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)

David Martin
Head of Financial Accounting
Prudential plc
Laurence Pountney Hill,

London EC4R 0HH, England
+44 20 7548 3640
david.martin@prudential.co.uk
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

1

	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 £m	Yield	Amount £m	Yield	Amount £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:

	2008			2007		
Aged analysis of unrealized losses for the periods indicated	**Non-investment grade £m**	**Investment grade £m**	**Total £m**	**Non-investment grade £m**	**Investment grade £m**	**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:

	2008		2007	
Fair value of securities as a percentage of book value	**Fair value £m**	**Unrealized loss £m**	**Fair value £m**	**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)

(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)

*

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

* 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 £m	2007 £m	2006 £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 £m	2007 £m	2006 £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 £m	Bond write-downs £m	Losses on sale of impaired and deteriorating bonds £m	Recoveries/ reversals £m	Total £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 £m	2007 £m	2006 £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 £m	**2007 £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:

2009 Annual bonus plan	Financial performance measures		Personal performance measures
	Group	Business Unit	
Clark Manning*	25%	65%	10%
Michael McLintock	10%	75%	15%
Nick Prettejohn	20%	60%	20%
Barry Stowe	20%	60%	20%
Tidjane Thiam	80%		20%
Mark Tucker	80%		20%

*

The proportions for Clark Manning's annual bonus include Clark Manning's share of the Jackson senior management bonus pool which is based on Jackson's financial performance. The proportions shown in the table incorporate a notional level for this pool, hence in any year the actual percentages may be very dependent on Jackson's performance.

The proportions that financial and personal performance measures accounted for in the 2008 annual bonus plans were as above; however the performance measures for 2008 did not include the IGD capital surplus position.

Executive Directors' long term incentive plans

All long-term incentive arrangements relating to executive directors have a performance period of three years. Shares released from all the company's long-term plans are currently purchased in the open market through a trust for the benefit of qualifying employees.

2009 Group Performance Share Plan ("Group PSP") all executive directors

The Group PSP delivers shares to participants subject to performance over a three-year period. The performance measure in 2009 is Total Shareholder Return ("TSR").

Group Total Shareholder Return

Prudential's Total Shareholder Return performance is measured over the performance period compared with the TSR performance of an index comprised of peer companies. TSR is measured on a local currency basis which is considered to have the benefits of simplicity and directness of comparison. The vesting schedule is set out in the following table and graph. The unvested portion of any award lapses. The companies in the index for both the 2008 and 2009 awards are: Aegon, Allianz, Aviva, Axa, Friends Provident, Generali, ING, Legal & General, Manulife, Old Mutual and Standard Life.

Prudential's TSR relative to the index at the end of the performance period	Percentage of Award that vests
Less than index return	0%
Index return	25%
Index return × 110%	75%
Index return × 120%	100%

GROUP PERFORMANCE SHARE PLAN TSR

Vesting of awards

For any Group PSP award to vest, the Remuneration Committee must also be satisfied that the quality of the Company's underlying financial performance justifies the level of award delivered at the end of the performance period and may adjust the vesting level accordingly at its discretion.

To ensure close alignment with our shareholders' long-term interests, participants receive the value of reinvested dividends over the performance period for those shares that vest.

Business Unit Performance Plan ("BUPP")

For executive directors with regional responsibilities, the Business Unit Performance Plan delivers shares subject to performance over a three-year performance period.

The performance measure under the BUPPs is Shareholder Capital Value ("SCV") which is shareholders' capital and reserves on a EEV basis (using the EEV Principles for reporting adopted by European insurance companies) for each regional business unit. Vesting depends on the increase in SCV over the performance period, and the required growth rates are different for each of Prudential's business regions to reflect the relative maturity of the markets and the different business environments. The vesting schedules which are the same as for previous BUPP awards are set out in the table below. The unvested portion of any award lapses.

Business Unit Performance Plan

Percentage of Award that vests	Compound annual growth in Shareholder Capital Value over three years		
	UK	JNL	Asia
0%	<8%	<8%	<15%
30%	8%	8%	15%
75%	11%	10%	22.5%
100%	14%	12%	30%

The Remuneration Committee must also be satisfied that the quality of the underlying financial performance of each business unit justifies the level of award delivered at the end of the performance period and may adjust vesting levels accordingly at its discretion.

To ensure close alignment with our shareholders' long-term interests, participants receive the value of reinvested dividends over the performance period for those shares that vest.

M&G Executive Long-Term Plan Michael McLintock

Under the M&G Executive Long-Term Incentive Plan awards of phantom shares are made to Michael McLintock with a phantom share price at vesting which will be determined by the increase or decrease in M&G's IFRS profits over the three-year performance period, with a notional starting share price of £1.00.

The number of phantom shares in the award depends on the performance of M&G in the financial year prior to the award being made and an assessment of Michael McLintock's contribution. Thus the base value of the award to be made in 2009 relates to the business performance in 2008. In recognition of M&G's strong performance in 2007, an award of 1,141,176 phantom shares of £1 with an anticipated value of £1,940,000 was made in 2008. Based on 2008 performance, an award of 2,282,353 phantom shares of £1 and an anticipated value of £1,940,000 was made in 2009.

The number of phantom shares subject to the award will be adjusted at the end of the three-year performance period to take account of the performance of M&G both in terms of levels of profitability and maintaining strong fund investment performance as follows:

Profit Growth

Awards will be scaled back based on profit performance achieved if profits in the third year are less than the average of the profits over the prior year and the performance period.

The scaling back will be on a straight line basis from 0 per cent to 100 per cent of the award between zero profit and the achievement of profits equal to the average.

No award will vest in the event of a loss or zero profit, irrespective of fund performance.

No adjustment will be made if the profits at the end of the third year are at least equal to the average of the profits over the prior year and the performance period.

Investment Performance

Where investment performance over the three-year performance period is in the top two quartiles the number of phantom shares vesting will be enhanced. A sliding scale will apply up to 200 per cent of the annual award, which is awarded when top quartile performance is reached.

Awards will be forfeited if investment performance is in the fourth quartile, irrespective of any profit growth.

The value of the vested shares will be paid in cash after the end of the three-year performance period.

All-employee plans

UK-based executive directors are eligible to participate in the Prudential HM Revenue and Customs (HMRC) approved UK Savings Related Share Option Scheme (SAYE scheme) and the Asia-based executive director can participate in the equivalent International SAYE scheme. The schemes allow employees to save towards the exercise of options over Prudential plc shares, at an option price set at the beginning of the savings period at a discount of up to 20 per cent to the market price. Savings contracts may be up to £250 per month for three or five years, or additionally in the UK scheme seven years. On maturity at the end of the set term, participants may exercise their options within six months of the end of the savings period and purchase Prudential plc shares. If an option is not exercised within six months, participants are entitled to a refund of their cash contributions plus interest if applicable under the rules. Shares are issued to satisfy options that are exercised. No options may be granted under the schemes if the grant would cause the number of shares which have been issued, or which remain issuable pursuant to options granted in the preceding 10 years under the scheme and other share option schemes operated by the Company, or which have been issued under any other share incentive scheme of the Company, to exceed 10 per cent of the Company's ordinary share capital at the proposed date of grant.

UK-based executive directors are also eligible to participate in the Company's HMRC approved Share Incentive Plan which allows all UK-based employees to purchase shares of Prudential plc (partnership shares) on a monthly basis out of gross salary. For every four partnership shares bought, an additional matching share is awarded, which is purchased by Prudential on the open market. Dividend shares accumulate while the employee participates in the plan. Partnership shares may be withdrawn from the scheme at any time. If the employee withdraws from the plan within five years the matching shares are forfeited and if within three years, dividend shares are also forfeited.

Pensions policy

The Chief Executive of Jackson is eligible to participate in Jackson's Defined Contribution Retirement Plan, a qualified 401(k) retirement plan, on the same basis as all other US-based employees. Company matching contributions of 6 per cent of basic salary up to a maximum of $13,800 were made in 2008. He is also eligible to participate in the profit sharing element of the plan that provides eligible participants with an annual profit sharing contribution, depending on the financial results of Jackson for the plan year, with a maximum of 4 per cent of salary capped at $9,200 in 2008.

The Chief Executive of Asia is eligible to receive a 25 per cent cash salary supplement for pension purposes.

UK executive directors are offered a choice of a combination of HMRC approved pension schemes and/or cash supplementary payments. If an executive director opts to join one of the HMRC approved pension plans, participation is on the same basis as other employees who joined at the same date as the executive director in question. For defined benefit schemes, our policy is to retain a notional scheme earnings cap, set at £112,800 and £117,600 for the 2007/08 and 2008/09 tax years respectively. No

employees with employment offers after June 30, 2003 are eligible for membership of any defined benefit schemes.

For UK executive directors hired after June 30, 2003 the Company's policy is to provide a salary supplement of 25 per cent of salary. This includes, where relevant, any Company contributions to the staff defined contribution pension plan, which UK executive directors may choose to join. This plan has no salary cap.

Directors' shareholdings

Shareholding guidelines

As a condition of serving, all executive and non executive directors are currently required to have beneficial ownership of 2,500 ordinary shares in the Company. This interest in shares must be acquired within two months of appointment to the Board if the director does not have such an interest upon appointment.

Non-executive directors also use a proportion of their fees to purchase additional shares in the Company on a quarterly basis.

Executive directors should have a substantial shareholding which should be built up over a period of five years. Shares earned and deferred under the annual incentive plan are included in calculating the executive director's shareholding.

Until the guideline is met, at least half the shares released from long-term incentive awards after tax should be retained by the executive director.

	Guideline Shareholding policy after five years
Clark Manning	1 × salary
Michael McLintock *	2 × salary
Nick Prettejohn	1 × salary
Barry Stowe	1 × salary
Tidjane Thiam	1 × salary
Mark Tucker *	2 × salary

* with an interim target of 1 × salary after three years

Executive directors' non-executive director earnings

Executive directors who are released to serve as non-executive directors of other external companies retain the earnings resulting from such duties. In 2008, Tidjane Thiam earned 27,000 euros and Michael McLintock earned £38,333 from external companies. Other directors served as non-executive directors on the boards of companies in the educational and cultural sectors without receiving a fee for those services.

Directors' outstanding long-term incentive awards

Share-based long-term incentive awards

The section below sets out the outstanding share awards under the Restricted Share Plan, the Group Performance Share Plan and the awards under additional long-term plans for the executive directors who run specific businesses.

Share rights granted under the share-based long term incentive plans

Plan name	Year of initial award	Conditional share awards outstanding at January 1, 2008 (Number of shares)	Conditional awards in 2008 (Number of shares)	Market price at date of original award (pence)	Releases or rights (options) granted upon vesting in 2008 (Number of shares)	Conditional share awards outstanding at December 31, 2008 (Number of shares)	Date of end of performance period (December 31)
Philip Broadley							
Restricted Share Plan	2005	182,983		683.00	114,365	(1)	2007
Group Performance Share Plan	2006	170,127				170,127(2)	2008
Group Performance Share Plan	2007	147,559				147,559	2009
		500,669			114,365	**317,686**	
Clark Manning							
Restricted Share Plan	2005	163,352		683.00	102,095	(1)	2007
Group Performance Share Plan	2006	241,415				241,415(2)	2008
Business Unit Performance Plan (share element)	2006	120,707				120,707(3)	2008
Group Performance Share Plan	2007	191,140				191,140	2009
Business Unit Performance Plan (share element)	2007	95,570				95,570	2009
Group Performance Share Plan	2008		182,262	674.50		182,262	2010
Business Unit Performance plan (share element)	2008		91,131	674.50		91,131	2010
		812,184	**273,393**		102,095	**102,095**	
Michael McLintock							
Restricted Share Plan	2005	58,555			36,597	(1)	2007
Group Performance Share Plan	2006	64,199				64,199(2)	2008
Group Performance Share Plan	2007	52,040				52,040	2009
Group Performance Share Plan	2008		48,330	674.50		48,330	2010
		174,794	**48,330**		36,597	**201,166**	

Nick Prettejohn							
Group Performance Share Plan	2006	149,964				149,964(2)	2008
Business Unit Performance Plan (share element)	2006	74,982				74,982(2)	2008
Group Performance Share Plan	2007	130,071				130,071	2009
Business Unit Performance Plan (share element)	2007	65,035				65,035	2009
Group Performance Share Plan	2008		127,622	674.50		127,622	2010
Business Unit Performance Plan (share element)	2008		63,811	674.50		63,611	2010
		420,052	**191,433**			**611,485**	
Barry Stowe							
Group Performance Share Plan	2007	105,706				105,706	2009
Business Unit Performance Plan (share element)	2007	52,853				52,853	2009
Group Performance Share Plan	2008		107,988			107,988	2010
Business Unit Performance Plan (share element)	2008		53,994			53,994	2010
		156,559	**161,982**			**320,541**	
Tidjane Thiam							
Group Performance Share Plan	2008		314,147	674.50		314,147(4)	2010
			314,147			**314,147**	
Mark Tucker							
Restricted Share Plan	2005	356,817		683.00	223,011	223,011(1)	2007
Group Performance Share Plan	2006	337,044				337,044(2)	2008
Group Performance Share Plan	2007	295,067				295,067	2009
Group Performance Share Plan	2008		294,512	674.50		294,512	2010
		988,928	**294,512**		223,011	**1,149,634**	

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Cash rights granted under the Business Unit Performance Plan

Plan name	Year of initial award	Conditional awards outstanding at January 1, 2008 £000	Conditional awards in 2008 £000	Payments made in 2008 £000	Conditional awards outstanding at December 31, 2008 £000	Date of end of performance period (December 31)
Clark Manning						
Business Unit Performance Plan (Cash element)	2006	577			577(3)	2008
Business Unit Performance Plan (Cash element)	2007	624			624	2009
Business Unit Performance Plan (Cash element)	2008		652		652	2010
Nick Prettejohn						
Business Unit Performance Plan (Cash element)	2006	374			374(3)	2008
Business Unit Performance Plan (Cash element)	2007	400			400	2009
Business Unit Performance Plan (Cash element)	2008		423		423	2010
Barry Stowe						
Business Unit Performance Plan (Cash element)	2007	325			325	2009
Business Unit Performance Plan (Cash element)	2008		358		358	2010

Restricted Share Plan awards

For RSP awards in 2005, no rights were granted if the Company's TSR performance as ranked against the comparator group (those companies remaining out of the FTSE 100 at the beginning of the performance period) was at the 50th percentile or below. The maximum grant is made only if the TSR ranking of the Company is 20th percentile or above. Between these points, the size of the grant made is calculated on a straight line sliding scale. In normal circumstances, directors may take up their right to receive shares at any time during the following seven years.

2008 Awards

The awards made under the Group Performance Share Plan and the Business Unit Performance Plan in respect of 2008 have a performance period from January 1, 2008 to December 31, 2010.

In determining the 2008 conditional share awards the shares were valued at the average share price for the 30 days immediately following the announcement of Prudential's 2007 results, and the price used to determine the number of shares was 662.11 pence.

Group Performance Share Plan

Awards under the Group Performance Share Plan are described on page 189.

Business Unit Performance Plan

Awards under the 2008 Business Unit Performance Plan are described on page 190.

The performance measures for awards for 2006 and 2007 were the same.

Notes: Performance levels under current awards at December 31, 2007:

Note	Plan	Award year	Performance levels under current awards at December 31, 2007
1	Restricted Share Plan	2005	The ranking of the Company's TSR at the end of the three-year performance period ending on December 31, 2007 was 30th out of the remaining 85 companies in the FTSE 100 (35th percentile) and as a result options over 62.5 per cent of the maximum number of shares in each award was made.
2	Group Performance Share Plan	2006	At December 31, 2008 Prudential's TSR performance was 117 per cent of the TSR performance of the index. As a result, awards were made over 92.4 per cent of the maximum number of shares, resulting in 311,428 shares for Mark Tucker, 157,197 shares for Philip Broadley, 223,067 shares for Clark Manning, 59,319 shares for Michael McLintock, and 138,566 shares for Nick Prettejohn.
3	Business Unit Performance Share Plans	2006	At December 31, 2008 Shareholder Capital Value performance under the 2006 BUPPs was as follows:

	% growth SCV	*Payout*
Jackson	6.1%	nil
UK	1.2%	nil

4	Tidjane Thiam		For 2008 as part of the terms of appointment, a double award under the Group Performance Share Plan of 320 per cent of salary was made to Tidjane Thiam.

Business-specific cash-based long-term incentive plans

Details of all outstanding awards under other cash-based long-term incentive plans up to and including 2008 are set out in the table below. The performance period for all awards is three years.

Year of initial award	Face value of conditional awards outstanding at January 1, 2008 £000	Conditionally awarded in 2008 £000	Payments made in 2008 £000	Face value of conditional awards outstanding at December 31, 2008 £000	Date of end of performance period (December 31)

Clark Manning					
Business Cash LTIP	2005	1,400	2,385		2007
Michael McLintock					
Phantom M&G options	2001	368	846		2003
Phantom M&G options	2002	368	1,306		2004
Phantom M&G options	2003	368	850		2005
Phantom M&G options	2004	368	780		2006
Phantom M&G options	2005	368		368	2007
Phantom M&G shares	2005	225	527		2007
Phantom M&G options	2006	368		368	2008
Phantom M&G shares	2006	225		225	2008
Phantom M&G shares	2007	1,333		1,333	2009
M&G Executive LTIP	2008		1,141	1,141	2010
Total cash payments made in 2008			6,694		

Clark Manning

In 2005 Clark Manning participated in a cash-based long-term plan that rewards the growth in appraisal value of Jackson. The award payout equals an initial award value adjusted by the change in the Prudential plc share price over the performance period. In order for any award to be made under the 2005 plan, the growth rate over the performance period must be greater or equal to eight per cent compound growth per annum. At this level of performance, the initial award value is US$864,240. If the on-target performance level of 11.5 per cent per annum compound is achieved the initial award value is doubled. If the annual growth rate is at least 17.5 per cent, the payout increases to a maximum of three times the initial award value. For performance between these points, payouts are on a straight line sliding scale.

For the 2005 award the results led to a payment of US$4,416,308. The face values of the awards for Clark Manning have been converted at the average exchange rate for 2008 which was US$1.8518 = £1 (2007: US$2.0015 = £1).

Michael McLintock

Michael McLintock's 2005 and 2006 cash long-term incentive awards were under the M&G Chief Executive Long-Term Incentive Plan that provides a cash reward through phantom M&G share awards and options. For these awards, the phantom share price at the beginning of the performance period was £1. The change in the phantom share price equals the change in M&G profit, modified up or down by the investment performance of M&G, over the performance period. For each year the face value of the share award was £225,000 and the phantom option award had a face value of £367,800. Provided the phantom share options have value, they may be exercised in part or in full during annual exercise periods after three to seven years from the start of the performance period.

For the 2005 award the phantom share price at the end of the performance period was £2.34. This resulted in a payment from the phantom share award of £526,500 and a phantom option award of 367,800 units. Michael McLintock did not exercise any of these options. For the 2006 award, the phantom share price at the end of the performance period was £1.69. This resulted in a payment of £380,250 from the share element of the award.

Under the rules of Michael McLintock's 2001 phantom option award, a payment of £845,940 was made at the end of the seven year exercise period.

An award under the share element of the M&G Chief Executive Long-Term Incentive Plan with a face value of £1,333,000 was made in 2007.

Following consultations with certain shareholders an award with a face value of £1,141,176 was made in 2008 under the M&G Executive Long-Term Incentive Plan, approved by shareholders at the AGM in 2008.

Other share awards

The table below sets out the share awards that have been made to executive directors under their appointment terms and those deferred from annual incentive plan payouts. The values of the deferred share awards are included in the bonus and total figures in the Directors' remuneration table on page 183. The number of shares is calculated using the average share price over the three business days commencing on the day of the announcement of the Group's annual financial results for the relevant year. For the awards from the 2007 annual incentives, made in 2008, the average share price was 618.50 pence.

