financial Instruments and Commitments

During the normal course of business Prudential enters into various arrangements in order to increase liquidity and decrease certain risks. These have included a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward currency contracts and swaps, such as interest rate swaps, cross-currency swaps, swaptions and credit default swaps.

All over-the-counter derivative transactions are conducted under standardized ISDA (International Swaps and Derivatives Association Inc) master agreements and Prudential has collateral agreements between the individual group entities and relevant counterparties in place under each of these market master agreements.

These derivatives are used for efficient portfolio management to obtain cost effective and efficient exposure to various markets in accordance with Prudential's investment strategies and to manage exposure to interest rate, currency, credit and other business risks.

The UK insurance operations use various currency derivatives in order to limit volatility due to foreign currency exchange rate fluctuations arising on securities denominated in currencies other than sterling. In addition, total return swaps and interest rate swaps are held for efficient portfolio management.

As part of the efficient portfolio management of the PAC with-profits fund, the fund may, from time to time, invest in cash-settled forward contracts over Prudential plc shares, which are accounted for consistently with the other derivatives. This is in order to avoid a mismatch of the with-profits investments portfolio with the investment benchmarks set for its equity-based investment funds. The contracts will form part of the long-term investments of the with-profits fund. These contracts are subject to a number of limitations for legal and regulatory reasons.

Some of Prudential's products, especially those sold in the United States, have certain features linked to equity indices. A mismatch between product liabilities and the performance of the underlying assets exposes the Group to equity index risk. In order to mitigate this risk, the relevant business units purchase swaptions, equity options and futures to match asset performance with liabilities under equity-indexed products.

Jackson and some of the UK operations hold large amounts of interest-rate sensitive investments that contain credit risks on which a certain level of default is expected. These entities have purchased swaptions in order to manage the default risk on certain underlying assets to reduce the amount of regulatory capital held to support the assets.

Jackson uses the following types of derivatives:

- interest rate swaps which generally involve the exchange of fixed and floating payments over the life of the agreement without an exchange of the underlying principal amount. These agreements are used for hedging purposes;

- put-swaption contracts which provide the purchaser with the right, but not the obligation, to require the writer to pay the present value of a long-duration interest rate swap at future exercise dates. Jackson purchases and writes put-swaptions with maturities up to 10 years. On a net basis, put-swaptions hedge against significant upward movements in interest rates;

- equity index futures contracts, equity index call and put options, put spreads and knock out put options which are used to hedge Jackson's obligations associated with its issuance of fixed indexed immediate and deferred annuities and certain variable annuity guarantees. These annuities and guarantees contain embedded options which are fair valued for financial reporting purposes;

- total return swaps in which Jackson receives equity returns or returns based on reference pools of assets in exchange for short-term floating rate payments based on notional amounts, are held for both hedging and investment purposes;

- cross-currency swaps, which embody spot and forward currency swaps and additionally, in some cases, interest rate swaps and equity index swaps, are entered into for the purpose of hedging Jackson's foreign currency denominated funding agreements supporting trust instrument obligations;

- spread cap options which are used as a macro-economic hedge against declining interest rates. Jackson receives quarterly settlements based on the spread between the two-year and the 10-year constant maturity swap rates in excess of a specified spread; and

- credit default swaps, which represent agreements under which Jackson has purchased default protection on certain underlying corporate bonds held in its portfolio. These contracts allow Jackson to sell the protected bonds at par value to the counterparty in the event of their default in exchange for periodic payments made by Jackson for the life of the agreement.

Jackson has unfunded commitments of £400 million and £24 million related to its investments in limited partnerships and commercial mortgage loans, respectively, at December 31, 2008. These reflect on demand contractual commitments to fund further investments.

Contractual Obligations

Contractual obligations with specified payment dates at December 31, 2008 were as follows:

	Total £m	Less than 1 year £m	1-3 years £m	3-5 years £m	More than 5 years £m
Policyholder liabilities[(a)]	358,904	17,895	34,133	34,300	272,576
Long-term debt	6,243	2,105	209	710	3,219
Capital lease obligations	100	5	22		73
Operating lease obligations	425	86	100	99	140
Purchase obligations[(b)]	425	425			
Obligations under funding, securities lending and sale and repurchase agreements	5,572	5,572			
Other long-term liabilities[(c)]	4,304	4,009	126	48	121
Total	375,973	30,097	34,590	35,157	276,129
Reconciliation to balance sheet:	**£m**	**£m**			
Total contractual obligations per above		375,973			
Difference between policyholder liabilities per above (based on undiscounted cash flows) and total policyholder liabilities and unallocated surplus of with-profits funds per balance sheet:					
Total policyholder liabilities and unallocated surplus of with-profits funds per balance sheet	182,391				
Policyholder liabilities (undiscounted) per above	(358,904)	(176,513)			
Other short-term/non-contractual obligations:					
Current tax liabilities	842				
Deferred tax liabilities	3,229				
Accruals and deferred income	630				
Other creditors (excluding capital and operating lease obligations and purchase obligations)	1,496				
Derivative liabilities	4,832				
Other liabilities	890	11,919			
Other items		(950)			
Total liabilities per balance sheet		210,429			

(a) Amounts shown in respect of policyholder liabilities represent estimated undiscounted cash flows for the Group's life assurance contracts. In determining the projected payments, account has been taken of the contract features, in particular that the amount and timing of policyholder benefit payments reflect either surrender, death, or contract maturity. In addition, the undiscounted amounts shown include the expected payments based on assumed future investment returns on assets backing policyholder liabilities. The projected cash flows exclude the unallocated surplus of with-profits funds. At December 31, 2008, on the IFRS basis of reporting the unallocated surplus was £8,414 million. The unallocated surplus represents the excess of assets

over liabilities, including policyholder "asset share" liabilities, which reflect the amount payable under the realistic Peak 2 reporting regime of the FSA. Although accounted for as a liability, as permitted by IFRS 4, there is currently no expected payment date for the unallocated surplus.