	Year of initial grant	Conditional share awards outstanding at January 1, 2008 (Number of shares)	Conditionally awarded in 2008 (Number of shares)	Scrip dividends accumulated (Number of shares)	Shares released in 2008 (Number of shares)	Conditional share awards outstanding at December 31, 2008 (Number of shares)		Date of end of restricted period	Shares released in 2008 (Number of shares)	Date of release	Market price at original date of award (pence)	Market price at date of vesting or release (pence)
Philip Broadley												
Deferred 2005 annual incentive award1	2006	32,743		606	33,349		1,2	December 31, 2008	33,349	August 21, 2008	715.5	506.5
Deferred 2006 annual incentive award1	2007	31,868		590	32,452		1,2	December 31, 2009	32,548	August 21, 2008	723	506.5
Clark Manning												
Deferred 2006 annual incentive award1	2007	9,324		276		9,600	1,3	December 31, 2009				
Deferred 2007 annual incentive award1	2008		16,514	489		17,003	1	December 31, 2010				
Michael McLintock												
Deferred 2005 annual incentive award1	2006	86,874		2,580	89,454		1	December 31, 2008	89,454	December 31, 2008	715.5	416.5
Deferred 2006 annual incentive award1	2007	83,450		2,479		85,929	1,4	December 31, 2009				
Deferred 2007 annual incentive award1	2008		103,811	3,084		106,895		December 31, 2010				

Nick Prettejohn											
Awards under appointment terms8	2006	5,500			5,500		October 31, 2008	5,500	October 31, 2008	627.5	315
Deferred 2006 annual incentive award1	2007	12,128		359		12,487	December 31, 2009				
Deferred 2007 annual incentive award1	2008		49,898	1,482		53,3801,5	December 31, 2010				
Barry Stowe											
Awards under appointment terms9	2006	7,088			7,008		May 1, 2008	7,008	May 1, 2008	702	697
		7,088				7,088	May 1, 2009				
		28,706				28,706	September 1, 2009				
		7,088				7,088	January 1, 2010				
		2,110				2,110	May 1, 2010				
Deferred 2007 annual incentive award1	2008		40,551	1,204		41,7551,6	December 31, 2010				
Tidjane Thiam											
Awards under appointment terms8	2008		16,336			16,336	March 31, 2009				
			41,148			41,148	March 31, 2009				
			48,362			48,362	March 31, 2010				
			41,135			41,135	March 31, 2010				
			49,131			49,131	March 31, 2011				
Mark Tucker											
Deferred 2005 annual incentive award1	2006	38,125		1,132	39,257		1 December 31, 2008	39,257	December 31, 2008	715.5	416.5
	2007	74,088		2,200		76,2881,7					

Deferred 2006 annual incentive award1						December 31, 2009
Deferred 2007 annual incentive award1	2008	73,576	2,185	75,761	1,7	December 31, 2010

1. Under the annual bonus plans, the element of bonus for performance above specified levels are made in the form of a share award deferred for three years.

2. Under the terms agreed on his leaving the company, the outstanding deferred awards to Philip Broadley have been released to him.

3. In 2008, a deferred share award from his 2007 annual bonus valued at $200,000 was made to Clark Manning. The exchange rate used was US$2.0015 = £1.

4. In 2008, a deferred share award from his 2007 annual bonus valued at £640,000 was made to Michael McLintock.

5. In 2008, a deferred share award from his 2007 annual bonus valued at £307,625 was made to Nick Prettejohn.

6. In 2008, a deferred share award from his 2007 annual bonus valued at £250,000 was made to Barry Stowe.

7. In 2008, a deferred share award from his 2007 annual bonus valued at £453,600 was made to Mark Tucker.

8. In order to secure the appointment of Nick Prettejohn, he was awarded rights to Prudential plc shares that vest as set out in the table. In normal circumstances, releases are conditional on Nick Prettejohn being employed by Prudential at the date of vesting. If there is a change of control of Prudential he may be entitled to retain any unvested awards.

9. In order to secure the appointment of Barry Stowe and to compensate him for the loss of substantial amounts of outstanding long-term remuneration, he was awarded rights to Prudential plc American Depositary Receipts, which vest as set out in the table. The figures in the table are the equivalent number of Prudential plc shares (one American Depositary Receipt equals two Prudential plc shares). In normal circumstances, releases are conditional on Barry Stowe being employed by Prudential at the date of vesting. If there is a change of control of Prudential he may be entitled to retain any unvested awards.

10. In order to secure the appointment of Tidjane Thiam, the following awards were made

    to compensate for the loss of 2007 bonus an award of 49,131 shares with a value of £325,000 vesting on March 31, 2011;

    In order to compensate for the loss of outstanding deferred share awards under annual incentive plans and long-term awards with his previous employer he was granted restricted share awards without performance measures, in lieu of his 2006 awards, which vested in March 2009, and in lieu of his 2007 awards which will vest in March 2010.

    These awards were valued taking the relative share prices of his previous employer on the day prior to his last working day and the Company on his first working day.

Directors' pensions and life assurance

The pensions policy is set out on page 192. Prudential's current practice in respect of pension arrangements for the current executive directors is set out below.

Philip Broadley participated in a non-contributory scheme that provided a pension of 1/60th of Final Pensionable Earnings for each year of service on retirement at age 60. Philip Broadley was entitled to supplements based on the portion of his basic salary not covered for pension benefits under a HMRC approved scheme. He was also provided with life assurance cover of four times salary.

Michael McLintock participates in a contributory scheme that provides a target pension of 2/3rds of Final Pensionable Earnings on retirement at age 60 for an employee with 30 years or more potential service, for which his contribution is 4 per cent of basic salary. In both cases Final Pensionable Earnings are capped by a notional scheme earnings cap which replicates the HMRC earnings cap in force before A-Day (April 6, 2006). Michael McLintock is entitled to supplements based on the portion of his basic salary not covered for pension benefits under a HMRC approved scheme. He is also provided with life assurance cover of four times salary.

Nick Prettejohn and Tidjane Thiam are entitled to a total salary supplement of 25 per cent of basic salary. They have both opted to become members of the staff defined contribution pension plan, which provides death in service benefits including life assurance of four times salary. The company contributions to the pension plan are included in the supplement.

Mark Tucker is paid a salary supplement of 25 per cent of his salary. He is also provided with life assurance cover of four times salary. He is not a member of a company pension plan.

Clark Manning participates in a US tax-qualified defined contribution plan (a 401K plan). He is also provided with life assurance cover of two times salary.

Barry Stowe is paid a salary supplement of 25 per cent of his salary. He is also provided with life assurance cover of four times salary.

Where supplements for pension purposes are paid in cash, the amounts are included in the Directors' remuneration table on page 183.

Details of directors' pension entitlements under HMRC approved defined benefit schemes and supplements that are in the form of contributions to pension arrangements paid by the Company are set out in the following table.

	Age at December 31, 2008	Years of pensionable service at December 31, 2008	Accrued benefit at December 31, 2008	Additional pension earned during year ended December 31, 2008		Transfer value of accrued benefit at December 31(3)		Amount of (B-A) less contributions made by directors during 2008	Contributions to pension and life assurance arrangements(4)
				Ignoring inflation on pension earned to December 31, 2007(1)	Allowing for inflation on pension earned to December 31, 2007(2)	2008 B	2007 A		
				(in £ Thousands)					
Sir David Clementi	59								18
Philip Broadley*	47	8	16	2	2	147	135	12	
Clark Manning	50								14
Michael McLintock	47	16	43	4	4	426	435	(22)	94
Nick Prettejohn	48								78
Barry Stowe	51								4
Tidjane Thiam	46								96
Mark Tucker	51								14

*

Philip Broadley left on May 31, 2008 and all transfer information provided is for that date.

Notes

(1)

As required by Stock Exchange Listing rules.

(2)

As required by the Companies Act remuneration regulations.

(3) The transfer value equivalent has been calculated in accordance with Actuarial Guidance Note GN11.

(4) Supplements in the form of cash are included in the Directors' Remuneration table on page 183.

No enhancements to the retirement benefits paid to or receivable by directors or former directors other than the discretionary pension increases awarded to all pensioners have been made during the year.

Total contributions to directors' pension arrangements including cash supplements for pension purposes were £1,027,267 (2007: £1,163,687) of which £268,668 (2007: £166,557) related to money purchase schemes.

Share Ownership

Directors' Shareholdings

The current shareholding policy is that as a condition of serving, all executive and non-executive directors are required to have beneficial ownership of 2,500 ordinary shares in Prudential. This interest in shares must be acquired within one year. Annually the non-executive directors use the net value of £25,000 of their total annual gross fees to purchase shares in Prudential. Shares are purchased each quarter and are held at least until retirement from the Board.

The interests of directors in ordinary shares of Prudential are shown below and include shares acquired under the Share Incentive Plan, the deferred annual incentive awards detailed in the table on other share awards under "Other share awards" above, and interests in shares awarded on appointment. Awards that remain conditional under the Restricted Share Plan, Prudential Group Performance Share Plan, and Prudential Business Unit Performance Plan are excluded. The interests of directors in office at March 31, 2009 in ordinary shares of the Company are shown below. All interests are beneficial.

Name(1)	Holding as of March 31, 2009	Approximate Percentage of Ordinary Shares
Sir Winfried Bischoff	24,970	0.002
Keki Dadiseth	24,783	0.0010
Michael Garrett	28,352	0.0011
Ann Godbehere	8,806	0.0004
Bridget Macaskill	21,039	0.0008
Clark Manning	264,813	0.011
Harvey McGrath	292,888	0.0117
Michael McLintock	703,878	0.0282
Kathleen O'Donovan	18,037	0.0007
Nick Prettejohn	308,653	0.0124
James Ross	16,569	0.0007
Barry Stowe[(2)]	128,525	0.0051
Tidjane Thiam	286,802	0.0115
Mark Tucker	600,998	0.0241
Lord Turnbull	10,216	0.0004

(1) Current information has not been provided on Philip Broadley because he was not a director at March 31,2009 and Prudential does not maintain any information on his current shareholdings. On leaving Philip Broadley had an interest of 113,740 ordinary shares (leaving date May 31, 2008)

(2) Current information has not been provided on David Clementi because he was not a director at March 31,2009 and Prudential does not maintain any information on his current shareholdings. On leaving David Clementi had an interest of 53,058 ordinary shares (leaving date December 31, 2008)

(3) Barry Stowe's interest in shares includes 33,339 American Depositary Receipts (representing 66,678 ordinary shares).

Prudential is not owned or controlled directly or indirectly by another corporation or by any government or by any other natural or legal person severally or jointly and Prudential does not know of any arrangements that might result in a change in Prudential's control.

In addition, Prudential's directors and other executive officers held, as at March 31, 2009, options to purchase 4,663 shares, all of which were issued pursuant to Prudential's Savings-Related Share Option Scheme. These options and plans are described in more detail below under "Options to Purchase Securities from Prudential" in this section.

Outstanding Options of Directors and Other Executive Officers

Outstanding options under the Savings-Related Share Option Scheme (referred to as SAYE) are set out below. The Savings-Related Share Option Scheme is open to all UK and certain overseas employees and options up to the HMRC limits are granted at a 20 per cent discount and cannot normally be exercised until a minimum of three years has elapsed. No payment has been made for the grant of any

such options. The price to be paid for exercise of these options is shown in the table below. No variations to any outstanding options have been made.

Name(1)	Options outstanding at March 31, 2009	Exercise price (pence)(2)	Earliest exercise date	Latest exercise date
Mark Tucker	2,297	407	December 1, 2008	May 31, 2009
Nick Prettejohn	661	565	June 1, 2009	November 30, 2009
Tidjane Thiam	1,705	551	June 1, 2011	November 30, 2011
Total	4,663			

(1) None of Sir David Clementi, Keki Dadiseth, Michael Garrett, Bridget Macaskill, Clark Manning, Barry Stowe, Kathleen O'Donovan, James Ross, Lord Turnbull, Sir Winfried Bischoff or Ann Godbehere holds options to purchase Prudential shares.

(2) The market price of shares at April 30, 2008 was 690 pence. The highest and lowest share prices during 2007 were 810 pence and 619 pence, respectively.

Options to Purchase Securities from Prudential

As of March 31, 2009, 6,870,055 options were outstanding, which Prudential issued under the Savings-Related Share Option Schemes. As of March 31, 2009 directors and other executive officers held 4,663 of such outstanding options. Except as described above in "Outstanding Options of Directors and Other Executive Officers", each option represents the right of the bearer to subscribe for one share at a particular pre-determined exercise price at a pre-set exercise date.

As of March 31, 2009, 295,511 options were outstanding under the Restricted Share Plan. Such outstanding options held by directors or other executive officers are included in the shares set forth under "Senior Executives' Long-term Incentive Plans" in this section above.

As of March 31, 2009, 1,947,600 shares were outstanding under the Prudential Jackson National Life US Performance Share Plan, none of which was held by directors or other executive officers.

As of March 31, 2009, 9,923,480 shares were outstanding under other awards. Of those, 1,189,953 shares were outstanding under the Annual Incentive Plan, 1,700,820 shares were outstanding under the PruCap Deferred Bonus Plan, 186,400 shares were outstanding under the Momentum Retention Plan, 131,816 shares were outstanding under the Asia Retention Plan, 495,437 shares were outstanding under the One Off Awards, 3,927,875 shares were outstanding under the Group Performance Share Plan, 1,291,038 shares were outstanding under the Business Unit Performance Plan, 203,153 shares were outstanding under the Asia Deferred Share Plan and 796,988 shares were outstanding under the PCA LTIP Plan. Such outstanding awards held by directors or other executive officers are included in the shares set forth under "Senior Executives' Long-term Incentive Plans" in this section above.

The aggregate proceeds that would arise if all outstanding options under the Savings-Related Share Option Schemes were exercised is £38 million. The latest expiration dates for exercise or release of the

securities underlying the options or awards and the number of options or shares are set out in the table below.

Year of Expiration	Shares Outstanding Under the Prudential Jackson National Life US Performance Share Plan	Options Outstanding Under Restricted Share Plan	Options Outstanding Under Savings-Related Share Option Scheme (In Millions)	Shares Outstanding Under Other Awards	Total
2009			1.82	0.588	2.408
2010	0.777		1.097	3.669	5.543
2011	1.171		2.4811	5.534	9.1861
2012			0.5108	0.132	0.6428
2013			0.8409		0.8409
2014			0.014		0.014
2015		0.296	0.1062		0.4022
Total	1.948	0.296	6.87	9.923	19.037

Board Practices

In accordance with Prudential's Articles of Association the Board may appoint up to 20 directors. Under Prudential's Articles of Association and in line with UK corporate governance guidelines, all directors are required to submit themselves for re-election by shareholders every three years at an Annual General Meeting, and any director appointed by the Board will retire at the first Annual General Meeting following his or her appointment and offer himself or herself for election by shareholders.

Non-executive directors of Prudential are appointed initially for a three-year term, commencing with their election by shareholders at the first Annual General Meeting following their appointment by the Board. Each appointment is reviewed towards the end of this period against performance and the requirements of the Group's businesses. Non-executive directors are typically expected to serve for two three-year terms from initial election by shareholders, although the Board may invite them to serve for an additional period.

Upon appointment, all directors embark upon a wide-ranging induction program covering, amongst other things, the principal bases of accounting for the Group's results, the role of the Board and its key committees, and the ambit of the internal audit and risk management functions. In addition, they receive detailed briefings on the Group's principal businesses, its product range, the markets in which it operates and the overall competitive environment. Other areas addressed include legal issues affecting directors of financial services companies, the Group's governance arrangements, its investor relations program, as well as its remuneration policies.

A new statutory duty on directors to avoid conflicts of interest with the Company came into force in October 2008. The Company's Articles of Association, adopted in May 2008, allow the directors to authorize conflicts of interest, and the Board has adopted a policy and effective procedures for managing and, where appropriate, approving conflicts or potential conflicts of interest. Under those procedures, directors are required to declare all directorships or other appointments to companies which are not part of the Prudential Group, and which could result in conflicts or potential conflicts of interest, as well as other situations which could give rise to a potential conflict.

Directors' indemnities and protections

The Company has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the Prudential Group. In addition, the Articles of Association

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of the Company permit the directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. Prudential also provides protections for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third-party indemnity provisions (as defined by the relevant UK Companies Act) for the benefit of directors of Prudential, including, where applicable, in their capacity as directors of other companies within the Group. These indemnities were in force during 2008 and remain in force.

Policy on external appointments

Prudential's executive directors may accept external directorships and retain any fees earned from those directorships, subject to prior discussion with the Group Chief Executive, and always provided this does not lead to any conflicts of interest. In line with UK governance standards, executive directors would be expected to hold no more than one non-executive directorship of a FTSE 100 company. Some of Prudential's executive directors hold directorships of companies in the arts and educational sectors, for which they do not receive any fees. One of Prudential's executive directors, Michael McLintock, served on the board of Close Brothers Group plc during part of the year and as trustee of the Grosvenor Estate during the latter part of the year. In addition, the Chief Financial Officer, Tidjane Thiam, serves on the board of Arkema S.A., a position he held on appointment to Prudential. Details of any fees retained are included under "Compensation executive directors' non executive directors earnings". The major commitments of executive directors are detailed in their biographies on pages 177 to 181.

Board committees

The Board has established audit, remuneration and nomination committees as standing committees of the Board, with written terms of reference, which are kept under regular review. These committees are key elements of the Group's corporate governance framework, and reports on each are included below:

Audit Committee Report

This report sets out the responsibilities of the Group Audit Committee (the "Committee") and the activities carried out by the Committee during the year to meet its objectives.

Role of the Committee

The Committee's principal responsibilities consist of oversight over financial reporting, internal control and risk management, and monitoring auditor independence. Its duties include gaining assurance on the control over financial processes and the integrity of the Group's financial reports, monitoring the performance, objectivity and independence of the external auditor, and reviewing the work of the internal auditor.

In performing its duties, the Committee has access to employees and their financial or other relevant expertise across the Group, and to the services of the Group-wide Internal Audit Director and the Company Secretary. The Committee may also seek external professional advice at the Group's expense.

The Committee's terms of reference, which are set by the Board and kept under regular review, are available on Prudential's website at *http://www.prudential.co.uk/prudential-plc/aboutpru/corporategovernance/* Alternatively, copies may be obtained upon request from the Company Secretary, at the Company's registered office.

Membership

The Committee is comprised exclusively of independent non-executive directors of the Company, as set out below:

Kathleen O'Donovan *ACA* (Chairman)
Ann Godbehere *FCGA*
Lord Turnbull *KCB CVO*

Membership is selected to provide a broad set of financial, commercial and other relevant experience to meet the Committee's objectives.

Full biographical details of the members of the Committee, including their relevant experience are set out in their biographies on pages 180 and 181.

Meetings

The Committee met six times during the year. By invitation, the Chairman of the Board, the Chief Financial Officer, the Company Secretary and Group Legal Services Director, the Group-wide Internal Audit Director, and other senior staff from the internal audit, risk, compliance and security functions where appropriate, as well as the lead partner of the external auditor attended meetings. Other audit partners also attended some of the meetings to contribute to the discussions relating to their area of expertise.

A detailed forward agenda has been in operation for a number of years which is continually updated to ensure all matters for which the Committee is responsible are addressed at the appropriate time of year. The Committee's principal business during the year included the following:

Review of half-year and full-year results, the annual report and accounts, and other significant announcements where appropriate;

Examination of critical accounting policies and key judgmental areas;

Review of US filings and related external audit opinion;

Review of changes in and implementation of Group Accounting Policies in compliance with International Accounting Standards and practices;

Approval of external auditor's management representation letter, review of external auditor's full-year memorandum, external audit opinion and final management letter;

Monitoring of auditor independence and the external auditor's plans and audit strategy, the effectiveness of the external audit process, the external auditor's qualifications, expertise and resources, and making recommendations for the re-appointment of the external auditor;

Monitoring of the framework and effectiveness of the Group's systems of internal control, including the Turnbull compliance statement and Sarbanes-Oxley procedures;

Monitoring the effectiveness of both the Group's risk framework and the management of key financial and operational risks;

Review of the internal audit plan and resources, and monitoring of the audit framework and internal audit effectiveness;

Monitoring the effectiveness of compliance processes and controls, and performance against the Group Compliance Plan;

Review of anti-money laundering procedures, and allegations received via the employee confidential reporting lines; and

Review of its own effectiveness and its terms of reference.

In addition, the Committee received in-depth presentations on a range of topics.