(b)

Comprising unfunded commitments for investments in limited partnerships of £400 million, unfunded commitments related to mortgage loans of £24 million and commitments to purchase and develop investment properties of £1 million.

(c)

Amounts due in less than one year include amounts attributable to unit holders of consolidated unit trusts and similar funds of £3,843 million.

Operating Businesses

UK Life Insurance

The liquidity sources for Prudential's UK life insurance businesses comprise premiums, deposits and charges on policies, investment income, proceeds from the sale and maturity of investments, external borrowings and capital contributions from the parent company. The liquidity requirements comprise benefits and claims, operating expenses, interest on debt, purchases of investments and dividends to the parent company.

The liquidity requirements of Prudential's UK life insurance businesses are regularly monitored to match anticipated cash inflows with cash requirements. Cash needs are forecast and projected sources and uses of funds, as well as the asset, liability, investment and cash flow assumptions underlying these projections are reviewed periodically. Adjustments are made periodically to the investment policies with respect to, among other things, the maturity and risk characteristics of the investment assets to reflect changes in the business' cash needs and also to reflect the changing competitive and economic environment.

The liquidity of Prudential's UK insurance operations is affected by the payment of guaranteed benefits and terminal bonuses on maturing and surrendering policies by the UK insurance operations. In addition, the non-cash bonus declaration to policyholders results in a cash transfer to shareholders' funds. A large proportion of Prudential's liabilities contains discretionary surrender values or surrender charges. In addition, pension annuity policies cannot be surrendered by the policyholder.

At December 31, 2008 and 2007, Prudential Assurance's long-term fund assets in excess of its capital requirements were £5,819 million and £26,866 million, respectively. The "with-profits insurance capital component" of the enhanced capital requirement, at December 31, 2008, amounted to £1,062 million (2007: £16,369 million).

M&G

The principal liquidity source for M&G is fee income for managing retail, institutional and the internal investment funds of Prudential's UK operations. The principal liquidity requirements are for operating expenses and to facilitate the investment activities of Prudential Capital as referred to in note E2 to the consolidated financial statements. Amounts are distributed to the parent company after considering capital requirements. Capital requirements are driven by the regulatory stipulations based on fixed operating expenses and other operating considerations. At December 31, 2008, M&G met the relevant regulatory requirements.

US Life Insurance

The liquidity sources for Jackson are its cash, short-term investments and publicly traded bonds, premium income, deposits received on certain annuity and institutional products, investment income, reverse repurchase agreements, utilization of a short-term borrowing facility with the Federal Home Loan Bank of Indianapolis and capital contributions from the parent company.

Liquidity requirements are principally for purchases of new investments and businesses, repayment of principal and interest on intercompany debt, payments of interest on surplus notes, funding of insurance product liabilities, including payments for policy benefits, surrenders, maturities and new policy loans and funding of expenses, including payment of commissions, operating expenses and taxes. At December 31, 2008, Jackson's outstanding notes and bank debt included:

- $150 million of short-term notes maturing in 2009,
- $33.4 million of collateralized loans maturing in 2009,

$6 million of non-investment grade debt issued by variable interest entities maturing in the period between 2011 and 2016,

$250 million of surplus notes maturing in 2027.

Significant increases in interest rates and disintermediation can create sudden increases in surrender and withdrawal requests by policyholders and contract holders. Other factors that are not directly related to interest rates can also give rise to disintermediation risk, including but not limited to changes in ratings from rating agencies, general policyholder concerns relating to the life insurance industry (e.g., the unexpected default of a large, unrelated life insurer) and competition from other products, including non-insurance products such as mutual funds, certificates of deposit and newly developed investment products. Most of the life insurance, annuity and institutional products Jackson offers permit the policyholder or contract holder to withdraw or borrow funds or surrender cash values, although some include policy restrictions such as surrender charges and market value adjustments to discourage early withdrawal of policy and contract funds. At December 31, 2008, approximately $10.7 billion of policy and contract funds had no surrender charge or market value adjustment restrictions.

Jackson uses a variety of asset-liability management techniques to provide for the orderly provision of cash flow from investments and other sources as policies and contracts mature in accordance with their normal terms. Jackson's principal sources of liquidity to meet unexpected cash outflows associated with sudden and severe increases in surrenders and withdrawals are its portfolio of liquid assets and its net operating cash flows. At December 31, 2008, the portfolio of cash, short-term investments and publicly traded bonds and equities amounted to $26.9 billion. Operating net cash inflows for Jackson in 2008 were $2.0 billion. Prudential believes that these liquidity sources are sufficient to satisfy the company's liquidity needs.

At December 31, 2008, the statutory capital and surplus of Jackson was $3.7 billion, which was in excess of the requirements set out under Michigan insurance law. As described in Item 4, "Information on the Company Supervision and Regulation of Prudential US Supervision and Regulation", Jackson is also subject to risk-based capital guidelines that provide a method to measure the adjusted capital that a life insurance company should have for regulatory purposes, taking into account the risk characteristics of the Company's investments and products. At December 31, 2008, Jackson's total risk based capital ratio under the National Association of Insurance Commissioners' definition exceeded model act standards.

Asia Life Insurance

The liquidity sources for Prudential's Asia life insurance businesses comprise premiums, deposits and charges on policies, investment income, proceeds from the sale and maturity of investments, external borrowings and capital contributions from the parent company. The liquidity requirements comprise benefits and claims, operating expenses, interest on debt, purchases of investments and dividends to the parent company.