The Chairman reported to the Board on matters of particular significance after each Committee meeting, and the minutes of Committee meetings were circulated to all Board members.

The Committee recognizes the need to meet without the presence of executive management. Such sessions were held in March 2008 with the external and internal auditors, and in July 2008 with the external and internal auditors and the head of the security function. At all other times, management and auditors have open access to the Chairman.

Financial reporting

As part of its review of financial statements prior to recommending their publication to the Board, the Committee focused on: critical accounting policies and practices and any changes; decisions requiring a major element of judgment; unusual transactions; clarity of disclosures; significant audit adjustments; the going concern assumption; compliance with accounting standards; and compliance with obligations under applicable laws and regulations.

In addition, the Committee is regularly briefed by senior management on developments in international accounting standards.

Confidential reporting

At each meeting, the Committee received and reviewed a report on calls to the confidential reporting line, which is made available to employees to enable them to communicate confidentially on matters of concern, and actions taken in response to these calls. The Committee also considered whether any internal control implications arose from communications received. No internal control implications were raised from calls to the confidential helpline. During the year, the Chairman reviewed the procedures adopted by the Company on the methods of handling calls to the confidential reporting line across the Group with the Group-wide Internal Audit Director and the head of the security function.

Business unit audit committees

Each business unit has its own audit committee whose members and chairmen are independent of the respective business unit. The chairmen of these committees report regularly to the Committee, and their meetings are attended by senior management of the respective business unit, including the business units' heads of finance, risk, compliance and internal audit. Business unit audit committees have adopted standard terms of reference across the Group, with only minor variations to address overseas requirements or particular requirements of the business. The terms of reference of those committees were reviewed during the year, and all include escalation of significant matters to the Committee, approval of the business unit internal audit plans and overseeing the adequacy of internal audit resource. Also included are presentations from external auditors. During the year, the business unit audit committees reviewed and approved their respective internal audit plans, resources and the results of internal audit work and met privately with both external and internal auditors.

Internal control and risk management

The Committee reviewed the Group's statement on internal control systems prior to its endorsement by the Board. It also reviewed the policies and processes for identifying, assessing and managing business risks. Throughout the year, the Committee received the minutes of the Disclosure Committee and the Group Operational Risk Committee and noted their activities.

Pursuant to the requirements of Section 404 of the Sarbanes-Oxley Act, the Group must undertake an annual assessment of the effectiveness of internal control over financial reporting. The annual

assessment and related report from the external auditor is included in this Form 20-F on page 233 under Item 15.

Internal audit

The Committee regards its relationship with the internal audit function as pivotal to the effectiveness of its own activities. Group-wide Internal Audit plays an important role in supporting the Committee to fulfill its responsibilities under UK governance standards and the Sarbanes-Oxley Act, and provides independent assurance on the Company's processes of identification and control of risk. The Committee agreed the work program of the internal audit function to be undertaken during 2008. Each of the Group's business units has an internal audit team, the heads of which report to the Group-wide Internal Audit Director. Internal audit resources, plans and work are overseen by the Committee and by business unit audit committees. Across the Group, total internal audit headcount stands at 120. The Group-wide Internal Audit Director reports functionally to the Committee and for management purposes to the Chief Financial Officer.

Formal reports are submitted to Committee meetings, with interim updates where appropriate, and views are also sought at the private meetings between the Committee and the internal auditors, as well as during regular private meetings between the Chairman of the Committee and the Group-wide Internal Audit Director.

The Committee assesses the effectiveness of the internal audit function by means of regular reviews, some of them carried out by external advisers, and through ongoing dialogue with the Group-wide Internal Audit Director. External reviews of internal audit arrangements and standards were conducted in 2006 and 2007 to ensure that the activities and resources of internal audit are most effectively organized to support the oversight responsibilities of the Committee. These reviews, performed by Deloitte, confirmed that the internal audit function complies with the Institute of Internal Auditors' international standards for the professional practice of internal auditing and was operating effectively. An internal assessment of the internal audit function was performed by the Group-wide Internal Audit Director in 2008, based on the internal audit function's ongoing self-assessment processes and using a maturity model derived from the review criteria used by Deloitte. The assessment confirmed that the internal audit function conforms to the Institute of Internal Auditors' international standards and continues to operate effectively in all areas of professional practice. The results of the assessment were reported in detail to the Committee in February 2009.

External audit

The main details of the Group Audit Committee's responsibilities in respect of the external audit are set out in Item 16C. "Principal Accountant Fees and Services" on page 234.

Review of Committee effectiveness

During the year, the Committee undertook an in-depth performance assessment in-house by way of a detailed questionnaire, administered by Group Secretariat, addressing both compliance with various regulations and codes of conduct, and qualitative aspects of the Committee's performance during the year. The results were discussed at a Committee meeting in January 2009 and reported to the Board in February 2009. Recommendations to improve processes identified by the review are being implemented, and the Committee is satisfied, based on the findings of this review, that it had been operating as an effective audit committee throughout the year, meeting all applicable legal and regulatory requirements. Further reviews of the effectiveness of the Committee will be undertaken regularly, and will from time to time be conducted by external consultants.

Remuneration Committee Report

Role of the Committee

The Remuneration Committee (the "Committee") determines the remuneration packages of the Chairman and executive directors. It also agrees the principles and monitors the level and structure of remuneration for a defined population of senior management as determined by the Board.

Except in relation to the remuneration of the Group Chief Executive, when only the Chairman is consulted, the Committee consults the Chairman and the Group Chief Executive about the Committee's proposals relating to the remuneration of all executive directors. The Committee has access to professional advice inside and outside the Company.

The Committee's terms of reference which are set by the Board and kept under regular review are available on Prudential's website at *http://www.prudential.co.uk/prudential-plc/aboutpru/corporategovernance/* Alternatively, copies may be obtained upon request from the Company Secretary, at the Company's registered office.

Membership

The Committee is comprised exclusively of non-executive directors of the Company, as set out below:

Bridget Macaskill (Chairman)
Keki Dadiseth *FCA*
Michael Garrett
James Ross *(from January 1, 2008)*

Full biographical details of the members of the Committee, including their relevant experience are set out in their biographies on pages 179 and 181.

Meetings

The Committee normally has scheduled meetings at least four times a year and a number of additional meetings, as required, to review remuneration policy and the application of that policy. While the Chairman and Group Chief Executive are not members, they attend meetings unless they have a conflict of interest. During 2008, a total of eight Committee meetings were held.

Nomination Committee Report

Role of the Committee

The Nomination Committee (the "Committee"), in consultation with the Board, evaluates the balance of skills, knowledge and experience on the Board and identifies the roles and capabilities required at any given time, taking into account the Group's business. Candidates are considered on merit against those criteria, and the Committee makes recommendations to the Board regarding suitable candidates for appointments. In appropriate cases, search consultants are used to identify candidates. The Committee also reviews conflicts of interest or potential conflicts of interest raised by directors between Board meetings or for prospective new Board members. In cases where there might be an actual or potential conflict of interest, the Committee has powers to authorize any such actual or potential conflict situation on behalf of the Board, imposing any terms and conditions it deems appropriate, or to make recommendations to the Board as to whether the conflict or potential conflict should be authorized, and on what terms.

The Committee's terms of reference which are set by the Board and kept under regular review are available on Prudential's website at *http://www.prudential.co.uk/prudential-plc/aboutpru/corporategovernance/* Alternatively, copies may be obtained upon request from the Company Secretary, at the Company's registered office.

Membership

The Committee is comprised of non-executive directors and the Chairman, as set out below:

Sir David Clementi *FCA MBA* (Chairman until December 31, 2008)
Harvey McGrath (Chairman from January 1, 2009)
Bridget Macaskill
James Ross

Meetings

The Committee meets as required to consider candidates for appointment to the Board and to make recommendations to the Board in respect of those candidates. The Group Chief Executive is closely involved in the work of the Committee and is invited to attend and contribute to meetings.

During 2008, the Committee, with the approval of the Board, established a sub-committee chaired by the Senior Independent Director and including Bridget Macaskill and Kathleen O'Donovan, to manage the search for a successor to the Chairman. The sub-committee formally met three times during the year and maintained regular contact throughout the process. External advice was also received. The Chairman did not attend any of these meetings. The sub-committee recommended to the Board the appointment of Harvey McGrath as a non-executive director and Chairman Designate. Harvey McGrath was appointed by the Board as a non-executive director on September 1, 2008 and succeeded Sir David Clementi as Chairman of the Board on January 1, 2009. Full biographical details of Harvey are set out on page 177.

The process of evaluating the skills and composition of the Board is ongoing, and is kept under regular review in order to ensure appropriate plans for succession to the Board are in place.

NYSE Corporate Governance Rules compared to Prudential plc's Corporate Governance Practice

Pursuant to NYSE rule 303A Prudential has disclosed the differences between the NYSE Corporate Governance Rules and its Corporate Governance Practice on its website at *http://www.prudential.co.uk/prudential-plc/aboutpru/nyse_corpgov/* See also Item 16G, "Corporate Governance".

Employees

The average numbers of staff employed by the Prudential group, excluding employees of the Venture investment subsidiaries of the PAC with-profits fund, for the following periods were:

	2008	2007	2006	2005
Asian operations	**20,154**	16,807	12,114	9,652
US operations	**3,298**	3,123	2,863	2,588
UK operations	**6,231**	8,502	10,914	10,708
Total	**29,683**	28,432	25,891	22,948

At December 31, 2008, Prudential employed 27,478 persons with the reduction in the year driven by the UK insurance operation outsourcing a large proportion of its policy administration. Of the 27,478 employees, approximately 16 per cent were located in the United Kingdom and 72 per cent in Asia and

12 per cent in the United States. In the United Kingdom at December 31, 2008, Prudential had 889 employees paying union subscriptions through the payroll. At December 31, 2007, Prudential had 276 temporary employees in the United Kingdom and 1,291 in Asia and 127 in the United States. At December 31, 2008, Prudential had 108 fixed term contractors in the United Kingdom, 7159 in the United States and 1,026 in Asia.

Item 7. Major Shareholders and Related Party Transactions

Major Shareholders

The UK Listing Authority Disclosure and Transparency Rules provide that a person or corporate entity that acquires an interest of 3 per cent or more in Prudential ordinary shares is required to notify Prudential of that interest. If such interest subsequently reaches, exceeds or falls below a whole percentage point, this must also be notified. Similarly, a notification is required once the interest falls below 3 per cent. At March 31, 2009 Prudential had received the following notifications:

Significant Changes in Ownership

In February 2006, Fidelity Investments notified Prudential that it had an interest in 75,706,390 ordinary shares, or 3.13 per cent of the ordinary share capital, and later in December 2006 that its interest had ceased to be notifiable. In March 2006, UBS AG notified Prudential that it had an interest in 75,530,091 ordinary shares, or 3.04 per cent of the ordinary share capital, and later in March 2006 that it had an interest in 250,259,483 ordinary shares, or 10.33 per cent of the ordinary share capital. Also in March 2006, Prudential received notification from Lehman Brothers International (Europe) of an interest in 131,384,250 ordinary shares, or 5.42 per cent of the ordinary share capital. In April 2006, Prudential received notifications from UBS AG and Lehman Brothers International (Europe) that their interests had ceased to be notifiable. In August 2006, Barclays PLC notified Prudential that it had an interest in 74,326,719 ordinary shares, or 3.06 per cent of the ordinary share capital, and subsequently that its interest had increased to 122,896,820 ordinary shares, or 5.06 per cent of the ordinary share capital, and later in August 2006 that its interest had ceased to be notifiable. Also in August 2006, Lehman Brothers International (Europe) informed Prudential that it was interested in 90,397,085 of its ordinary shares, or 3.73 per cent of its ordinary share capital. Further notifications were received from Lehman Brothers International (Europe) in August 2006 informing the Company that it had an interest in 126,451,077 of Prudential's ordinary shares, or 5.22 per cent of its ordinary share capital, and then again that it had an interest in 167,540,854 of Prudential's ordinary shares, or 6.92 per cent of its ordinary share capital and subsequently that its interest had decreased to 101,257,449 of Prudential's ordinary shares, or 4.17 per cent of its ordinary share capital. Subsequently in August 2006 Lehman Brothers International (Europe) informed Prudential that it had ceased to have a notifiable interest in Prudential's ordinary share capital. In October 2006, Barclays PLC notified Prudential that it had an interest in 73,499,119 ordinary shares, or 3.025 per cent of the ordinary share capital.

In February 2007, Legal and General Investment Management Limited notified Prudential that it had an interest in 110,232,362 ordinary shares, or 4.50 per cent of the ordinary share capital, and subsequently in April 2007 that its interest had increased to 124,077,012 of Prudential's ordinary shares, or 5.07 per cent of its ordinary share capital. In April 2007, Cater Allen International Limited notified Prudential that it had an interest in 75,255,755 ordinary shares, or 3.08 per cent of the ordinary share capital, and subsequently later in April 2007 that its interest had ceased to be notifiable. In June 2007, Legal and General Investment Management Limited notified Prudential that it had decreased its interest to 111,828,445 ordinary shares, or 4.54 per cent of the ordinary share capital, and subsequently in July 2007 that its interest had increased to 124,001,002 of Prudential's ordinary shares, or 5.04 per cent of its ordinary share capital. In August 2007, Cater Allen International Limited notified Prudential that it had an interest in 90,786,038 ordinary shares, or 3.69 per cent of the ordinary share capital, and subsequently later in August 2007 that its interest had ceased to be notifiable. In August 2007, Lehman Brothers International (Europe) notified Prudential that it had an interest in 74,088,460 ordinary shares, or 3.01 per cent of the ordinary share capital, and subsequently later in September 2007 that its interest had ceased to be notifiable. In November 2007, Legal and General Investment Management Limited notified Prudential that it had increased its interest to 124,463,521 ordinary shares, or 5.04 per cent of the ordinary share capital, and subsequently in December 2007 that its interest had decreased to 123,272,102 of Prudential's ordinary shares, or 4.99 per cent of its ordinary share capital, and had then increased to 127,877,621 of Prudential's ordinary shares, or 5.17 per cent of its ordinary share capital.

In April 2008, Lehman Brothers International (Europe) notified Prudential that it had an interest in 92,793,502 ordinary shares, or 3.75 per cent of the ordinary share capital, and subsequently later in April 2008 that its interest had ceased to be notifiable. In August 2008, Lehman Brothers International (Europe) notified Prudential that it had an interest in 116,274,992 ordinary shares, or 4.66 per cent of the ordinary share capital, and later in August 2008 that it had decreased its interest to 97,301,087 ordinary shares, or 3.90 per cent of the ordinary share capital and subsequently later in August 2008 that its interest had ceased to be notifiable. In November 2008 Legal & General Group Plc notified Prudential that its interest had decreased to 124,029,884 ordinary shares, or 4.96 per cent of the ordinary share capital. In December 2008 Capital Research and Management Company holdings notified Prudential that it had an interest in 124,972,991 ordinary shares, or 5.005 per cent of the ordinary share capital.

Table: Major shareholders at March 31, 2009

Shareholder	Shareholding	% of share capital	Date advised
Barclays PLC	73,499,119	3.025%	October 2006
Legal and General Group Plc	124,029,884	4.96%	November 2008
Capital Research and Management Company	124,972,991	5.005%	December 2008

Major shareholders of Prudential have the same voting rights per share as other shareholders. See Item 10, "Additional Information Memorandum and Articles of Association Voting Rights".

As of March 31, 2009, there were 131 shareholders holding Prudential ordinary shares in the United States. These shares represented approximately 0.014 per cent of Prudential's issued ordinary share capital. As of March 31, 2009 there were 46 registered Prudential ADR holders. The shares represented by these ADRs amounted to approximately 2.46 per cent of Prudential's issued ordinary share capital.

Prudential does not know of any arrangements which may at a subsequent date result in a change of control of Prudential.

Related Party Transactions

Transactions between the Company and its subsidiaries are eliminated on consolidation.

In addition, the Company has transactions and outstanding balances with certain unit trusts, OEICs, collateralized debt obligations and similar entities which are not consolidated and where a Group company acts as manager. These entities are regarded as related parties for the purposes of IAS 24. The balances are included in the Group's balance sheet at fair value or amortized cost in accordance with their IAS 39 classifications. The transactions are included in the income statement and include amounts paid on issue of shares or units, amounts received on cancellation of shares or units and paid in respect of the periodic charge and administration fee.

Various executive officers and directors of Prudential may from time to time purchase insurance, asset management or annuity products, or be granted mortgages or credit card facilities marketed by Prudential Group companies in the ordinary course of business on substantially the same terms, including interest rates and security requirements, as those prevailing at the time for comparable transactions with other persons.

Apart from the disclosed transactions discussed above and in Item 6 "Directors, Senior Management and Employees", no director had an interest in shares, transactions or arrangements that requires disclosure under applicable rules and regulations.

In 2007, prior to disposal of Egg, three directors had credit cards with the discontinued banking operations. In 2008 and 2007, other transactions with directors were de-minimis both by virtue of their

size and in the context of the directors' financial positions. As indicated above, all of the above noted transactions are on terms equivalent to those that prevail in arm's length transactions.

Item 8. Financial Information

See Item 18, "Financial Statements".

Item 9. The Offer and Listing

Comparative Market Price Data

The tables below set forth for the periods indicated the highest and lowest closing middle-market quotations for Prudential ordinary shares, as derived from the Daily Official List of the London Stock Exchange, and the actual ADS high and low closing sale prices on the New York Stock Exchange after that date.

Year	Prudential Ordinary Shares		Prudential ADS Actual	
	High (pence)	Low	High (US Dollars)	Low
2004	533	386	20.29	14.65
2005	552	445	19.75	16.52
2006	743.5	538.5	28.18	19.61
2007	810	619	33.18	24.77
2008	726	245	28.78	7.4

Quarter	Prudential Ordinary Shares		Prudential ADS Actual	
	High (pence)	Low	High (US Dollars)	Low
2007				
First quarter	742.5	642.5	29.49	24.77
Second quarter	810.0	703.0	33.18	28.58
Third quarter	751.0	620.0	30.80	25.24
Fourth quarter	784.5	619.0	32.81	25.62
2008				
First quarter	714.0	562.5	28.57	23.32
Second quarter	726.0	533.0	28.78	21.11
Third quarter	600.0	480.5	23.32	16.70
Fourth quarter	526.5	245.0	18.93	7.40
2009				
First quarter	429.0	207.0	12.71	5.60

Month	Prudential Ordinary Shares High (pence)	Low	Prudential ADS Actual High (US Dollars)	Low
November 2008	401.5	245.0	13.00	7.40
December 2008	416.5	291.0	12.65	8.82
January 2009	429	288.5	12.71	8.04
February 2009	374.3	256.5	11.12	7.16
March 2009	353.5	207.0	10.50	5.60
April 2009	404.0	336.8	12.00	10.06

Market Data

Prudential ordinary shares are listed on the Official List of the UK Listing Authority and traded on the London Stock Exchange under the symbol "PRU". Prudential ADSs have been listed for trading on the New York Stock Exchange since June 28, 2000 under the symbol "PUK".

Item 10. Additional Information

Memorandum and Articles of Association

Prudential plc is incorporated and registered in England and Wales, under registered number 1397169. Prudential's corporate objects are currently set out in clause 4 of Prudential's Memorandum of Association. Under the provisions of the Companies Act 2006 coming into force on October 1, 2009 a UK company's objects are unrestricted unless a company's articles of association provide otherwise. To avail the Company of this flexibility, the shareholders passed a resolution at the Annual General Meeting on May 14, 2009 (which will become effective on October 1, 2009) removing the objects clause from the Company's Memorandum and Articles of Association.

The following is a summary of both the rights of Prudential shareholders and certain provisions of Prudential's Memorandum and Articles of Association. Rights of Prudential shareholders are set out in Prudential's Memorandum and Articles of Association or are provided for by English law. This document is a summary and, therefore, does not contain full details of Prudential's Memorandum and Articles of Association. A complete copy of Prudential's Memorandum and Articles of Association, adopted at the Annual General Meeting on May 14, 2009 and effective on October 1, 2009, is filed as an exhibit to this Form 20-F. In addition, both the new Memorandum and Articles of Association and the current Memorandum and Articles of Association (which will remain in effect until September 30, 2009) may be viewed on Prudential's website at: *http://www.prudential.co.uk/prudential-plc/aboutpru/memorandum/*

Share capital

On December 31, 2008, Prudential's issued share capital consisted of 2,496,947,688 ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange. Prudential also has American Depositary Shares referenced to its ordinary shares, issued under a depositary agreement with JP Morgan and listed on the New York Stock Exchange.