The liquidity requirements of Prudential's Asia life insurance businesses are regularly monitored to match anticipated cash inflows with cash requirements. Cash needs are forecast and projected sources and uses of funds, as well as the asset, liability, investment and cash flow assumptions underlying these projections are reviewed periodically. Adjustments are made periodically to the investment policies with respect to, among other things, the maturity and risk characteristics of the investment assets to reflect changes in the business cash needs and also to reflect the changing competitive and economic environment.

Group Consolidated Cash Flows on an IFRS Basis

The discussion that follows is based on the consolidated statement of cash flows prepared under IFRS and presented in Item 18 of this Form 20-F.

Net cash inflows (outflows) in 2008 were £1,144 million from operating activities, £(229) million from investing activities, and £(461) million from financing activities. In 2007, net cash inflows (outflows) were £1,138 million from operating activities, £(719) million from investing activities, and £(579) million from financing activities. In 2006, net cash inflows (outflows) were £2,209 million from operating activities, £(102) million from investing activities, and £(522) million from financing activities.

The Group held cash and cash equivalents of £5,955 million at December 31, 2008 compared with £4,951 million and £5,071 million at December 31, 2007 and 2006, respectively.

Item 6. Directors, Senior Management and Employees

The Prudential Board consists of 15 directors as at March 31, 2009. Since January 2008, the following Board changes have taken place: Tidjane Thiam was appointed as an executive director on March 25, 2008, and Harvey McGrath was appointed as a non-executive director on September 1, 2008. Philip Broadley ceased to be a director with effect from the close of the Annual General Meeting on May 15, 2008, and Sir David Clementi ceased to be a director and Chairman of the Board on December 31, 2008 and was succeeded as Chairman by Harvey McGrath with effect from January 1, 2009. On March 19, 2009 Prudential announced that Tidjane Thiam will succeed Mark Tucker as Group Chief Executive with effect from October 1, 2009, and on April 27, 2009 Prudential announced that Nicolaos (Nic) Nicandrou will succeed Tidjane Thiam as Chief Financial Officer. Nic Nicandrou joins Prudential from Aviva, where he had worked for eleven years in a number of senior financial roles, including Norwich Union Life Finance Director and Board Member, Aviva Group Financial Control Director, Aviva Group Financial Management and Reporting Director and CGNU Group Financial Reporting Director. Nic Nicandrou's date of appointment as a director will be confirmed in due course.

Set forth below are the names, ages, positions, business experience and principal business activities performed by the current directors of Prudential, as well as the dates of their initial appointment as directors. Ages given are as at March 31, 2009.

Harvey McGrath (Age 57)
Chairman and Chairman of the Nomination Committee

Harvey McGrath has been an independent non-executive director of Prudential since September 1, 2008, and became Chairman and Chairman of the Nomination Committee on January 1, 2009. Harvey has a long and distinguished career in the international financial services industry. He started his career at Chase Manhattan Bank in London and New York. From 1980 to 2007 he worked for Man Group plc starting as Treasurer, then Finance Director, then President of Man Inc. in New York, before being appointed as Chief Executive of Man Group in London in 1990, and then Chairman in 2000. He left Man Group in 2007.

Harvey is also Chairman of the London Development Agency, which works for the Mayor of London, coordinating economic development and regeneration across the capital, and Vice Chairman of the London Skills and Employment Board, which is tasked with developing a strategy for adult skills in London. He is the former Chairman of both London First and the East London Business Alliance, and a Member of the International Advisory Board of the School of Oriental and African Studies.

Harvey is a trustee of a number of charities including New Philanthropy Capital, a research based charity which gives advice and guidance to donors and charities; the Royal Anniversary Trust which operates the Queen's Anniversary Prizes for Higher and Further Education; ISS, which protects the rights and welfare of children and vulnerable adults across borders; icould, an online careers resource; and the Prince's Teaching Institute, which promotes subject based professional development for teachers.

Mark Tucker ACA (Age 51)
Group Chief Executive (until September 30, 2009)

Mark Tucker was re-appointed as an executive director of Prudential in May 2005, when he also became Group Chief Executive. From May 2004 to March 2005 he was Group Finance Director, HBOS plc and director of Halifax plc. Previously, Mark was an executive director of Prudential from 1999 to 2003, and from 1993 to 2003 he was Chief Executive of Prudential Corporation Asia, and also held senior positions in Prudential's businesses in the UK and US. Mark first joined Prudential in 1986, having previously been a tax consultant at PriceWaterhouse UK in London.

Tidjane Thiam (Age 46)
Chief Financial Officer (until September 30, 2009)
Group Chief Executive (from October 1, 2009)

Tidjane Thiam has been an executive director of Prudential and Chief Financial Officer since March 25, 2008, and will succeed Mark Tucker as Group Chief Executive with effect from October 1, 2009. He was previously Chief Executive Officer, Europe at Aviva, where he also held successively the positions of Group Strategy and Development Director and Managing Director, Aviva International. Prior to that, Tidjane was a partner with McKinsey & Company in France and one of the leaders of their Financial Institutions practice, focusing on insurance companies and banks. Earlier in his career, he spent a number of years in Africa where he was Chief Executive and then Chairman of the National Bureau for Technical Studies and Development in Cote d'Ivoire and a cabinet member as Minister of Planning and Development. He is a non-executive director of Arkema in France, a member of the Council of the Overseas Development Institute (ODI) in London and a sponsor of Opportunity International, a charity focusing on microfinance in developing countries.

Clark Manning FSA MAAA (Age 50)
Executive director

Clark Manning has been an executive director of Prudential since January 2002. He is also President and Chief Executive Officer of Jackson National Life. He was previously Chief Operating Officer, Senior Vice President and Chief Actuary of Jackson National Life, which he joined in 1995. Prior to that, he was Senior Vice President and Chief Actuary for SunAmerica Inc, and prior to that Consulting Actuary at Milliman & Robertson Inc. Clark has more than 25 years' experience in the life insurance industry, and holds both a bachelor's degree in actuarial science and an MBA from the University of Texas. He also holds professional designations of Fellow of the Society of Actuaries (FSA) and Member of the American Academy of Actuaries (MAAA).