The issued share capital of Prudential is not currently divided into different classes of shares. However, the authorized share capital consists of 4,000,000,000 ordinary shares of 5 pence each, 2,000,000,000 Sterling Preference Shares of 1 pence each, 2,000,000,000 Dollar Preference Shares of US$0.01 each, and 2,000,000,000 Euro Preference Shares of €0.01 each. To date, no preference shares have been issued. The Companies Act 2006 abolishes the requirement for a company to have an authorized share capital. As a result of the shareholder's resolution passed at the Annual General Meeting on May 14, 2009 this limitation will be removed from Prudential's constitution with effect from October 1, 2009. Prudential's directors will still be limited as to the number of shares they can at any

time allot because allotment authority continues to be required under the Companies Act 2006 (save in respect of employee share schemes).

The Board of directors shall determine whether the preference shares are to be redeemable, their dividend rights, their rights to a return of capital or to share in the assets of the Company on a winding up or liquidation and their rights to attend and vote at general meetings of the Company prior to the date on which the preference shares are allotted. If the Board of directors determines prior to any allotment date that the shares are to be redeemable, on redemption the holder of a preference share shall be paid the aggregate of the nominal amount of such preference share, any premium paid by the shareholder on allotment and, if the directors so decide, a redemption premium which shall be calculated in accordance with a formula chosen by the Board of directors from a selection set out in Prudential's Articles of Association (until September 30, 2009). At present, if a company wishes to issue redeemable shares, it must include in its articles of association the terms and manner of redemption. The Companies Act 2006 enables directors to determine such matters provided they are so authorized by the company's articles of association. Under the Company's new Articles of Association (which will come into effect on October 1, 2009), the Board will have discretion to determine the terms and manner of redemption of redeemable shares when the shares are allotted. Consistent with this extension of directors' powers the terms of redemption of the preference shares do not appear in the Articles of Association which will be effective on October 1, 2009.

The Board is restricted from capitalizing any amounts available for distribution in respect of any series or class of preference shares without either: (i) the written consent of the holders of at least three-quarters in nominal value; or (ii) a special resolution passed at a general meeting of the holders of the class or series of preference shares. Furthermore, the Board may only capitalize amounts as set out above if to do so would mean that the aggregate of the amounts so capitalized would be less than the multiple, if any, determined by the Board of the aggregate amount of the dividends payable in the twelve-month period following the capitalization on the series or class of preference shares and on any other preference shares in issue which rank *pari passu* in relation to participation in profits.

Dividends and other distributions

Under English law, Prudential may pay dividends only if distributable profits are available for that purpose. Distributable profits are accumulated, realized profits not previously distributed or capitalized, less accumulated, realized losses not previously written off in a reduction or reorganization of capital. Even if distributable profits are available, Prudential may only pay dividends if the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves, including, for example, the share premium account, and the payment of the dividend does not reduce the amount of the net assets to less than that aggregate. Subject to these restrictions, Prudential's directors may recommend to ordinary shareholders that a final dividend be declared, recommend the amount of any such dividend, determine whether to pay a distribution by way of an interim dividend, and the amount of any such interim dividend out of the profits of the Company, but must take into account Prudential's financial position. Final dividends to shareholders are recognized as a liability when shareholder approval is obtained; interim dividends are recognized as a liability when directors resolve to pay them.

Prudential also has authorized preference shares, the terms of which in respect of redemption, rights to the profits of the Company available for dividend, rights to a return of capital, and rights to share in the surplus assets of the Company on a winding up or liquidation will be determined by the directors prior to each tranche of preference shares being issued. Subject to any such terms attaching to preference shares in issue, the profits available for distribution and resolved to be distributed are distributed to the ordinary shareholders. As explained above, from October 1, 2009 the concept of authorized shares will fall away but Prudential maintains a five year authority to allot preference shares on the above terms; subject, from October 1, 2009, to the directors' increased flexibility to set the terms and manner of redemption (explained above). Currently, there are no preference shares in issue.

The Company or its directors determine the date on which Prudential pays dividends. Prudential pays dividends to the shareholders on the register on the record date (as determined by the Company or its directors) in proportion to the number of shares held by each shareholder. There are no fixed dates on which entitlements to dividends arise. Interest is not payable on dividends or other amounts payable in respect of shares.

Prudential's directors have the discretion to offer shareholders the right to elect to receive additional shares (credited as fully paid) instead of all or any part of a cash dividend. The aggregate value of additional shares that a shareholder may receive under such an election is as nearly as possible equal to (but not greater than) the cash amount the shareholder would have received. Prudential does not issue fractions of shares and Prudential's directors may make such provision as they think appropriate to deal with any fractional entitlements. Prudential's directors may exclude shareholders from the right to receive shares instead of cash dividends if Prudential's directors believe that extending the election to such shareholders would violate the laws of any territory or for any other reason the directors consider in their absolute discretion appropriate.

If a shareholder does not claim a dividend within 12 years of such dividend becoming due for payment, such shareholder forfeits their right to receive it. Such unclaimed amounts may be invested or otherwise used for Prudential's benefit.

Shareholder meetings

English law provides for shareholders to exercise their power to decide on corporate matters at general meetings. In accordance with English law, the Company is required to call and hold annual general meetings. At annual general meetings, shareholders receive and consider the statutory accounts and the reports by the Company's auditor and its directors, approve the directors' remuneration report, elect and re-elect directors, declare final dividends, approve the appointment of the Company's auditor, authorize the directors to determine the auditor's remuneration, and transact any other business which ought to be transacted at a general meeting, either pursuant to the Articles of Association or English law. General meetings to consider specific matters may be held at the discretion of Prudential's directors and must be convened, in accordance with English law, following the written request of shareholders representing at least one-tenth of the voting rights of the issued and paid-up share capital. The quorum required under Prudential's Articles of Association for a general meeting is two shareholders present in person or by proxy.

Under the Shareholders' Rights Directive (which is expected to come into force during 2009) notice periods for all general meetings will have to be 21 days, unless a company obtains shareholder approval annually to retain the shorter notice period. Prudential has been able to call general meetings (other than Annual General Meetings) on 14 days notice and obtained shareholder approval at the Annual General Meeting on May 14, 2009 to enable it to continue to do so after the Directive is implemented. The approval will be effective until the Company's next Annual General Meeting when it is intended that a similar resolution will be proposed.

Voting rights

Voting at any meeting of shareholders is by show of hands unless a poll (meaning one vote per share rather than one vote per shareholder by a show of hands) is demanded as described below. On a show of hands every shareholder holding ordinary shares who is present in person, or a duly appointed proxy or in the case of a corporation, its duly authorized corporate representative, has one vote. On a poll, every shareholder who is present in person or by proxy and every duly authorized corporate representative has one vote for every share held. Only the holders of fully paid shares are allowed to attend, be counted in the quorum at meetings and vote. If more than one joint shareholder votes, only the vote of the shareholder whose name appears first in the register is counted. A shareholder whose

shareholding is registered in the name of a nominee may only attend and vote at a general meeting if appointed by his or her nominee as a proxy or a corporate representative.

Resolutions of Prudential's shareholders generally require the approval of a majority of the shareholders to be passed. Such resolutions, referred to as ordinary resolutions, require:

- on a show of hands, a majority in number of the shareholders present and voting in person or by duly appointed proxies or (in the case of corporate shareholders) by authorized corporate representatives to vote in favor, or
- on a poll, more than 50 per cent of the votes cast to be in favor.

Some resolutions, referred to as special resolutions, such as a resolution to amend the Memorandum and Articles of Association, require a 75 per cent majority. Such special resolutions require:

- on a show of hands, at least 75 per cent of the shareholders present and voting in person or by duly appointed proxies or (in the case of corporate shareholders) by authorized corporate representative to vote in favor, or
- on a poll, at least 75 per cent of the votes cast to be in favor.

Any shareholder who is entitled to attend and vote at a general meeting may appoint one or more proxies to attend and vote at the meeting on his or her behalf.

The following persons may demand a poll:

- the chairman of the meeting,
- at least five shareholders present in person, by corporate representative or by proxy having the right to vote on the resolution,
- any shareholder or shareholders present in person, by corporate representative or by proxy and representing at least 10 per cent of the total voting rights of all shareholders having the right to vote on the resolution, or
- any shareholder or shareholders present in person, by corporate representative or by proxy and holding shares conferring a right to vote on the resolution on which an aggregate sum has been paid up equal to at least 10 per cent of the total sum paid up on all shares conferring that right.

Voting rights of Prudential's preference shares will be determined by the directors prior to each tranche of preference shares being issued. Currently, there are no preference shares in issue.

Transfer of shares

Transfers of shares may be made by an instrument of transfer. An instrument of transfer must be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. The transferor remains the holder of the relevant shares until the name of the transferee is entered in the share register of the relevant company. Transfers of shares may also be made by a computer-based system (currently the CREST system) and transferred without a written instrument in accordance with English company law. The directors may in certain circumstances refuse to register transfers of shares, but only if such refusal does not prevent dealings in the shares from taking place on an open and proper basis. If the directors refuse to register a transfer they must send the transferee notice of the refusal within two months stating the reason(s) for such refusal.

Changes in share capital

Increases in authorized share capital may only take place after shareholder approval by ordinary resolution. However, the requirement for a company to have an authorized share capital will be abolished from October 1, 2009 by the Companies Act 2006. Consequently, the shareholders passed a resolution on May 14, 2009 amending the Memorandum and Articles of Association to remove this limitation from the Company's constitution. Prudential's directors will still require authority to allot from shareholders before issuing new shares. The class and other rights attaching to new classes of shares may be determined by resolution of the shareholders or may be delegated by the shareholders to the directors. The following changes in share capital may only take place after approval by an ordinary resolution of the shareholders:

share consolidations,

subdivisions of shares, and

cancellations of shares that have not been taken or agreed to be taken by any person.

Reductions in Prudential's issued share capital and share premium account must be approved by a special resolution of the shareholders and must be confirmed by an order of the court. Purchases of Prudential's own shares also require authority to be granted by a special resolution passed by shareholders.

Variation of rights

If the share capital is divided into different classes of shares, the rights of any class of shares may be changed or taken away only if such measure is approved by a special resolution passed at a separate meeting of the members of that class, or with the written consent of at least three quarters of the members of that class. Two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class must be present at such a meeting in person or by proxy to constitute a quorum.

The Board may not authorize, create or increase the amount of, any shares of any class or any security convertible into shares of any class or any security which is convertible into shares of any class ranking, as regards rights to participate in the profits or assets in the company, in priority to a series or class of preference shares without the consent in writing of at least three-quarters in nominal value of, or the sanction of a special resolution of, the holders of such series or class of preference shares.

Lien

Prudential may not have a lien on fully paid shares.

Accidental omission to give notice

Accidental omission to send notice of a meeting to any person entitled to receive it, or the non-receipt for any reason of any such notice, shall not invalidate the proceedings of that meeting.

Shareholders resident abroad

There are no limitations on non-resident or foreign shareholders' rights to own Prudential securities or exercise voting rights where such rights are given under English company law.

Winding-up

Prudential is subject to the general insolvency law applicable to UK companies, which is described in Item 4, "Information on the Company Supervision and Regulation of Prudential UK Supervision and

Regulation Application of 2000 Act Regulatory Regime to Prudential Regulation of Insurance Business Winding-up Rules".

Board of directors

Prudential's Board of directors manages Prudential's business. However, Prudential's shareholders must approve certain matters, such as changes to the share capital and the election and re-election of directors. Directors are appointed subject to Prudential's Articles of Association. Prudential's Board may appoint directors to fill vacancies and appoint additional directors who hold office until the next Annual General Meeting. The Articles of Association require that each director must have beneficial ownership of a given number of ordinary shares. The number of shares is determined by ordinary resolution at a general meeting and is currently 2,500. The minimum number of directors is eight and the maximum number is twenty. Prudential may vary the limits on the number of directors by special resolution. With effect from the conclusion of the Annual General Meeting held on May 14, 2009 there are fifteen members on Prudential's Board of directors.

At every Annual General Meeting, any director who has been appointed by the Board since the last Annual General Meeting; or who held office at the time of the two preceding Annual General Meetings and who did not retire at either of them; or who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer himself or herself for re-election by shareholders. Shareholders may remove any director before the end of his or her term of office by ordinary resolution and may appoint another person in his or her place by ordinary resolution.

The directors may exercise all the powers of Prudential to borrow money and to mortgage or charge any of its assets provided that the total amount borrowed does not, when aggregated with the total borrowing (which excludes, amongst other things, intra-group borrowings and amounts secured by policies, guarantees, bonds or contracts issued or given by Prudential or its subsidiaries in the course of its business) of all of Prudential's subsidiaries, exceed the aggregate of the share capital and consolidated reserves and of one-tenth of the insurance funds of Prudential and each of its subsidiaries as shown in the most recent audited consolidated balance sheet of the Group prepared in accordance with the English law.

There is no age restriction applicable to directors in Prudential's Articles of Association.

Disclosure of interests

There are no provisions in Prudential's Articles of Association that require persons acquiring, holding or disposing of a certain percentage of Prudential's shares to make disclosure of their ownership percentage. The basic disclosure requirement under Part 6 of the Financial Services and Markets Act 2000 and Rule 5 of the Disclosure and Transparency Rules made by the Financial Services Authority imposes a statutory obligation on a person to notify Prudential and the Financial Services Authority of the percentage of the voting rights in Prudential he or she directly or indirectly holds or controls, or has rights over, through his or her direct or indirect holding of certain financial instruments, if the percentage of those voting rights:

reaches, exceeds or falls below 3 per cent and/or any subsequent whole percentage figure as a result of an acquisition or disposal of shares or financial instruments; or

reaches, exceeds or falls below any such threshold as a result of any change in the number of voting rights attached to shares in Prudential.

The Disclosure and Transparency Rules set out in detail the circumstances in which an obligation of disclosure will arise, as well as certain exemptions from those obligations for specified persons. Under section 793 of the UK Companies Act 2006, Prudential may, by notice in writing, require a person that

Prudential knows or has reasonable cause to believe is or was during the three years preceding the date of notice interested in Prudential's shares, to indicate whether or not that is the case and, if that person does or did hold an interest in Prudential's shares, to provide certain information as set out in that Act.

Where a company serves notice under the provisions described above on a person who is or was interested in shares of the company and that person fails to give the company the information required by the notice within the time specified in the notice, the company may apply to an English court for an order directing that the shares in question be subject to restrictions prohibiting, among other things, any transfer of those shares, the exercise of voting rights in respect of those shares and, other than in liquidation, payments in respect of those shares.

In addition, under Prudential's Articles of Association, a shareholder may lose the right to vote his shares if he or any other person appearing to be interested in those shares fails to comply within a prescribed period of time with such a request to give the required information with respect to past or present ownership or interests in those shares, or makes a statement in response to such a request which is in the opinion of the directors false or misleading in any material manner. In the case of holders of 0.25 per cent or more of the issued share capital of Prudential (or any class of the share capital), in addition to disenfranchisement, the sanctions that may be applied by Prudential under its Articles of Association include withholding the right to receive payment of dividends on those shares, and restrictions on transfers of those shares. In the case of holders of less than 0.25 per cent of the issued share capital of Prudential, the sanction is disenfranchisement alone.

The Disclosure and Transparency Rules further deal with the disclosure by certain persons, including directors, of interests in shares of the listed companies of which they are directors, and in derivatives or other financial instruments relating to those shares. The City Code on Takeovers and Mergers also imposes strict disclosure requirements with regard to dealings in the securities of an offeror or offeree company on all parties to a takeover and also on their respective associates during the course of an offer period.

Permitted operations

Under clause 4 of Prudential's Memorandum of Association, Prudential's principal object is to carry on the business of an investment holding company and, for that purpose to acquire and hold (for itself or as trustee or nominee) securities in any part of the world. Further objects include providing financial, administrative and investment services in its own right and for the companies in which Prudential is interested. In addition, the Memorandum of Association provides that each of the paragraphs setting out its objects is not limited by reference to or inference from the terms of any other paragraph but may be construed in its widest sense. With effect from October 1, 2009 there will no longer be a requirement to have an objects clause under the Companies Act 2006. From October 1, 2009, Prudential will no longer be restricted by this technical limitation on the scope of its permitted activities. Prudential's shareholders passed a resolution on May 14, 2009 authorizing the necessary change to the constitution to remove the objects clause with effect from October 1, 2009.

Directors' interests in contracts

A director may hold positions with or be interested in other companies and, subject to applicable legislation, contract with the Company or any other company in which Prudential has an interest.

A director may not vote or be counted in the quorum in relation to any resolution of the Board in respect of any contract in which he or she has an interest. This prohibition does not, however, apply to any resolution where that interest cannot reasonably be regarded as likely to give rise to a conflict of

interest or where that interest arises only from certain matters specified in the Articles of Association (filed as an exhibit to this Form 20-F), including the following:

certain matters that benefit the Group (such as a guarantee, indemnity or security in respect of money lent or obligations undertaken by the director at the request of or for the benefit of Prudential or one of its subsidiaries);

certain matters that are available to all other directors and/or employees (such as the provision to the director of an indemnity where all other directors are being offered indemnities on substantially the same terms or in respect of any contract for the benefit of Group employees under which the director benefits in a similar manner to the employees); and

certain matters that arise solely from the director's interest in shares or debentures of the Company (such as where Prudential or one of its subsidiaries is offering securities in which offer the director is entitled to participate as a holder of securities or in respect of any contract in which a director is interested by virtue of his interest in securities in the Company).

The Company may by ordinary resolution suspend or relax these provisions to any extent or ratify any contract not properly authorized by reason of a contravention of these provisions contained in its Articles of Association.

In accordance with English company law, the Articles of Association allow the Board to authorize any matter which would otherwise involve a director breaching his duty under the Companies Act 2006 to avoid conflicts of interest or potential conflicts of interest and the relevant director is obliged to conduct himself or herself in accordance with any terms imposed by the Board in relation to such authorization.

Directors' power to vote on own terms of appointment

A director shall not vote on or be counted in the quorum in relation to any resolution of the Board concerning his own appointment, or the settlement or variation of the terms or the termination of his own appointment, as the holder of any office or place of profit with the Company or any other company in which the Company is interested.

Directors' remuneration

The remuneration of the executive directors and the Chairman is determined by the Remuneration Committee, which consists of independent, non-executive directors. The remuneration of the non-executive directors is determined by the Board. For further details see Item 6 "Directors, Senior Management and Employees Compensation".

Change of control

There is no specific provision in Prudential's Articles of Association that would have an effect of delaying, deferring or preventing a change in control of Prudential and that would operate only with respect to a merger, acquisition or corporate restructuring involving Prudential, or any of its subsidiaries.

Exclusive jurisdiction

Under Prudential's Articles of Association, any proceeding, suit or action between a shareholder and Prudential and/or its directors arising out of or in connection with the Articles of Association or otherwise, between Prudential and any of its directors (to the fullest extent permitted by law), between a shareholder and Prudential's professional service providers and/or between Prudential and Prudential's professional service providers (to the extent such proceeding, suit or action arises in connection with a

proceeding, suit or action between a shareholder and such professional service provider) may only be brought in the courts of England and Wales.

Material Contracts

Prudential operates two primary long-term incentive plans to provide rewards to executive directors and most other executive officers. All executive directors receive awards under the Group Performance Share Plan which is contingent upon the achievement of pre-determined returns to shareholders. Executive directors with regional responsibilities also receive awards under the Business Unit Performance Plan, contingent upon the financial performance of the relevant region. See Item 6, "Directors, Senior Management and Employees Compensation Senior Executives' Long-term Incentive Plans".

At the Annual General Meeting held on May 15, 2008 shareholders approved a new long term incentive plan, the M&G Executive Long Term Incentive Plan, under which the Chief Executive of M&G will be eligible to receive awards of phantom shares. The payout of any award will be contingent upon the financial performance of M&G.

Prudential has also entered into service contracts with executive directors relating to their employment in such capacity. See Item 6, "Directors, Senior Management and Employees Service Contracts".

Exchange Controls

Other than the requirement to obtain the consent of HM Treasury to certain corporate actions, there are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange controls, or that affect the remittance of dividends or other payments to non-UK residents or to US holders of Prudential's securities, except as otherwise set forth under " Taxation" in this section.

Taxation

The following is a summary, under current law, of the principal UK tax and US federal income tax considerations relating to an investment by a US taxpayer in Prudential ordinary shares or ADSs. This summary applies to you only if:

- you are an individual US citizen or resident, a US corporation, or otherwise subject to US federal income tax on a net income basis in respect of the Prudential ordinary shares or ADSs;
- you hold Prudential ordinary shares or ADSs as a capital asset for tax purposes; and
- if you are an individual, you are neither resident nor ordinarily resident in the United Kingdom for UK tax purposes, and do not hold Prudential ordinary shares or ADSs for the purposes of a trade, profession, or vocation that you carry on in the United Kingdom through a branch or agency or if you are a corporation, you are not resident in the UK for UK tax purposes and do not hold the securities for the purpose of a trade carried on in the United Kingdom through a permanent establishment in the United Kingdom.

This summary does not address any tax consideration other than UK tax and US federal income tax considerations and does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, and does not address the tax treatment of investors that are subject to special rules. Prudential has assumed that you are familiar with the tax rules applicable to investments in securities generally and with any special rules to which you may be subject. You should consult your own tax advisers regarding the tax consequences of the ownership of Prudential ordinary shares or ADSs in the context of your own particular circumstances.

The discussion is based on laws, treaties, judicial decisions, and regulatory interpretations in effect on the date hereof, all of which are subject to change possibly retrospectively.

Beneficial owners of ADSs will be treated as owners of the underlying Prudential ordinary shares for US federal income tax purposes and for purposes of the July 24, 2001 Treaty between the United States and the United Kingdom. Deposits and withdrawals of Prudential ordinary shares in exchange for ADSs generally will not result in the realization of gain or loss for US federal income tax purposes.

UK Taxation of Dividends

Under current UK tax law, no tax is required to be withheld in the United Kingdom at source from cash dividends paid to US resident holders.

UK Taxation of Capital Gains

A holder of Prudential ordinary shares or ADSs who for UK tax purposes is a US corporation that is not resident in the United Kingdom will not be liable for UK taxation on capital gains realized on the disposal of Prudential ordinary shares or ADSs unless at the time of disposal:

- the holder carries on a trade in the United Kingdom through a permanent establishment in the United Kingdom, and
- the Prudential ordinary shares or ADSs are or have been used, held or acquired for use by or for the purposes of such trade or permanent establishment.

Subject to the comments in the following paragraph, a holder of Prudential ordinary shares or ADSs who, for UK tax purposes, is an individual who is neither resident nor not ordinarily resident in the United Kingdom will not be liable for UK taxation on capital gains realized on the disposal of Prudential ordinary shares or ADSs unless at the time of the disposal:

- the holder carries on a trade, profession or vocation in the United Kingdom through a branch or agency, and
- the Prudential ordinary shares or ADSs are or have been used, held, or acquired for use by or for the purposes of such trade, profession, or vocation, or for the purposes of such branch or agency.

A holder of Prudential ordinary shares or ADSs who (1) is an individual who has ceased to be both resident and ordinarily resident for UK tax purposes in the United Kingdom, (2) was both resident and ordinarily resident for UK tax purposes in the United Kingdom for at least four out of the seven UK tax years immediately preceding the year in which he or she ceased to be both resident and ordinarily resident in the United Kingdom, (3) continues to be neither resident nor ordinarily resident in the United Kingdom for a period of less than five tax years and (4) disposes of their Prudential ordinary shares or ADSs during that period of non-residence may also be liable, upon becoming both resident and ordinarily resident in the United Kingdom again for UK tax on capital gains, subject to any available exemption or relief, even though he or she was not resident or ordinarily resident in the United Kingdom at the time of the disposal.

UK Inheritance Tax

Prudential ordinary shares are assets situated in the United Kingdom for the purposes of UK inheritance tax (the equivalent of US estate and gift tax). Prudential ADSs are likely to be treated in the same manner as the underlying Prudential ordinary shares are situated in the United Kingdom. Subject to the discussion of the UK-US estate tax treaty in the next paragraph, UK inheritance tax may apply if an individual who holds Prudential ordinary shares or ADSs gifts them or dies even if he or she is neither domiciled in the United Kingdom nor deemed to be domiciled there under UK law. For

inheritance tax purposes, a transfer of Prudential ordinary shares or ADSs at less than full market value may be treated as a gift for these purposes. Special inheritance tax rules apply (1) to gifts if the donor retains some benefit, (2) to close companies and (3) to trustees of settlements.

However, as a result of the UK-US estate tax treaty, Prudential ordinary shares or ADSs held by an individual who is domiciled in the United States for the purposes of the UK-US estate tax treaty and who is not a UK national will not be subject to UK inheritance tax on that individual's death or on a gift of the Prudential ordinary shares or ADSs unless the Prudential ordinary shares or ADSs:

are part of the business property of a permanent establishment of an enterprise in the United Kingdom, or

pertain to a fixed base in the UK used for the performance of independent personal services.

The UK-US estate tax treaty provides a credit mechanism if the Prudential ordinary shares or ADSs are subject to both UK inheritance tax and to US estate and gift tax.

UK Stamp Duty and Stamp Duty Reserve Tax

Relevant legislation provides that UK stamp duty is payable on a transfer of, and UK stamp duty reserve tax ("SDRT") is payable upon a transfer or issue of, Prudential ordinary shares to the depositary of Prudential ordinary shares that is responsible for issuing ADSs (the "ADS Depository"), or a nominee or agent of the ADS depositary, in exchange for American Depository Receipts ("ADRs") representing ADSs. For this purpose, the current rate of stamp duty and stamp duty reserve tax is 1.5 per cent (rounded up, in the case of stamp duty, to the nearest £5). Where Prudential ordinary shares are transferred to the ADS depository, the rate is applied under the legislation, in each case, to the amount or value of the consideration given for the Prudential ordinary shares or, in some circumstances where consideration is not in money, to the value of the Prudential ordinary shares at the time of transfer. To the extent that such stamp duty is paid on any such transfer of Prudential ordinary shares, no stamp duty reserve tax should be payable on that transfer. Where Prudential ordinary shares are issued to the ADS depository the rate is applied, in such case, to the issue price. The lawfulness of this 1.5 per cent change is currently under challenge in the European Court of Justice. It is recommended that, where this charge could arise, independent professional tax advice is sought.

Provided that the instrument of transfer is not executed in the United Kingdom no UK stamp duty should be required to be paid on any transfer of Prudential ADRs representing ADSs. Based on Prudential's understanding of HMRC's application of the exemption from SDRT for depository receipts a transfer of Prudential ADRs representing ADSs should not, in practice, give rise to a liability to stamp duty reserve tax.

A transfer for value of Prudential ordinary shares, as opposed to ADSs, will generally give rise to a charge to UK stamp duty or stamp duty reserve tax, other than where the amount or value of the consideration for the transfer is £1,000 or under and the transfer instrument is certified at £1,000 (a "Low Value Transaction"), at the rate of 0.5 per cent (rounded up, in the case of stamp duty, to the nearest £5). The rate is applied to the price payable for the relevant Prudential ordinary shares. To the extent that stamp duty is paid on a transfer of Prudential ordinary shares, no stamp duty reserve tax should be payable on that transfer. A transfer of ordinary shares from a nominee to their beneficial owner (other than on sale), including a transfer of underlying Prudential ordinary shares from the ADS depositary or its nominee to an ADS holder, is not subject to stamp duty.

UK stamp duty is usually paid by the purchaser. Although stamp duty reserve tax is generally the liability of the purchaser, any such tax payable on the transfer or issue of Prudential ordinary shares to the ADS depositary or its nominee will (subject to the change referred to above) be payable by the ADS depositary as the issuer of the ADSs. In accordance with the terms of the Deposit Agreement, the ADS depositary will recover an amount in respect of such tax from the initial holders of the ADSs.

US Federal Income Tax Treatment of Distributions on Prudential Ordinary Shares or ADSs

If Prudential pays dividends, you must include those dividends in your income when you receive them. The dividends will be treated as foreign source income. You should determine the amount of your dividend income by converting pounds sterling into US dollars at the exchange rate in effect on the date of your (or the depositary's, in the case of ADSs) receipt of the dividend. Subject to certain exceptions for short-term and hedged positions, the US dollar amount of dividends received by an individual before January 1, 2011 will be subject to taxation at a maximum rate of 15 per cent if the dividends are "qualified dividends." Dividends received with respect to the ordinary shares or ADSs will be qualified dividends if Prudential was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC"). Based on Prudential's audited financial statements and relevant market data, Prudential believes that it was not treated as a PFIC for US federal income tax purposes with respect to its 2008 taxable year. In addition, based on Prudential's audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market data, Prudential does not anticipate becoming a PFIC for its 2009 taxable year. However, as PFIC status is a factual matter that must be determined annually at the close of each taxable year, there can be no certainty as to Prudential's actual PFIC status in any particular year until the close of the taxable year in question.

US Federal Income Tax Treatment of Capital Gains

If you sell your Prudential ordinary shares or ADSs, you will recognize a US source capital gain or loss equal to the difference between the US dollar value of the amount realized on the disposition and the US dollar basis in the ordinary shares of the ADSs. A gain on the sale of Prudential ordinary shares or ADSs held for more than one year will be treated as a long-term capital gain. The net long-term capital gain recognized before 2011 generally is subject to taxation at a maximum rate of 15 per cent. Your ability to offset capital losses against ordinary income is subject to limitations.

US Information Reporting and Backup Withholding

Under the US tax code, a US resident holder of Prudential ordinary shares or ADSs may be subject, under certain circumstances, to information reporting and possibly backup withholding with respect to dividends and proceeds from the sale or other disposition of Prudential ordinary shares or ADSs, unless the US resident holder provides proof of an applicable exemption or correct taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under the backup withholding rules is not additional tax and may be refunded or credited against the US resident holder's federal income tax liability, so long as the required information is furnished to the IRS.

Documents on Display

Prudential is subject to the informational requirements of the Securities Exchange Act of 1934 applicable to foreign private issuers. In accordance with these requirements, Prudential files its Annual Report on Form 20-F and other documents with the Securities and Exchange Commission. You may read and copy this information at the following location:

Public Reference Room
100 F Street, N.E.
Room 1580
Washington, D.C. 20549

Please call the SEC at (202) 551 8090 for further information on the public reference room. Copies of these materials can also be obtained by fax (202) 777 1027, by email to PublicInfo@sec.gov or mail at prescribed rates from the Public Reference Section of the Securities and Exchange Commission,

100 F Street, N.E., Room 1580, Washington, D.C. 20549-0213. In addition, some of Prudential's filings with the Securities and Exchange Commission, including all those filed on or after November 4, 2002, are available on the Securities and Exchange Commission's website at http://www.sec.gov, and on the New York Stock Exchange's website at http://www.nyse.com

Prudential also files reports and other documents with the London Stock Exchange. This information may be viewed on the London Stock Exchange's website at http://www.londonstockexchange.com and those reports and documents not filed electronically may be viewed at the Document Viewing Facility, UK Listing Authority, Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS, UK. All reports and other documents filed with the London Stock Exchange are also published on Prudential's website at http://www.prudential.co.uk

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Overview

As a provider of financial services, including insurance, Prudential's business is the managed acceptance of risk. 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.

The Group's internal control processes are detailed in the Group Governance Framework. This is supported by the Group risk framework as discussed in detail in Item 4, which provides an overview of the Group-wide philosophy and approach to risk management. Where appropriate, more detailed policies and procedures have been developed at the Group and/or business unit levels. These include Group-wide mandatory policies on certain operational risks, including: health, safety, fraud, money laundering, bribery, business continuity, information security and operational security. Additional guidelines are provided for some aspects of actuarial and finance activity.

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 risk governance framework is based on the concept of 'three lines of defense': Risk management, risk oversight and independent assurance. 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 exposures are monitored and reviewed by Group-level risk committees, chaired by the Chief Financial Officer, with representation from business unit and Group Head Office ("GHO") oversight functions. 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.

The Group's risk reporting framework forms an important part of the Group's business planning process. Business units carry out a review of risks as part of the annual preparation of their three-year business plan. This involves an assessment of the impact and likelihood of key risks and of the effectiveness of controls in place to manage them, and is reviewed regularly throughout the year. In addition, business unit dialogue meetings involving Group and business unit executive management are held regularly to review opportunities and risks to business objectives. Any mitigation strategies involving large transactions, such as a material derivative transaction, are subject to scrutiny at Group level before implementation.

Major risks

Specific business environmental and operational risks are discussed under Item 3, "Key Information Risk Factors" and Item 5, "Operating and financial Review and Prospects Risk Management" and "Operating and Financial Review and Prospects Factors Affecting Results of Operations". Risks discussed under Item 4, "Information on the Company Business of Prudential" include "Business of Prudential UK Compliance" and "Business of Prudential Legal Proceedings".

Market and financial risks

A detailed analysis of market and financial risks is provided in notes C(d), D1(d), D2(f), D3(f) and D4(f) to the consolidated financial statements.

Currency of Investments

Prudential's investments are generally held in the same currency as its liabilities and, accordingly, pound sterling liabilities will generally be supported by pound sterling assets and US dollar liabilities will generally be supported by US dollar assets. However, where Prudential believes it is appropriate, it holds some non-domestic equities in the equity portfolios in the belief that this diversifies the overall portfolio risk.

As at December 31, 2008, the Group held 20 per cent (2007: 19 per cent) of its financial assets in currencies, mainly US dollar and Euro, other than the functional currency of the relevant business unit.

The financial assets, of which 77 per cent (2007: 86 per cent) are held by the PAC with-profits fund, allow the PAC with-profits fund to obtain exposure to foreign equity markets.

The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts.

Currency of Core Borrowings

Prudential is subject to certain interest rate risk and foreign exchange risk on its core borrowings. At December 31, 2008, there was £1,225 million of pounds sterling debt, £1,232 million, or $1,800 million, of US dollar debt and £501 million, or €520 million of Euro debt. £1,761 million of the core debt was at fixed rates of interest and £1,197 million has been swapped into floating rates of interest.

Foreign currency borrowings that have been used to provide a hedge against Group equity investments in overseas subsidiaries are translated at year end exchange rates and gains and losses are taken directly to shareholders' equity. Other foreign currency monetary items are translated at year end exchange rates with changes recognized in the income statement. Foreign currency transactions are translated at the spot rate prevailing at the time.

Sensitivity Analysis

Prudential is sensitive to interest rate movements, movements in the values of equities and real estate and foreign exchange fluctuations.

Sensitivity analysis with regard to the Group's investments in debt securities, equities and real estate, to insurance contracts and to foreign exchange fluctuations, is provided in notes D2(j), D3(j), D4(j) and E4 to the consolidated financial statements.

Additional sensitivity analysis of the Group's long-term debt and interests in derivatives contracts has been provided below.

Interest Rate Risk Long-term Debt

The table below quantifies the estimated increase in fair value of long-term borrowings at December 31, 2008 and 2007, resulting from a 100 basis point reduction in interest rates at those dates. The carrying value of short-term borrowings, which approximates their fair value, would not be materially increased by a 100 basis point reduction in interest rates. Prudential believes this to be a reasonably possible near-term market change for interest rates.

	December 31, 2008			December 31, 2007		
	Carrying Value £m	Fair Value £m	Estimated Increase in Fair Value £m	Carrying Value £m	Fair Value £m	Estimated Increase in Fair Value £m
Long-term borrowings						
Central companies						
Bonds, £249 million aggregate principal amount, 5.5% due 2009	**249**	**249**	**1**	248	248	3
Bonds, €500 million aggregate principal amount, 5.75% due 2021[1]	**482**	**421**	**9**	365	368	13
Bonds, £300 million aggregate principal amount, 6.875% due 2023	**300**	**288**	**24**	300	333	35
Bonds, £250 million aggregate principal amount, 5.875% due 2029	**249**	**196**	**16**	249	252	31
Bonds, £435 million aggregate principal amount, 6.125%, due 2031	**427**	**296**	**20**	427	434	54
Capital securities, $1,000 million 6.5% perpetual[3]	**696**	**304**	**9**	485	454	55
Capital securities, $250 million 6.75% perpetual[4]	**173**	**95**	**0**	124	103	1
Capital securities, $300 million 6.5% perpetual[4][5]	**190**	**115**	**1**	154	122	2
Medium Term Subordinated Notes, €20 million, 2023[2]	**19**	**19**	**0**	15	15	0
Total central companies	**2,785**	**1,983**	**80**	2,367	2,329	194
Insurance operations						
Guaranteed bonds, £100 million, principal amount, 8.5% undated subordinated	**100**	**112**	**8**	100	119	10
Surplus notes, $250 million principal amount, 8.15% due 2027[6]	**173**	**154**	**13**	125	147	18
Total long-term business	**273**	**266**	**21**	225	266	28
Total	**3,058**	**2,249**	**101**	2,592	2,595	222

(1) The €500 million 5.75 per cent borrowings have been swapped into borrowings of £333 million with interest payable at six month £Libor plus 0.962 per cent.

(2) The €20 million Medium Term Subordinated Notes were issued at 20-year Euro Constant Maturity Swap (capped at 6.5 per cent). These have been swapped into borrowings of £14 million with interest payable at three month £Libor plus 1.2 per cent.

(3) Interest on the $1,000 million 6.5 per cent borrowings was swapped into floating rate payments at three month $Libor plus 0.80 per cent. In January 2009 this swap was cancelled.

(4)

The $250 million 6.75 per cent borrowings and the $300 million 6.5 per cent borrowings can be converted, in whole or in part, at the Company's option and subject to certain conditions, on any interest payment date falling on or after March 23, 2010 and March 23, 2011 respectively, into one or more series of Prudential preference shares.

(5)

Interest on the $300 million 6.5 per cent borrowings was swapped into floating rate payments at three month $Libor plus 0.0225 per cent. In January 2008, this was swapped back into fixed rate payments at 6.5 per cent.

(6)

The $250 million 8.15 per cent surplus notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of Jackson.

There is no impact on profit at December 31, 2008 and 2007 as a result of these reductions in interest rates because the liabilities are recognized in the financial statements at carrying value, which is equal to their amortized cost.

Derivative Contracts

At December 31, 2008 and 2007, the net market value exposure of derivatives was a loss of £2,128 million and a gain of £95 million, respectively. The tables below show the sensitivity of those derivatives, measured in terms of fair value, to equity and real estate market increases and decreases of 10 per cent and to interest rate increases and decreases of 100 basis points. Prudential believes these increases and decreases to be reasonably possible near-term market changes. These exposures will change as a result of ongoing portfolio and risk management activities.

	December 31, 2008			December 31, 2007		
	10% Equity & Real Estate Increase Increase/(decrease) in Fair Value £m	Fair Value £m	10% Equity & Real Estate Decrease Increase/(decrease) in Fair Value £m	10% Equity & Real Estate Increase Increase/(decrease) in Fair Value £m	Fair Value £m	10% Equity & Real Estate Decrease Increase/(decrease) in Fair Value £m
United Kingdom long-term insurance						
With-profits fund (including PAL)	**(82)**	**(1,740)**	**82**	(3)	(133)	5
Shareholder-backed annuities		**(55)**		9	37	(8)
SAIF	**22**	**(204)**	**(22)**	(9)	(41)	9
United States insurance	**(104)**	**(129)**	**116**	(35)	232	59
Total	**(164)**	**(2,128)**	**176**	(38)	95	65

	December 31, 2008			December 31, 2007		
	100 bp Interest Rate Increase Increase/(decrease) in Fair Value £m	Fair Value £m	100 bp Interest Rate Decrease Increase/(decrease) in Fair Value £m	100 bp Interest Rate Increase Increase/(decrease) in Fair Value £m	Fair Value £m	100 bp Interest Rate Decrease Increase/(decrease) in Fair Value £m
United Kingdom long-term insurance						
With-profits fund (including PAL)	**(105)**	**(1,740)**	**126**	(133)	(133)	162
Shareholder-backed annuities	**(105)**	**(55)**	**136**	(117)	37	148
SAIF	**(52)**	**(204)**	**94**	(34)	(41)	65
United States insurance	**284**	**(129)**	**(267)**	162	232	(115)
Total	**22**	**(2,128)**	**89**	(122)	95	260

Limitations

The above sensitivities do not consider that assets and liabilities are actively managed and may vary at the time any actual market movement occurs. There are strategies in place to minimize the exposure to market fluctuations. For example, as market indices fluctuate, Prudential would take certain actions including selling investments, changing investment portfolio allocation, and adjusting bonuses credited to policyholders. In addition, these analyzes do not consider the effect of market changes on new business generated in the future.