Michael McLintock (Age 48)
Executive director

Michael McLintock has been an executive director of Prudential since September 2000. He is also Chief Executive of M&G, a position he held at the time of M&G's acquisition by Prudential in 1999. Michael joined M&G in 1992. He previously also served on the board of Close Brothers Group plc as a non-executive director (2001-2008). Since October 2008 he has been a Trustee of the Grosvenor Estate.

Nick Prettejohn (Age 48)
Executive director

Nick Prettejohn has been an executive director of Prudential and Chief Executive, Prudential UK & Europe since January 2006. He is also a board member of the ABI, Chairman of the Financial Services Practitioner Panel (having previously been Deputy Chairman), and a board member of the Royal Opera House. Previously, he was Chief Executive of Lloyd's of London from 1999 until 2005. Nick joined the Corporation of Lloyd's in 1995 as Head of Strategy, and played a key role in the Reconstruction and Renewal process, which reorganized Lloyd's after the losses of the late 1980s and early 1990s. Following the successful completion of the reorganization in 1996, he became Managing Director of Lloyd's Business Development Unit and in 1998, he also assumed responsibility for Lloyd's North America business unit. Prior to his appointment to Lloyd's, Nick was responsible for corporate strategy at National Freight Corporation plc, and prior to that he was a partner at management consultants Bain and Co and a director of private equity company Apax Partners.

Barry Stowe (Age 51)
Executive director

Barry Stowe has been an executive director of Prudential since November 2006, and Chief Executive, Prudential Corporation Asia since October 2006. He has also been a director of the Life Insurance Marketing Research Association (LIMRA) and the Life Office Management Association (LOMA) since October 2008. Previously, Barry was President, Accident & Health Worldwide for AIG Life Companies. He joined AIG in 1995, and prior to that was President and CEO of Nisus, a subsidiary of Pan-American Life, from 1992-1995. Before joining Nisus, Barry spent 12 years at Willis Corroon in the US.

Sir Winfried Bischoff (Age 67)
Non-executive director

Sir Winfried Bischoff has been a non-executive director of Prudential since August 2, 2007. Sir Win has been Chairman of Citi Europe and a Member of The Management, Operating and Business Heads Committees of Citigroup Inc. since May 2000. He was also a director of Citigroup Inc. until April 21, 2009, and was Acting Chief Executive Officer from November to December 2007, and Chairman from December 2007 until February 23, 2009. In addition, Sir Win is Chairman of the European Advisory Board of Citigroup Inc. and a member of the Citigroup Inc. International Advisory Board, and has been a non-executive director of The McGraw-Hill Companies, New York since October 1999 and of Eli Lilly and Company, Indianapolis since June 2000. Prior to that, Sir Win joined the Company Finance Division of J. Henry Schroder & Co. Limited, London, in 1966 and in 1971, he was appointed as Managing Director of Schroders Asia Limited, Hong Kong. He returned to London in January 1983, and was appointed Chairman of J. Henry Schroder & Co. in October 1983. Sir Win was appointed Group Chief Executive of Schroders plc in December 1984 and as Chairman of Schroders plc in May 1995, until the acquisition of the investment banking business of Schroders by Citigroup Inc. in May 2000. In addition, Sir Win was a non-executive director of Cable and Wireless plc from 1991 and Deputy Chairman from 1995 to 2003. His other non-executive directorships included: IFIL Finanziaria di Partecipazioni SpA, Italy (1999-2004), Siemens Holdings Plc (2001-2003), Land Securities Plc (1999-2008) and Akbank T.A.S. (2007-2008).

Keki Dadiseth FCA (Age 63)
Non-executive director and member of the Remuneration Committee

Keki Dadiseth has been a non-executive director of Prudential since April 2005. During 2006, he was appointed as a non-executive director of ICICI Prudential Life Assurance Company Limited and ICICI Prudential Trust Limited. He is also a member of the Advisory Board of Marsh & McLennan Companies Inc. and an International Advisor to Goldman Sachs. In addition, Keki is a director of Nicholas Piramal Limited, Siemens Limited, Britannia Industries Limited and The Indian Hotels Company Limited, all quoted on the Bombay Stock Exchange. He is also a director of the Indian School of Business and acts as a trustee of a number of Indian charities. Before he retired from Unilever in 2005, Keki was Director, Home and Personal Care, responsible for the HPC business of Unilever worldwide, a Board member of Unilever PLC and Unilever N.V. and a member of Unilever's Executive Committee. He joined Hindustan Lever Ltd in India in 1973.

Michael Garrett (Age 66)
Non-executive director and member of the Remuneration Committee

Michael Garrett has been a non-executive director of Prudential since September 2004. He worked for Nestlé from 1961, becoming Head of Japan (1990 - 1993), and then Zone Director and Member of the Executive Board, responsible for Asia and Oceania, and in 1996 his responsibilities were expanded to include Africa and the Middle East. Michael retired as Executive Vice President of Nestlé in 2005. He served the Government of Australia as Chairman of the Food Industry Council and as a Member of the

Industry Council of Australia, and was also a member of the Advisory Committee for an APEC (Asia-Pacific Economic Cooperation) Food System, a Member of The Turkish Prime Minister's Advisory Group and the WTO (World Trade Organization) Business Advisory Council in Switzerland. Michael remains a director of Nestlé in India, and was appointed Chairman of the Evian Group in 2001, a think tank and forum for dialogue promoting free trade. He also serves as a non-executive director on the Boards of the Bobst Group in Switzerland, Hasbro Inc. in the USA, and Gottex Fund Management Holdings Limited in Guernsey. In addition, he is a member of the Finance and Performance Review Committee of The Prince of Wales International Business Leaders Forum (IBLF), as well as a Member of the Swaziland International Business Advisory Panel under the auspices of the Global Leadership Foundation (GLF) London.