Other limitations on the sensitivities include: the use of hypothetical market movements to demonstrate potential risk that only represent Prudential's view of reasonably possible near-term market changes and that cannot be predicted with any certainty; the assumption that interest rates in all countries move identically; the assumption that all global currencies move in tandem with the US dollar against pounds sterling; and the lack of consideration of the inter-relation of interest rates, equity markets and foreign currency exchange rates.

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders

None.

Item 15. Controls and Procedures

Management has evaluated, with the participation of Prudential's Group Chief Executive and Group Chief Financial Officer, the effectiveness of Prudential's disclosure controls and procedures as at December 31, 2008. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon Prudential's evaluation, the Group Chief Executive and Group Chief Financial Officer concluded that as of December 31, 2008 Prudential's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by Prudential in the reports Prudential files and submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms and that it is accumulated and communicated to Prudential's management, including the Group Chief Executive and Group Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Since December 31, 2006, the Group has been required to undertake an annual assessment of the effectiveness of internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act. In accordance with the requirements of Section 404 the following report is provided by management in respect of the Group's internal control over financial reporting (as defined in Rules 13a-15(f) and 15-d-15(f) under the Securities Exchange Act):

Management's Annual Report on Internal Control over Financial Reporting

Management acknowledges its responsibility for establishing and maintaining adequate internal control over financial reporting for the Group. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management has conducted, with the participation of Prudential's Group Chief Executive and Group Chief Financial Officer, an evaluation of the effectiveness of internal control over financial reporting based on the framework in "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on the assessment under these criteria, Management has concluded that, as of December 31, 2008, the Group's internal control over financial reporting was effective. In addition, there have been no changes in the Group's internal control over financial reporting during 2008 that have materially affected, or are reasonably likely to affect materially, the Group's internal control over financial reporting.

KPMG Audit Plc, which has audited the consolidated financial statements of the Group for the year ended December 31, 2008, has also audited the effectiveness of the Group's internal control over financial reporting under Auditing Standard No. 5 of the Public Company Accounting Oversight Board (United States). The audit report on internal control over financial reporting is shown below.

Report of Independent Registered Public Accounting Firm to the Board of Directors and Shareholders of Prudential plc

We have audited Prudential plc's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Prudential plc's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Controls and Procedures. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Prudential plc maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Prudential plc and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated May 18, 2009 expressed an unqualified opinion on those consolidated financial statements.

May 18, 2009 By: /s/ KPMG AUDIT PLC

KPMG Audit Plc
London, England

Item 16A. Audit Committee Financial Expert

The Board has determined that Kathleen O'Donovan, Chairman of the Audit Committee, qualifies as an audit committee financial expert within the meaning of Item 16A of Form 20-F, and that Ms O'Donovan is independent as defined by the New York Stock Exchange Corporate Governance Standards.

Item 16B. Code of Ethics

Prudential has a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act, (which Prudential calls its Group Code of Business Conduct) which applies to the Group Chief Executive, Group Chief Financial Officer, the Group Chief Risk Officer and persons performing similar functions as well as to all other employees. Prudential's Code of Business Conduct is available on its website at www.prudential.co.uk. If Prudential amends the provisions of the Code of Business Conduct, as it applies to the Group Chief Executive, Group Chief Financial Officer and the Group Chief Risk Officer or if Prudential grants any waiver of such provisions, the Company will disclose such amendment or waiver on the Prudential website. On June 21, 2007, the Code of Business Conduct was revised to incorporate a clause on anti-money laundering and financial crime. This is now available on Prudential's website at www.prudential.co.uk.

Item 16C. Principal Accountant Fees and Services

The Group Audit Committee (the "Committee") has a key oversight role in relation to the external auditor, KPMG Audit Plc, whose primary relationship is with the Committee. The Group's Auditor Independence Policy ensures that the independence and objectivity of the external auditor is not impaired. The policy sets out four key principles which underpin the provision of non-audit services by the external auditor, namely that the auditor should not:

audit its own firm's work;

make management decisions for the Group;

have a mutuality of financial interest with the Group; or

be put in the role of advocate for the Group.

All services provided by the auditor in accordance with this policy are pre-approved by the Committee. The Committee regularly reviews and updates the policy to ensure alignment with the latest standards and best practice in establishing, maintaining and monitoring auditor independence and objectivity.

Audit fees

For the year ended December 31, 2008, the Committee approved fees of £9.0 million to its auditor, KPMG Audit Plc, for audit services and other services supplied pursuant to relevant legislation. In addition, the Committee approved fees of £1.8 million to KPMG for services not related to audit work, which accounted for 17 per cent of total fees paid to the external auditor in the year. Non-audit services primarily related to actuarial services and basic tax compliance work. In accordance with the Group's Auditor Independence Policy, all services were approved prior to work commencing, and each of the non-audit services was confirmed to be permissible for the external auditor to undertake, as defined by the Sarbanes-Oxley Act. The Committee reviewed the non-audit services being provided to the Group by KPMG at regular intervals during 2008.

Total fees payable to KPMG for the fiscal years ended December 31, 2008 and 2007 are set out below:

	2008 £m	2007 £m
Audit fees		
Fees payable to Prudential's auditor for the audit of Prudential's annual accounts	**1.6**	1.8
Audit of subsidiaries and associates pursuant to legislation	**5.0**	4.4
Audit-related fees Other services supplied pursuant to legislation	**2.4**	2.9
Tax fees	**0.6**	0.4
Other fees		
Valuation and actuarial services	**0.7**	0.7
Services relating to corporate finance transactions		0.2
All other services	**0.5**	1.0
Total	**10.8**	11.4

In addition, there were fees of £0.2 million (2007: £0.2 million) for the audit of pension schemes.

2008

Fees of £1.6 million for the audit of Prudential's annual accounts comprised statutory audit fees of £0.8 million, US reporting audit fees of £0.3 million and EEV reporting audit fees of £0.5 million. Fees of £5.0 million for audit of subsidiaries and associates pursuant to legislation mainly related to the audit of local and statutory accounts and to statutory audit work in connection with the submission of results to be consolidated in Prudential's annual accounts.

Fees of £2.4 million for other services supplied pursuant to legislation comprised of Sarbanes-Oxley reporting of £1.0 million and interim and regulatory reporting of £1.4 million.

Fees of £0.6 million for services relating to taxation related to tax compliance throughout the Group.

Fees of £0.7 million for valuation and actuarial services related to work in connection with MCEV and with the investigation into possible re-attribution of the inherited estate.

Fees of £0.5 million for all other services comprised services in respect of accounting and regulatory requirements of £0.1 million services and in respect of attestation letters of £0.4 million.

2007

Fees of £1.8 million for the audit of Prudential's annual accounts comprised statutory audit fees of £0.9 million, US GAAP audit fees of £0.4 million and EEV reporting audit fees of £0.5 million. Fees of £4.4 million for audit of subsidiaries and associates pursuant to legislation mainly related to the audit of local and statutory accounts and to statutory audit work in connection with the submission of results to be consolidated in Prudential's annual accounts.

Fees of £2.9 million for other services supplied pursuant to legislation comprised of Sarbanes-Oxley reporting of £1.4 million and interim and regulatory reporting of £1.5 million.

Fees of £0.4 million for services relating to taxation related to tax compliance throughout the Group. Fees of £0.2 million for services relating to corporate finance transactions related to work in connection with the sale of Egg Banking plc to Citi and to due diligence work.

Fees of £0.7 million for valuation and actuarial services related to work in connection with MCEV and with the investigation into possible re-attribution of the inherited estate.

Fees of £1.0 million for all other services comprised services in respect of accounting and regulatory requirements of £0.1 million services, in respect of attestation letters of £0.8 million, and services in respect of Sarbanes-Oxley requirements of £0.1 million.

Auditor performance and independence

As part of its work during 2008, the Committee assessed the performance of the external auditor, its independence and objectivity, and the effectiveness of the audit process. In addition to questioning the external auditor and the Chief Financial Officer, which is a regular feature of meetings, the review of the effectiveness of the external audit process was conducted through a questionnaire-based exercise administered by Group-wide Internal Audit, supplemented by interviews with senior finance staff and Committee members. In addition, the Committee received the results of an internal review carried out by the external auditor in respect of its services to the Group. The Committee also reviewed the external audit strategy and received reports from the auditor on its own policies and procedures regarding independence and quality control, including an annual confirmation of its independence in line with industry standards.

Re-appointment of auditor

The Group operates a policy under which at least once every five years a formal review is undertaken by the Committee to assess whether the external audit should be re-tendered. The external audit was last put out to competitive tender in 1999 when the present auditor was appointed. In 2005, 2006, 2007 and 2008 the Committee formally considered the need to re-tender the external audit service and concluded that, given the significant changes in accounting, audit and regulatory requirements, the interests of the Company were better served by retaining the existing auditor through a period of continuing change. In addition, the Committee concluded that there was nothing in the performance of the auditor requiring a change. In 2007, a new lead audit partner was appointed by KPMG Audit Plc, in line with the Auditing Practices Board Ethical Statements in the UK and the Sarbanes-Oxley Act in the US.

Following its review of the external auditor's effectiveness and independence, the Committee has recommended to the Board that KPMG Audit Plc be re-appointed as auditor of the Company, and a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company to hold office until the end of the 2010 Annual General Meeting was approved by shareholders at the Annual General Meeting on May 14, 2009.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable

Item 16E. Purchases of Equity Securities by Prudential plc and Affiliated Purchasers

The following table sets forth information with respect to purchases made by or on behalf of Prudential or any "affiliated purchasers" (as that term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Prudential's ordinary shares or American depositary shares for the year ended December 31, 2008.

Period	Total Number of Shares Purchased(1)(2)	Average Price Paid Per Share (£)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under Plans or Programs
January 1 - January 31	12,596	6.7276	N/A	N/A
February 1 - February 29	18,771	5.9873		
March 1 - March 31	195,560	6.021		
April 1 - April 30	57,861	6.8986		
May 1 - May 31	760,664	6.8169		
June 1 - June 30	744,387	6.3348		
July 1 - July 31	249,987	5.3288		
August 1 - August 31	521,833	5.8157		
September 1 - September 30	219,504	6.4266		
October 1 - October 31	15,493	5.0619		
November 1 - November 30	19,758	3.863		
December 1 - December 31	2,836,965	3.6201		

(1) The shares listed in this column were acquired by employee benefit trusts during the year to satisfy future obligations to deliver shares under the Company's employee incentive plans, the savings-related share option scheme and the share participation plan.

(2) This table excludes Prudential plc shares purchased by investment funds managed by M&G in accordance with investment strategies that are established by M&G acting independently of Prudential plc.

(3) In addition, 48,797 shares were allotted to the employee benefit trusts in lieu of receiving cash dividends as part of Prudential's scrip dividend program in May and September 2008.

Item 16G. Corporate Governance

On November 4, 2003, the New York Stock Exchange (the "NYSE") established new corporate governance rules. The application of the NYSE's rules is restricted for foreign companies, recognising that they have to comply with domestic requirements. As a foreign private issuer, Prudential must comply with four NYSE rules:

1. The Company must satisfy the audit committee requirements of the SEC;

2. The Group Chief Executive must promptly notify the NYSE in writing after any executive officer of the Company becomes aware of any material non-compliance with any applicable provisions of Section 303(A) of the NYSE's Listed Company Manual;

3. The Company must submit an executed written affirmation annually to the NYSE affirming the Company's compliance with applicable NYSE Corporate Governance Standards and submit an interim written affirmation each time a change occurs to its audit committee; and

4. The Company must provide a brief description of any significant difference between its corporate governance practices and those followed by US companies under the NYSE listing standards.

As a company listed on the London Stock Exchange, Prudential is required to comply with the Financial Service Authority's Listing Rules, Disclosure and Transparency Rules and Prospectus Rules, and to report and explain non-compliance with the Combined Code on Corporate Governance, which was issued by the Financial Reporting Council.

The table below discloses differences between Prudential's domestic practice and the NYSE rules.

	NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
	Director independence	
1	Listed companies must have a majority of independent directors.	Prudential complies with the equivalent domestic requirements contained in the "Combined Code on Corporate Governance" (the "Code"). The Code requires that the Board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the Board's decision taking. At least half the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent. The Board considers that Sir Winfried Bischoff, Mr Dadiseth, Mr Garrett, Ms Godbehere, Mrs Macaskill, Ms O'Donovan, Mr Ross and Lord Turnbull are "independent" under the Code. This satisfies the requirement under the Code that at least half the Board, excluding the Chairman, should be "independent" non-executive Directors.

	NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
2	In order to tighten the definition of "independent director" for purposes of these standards: a) No director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). Companies must identify which directors are independent and disclose the basis for that determination. b) In addition, a director is not independent if: i) The director is, or has been within the last three years, an employee of the listed company, or an immediate family member is, or has been within the last three years, an executive officer of the listed company. ii) The director has received, or has an immediate family member who has received, during any twelve- month period within the last three years, more than $120,000 in direct compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service). iii) (A) The director is a current partner or employee of a firm that is the company's internal or external auditor; (B) the director has an immediate family member who is a current partner of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and personally works on the listed company's audit; or (D) the director or an immediate family member was within the last three years partner or employee of such a firm and personally worked on the listed company's audit within that time. iv) The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the listed company's present executive officers at the same time serves or served on that company's compensation committee.	Prudential complies with the corresponding domestic requirements contained in the Code, which sets out the principles for the Company to determine whether a director is "independent". The Board is required to determine whether directors are independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could affect, the directors' judgement. If the Board determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination it shall state its reasons. In undertaking this process the Board is required, amongst other factors, to consider if the director: Has been an employee of Prudential within the last five years; Has, or has had within the last three years, a material business relationship with Prudential either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with Prudential; Has received or receives additional remuneration from Prudential apart from a director's fee, participates in Prudential's share option or a performance- related pay scheme, or is a member of Prudential's pension scheme; Has close family ties with any of Prudential's advisers, directors or senior employees; Holds cross- directorships or has significant links with other directors through involvement in other companies or bodies; Represents a significant shareholder; or Has served on the Board for more than nine years from the date of their first election. Keki Dadiseth and Barry Stowe also serve as non-executive directors of ICICI Prudential Life Insurance Company Limited, an Indian company which is owned 26% by Prudential, and in addition Keki serves at Prudential's request as a non-executive director of ICICI Prudential Trust Limited, an Indian company which is owned 49% by Prudential. The Board does not consider that these appointments in any way affect Keki's status as an independent director of Prudential. Sir Winfried Bischoff has been Chairman of Citi Europe and a Member of The Management, Operating and Business Heads Committees of

	NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
	v) The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the listed company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1 million, or 2% of such other company's consolidated gross revenues.	Citigroup Inc. since May 2000. He is also Chairman of the European Advisory Board of Citigroup Inc. and a member of the Citigroup Inc. International Advisory Board. He was a director of Citigroup Inc. until April 21, 2009 and was the Acting Chief Executive Officer from November 2007 to December 2007, and Chairman from December 2007 until February 23, 2009. Prudential has a number of business relationships with Citi. The Board believes that, in respect of the Combined Code, these business relationships are not sufficiently material to compromise his independence in matters relating to Prudential. The non-executive Directors considered by the Board to be independent are identified in the Company's Annual Reports in accordance with the Code and on Prudential's website. Throughout the year 2008 all non-executive directors were considered by the Board to be independent in character and judgement.
	Executive Sessions	
3	To empower non-management directors to serve as a more effective check on management, the non-management directors of each listed company must meet at regularly scheduled executive sessions without management.	Prudential complies with the equivalent domestic requirements set out in the Code, which requires that the Chairman of Prudential should hold meetings with the non-executive directors without executives present and the non-executive directors led by the Senior Independent Director, should meet at least annually without the Chairman present to appraise the Chairman's performance. The Chairman of Prudential usually meets formally, at least annually, with the non-executive directors without the executive directors being present. During 2008, the Chairman held a number of meetings with non-executives individually or in groups without the executives being present. It was decided in light of these meetings that no additional formal meeting would be required. The Chairman Designate also had a number of meetings with the non-executive directors without the executives being present.
	Nominations/Corporate Governance Committee	
4	a) Listed companies must have a nominating/ corporate governance committee composed entirely of independent directors.	Prudential complies with the corresponding domestic requirements set out in the Code, which requires that Prudential has a Nomination Committee which comprises a majority of independent non-executive directors and the Chairman.
	b) The nominating/corporate governance committee must have a written charter that addresses:	Prudential's Nomination Committee has written terms of reference in accordance with the Code. The terms of reference are available on Prudential's website, and explain the Nomination Committee's role and the authority delegated to it by the Board.
	i) the committee's purpose and responsibilities which, at minimum, must be to: identify individuals qualified to become board members, consistent with criteria approved by the board, and to select, or to	

NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
recommend that the board select, the director nominees for the next annual meeting of shareholders; develop and recommend to the board a set of corporate governance guidelines applicable to the corporation; and oversee the evaluation of the board and management; and	The Board is responsible for regularly reviewing its corporate governance standards and practices. Domestic requirements do not mandate Prudential to establish a corporate governance committee.
ii) an annual performance evaluation of the committee.	Under the Code, the board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted. Prudential includes such description in its Annual Report, which is available on its website.
Compensation Committee	
5 a) Listed companies must have a compensation committee composed entirely of independent directors.	Prudential complies with the equivalent domestic requirements set out in the Code, which requires that Prudential has a Remuneration Committee that is comprised of at least three "independent" non-executive directors.
b) The compensation committee must have a written charter that addresses:	Prudential's Remuneration Committee has written terms of reference in accordance with the Code. The terms of reference are available on Prudential's website.
i) the committee's purpose and responsibilities which, at minimum, must be to have direct responsibility to:	Prudential complies with the equivalent domestic requirements set out in the Code, which provides that the Remuneration Committee:
a) review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and, either as a committee or together with the other independent directors (as directed by the board), determine and approve the CEO's compensation level based on this evaluation; and	a) should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments;
b) make recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity- based plans that are subject to board approval; and	b) should recommend and monitor the level and structure of remuneration for senior management;
c) produce a compensation committee report on executive officer compensation as required by the SEC to be included in the listed company's annual proxy statement or annual report on Form 10-K filed with the SEC;	c) should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination; and
	d) that the annual report should include a description of the work of the Remuneration Committee.
ii) an annual performance evaluation of the compensation committee.	Under the Code, the board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted. Prudential includes such description in its Annual Report which is available on its website.

	NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
	Audit Committee	
6	Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Securities Exchange Act.	Prudential complies with equivalent domestic requirements set out in the Code, which requires that Prudential has an Audit Committee that is comprised entirely of at least three "independent" non-executive directors. Prudential's Audit Committee has written terms of reference prepared in accordance with the requirements of the Code and the Smith Guidance. The terms of reference are available on Prudential's website and explain the Audit Committee's role and the authority delegated to it by the Board. The terms of reference, amongst other items, set out the Committee's role and responsibilities in respect of the external audit business. The Committee reviews management's and the external and internal auditors' reports on the effectiveness of systems for internal control, financial reporting and risk management. It also reviews the effectiveness of the Group Risk Framework and the Group Governance Framework. The Audit Committee has established a procedure for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters. The Audit Committee has the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties. Prudential must provide appropriate funding for the Audit Committee. The Board of Prudential has designated that Kathleen O'Donovan, Chairman of the Audit Committee, qualifies as an audit committee financial expert.
7	(a) The audit committee must have a minimum of three members.	Prudential complies with equivalent domestic requirements set out in the Code which requires that the Audit Committee should comprise a minimum of three "independent" non-executive directors.
	(b) In addition to any requirement of Rule 10A-3(b)(1), all audit committee members must satisfy the requirements for independence set out in Section 303A.02.	Each member of Prudential's Audit Committee is deemed to be "independent" in accordance with the Securities Exchange Act and Code criteria. Prudential has determined its Audit Committee members meet the rule 10A-3 independence test. Prudential complies with equivalent domestic requirements set out in the Code which requires that the Board should satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience.

NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
(c) The audit committee must have a written charter that addresses:	Prudential's Audit Committee has written terms of reference in accordance with the Code. The terms of reference are available on Prudential's website.
(i) the committee's purpose which, at minimum, must be to:	The Code requires that the main role and responsibilities of the Audit Committee should include:
(A) assist board oversight of (1) the integrity of the listed company's financial statements, (2) the listed company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the listed company's internal audit function and independent auditors; and	To monitor the integrity of the financial statements of the Company; To monitor and review the effectiveness of the Company's internal audit function; To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and To make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor.
(B) prepare an audit committee report as required by the SEC to be included in the listed company's annual proxy statement;	The Code requires that there is a separate section in a Company's Annual Report which describes the work of the Committee in discharging its duties.
(ii) an annual performance evaluation of the audit committee; and	An evaluation is included in the Annual Report & Accounts.
(iii) the duties and responsibilities of the audit committee which, at a minimum, must include those set out in Rule 10A-3(b)(2), (3), (4) and (5) of the Exchange Act, as well as to:	
(A) at least annually, obtain and review a report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or	Prudential's Audit Committee also monitors and reviews the effectiveness of the Company's internal audit function.

NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the listed company;	
(B) Meet to review and discuss the listed company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including reviewing the company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";	Prudential's Audit Committee also monitors the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them.
(C) Discuss the listed company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;	
(D) Discuss policies with respect to risk assessment and risk management;	Prudential's Audit Committee also reviews the Company's internal financial controls and, unless expressly addressed by a separate risk committee, or by the Board itself, reviews the Company's internal control and risk management systems.

	NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
	(E) Meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors;	Committee members meet separately with management throughout the year and at least annually meet alone with the internal and external auditors.
	(F) review with the independent auditor any audit problems or difficulties and management's response;	The terms of reference of Prudential's Audit Committee require it to consider management's responses to any major external audit recommendations, and to resolve disagreements between management and the external auditor regarding financial reporting.
	(G) set clear hiring policies for employees or former employees of the independent auditors; and	The terms of reference of Prudential's Audit Committee require it to set clear hiring policies for employees or former employees of the external auditor.
	(H) report regularly to the board of directors.	Prudential's Audit Committee reports regularly to the board of directors.
	(d) Each listed company must have an internal audit function.	Where there is no internal audit function, the audit committee should consider annually, under the requirements of the Code, whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.
	Shareholder Approval of Equity Compensation Plans	
8	Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, except for employment inducement awards, certain grants, plans and amendments in the context of mergers and acquisitions, and certain specific types of plans.	Prudential complies with corresponding domestic requirements in the Listing Rules issued by the Financial Services Authority which mandate that the Company must seek shareholder approval for employee share schemes.
	Corporate Governance Guidelines	
9	Listed companies must adopt and disclose corporate governance guidelines.	Prudential complies with corresponding domestic requirements set out in the Listing Rules issued by the Financial Services Authority and the Code, which require that Prudential include an explanation in its Annual Report of how it complies with the principles of the Code and require confirmation that it complies with the Code's provisions or, where it does not, to provide an explanation of why it does not comply.
	Code of Business Conduct and Ethics	
10	Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	Prudential's Code of Business Conduct is available on Prudential's website. Although not required by the Sarbanes-Oxley Act, Prudential has extended the applicability of its Code of Business Conduct to all employees.

	NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
	Description of Significant Differences	
11	Listed foreign private issuers must disclose any significant ways in which their corporate governance practices differ from those followed by domestic companies under NYSE listing standards.	Prudential conforms by publishing this document to fulfil this requirement.
12	Listed foreign private issuers may provide this disclosure either on their web site (provided it is in the English language and accessible from the United States) and/or in their annual report as distributed to shareholders in the United States in accordance with Sections 103.00 and 203.01 of the Listed Company Manual (again, in the English language). If the disclosure is only made available on the web site, the annual report shall so state and provide the web address at which the information may be obtained.	Prudential conforms by publishing this document in this annual report on Form 20-F and on its website to fulfil this requirement. The address of the website is also published in Prudential's Form 20-F.
13	Listed companies must have and maintain a publicly accessible website.	Prudential conforms by maintaining a publicly accessible website, on which a printable version of the terms of reference of its Remuneration Committee, Nomination Committee and Audit Committee, its corporate governance guidelines, its Code of Business Conduct and document disclosing any significant ways in which its corporate governance practices differ from those followed by domestic companies under NYSE listing standards are posted in the English language.

Item 18. Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Prudential plc

We have audited the accompanying consolidated balance sheets of Prudential plc and subsidiaries (together "Company") as of December 31, 2008 and 2007 and the consolidated statements of income, changes in equity and cash flows for the each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prudential plc and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

As discussed in note A5 to the financial statements, the Company has adopted IFRIC 14, '*IAS-19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*' which provides guidance on the recognition of surpluses in, and funding obligations for, defined benefit pension schemes.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated May 18, 2009 expressed an unqualified opinion on the effective operation of internal control over financial reporting.

May 18, 2009 By: /s/ KPMG AUDIT PLC

KPMG Audit Plc
London, England

Prudential plc and Subsidiaries

Consolidated Income Statements

Years ended December 31

	2008	2007*	2006*
	(In £ Millions Except Per Share Amounts)		
Gross premiums earned	**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	**(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	**4,620**	(26,224)	(26,001)
Outward reinsurers' share of benefits and claims	**389**	(20)	(144)
Movement in unallocated surplus of with-profits funds	**5,815**	(541)	(2,122)
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	**10,824**	(26,785)	(28,267)
Acquisition costs and other operating expenditure	**(2,459)**	(4,859)	(4,489)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(172)**	(168)	(177)
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 credit 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
Attributable to:			
Equity holders of the Company	**(396)**	947	810
Minority interests	**5**	3	1
(Loss) profit for the year	**(391)**	950	811
Earnings per share (in pence)			
Basic (based on 2,472m, 2,445m and 2,413m shares respectively):			

Based on (loss) profit from continuing operations attributable to the equity holders of the Company	**(16.0)p**	28.8p	37.9p
Based on profit (loss) from discontinued operations attributable to the equity holders of the Company		9.9p	(4.3)p
	(16.0)p	38.7p	33.6p
Diluted (based on 2,473m, 2,448m and 2,416m shares respectively):			
Based on (loss) profit from continuing operations attributable to the equity holders of the Company	**(16.0)p**	28.8p	37.9p
Based on profit from discontinued operations attributable to the equity holders of the Company		9.8p	(4.3)p
	(16.0)p	38.6p	33.6p

*

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. Note I1 explains the effect of the change.

**

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

The accompanying notes are an integral part of these financial statements

Prudential plc and Subsidiaries

Statement of Changes in Equity

Year ended December 31

	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Minority interests	Total equity
					2008 (In £ Millions)			
Reserves								
Loss for the year			**(396)**			**(396)**	**5**	**(391)**
Items recognized directly in equity:								
Exchange movements				**631**		**631**		**631**
Unrealized valuation movements on securities of US insurance operations classified as available-for-sale:								
Unrealized holding losses arising during the year					**(3,197)**	**(3,197)**		**(3,197)**
Less net losses included in the income statement on disposal and impairment					**487**	**487**		**487**
					(2,710)	**(2,710)**		**(2,710)**
Related change in amortization of deferred income and acquisition costs					**1,070**	**1,070**		**1,070**
Related tax				**119**	**569**	**688**		**688**
Total items of income and expense recognized directly in equity				**750**	**(1,071)**	**(321)**		**(321)**
Total income and expense for the year			**(396)**	**750**	**(1,071)**	**(717)**	**5**	**(712)**
Dividends			**(453)**			**(453)**	**(2)**	**(455)**
Reserve movements in respect of share-based payments			**18**			**18**		**18**
							(50)	**(50)**

Change in minority interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and of other consolidated investment funds								
Share capital and share premium								
New share capital subscribed	**2**	**168**				**170**		**170**
Transfer to retained earnings in respect of shares issued in lieu of cash dividends		**(156)**	**156**					
Treasury shares								
Movement in own shares in respect of share-based payment plans			**3**			**3**		**3**
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS			**(25)**			**(25)**		**(25)**
Net increase (decrease) in equity	**2**	**12**	**(697)**	**750**	**(1,071)**	**(1,004)**	**(47)**	**(1,051)**
At beginning of year:								
As previously reported	**123**	**1,828**	**4,440**	**(112)**	**(78)**	**6,201**	**102**	**6,303**
Effect of adoption of principles of IFRIC 14 for accounting for pension schemes			**(139)**			**(139)**		**(139)**
After adoption of IFRIC 14	**123**	**1,828**	**4,301**	**(112)**	**(78)**	**6,062**	**102**	**6,164**
At end of year	**125**	**1,840**	**3,604**	**638**	**(1,149)**	**5,058**	**55**	**5,113**

The accompanying notes are an integral part of these financial statements

Prudential plc and Subsidiaries

Statement of Changes in Equity

Year ended December 31

	2007								
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Hedging reserve	Shareholders' equity	Minority interests	Total equity
					(In £ Millions)				
Reserves									
Profit for the year			947				947	3	950
Items recognized directly in equity:									
Exchange movements				11			11		11
Movement on cash flow hedges						(3)	(3)		(3)
Unrealized valuation movements on securities classified as available-for-sale of discontinued banking operations					(2)		(2)		(2)
Unrealized valuation movements on securities of US insurance operations classified as available-for-sale:									
Unrealized holding losses arising during the year					(231)		(231)		(231)
Less net gains included in the income statement on disposal and impairment					(13)		(13)		(13)
					(244)		(244)		(244)
Related change in amortization of deferred income and acquisition costs					88		88		88
Related tax				2	53	1	56		56
Total items of income and expense recognized directly in equity				13	(105)	(2)	(94)		(94)

Total income and expense for the year			947	13	(105)	(2)	853	3	856
Dividends			(426)				(426)	(5)	(431)
Reserve movements in respect of share-based payments			18				18		18
Change in minority interests arising principally from purchase and sale of venture investment companies and property partnerships of the PAC with-profits fund and of other consolidated investment funds								(28)	(28)
Share capital and share premium									
New share capital subscribed	1	181					182		182
Transfer to retained earnings in respect of shares issued in lieu of cash dividends		(175)	175						
Treasury shares									
Movement in own shares in respect of share-based payment plans			7				7		7
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS			4				4		4
Net increase (decrease) in equity	1	6	725	13	(105)	(2)	638	(30)	608
At beginning of year:									
As previously reported	122	1,822	3,640	(125)	27	2	5,488	132	5,620
Effect of adoption of principles of IFRIC 14 for accounting for pension schemes			(64)				(64)		(64)
After adoption of IFRIC 14	122	1,822	3,576	(125)	27	2	5,424	132	5,556
At end of year	123	1,828	4,301	(112)	(78)	0	6,062	102	6,164

The accompanying notes are an integral part of these financial statements

Prudential plc and Subsidiaries

Statement of Changes in Equity

Year ended December 31

	2006								
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Hedging reserve	Shareholders' equity	Minority interests	Total equity
					(In £ Millions)				
Reserves									
Profit for the year			810				810	1	811
Items recognized directly in equity:									
Exchange movements				(224)			(224)		(224)
Movement on cash flow hedges						7	7		7
Unrealized valuation movements on securities classified as available-for-sale of discontinued banking operations					(2)		(2)		(2)
Unrealized valuation movements on US insurance operations securities classified as available-for-sale:									
Unrealized holding losses arising during the year					(208)		(208)		(208)
Less net losses included in the income statement on disposal and impairment					7		7		7
					(201)		(201)		(201)
Related change in amortization of deferred income and acquisition costs					75		75		75
Related tax				(74)	50	(2)	(26)		(26)
Total items of income and expense recognized directly in equity				(298)	(78)	5	(371)		(371)
			810	(298)	(78)	5	439	1	440

Total income and expense for the year									
Dividends			(399)				(399)		(399)
Reserve movements in respect of share-based payments			15				15		15
Change in minority interests arising principally from purchase and sale of venture investment companies and property partnerships of the PAC with-profits fund and of other investments								43	43
Acquisition of Egg minority interests			(167)				(167)	(84)	(251)
Share capital and share premium									
New share capital subscribed	3	333					336		336
Transfer to retained earnings in respect of shares issued in lieu of cash dividends		(75)	75						
Treasury shares									
Movement in own shares in respect of share-based payment plans			6				6		6
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS			0				0		0
Net increase (decrease) in equity	3	258	340	(298)	(78)	5	230	(40)	190
At beginning of year	119	1,564	3,236	173	105	(3)	5,194	172	5,366
At end of year	122	1,822	3,576	(125)	27	2	5,424	132	5,556

The accompanying notes are an integral part of these financial statements

Prudential plc and Subsidiaries

Consolidated Balance Sheets

December 31

Assets	**2008**	**2007**
	(In £ Millions)	
Intangible assets attributable to shareholders:		
Goodwill	**1,341**	1,341
Deferred acquisition costs and other intangible assets	**5,349**	2,836
Total	**6,690**	4,177
Intangible assets attributable to with-profits fund:		
In respect of acquired subsidiaries for venture fund and other investment purposes	**174**	192
Deferred acquisition costs and other intangible assets	**126**	19
Total	**300**	211
Total	**6,990**	4,388
Other non-investment and non-cash assets:		
Property, plant and equipment	**635**	1,012
Reinsurers' share of insurance contract liabilities	**1,240**	783
Deferred tax assets	**2,886**	951
Current tax recoverable	**657**	285
Accrued investment income	**2,513**	2,023
Other debtors	**1,232**	909
Total	**9,163**	5,963
Investments of long-term business and other operations:		
Investment properties	**11,992**	13,688
Investments accounted for using the equity method	**10**	12
Financial investments:		
Loans	**10,491**	7,924
Equity securities and portfolio holdings in unit trusts	**62,122**	86,157
Debt securities	**95,224**	83,984
Other investments	**6,301**	4,396
Deposits	**7,294**	7,889
Total	**193,434**	204,050
Held for sale assets		30
Cash and cash equivalents	**5,955**	4,951
Total assets	**215,542**	219,382

The accompanying notes are an integral part of these financial statements

Prudential plc and Subsidiaries

Consolidated Balance Sheets

December 31

Equity and liabilities	**2008**	**2007***
	(In £ Millions)	
Equity		
Shareholders' equity	**5,058**	6,062
Minority interests	**55**	102
Total equity	**5,113**	6,164
Liabilities		
Policyholder liabilities and unallocated surplus of with-profits funds:		
Insurance contract liabilities	**136,030**	132,776
Investment contract liabilities with discretionary participation features	**23,446**	29,550
Investment contract liabilities without discretionary participation features	**14,501**	14,032
Unallocated surplus of with-profits funds	**8,414**	13,959
Total	**182,391**	190,317
Core structural borrowings of shareholder-financed operations:		
Subordinated debt	**1,987**	1,570
Other	**971**	922
Total	**2,958**	2,492
Other borrowings:		
Operational borrowings attributable to shareholder-financed operations	**1,977**	3,081
Borrowings attributable to with-profits funds	**1,308**	987
Other non-insurance liabilities:		
Obligations under funding, securities lending and sale and repurchase agreements	**5,572**	4,081
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**3,843**	3,556
Current tax liabilities	**842**	1,237
Deferred tax liabilities	**3,229**	3,402
Accruals and deferred income	**630**	599
Other creditors	**1,496**	1,020
Provisions	**461**	575
Derivative liabilities	**4,832**	1,080
Other liabilities	**890**	791
Total	**21,795**	16,341
Total liabilities	**210,429**	213,218
Total equity and liabilities	**215,542**	219,382

*

The Company has adopted the principles of IFRIC 14 for pension schemes, giving rise to consequential changes to the comparative results and balances of 2007. Note I1 explains the effect of the change.

The accompanying notes are an integral part of these financial statements

Prudential plc and Subsidiaries

Consolidated Cash Flow Statements

Years ended December 31

	2008	2007*	2006*
	(In £ Millions)		
Cash flows from operating activities			
(Loss) Profit before tax from continuing operations *(being tax attributable to shareholders' and policyholders' returns)* **	**(2,074)**	1,058	2,111
Profit before tax from discontinued operations		222	(150)
Total (loss) profit before tax*	**(2,074)**	1,280	1,961
Changes in operating assets and liabilities:			
Investments	**33,255**	(11,730)	(13,748)
Other non-investment and non-cash assets	**(1,659)**	(466)	(217)
Policyholder liabilities (including unallocated surplus)	**(26,987)**	11,845	13,492
Other liabilities (including operational borrowings)	**(631)**	902	1,003
Interest income and expense and dividend income included in profit before tax	**(4,989)**	(8,201)	(10,056)
Other non-cash items	**(74)**	(141)	198
Operating cash items:			
Interest receipts	**2,937**	5,541	6,466
Dividend receipts	**2,019**	2,732	3,633
Tax paid	**(653)**	(624)	(523)
Net cash flows from operating activities	**1,144**	1,138	2,209
Cash flows from investing activities			
Purchases of property, plant and equipment	**(240)**	(231)	(174)
Proceeds from disposal of property, plant and equipment	**11**	61	34
Costs incurred on purchase of Egg minority interests			(6)
Acquisition of subsidiaries, net of cash balances		(77)	(70)
Disposal of Egg, net of cash balances		(538)	
Disposal of other subsidiaries, net of cash balances		157	114
Deconsolidation of investment subsidiaries***		(91)	
Net cash flows from investing activities	**(229)**	(719)	(102)
Cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed operations:			
Redemption		(150)	(1)
Interest paid	**(167)**	(171)	(204)
With-profits operations:			
Interest paid	**(9)**	(9)	(9)
Equity capital:			
Issues of ordinary share capital	**12**	6	15
Dividends paid****	**(297)**	(255)	(323)
Net cash flows from financing activities	**(461)**	(579)	(522)
Net increase (decrease) in cash and cash equivalents	**454**	(160)	1,585
Cash and cash equivalents at beginning of year	**4,951**	5,071	3,586
Effect of exchange rate changes on cash and cash equivalents	**550**	40	(100)
Cash and cash equivalents at end of year	**5,955**	4,951	5,071

*

The Company has adopted the principles of IFRIC 14 for pension schemes, giving rise to consequential changes to the 2007 and 2006 comparative results.

**

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

***

In November 2007, Prudential sold its venture fund management subsidiary, PPM Capital, as described in note I6. As a result of the arrangements attaching to the sale, it is no longer appropriate to consolidate the holdings managed by that company.

****

Dividends paid are net of scrip dividend as described in note B2.

The accompanying notes are an integral part of these financial statements

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Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

A: Background and accounting policies

A1: Nature of operations

Prudential plc (the Company) together with its subsidiaries (collectively, the Group or Prudential) is an international financial services group with its principal operations in the UK, the US and Asia. The Group operates in the UK through its subsidiaries, primarily The Prudential Assurance Company Limited (PAC), Prudential Annuities Limited (PAL), Prudential Retirement Income Limited (PRIL) and M&G Investment Management Limited.

In the US, the Group's principal subsidiary is Jackson National Life Insurance Company (Jackson). The Group also has operations in Hong Kong, Malaysia, Singapore, Taiwan and other Asian countries. On February 20, 2009, the Company announced that it had entered into agreement, subject to regulatory approval to sell the assets and liabilities of its agency distribution business and its agency force in Taiwan. See note I10 for further details.

Prudential offers a wide range of retail financial products and services and asset management services throughout these territories. The retail financial products and services principally include life insurance, pensions and annuities as well as collective investment services.

Long-term business products written in the UK and Asia are principally with-profits deposit administration, other conventional and unitized with-profits policies and non-participating pension annuities in the course of payment. Long-term business also includes linked business written in the UK and Asia. The principal products written by Jackson are interest-sensitive deferred annuities and whole-life policies, variable annuities, guaranteed investment contracts, fixed index deferred annuities and term life insurance.

Prudential plc is a public limited company incorporated and registered in England and Wales. The registered office is:

Laurence Pountney Hill
London
EC4R 0HH
UK Companies House registered number: 1397169

A2: Basis of preparation

The consolidated financial statements consolidate the Group and the Group's interest in associates and jointly-controlled entities. The parent company financial statements present information about the Company as a separate entity and not about the Group.

The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Were the Group to apply IFRS as adopted by the European Union (EU) as opposed to those issued by the IASB no additional adjustment would be required.

As part of its response to the global financial crisis, in 2008, the International Accounting Standards Board (IASB) has issued amendments to IAS 39, 'Financial Instruments: Recognition and Measurement' and IFRS 7, 'Financial Instruments: Disclosures'. 'Reclassification of Financial Assets: Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures'

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A: Background and accounting policies (Continued)

was issued in October 2008 permitting the reclassification of non-derivative financial assets into the 'loans and receivables' category under which assets are carried at amortized cost if specific conditions are met. The Group has not made any such reclassification of financial assets as permitted by the amendments.

The Group has applied all IFRS standards and interpretations issued by the IASB and effective at December 31, 2008. In 2008, the Group adopted IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction'. Further details on the impact of the adoption of this interpretation are provided in notes A5 and I1.

The consolidated financial statements do not represent the Prudential's statutory accounts for the purposes of the UK Companies Act 1985. These financial statements are based on the prescribed formats. The Group's external auditors have reported on the 2008, 2007 and 2006 statutory accounts and the accounts have been delivered to the UK Registrar of Companies. The auditors' reports were unqualified and did not contain a statement under Section 237 (2) (inadequate accounting records or returns not agreeing with records and returns) or Section 237 (3) (failure to obtain necessary information and explanations) of the UK Companies Act 1985.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

The years "2008", "2007" and "2006" refer to the years ended December 31, 2008, 2007 and 2006 respectively.

A3: Critical accounting policies, estimates and judgements

(a) Critical accounting policies

Prudential's discussion and analysis of its financial condition and results of operations are based upon Prudential's consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB.

The preparation of these financial statements requires Prudential to make estimates and judgements that affect the reported amounts of assets, liabilities, and revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing 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 judgements about the carrying value 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 judgements and uncertainties, and potentially give rise to 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

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A: Background and accounting policies (Continued)

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 note and cross-referenced notes as to why the distinction between with-profits business and shareholder-backed business is relevant.

The items discussed below and in cross-referenced notes 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.

Insurance contract accounting

With the exception of certain contracts described in note D1, 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 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 Association of British Insurers (ABI) in November 2003 has been applied.

In 2005 the Group chose to improve its IFRS accounting for UK regulated with-profits funds by the voluntary application of the UK accounting standard FRS 27, 'Life Assurance'. Under this standard, the main accounting changes that were required for UK with-profits funds were:

Derecognition of deferred acquisition costs and related deferred tax; and

replacement of MSB liabilities with adjusted realistic basis liabilities.

The results shown for 2008, 2007 and 2006 reflect this basis.

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.

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A: Background and accounting policies (Continued)

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, for the 2008 and 2007 results, options and guarantees are valued on a market consistent basis. The basis is described in note D2(g)(ii). 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.

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.

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 have 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;
- 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 constraint on commercial activity, to achieve the accounting hedge effectiveness required under IAS 39.

In this regard, the issues surrounding IAS 39 application are very similar to those considered by other US life insurers when the US financial reporting standard FAS 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.

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A: Background and accounting policies (Continued)

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. 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 distinguishes between policyholder and shareholder components.

(b) Critical accounting estimates and judgements

Investments

Determining the fair value of financial investments when 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 judgement.

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. Debt securities of US insurance operations valued internally using valuation techniques in 2008 include certain asset-backed securities which had previously been valued

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A: Background and accounting policies (Continued)

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 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 have 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. The techniques used by PPM America include cash flow models based on spreads and, when available, market indices. Additional details are explained in note G1.

Determining impairments relating to financial assets

Available-for-sale securities

Financial investments carried on an available-for-sale basis are represented by Jackson's debt securities portfolio. The consideration of evidence of impairment requires management's judgement. 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 interest rates 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. The Group'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. The preceding note in this section provides explanation on how fair value is determined when the markets for the financial investments are not active. Further, additional details on the impairments of the available-for-sale securities of Jackson are described in notes D3 and G5.

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A: Background and accounting policies (Continued)

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 the 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. Insurance risk is risk, other than financial risk, transferred from the contract holder to the contract issuer. 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 participating 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 contract 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 subsequently, 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.

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A: Background and accounting policies (Continued)

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 UK Financial Services Authority's (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. 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).

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.

(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. From the perspective of shareholder 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.

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A: Background and accounting policies (Continued)

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's 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 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, 2007 and 2006 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).

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.

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A: Background and accounting policies (Continued)

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.

Details of this sensitivity are shown in note D4(j)(iii).

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A: Background and accounting policies (Continued)

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 as described in note A4, these costs, which vary 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 internally developed mortality studies.

For variable annuity business, the key assumption is the expected long-term level of equity market returns as described above.

The level of acquisition costs carried in the balance sheet is also sensitive to unrealized valuation movements on debt securities held to back the liabilities and solvency capital. Further details are explained in notes D3(i) and H1.

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).

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.

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

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A: Background and accounting policies (Continued)

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 Pensions Scheme (SAPS) are shared between the PAC with-profits sub-fund (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 has not recognized 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 has 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 are £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 is a reduction of £175 million.

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. The judgements made, and uncertainties considered, in arriving at deferred tax balances in the financial statements are discussed in note H4.

Goodwill

Goodwill impairment testing requires the exercise of judgement by management as to prospective future cash flows. Further information is disclosed in note H1.

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A: Background and accounting policies (Continued)

A4: Significant accounting policies

(a) Financial instruments (other than long-term business contracts classified as financial instruments under IFRS 4)

Investment classification

Upon initial recognition, financial investments are measured at fair value. Subsequently, the Group is permitted under IAS 39, subject to specific criteria, to designate its investments as either financial investments at fair value through profit and loss, financial investments held on an available-for-sale basis, financial investments held-to-maturity or loans and receivables. The Group holds financial investments on the following bases:

(i) Financial assets and liabilities at fair value through profit and loss this comprises assets and liabilities designated by management as fair value through profit and loss on inception. These investments are measured at fair value with all changes thereon being recognized in investment income.

(ii) Financial investments on an available-for-sale basis this comprises assets that are designated by management and/or do not fall into any of the other categories. These investments are carried at fair value. Interest income is recognized on an effective interest basis in the income statement. Except for foreign exchange gains and losses on debt securities, not in functional currency, which are included in the income statement, unrealized gains and losses are recognized in equity. Upon disposal or impairment, accumulated unrealized gains and losses are transferred from equity to the income statement as realized gains or losses.

(iii) Loans and receivables this comprises investments that have fixed or determinable payments and are not designated as fair value through profit and loss or available-for-sale. These investments include loans collateralized by mortgages, deposits, loans to policyholders and other unsecured loans and receivables. These investments are carried at amortized cost using the effective interest method.

The Group has designated certain financial assets as fair value through profit and loss as these assets are managed and their performance is evaluated on a fair value basis. These assets represent all of the Group's financial assets except all loans and receivables and debt securities held by Jackson. Debt securities held by Jackson are accounted for on an available-for-sale basis. The use of the fair value option is consistent with the Group's risk management and investment strategies.

The Group uses the trade date method to account for regular purchases and sales of financial assets.

Use of fair values

The Group uses current bid prices to value its quoted investments. Actively traded investments without quoted prices are valued using external broker bid prices. If there is no active established market for an investment, the Group applies an appropriate valuation technique such as a discounted cash flow technique. Additional details are provided in note G1.

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A: Background and accounting policies (Continued)

Impairments

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets not held at fair value through profit and loss is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a loss event) and that a loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Group. For assets designated as available-for-sale, the impairment is measured as the difference between the amortized cost of the asset and its fair value which is removed from the available-for-sale reserve within equity and recognized in the income statement.

For loans and receivables carried at amortized cost, the impairment amount is the difference between amortized cost and the present value of the expected cash flows discounted at the original effective interest rate.

If, in subsequent periods, an impaired debt security held on an available-for-sale basis or an impaired loan or receivable recovers in value (in part or in full), and this recovery can be objectively related to an event occurring after the impairment, then the previously recognized impairment loss is reversed through the income statement (in part or in full).

Derivatives and hedge accounting

Derivative financial instruments are used to reduce or manage investment, interest rate and currency exposures, to facilitate efficient portfolio management and for investment purposes. The Group's policy is that amounts at risk through derivative transactions are covered by cash or by corresponding assets.

The Group may designate certain derivatives as hedges. This includes fair value hedges, cash flow hedges and hedges of net investments in foreign operations. If the criteria for hedge accounting are met then the following accounting treatments are applied from the date at which the designation is made and the accompanying requisite documentation is in place:

(i) Hedges of net investments in foreign operations the effective portion of any change in fair value of derivatives or other financial instruments designated as net investment hedges are recognized in equity. The ineffective portion of changes in the fair value of the hedging instrument is recorded in the income statement. The gain or loss on the hedging instrument recognized directly in equity is recognized in the income statement on disposal of the foreign operation.

(ii) Fair value hedges movements in the fair value of the hedged item attributable to the hedged risk are recognized in the income statement.

(iii) Cash flow hedges the effective portion of changes in the fair value of derivatives designated as cash flow hedges is recognized in equity. Movements in fair value relating to the ineffective portion are booked in the income statement. Amounts recognized directly in equity are

Prudential plc and Subsidiaries

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December 31, 2008

A: Background and accounting policies (Continued)

recorded in the income statement in the periods in which the hedged item affects profit or loss.

All derivatives that do not meet the relevant hedging criteria are carried at fair value with movements in fair value being recorded in the income statement.

The primary areas of the Group's continuing operations where derivative instruments are held are the UK with-profits funds and annuity business, and Jackson.

For the Group's continuing operations, hedge accounting under IAS 39 is not usually applied. The exceptions, where hedge accounting has been applied in 2008 and 2007, are summarized in note G3.

For UK with-profits funds the derivative program is undertaken as part of the efficient management of the portfolio as a whole. As noted in section D2 value movements on the with-profits funds investments are reflected in changes in asset-share liabilities to policyholders or the liability for unallocated surplus. Shareholders' profit or equity is not affected directly by value movements on the derivatives held.

For UK annuity business the derivatives are held as part of the overall matching of asset returns and duration to match, as far as practical, with liabilities to policyholders. The carrying value of these liabilities is sensitive to the return on the matching financial assets including derivatives held. Except for the extent of minor mismatching, value movements on derivatives held for this purpose do not affect shareholders' profit or equity.

For Jackson an extensive derivative program is maintained. Value movements on the derivatives held can be very significant in their effect on shareholder results. The Group has chosen generally not to seek to construct the Jackson derivative program so as to facilitate hedge accounting where theoretically possible, under IAS 39. Further details on this aspect of the Group's financial reporting are described in note A3.

Embedded derivatives

Embedded derivatives are held by various Group companies including Jackson. They are embedded within other non-derivative host financial instruments to create hybrid instruments. Where economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value with the changes in fair value recognized in the income statement, the embedded derivative is bifurcated and carried at fair value as a derivative in accordance with IAS 39.

In Jackson, for 2008 and subsequently, the embedded derivative liabilities for Guaranteed Minimum Withdrawal Benefit (GMWB), Guaranteed Minimum Income Benefit (GMIB) reinsurance, and Fixed Index Annuity business are valued by reference to AA corporate bond rates. Previously, the liabilities had been measured by reference to swap rates. The reason for the change is the anomalous swap curves applying in the current dislocated credit markets. Further details are provided in note D3(g).

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Notes to the Consolidated Financial Statements

December 31, 2008

A: Background and accounting policies (Continued)

Securities lending including repurchase agreements

The Group is party to various securities lending agreements under which securities are loaned to third-parties on a short-term basis. The loaned securities are not derecognized; rather, they continue to be recognized within the appropriate investment classification. The Group's policy is that collateral in excess of 100 per cent of the fair value of securities loaned is required from all securities borrowers and typically consists of cash, debt securities, equity securities or letters of credit.

In cases where the Group takes possession of the collateral under its securities lending program, the collateral, and corresponding obligation to return such collateral, are recognized in the consolidated balance sheet. To further minimize credit risk, the financial condition of counterparties is monitored on a regular basis.

Derecognition of financial assets and liabilities

The Group's policy is to derecognize financial assets when it is deemed that substantially all the risks and rewards of ownership have been transferred. The Group also derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire. Where the Group neither transfers nor retains substantially all the risks and rewards of ownership, the Group will derecognize the financial asset where it is deemed that the Group has not retained control of the financial asset.

Where the transfer does not result in the Group transferring the right to receive the cash flows of the financial assets, but does result in the Group assuming a corresponding obligation to pay the cash flows to another recipient, the financial assets are also accordingly derecognized providing all of the following conditions are met:

The Group has no obligation to pay amounts to the eventual recipients unless it collects the equivalent amounts from the original asset;

the Group is prohibited by the terms of the transfer contract from selling or pledging the original asset; and

the Group has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

The Group derecognizes financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

Borrowings

Although initially recognized at fair value, net of transaction costs, borrowings, excluding liabilities of consolidated collateralized debt obligations, are subsequently accounted for on an amortized cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds (net of related issue costs) is amortized through the income statement to the date of maturity.

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December 31, 2008

A: Background and accounting policies (Continued)

Financial liabilities designated at fair value through profit and loss

Consistent with the Group's risk management and investment strategy and the nature of the products concerned, the Group has designated under IAS 39 classification certain financial liabilities at fair value through profit and loss as these instruments are managed and their performance evaluated on a fair value basis. These instruments include liabilities related to consolidated collateralized debt obligations and net assets attributable to unit holders of consolidated unit trusts and similar funds.

(b) Long-term business contracts

Income statement treatment

Premiums and claims

Premium and annuity considerations for conventional with-profits policies and other protection type insurance policies are recognized when due. Premiums and annuity considerations for linked policies, unitized with-profits and other investment type policies are recognized when received or, in the case of unitized or unit-linked policies, when units are issued. These amounts exclude any taxes or duties assessed based on premiums.

Policy fees charged on linked and unitized with-profits policies for mortality, asset management and policy administration are recognized as revenue when related services are provided.

Claims paid include maturities, annuities, surrenders and deaths. Maturity claims are recorded on the policy maturity date. Annuity claims are recorded when the annuity becomes due for payment. Surrenders are recorded when paid and death claims are recorded when notified.

For investment contracts which do not contain discretionary participating features, the accounting reflects the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals and taken directly to the balance sheet.

Acquisition costs

Costs of acquiring new insurance business, principally commissions, marketing and advertising costs and certain other costs associated with policy issuance and underwriting that are not reimbursed by policy charges, are specifically identified and capitalized as part of deferred acquisition costs (DAC), which are included as an asset in the balance sheet. The DAC asset in respect of insurance contracts is amortized against margins in future revenues on the related insurance policies, to the extent that the amounts are recoverable out of the margins. Recoverability of the unamortized DAC asset is assessed at the time of policy issue and reviewed if profit margins have declined.

Under IFRS, investment contracts (excluding those with discretionary participation features) are required to be accounted for as financial liabilities in accordance with IAS 39 and, where relevant, the provisions of IAS 18 in respect of the attaching investment management features of the contracts. The Group's investment contracts primarily comprise certain unit-linked savings contracts in the UK and Asia and contracts with fixed and guaranteed terms in the US (such as guaranteed investment contracts and annuity-certains).

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A: Background and accounting policies (Continued)

Incremental, directly attributable acquisition costs relating to the investment management element of these contracts are capitalized and amortized in line with the related revenue. If the contracts involve up-front charges, this income is also deferred and amortized through the income statement in line with contractual service provision.

UK regulated with-profits funds

Prudential's long-term business written in the UK comprises predominantly life insurance policies under which the policyholders are entitled to participate in the returns of the funds supporting these policies. Business similar to this type is also written in certain of the Group's Asian operations subject to local market and regulatory conditions. Such policies are called with-profits policies. Prudential maintains with-profits funds within the Group's long-term business funds, which segregate the assets and liabilities and accumulate the returns related to that with-profits business. The amounts accumulated in these with-profits funds are available to provide for future policyholder benefit provisions and for bonuses to be distributed to with-profits policyholders. The bonuses, both annual and final, reflect the right of the with-profits policyholders to participate in the financial performance of the with-profits funds. Shareholders' profits with respect to bonuses declared on with-profits business correspond to the shareholders' share of the cost of bonuses as declared by the board of directors. The shareholders' share currently represents one-ninth of the cost of bonuses declared for with-profits policies.

Annual bonuses are declared and credited each year to with-profits policies. The annual bonuses increase policy benefits and, once credited, become guaranteed. Annual bonuses are charged to the profit and loss account in the year declared. Final bonuses are declared each year and accrued for all policies scheduled to mature and for death benefits expected to be paid during the next financial year. Final bonuses are not guaranteed and are only paid on policies that result from claims through the death of the policyholder or maturity of the policy within the period of declaration or by concession on surrender. No policyholder benefit provisions are recorded for future annual or final bonus declarations.

The policyholders' liabilities of the regulated with-profits funds are accounted for under FRS 27. FRS 27 is underpinned by the FSA's Peak 2 basis of reporting. This Peak 2 basis requires the value of liabilities to be calculated as:

A with-profits benefits reserve (WPBR); plus

future policy related liabilities (FPRL); plus

the realistic current liabilities of the fund.

The WPBR is primarily based on the retrospective calculation of accumulated asset shares but is adjusted to reflect future policyholder benefits and other outgoings.

The FPRL must include a market consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using either a stochastic approach, hedging costs or a series of deterministic projections with attributed probabilities.

The assumptions used in the stochastic models are calibrated to produce risk-free returns on each asset class. Volatilities of, and correlations between, investment returns from different asset classes are as determined by the Group's Portfolio Management Group but are also market consistent.

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A: Background and accounting policies (Continued)

The cost of guarantees, options and smoothing is very sensitive to the bonus, market value reduction (MVR) and investment policies the Group employs and therefore the stochastic modeling incorporates a range of management actions that would help to protect the fund in adverse scenarios. Substantial flexibility has been included in the modeled management actions in order to reflect the discretion that the Group retains in adverse investment conditions, thereby avoiding the creation of unreasonable minimum capital requirements. The management actions assumed are consistent with management's policy for with-profits funds and the disclosures made in the publicly available Principles and Practices of Financial Management.

Under FRS 27 for the UK with-profits funds:

No deferred acquisition costs and related deferred tax are recognized; and

adjusted realistic basis liabilities instead of MSB liabilities are recognized.

Adjusted realistic basis liabilities represent the Peak 2 basis realistic liabilities for with-profits business included in Form 19 of the FSA regulatory returns, but after excluding the element for the shareholders' share of the future bonuses. This latter item is recognized as a liability for the purposes of regulatory returns but, for accounting purposes under FRS 27, consistent with the current basis of financial reporting, shareholder transfers are recognized only on declaration.

Unallocated surplus

The unallocated surplus represents the excess of assets over policyholder liabilities for the Group's with-profits funds. As allowed under IFRS 4, the Group has opted to continue to record unallocated surplus of with-profits funds wholly as a liability. 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, is transferred to (from) the unallocated surplus each year through a charge (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.

Other insurance contracts (i.e. contracts which contain significant insurance risk as defined under IFRS 4)

For these contracts UK GAAP has been applied, which reflects the MSB. Under this basis the following approach applies:

Other UK insurance contracts

Other UK insurance contracts that contain significant insurance risk include unit-linked, annuity and other non-profit business. For the purposes of local regulations, segregated accounts are established for linked business for which policyholder benefits are wholly or partly determined by reference to specific investments or to an investment-related index. The interest rates used in establishing policyholder benefit provisions for pension annuities in the course of payment are adjusted each year. Mortality rates used in establishing policyholder benefit provisions were based on published mortality tables adjusted to reflect actual experience.

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December 