Ann Godbehere FCGA (Age 53)
Non-executive director and member of the Audit Committee

Ann Godbehere has been a non-executive director of Prudential since August 2007, and has been a member of the Audit Committee since October 2007. She began her career in 1976 with Sun Life of Canada, joining Mercantile & General Reinsurance Group in 1981, where she held a number of management roles rising to Senior Vice President and Controller for life and health and property/casualty businesses in North America in 1995. In 1996, Swiss Re acquired Mercantile & General Reinsurance Group, and Ann became Chief Financial Officer of Swiss Re Life & Health, North America. In 1997, she was made Chief Executive Officer of Swiss Re Life & Health, Canada. She moved to London as Chief Financial Officer of Swiss Re Life & Health Division in 1998 and joined the Property & Casualty Business Group, based out of Zurich, as Chief Financial Officer on its establishment in 2001. From 2003 until February 2007 Ann was Chief Financial Officer of the Swiss Re Group. Ann is also a non-executive director of UBS AG, Ariel Holdings Limited, Atrium Underwriting Group Limited and Atrium Underwriting Limited. In 2008 and until January 2009 Ann was Chief Financial Officer and Executive Director of Northern Rock.

Bridget Macaskill (Age 60)
Non-executive director, Chairman of the Remuneration Committee, and member of the Nomination Committee

Bridget Macaskill has been a non-executive director of Prudential since September 2003. Bridget rejoined the Board of Prudential having previously resigned due to a potential conflict of interest in 2001. She has been a member of the Remuneration Committee since 2003 and became Chairman of the Remuneration Committee in May 2006. Bridget joined Arnhold and S. Bleichroeder Advisers, LLC, a US based investment management firm, as President and Chief Operating Officer in February 2009. She is also a trustee of the TIAA-CREF funds and was previously a non-executive director of Fannie Mae (2005-2008), Scottish & Newcastle PLC (2004-2008) and J Sainsbury Plc (2002-2006). Prior to that she spent 18 years at OppenheimerFunds Inc, a major New York based investment management company, the final 10 years of which she was Chief Executive Officer.

Kathleen O'Donovan ACA (Age 51)
Non-executive director and Chairman of the Audit Committee

Kathleen O'Donovan has been a non-executive director of Prudential since May 2003. She has been a member of the Audit Committee since 2003 and became Chairman of the Audit Committee in May 2006. Kathleen is a non-executive director and Chairman of the Audit Committees of Great Portland Estates PLC and Trinity Mirror plc, and a non-executive director of ARM Holdings plc. She is also Chairman of the Invensys Pension Scheme. Previously, she was a non-executive director and Chairman of the Audit Committees of the EMI Group plc and the Court of the Bank of England, and a non-executive

director of O_2 plc. Prior to that, Kathleen was Chief Financial Officer of BTR and Invensys, and before that she was a partner at Ernst & Young.

James Ross (Age 70)
Senior Independent Non-executive Director and member of the Remuneration and Nomination Committees

James Ross has been a non-executive director since May 2004 and the Senior Independent Director since May 2006. He is also a non-executive director of Schneider Electric in France and Chairman of the Leadership Foundation for Higher Education and of the Liverpool School of Tropical Medicine. James was previously a non-executive director of McGraw Hill and Datacard Inc in the United States, and prior to that Chairman of National Grid plc and Littlewoods plc. He was also Chief Executive of Cable and Wireless plc and Chairman and Chief Executive of BP America Inc., and a Managing Director of the British Petroleum Company plc.

Lord Turnbull KCB CVO (Age 64)
Non-executive director and member of the Audit Committee

Lord Turnbull has been a non-executive director of Prudential since May 2006, and a member of the Audit Committee since January 2007. He entered the House of Lords as a Life Peer in 2005. In 2002, he became Secretary of the Cabinet and Head of the Home Civil Service until he retired in 2005. Prior to that, he held a number of positions in the civil service, including Permanent Secretary at HM Treasury; Permanent Secretary at the Department of the Environment (later Environment, Transport and the Regions); Private Secretary (Economics) to the Prime Minister; and Principal Private Secretary to Margaret Thatcher and then John Major. He joined HM Treasury in 1970. Lord Turnbull is Chairman of BH Global Limited and a non-executive director of Frontier Economics Limited and The British Land Company PLC, and was formerly a non-executive director of the Arup Group (2006-2007). He also works part-time as a Senior Adviser to the London partners of Booz and Co (UK).

The Board has determined, and does so annually, that all of its non-executive directors are independent under UK governance standards. In addition, the Board affirms annually the independence of its Audit Committee members under applicable US legislation.

Other Executive Officers

The heads of Prudential's business units, Prudential UK, M&G, Jackson and Prudential Corporation Asia are also directors of Prudential, as set forth above. For information relating to the compensation paid or accrued to all Prudential directors see below.

Service Contracts

Chairman's letter of appointment and benefits

Sir David Clementi was Chairman during 2008. He was paid an annual fee and had a contractual notice period of 12 months by either party. He participated in a medical insurance scheme, had life assurance cover of four times his annual fees in lieu of death in service benefits and had the use of a car and driver. He was entitled to a supplement to his fees, intended for pension purposes. He was not a member of any Group pension scheme providing retirement benefits. His annualized fee as at January 1, 2008 was £520,000 and his pension allowance was 25 per cent of his fees.

Harvey McGrath joined as a non-executive director on September 1, 2008 and became Chairman from January 1, 2009. He is paid an annual fee and has a contractual notice period of 12 months by either party. He is entitled to participate in a medical insurance scheme and to the use of a car and driver but did not take up either of these benefits in 2008. He is provided with life assurance cover of

four times his annual fees in lieu of death in service benefit. He is not a member of any Group pension scheme providing retirement benefits. His annualized fee is £500,000 which is fixed for three years. He is not paid a pension allowance.

Group Chief Executive appointment

Mark Tucker is leaving Prudential on September 30, 2009 and Tidjane Thiam will become Group Chief Executive from October 1, 2009. The remuneration arrangements which will apply to Mark Tucker following his resignation and Tidjane Thiam on his appointment are included below.

Directors' service contracts and letters of appointment

Executive directors have contracts that terminate on their normal retirement date. The normal retirement date for the executive directors except Clark Manning and Barry Stowe is the date of their 65th birthday. The normal retirement date for Clark Manning and Barry Stowe is the date of their 60th birthday.

The normal notice of termination the Company is required to give executive directors is 12 months. Accordingly, in normal circumstances the director would be entitled to one year's salary and benefits in respect of the notice period on termination. Additionally, outstanding awards under annual and long-term incentive plans will vest depending on the circumstances and according to the rules of the plans. When considering any termination of a service contract, the Remuneration Committee will have regard to the specific circumstances of each case, including a director's obligation to mitigate his loss. Payments would be phased over the notice period.

The contract for Clark Manning is a renewable one-year fixed-term contract. The contract is renewable automatically upon the same terms and conditions unless the Company or Clark Manning gives at least 90 days' notice prior to the end of the relevant term. In the case of the former, Clark Manning would be entitled to continued payment of salary and benefits for the period of one year from the day such notice is delivered to him. Payments of Clark Manning's salary during the period following the termination of employment would be reduced by the amount of compensation earned by him from any subsequent employer or from any person for whom he performs services. Benefits to be provided during such period would also be cancelled to the extent that comparable benefits were available to him from these alternative sources.

Non-executive directors do not have service contracts but are appointed pursuant to letters of appointment with notice periods of six months without liability for compensation.

Compensation

In 2008 the aggregate compensation that Prudential paid or accrued to all Prudential plc directors was £13,058,041 including performance related bonuses paid to executive directors and aggregate pension contributions of £1,027,267 and provision for future benefits.

Remuneration

	Salary/ Fees £000	Bonus £000	Benefits*	Cash supplements for pension purposes** £000	Total Emoluments 2008 £000	Value of releases from LTIPs in respect of performance periods ending December 31, 2008**** £000
Chairman						
Sir David Clementi(1)	538		43	134	715	
Executive directors						
Philip Broadley (until May 15, 2008)(2)	236	118	22	64	440	655
Clark Manning(3)	567	1,177	24		1,768	929
Michael McLintock(4)	320	1,780	54		2,154	881
Nick Prettejohn(5)	650	650	59	85	1,444	577
Barry Stowe(6,7)	550	337	182	138	1,207	
Tidjane Thiam (from March 25, 2008)(8,9 & 10)	505	650	59	30	1,244	
Mark Tucker	975	942	66	244	2,227	1,297
Total executive directors	3,803	5,654	466	561	10,484	4,339
Non-executive directors						
Sir Winfried Bischoff (from August 2, 2007)	63				63	
Keki Dadiseth(11)	73				73	
Michael Garrett	73				73	
Ann Godbehere	81				81	
Bridget Macaskill	86				86	
Harvey McGrath (From September 1, 2008)(12)	167				167	
Kathleen O'Donovan	108				108	
James Ross	101				101	
Lord Turnbull	81				81	
Total non-executive directors	833				833	
Overall total	5,174	5,654	509	695	12,032	4,339

*

Benefits include, where provided, cash allowances for cars, the use of a car and driver, medical insurance, security arrangements and expatriate benefits.

**

Pension supplements that are paid in cash are included in the table. The policy on pensions is described in the section on Pension arrangements on page 192. The pension arrangements for current executive directors are described in the section on Directors' pensions and life assurance on page 199.

***

Value of LTIP releases is the total of cash paid plus, for shares released, the value of the released shares based on the share price at December 31, 2008. All executive directors participate in long-term incentive plans and the details of releases for awards with a performance period ending December 31, 2008 are provided in the footnotes to the table on share awards on pages 194 to 196. Executive directors' participation in all-employee plans are detailed on page 199.

Notes:

1.

David Clementi was Chairman until December 31, 2008 and remained an employee until January 31, 2009.

2.

Philip Broadley resigned in 2007. In view of his flexibility in agreeing a leaving date after the 2008 Annual General Meeting and for his agreement to act as a consultant for six months post his date of leaving, he was provided with the following:

- a total payment of £507,105 paid in two tranches in June and December 2008;

- medical insurance and life assurance cover for six months after his leaving date;

- treatment as a "good leaver" in respect of his outstanding share awards. The deferred share awards under his 2006 and 2007 annual incentive plans were released on his leaving. His outstanding long-term incentive awards will vest according to the rules of the plans in the same way as other recipients of awards, but pro-rated where appropriate for the time worked during the performance period.

All of these payments after June 2008 were subject to his continuing to be available for consultancy for six months after his leaving date and subject to his compliance with non-solicitation and confidentiality conditions.

3.

Clark Manning's bonus figure excludes a contribution of $13,800, from a profit sharing plan, which has been made into a 401K retirement plan. This is included in the table on pension contributions on page 200.

4.

For Michael McLintock a deferred share award from the 2008 annual bonus valued at £640,000 has been made. This is included in the 2008 bonus figure.

5.

For Nick Prettejohn a deferred share award from the 2008 annual bonus valued at £325,000 has been made. This is included in the 2008 bonus figure.

6.

For Barry Stowe a deferred share award from the 2008 annual bonus valued at £62,013 has been made. This is included in the 2008 bonus figure.

7.

Barry Stowe's benefits primarily relate to his expatriate status including costs of £91,829 related to housing, £34,113 for children's education and £21,165 for home leave.

8.

On appointment, Tidjane Thiam was provided with a guarantee that his 2008 bonus would not be less than 100 per cent of salary.

9.

For Tidjane Thiam a deferred share award from the 2008 annual bonus valued at £325,000 has been made. This is included in the 2008 bonus figure.

10.

In addition to the 2008 bonus disclosed in the table above, Tidjane Thiam received a payment of £650,631 to compensate for the loss of 2007 bonus and in lieu of 2005 awards which were due to vest in March 2008.

11.

Keki Dadiseth was paid allowances totaling £12,063 in 2008 in respect of his accommodation expenses in London whilst on the Company's business, in lieu of reimbursing hotel costs as is the usual practice for directors who are not resident in the UK.

12.

Harvey McGrath joined Prudential on September 1, 2008 and became Chairman on January 1, 2009.

2009 remuneration structure for executive directors

The following table summarizes the remuneration structure for each executive director for 2009. Incentive award levels are unchanged from 2008.

The arrangements for Tidjane Thiam's 2009 reward and the remuneration policy which will apply after he becomes Group Chief Executive are set out in the next section.

				Long Term Incentives	
Director	**Role**	**Annual Salary from January 1, 2008**	**Annual Incentive Plan Maximum**	**Group Performance Share Plan Maximum**	**Business Unit Performance Plan Maximum**
Clark Manning[(1)]	Jackson President & CEO	$ 1,050,000	c320%	230%	230%
Michael McLintock[(2)]	Chief Executive M&G	£320,000	[(2)]	100%	[(2)]
Nick Prettejohn	CEO UK	£650,000	110%	130%	130%
Barry Stowe	CEO Asia	£550,000	110%	130%	130%
Tidjane Thiam[(3)]	Chief Financial Officer	£650,000	110%[(4)]	160%[(3)]	n/a
Mark Tucker[(5)]	Group Chief Executive	£975,000	125%[(5)]	n/a	n/a[(5)]

Notes:

(1) Clark Manning's annual bonus figure includes a notional figure for his 10 per cent share of the Jackson senior management bonus pool based on the performance of Jackson.

(2) Michael McLintock's annual bonus is based on M&G's performance both in absolute terms and relative to its peers with bonus amounts determined by an assessment of market competitive rewards for median and superior performance. In line with practice in the asset management sector there is no specified maximum annual bonus award. Total remuneration is subject to an overriding cap such that his total remuneration should not be greater than three per cent of M&G's annual IFRS profits.

(3) As part of his appointment terms, Tidjane Thiam was provided with the following:

- to compensate for the loss of 2007 bonus, a cash payment of £325,000 on joining and an award of shares deferred for three years with a value of £325,000;
- a guarantee that his bonus for 2008 would not be less than 100 per cent of his salary. Any amount of the 2008 bonus paid which is greater than 50 per cent of his salary will be awarded in shares which are deferred for three years;
- for 2008, a double award of 320 per cent of his salary under the Group Performance Share Plan (Group PSP);

in order to compensate for the loss of outstanding deferred share awards under annual incentive plans and long-term awards with his previous employer:

a cash sum on joining in lieu of the 2005 awards which were due to vest in March 2008; and

restricted share awards, in lieu of his 2006 and 2007 awards, without performance measures which will vest in March 2009 and 2010, respectively.

(4)
This maximum annual bonus will apply on a pro-rated basis for 2009 (see section on Tidjane Thiam's arrangements on page 186).

(5)
Mark Tucker's 2009 annual bonus will be pro-rated based on his period of employment during the year. No 2009 long-term incentive award will be made (his 2008 Group Performance Share Plan award was 200 per cent of basic salary).

Mark Tucker

No special remuneration arrangements have been put in place following Mark Tucker's resignation.

Mark Tucker will continue to receive his basic salary, pension contribution and other benefits under the terms of his contract until September 30, 2009. His annual bonus for 2008 has been paid fully in cash and he will receive a pro-rated bonus for 2009 (9/12ths) based on his length of service during the year. He will receive no long term incentive plans ("LTIP") award in 2009.

After Mark Tucker leaves, the deferred share awards in connection with his 2007 and 2008 bonus will be released in accordance with the scheme rules. His 2007 and 2008 LTIP awards under the Group Performance Share Plan (the "Group PSP") will vest at the end of the relevant 3 year performance period pro-rated for service, 33/36ths and 21/36ths respectively. Vesting will remain dependent on performance achieved over the performance periods to December 31, 2009 and December 31, 2010. Any shares which vest will be released at the same time as for all other participants in the Group PSP.

Tidjane Thiam

Tidjane Thiam's remuneration arrangements as Group Chief Executive from October 1, 2009 will be as follows:

Director	Annual Salary from October 1, 2009	Annual Incentive Plan Maximum	Group Performance Share Plan Maximum
Tidjane Thiam	£875,000	180%	300%

Tidjane Thiam's 2009 annual bonus will be based on the performance measures described in the section on "Performance measures in 2009 annual bonus plans". His current maximum bonus for his role as Chief Financial Officer is 110 per cent. His total bonus for 2009 will be determined by considering the period of time in the two roles performed in 2009, taking into account any handover period required, the performance of Prudential and the maximum award level for each role. There will be a compulsory deferral of 30 per cent of any bonus awarded for his CFO role and 50 per cent of any bonus awarded for his CEO role.

Tidjane Thiam will continue to receive a supplement for pension purposes at 25 per cent of basic salary but will no longer receive a non pensionable car allowance of £10,000. All other benefits will remain unchanged.

The shareholding requirement will be 2 times salary (see "Shareholding guidelines").

Remuneration policy in practice

The table below sets out the purpose and practice for each element of remuneration for 2008 and 2009. Total remuneration for Prudential's executive directors is made up of the elements set out below. All elements are reviewed annually.

Element	Purpose	Measures	Practice
Total Compensation	Provides appropriate compensation structures and reward payouts which attract high-caliber executive directors	Compensation information on reward for executive directors in the relevant markets provides the background for compensation decisions by the Committee. Consideration is also given to remuneration arrangements and levels for the other Prudential employees in the relevant market	Total Compensation levels are compared with: Median of the FTSE 50 for executive directors whose remuneration is benchmarked against the UK market; Median of the LOMA data for insurance companies for the executive director based in the US; Median of fund management market data for the Chief Executive of M&G.

Element	Purpose	Measures	Practice
Salary	Provides part of the guaranteed element of remuneration necessary to recruit and retain the best people for our business	Scope of role and market position, as well as individual's contribution and experience, taking into account total remuneration, market movement of salaries in comparator organizations and salary increases for employees generally in the company. Market position compared with companies of similar size and complexity to Prudential, for example from the FTSE 50 for UK-based remuneration, UK-based asset management companies for M&G and US insurers for US-based remuneration.	The Remuneration Committee reviews salaries annually. Any changes in basic salary for the Group Chief Executive and the executive directors are effective from 1 January. The basic salaries of the executive directors or senior executives were not increased for 2009. For other employees, basic salary increases around the Group will reflect the local market. It is anticipated that the pay review for other employees will result in average increases of approximately 2.5 per cent in the UK, 3.5 per cent in Asia, and 3 per cent in the US.
Annual Bonus	Rewards the achievement of business results and individual objectives in a given year.	Group financial measures, Business unit financial measures and Individual contribution. The proportions of the elements in the annual incentive plans are set out in the section on 'Performance measures in 2009 annual bonus plans'.	Executive directors have annual incentive plans based on the achievement of annual performance measures taken from the Company's business plans and individual contributions. Bonuses awarded are not pensionable. The annual bonus for the Chief Executive of Jackson includes a 10 per cent share of a senior management bonus pool determined by the performance of Jackson for the year.
Deferrals from annual bonus awards	Provides a retention element from annual reward which helps alignment with shareholders' interests	A portion of bonus in the form of an award of shares deferred for three years	2009 bonus deferrals The current Group Chief Executive leaves Prudential on September 30, 2009, hence any pro-rated bonus for 2009 will be paid fully in cash. The new Group Chief Executive will be required to defer 50 per cent of any bonus awarded for this role post the date of appointment. For the other executive directors, the deferral policy for 2009 bonus awards will be as follows: Chief Financial Officer and the Chief Executives of UK and Asia: deferral of 30 per cent of total bonus awarded. This results in an increased deferral at lower levels of bonus.

Chief Executive of Jackson: 15 per cent of total bonus awarded. This represents a substantial increase in deferral. The deferral of any award made for 2010 onwards will be 30 per cent of total bonus.

Chief Executive of M&G: deferral of 50 per cent of any award above £500,000. This deferral level is unchanged from 2008.

2008 bonus deferrals (where different from 2009):

Group Chief Executive: deferral of bonus above 75 per cent of salary;

Chief Financial Officer and the Chief Executives of UK and Asia: deferral of bonus above 50 per cent of salary;

Chief Executive of Jackson: deferral of bonus above 100 per cent of salary excluding the payment from a Jackson senior management bonus pool.

Element	Purpose	Measures	Practice
Long-Term Incentive	Rewards related to achieving success for shareholders over a three year period	Group Performance Share Plan For all executive directors: relative TSR performance against peer group. Business plans: For business unit executive directors: BUPPs: Growth in SCV on an EEV basis. M&G Executive LTIP: M&G profit and fund performance.	All executive directors are provided with awards under the share-based Group Performance Share Plan. The Chief Executives of the Business Units also participate in plans designed to measure their Business Unit's contribution to the long term success of Prudential. The Chief Executive of M&G participates in the cash-based M&G Executive LTIP. The Chief Executives of UK, Asia and Jackson participate in long-term incentive plans relating to their businesses, the Business Unit Performance Plans. For 2009 onwards, awards were 100 per cent in shares to provide greater alignment with shareholders (previously, awards were 50 per cent shares/50 per cent cash). Full details of the plans for the executive directors are set out in the section on 'Executive Directors' long-term incentive plans'. Senior executives reporting to the executive directors also participate in LTIPs which in most cases are the same or similar, but plans have been tailored to business needs where appropriate.
Benefits	Provides another guaranteed element set at an appropriate level compared with peers	Determined by market comparison/practice.	Executive directors receive certain benefits for example participation in medical insurance schemes, a maximum 6 weeks holiday (an increase from 5 weeks in 2008 to align with other senior employees) and in some cases a cash car allowance and the use of a car and driver and security arrangements. No benefits are pensionable. Executive directors are entitled to participate in certain M&G investment products on the same terms as available to other members of staff.
Pension	Provides income in retirement	Determined by market comparison/practice. No new executive directors appointed since June 2003 participate in defined benefit pension plans.	It is the Company's policy to provide efficient pension vehicles to allow executive directors to save for their retirement and to make appropriate contributions to their retirement savings plans. The level of company contribution is related to competitive practice in the executive directors' employment markets. The executive directors' pension arrangements and life assurance provisions are set out in the section on "Directors' pensions and life assurance".

Performance measures in 2009 annual bonus plans

The 2009 annual bonus plans for all Prudential's executive directors except Michael McLintock include financial performance measures at a Group and business unit level based on:

- IFRS profits;
- EEV profits;
- Operating cashflow; and
- Insurance Groups Directive capital surplus position

Michael McLintock's business unit annual bonus plan also includes performance measures based on growth in third party funds, M&G investment performance and M&G IFRS profit.

The 2009 annual bonus plans also include personal performance measures that, when met, account for a percentage of an executive director's bonus. The following table sets forth the proportions that

financial and personal performance measures respectively account for in the 2009 annual bonus plan for each executive director: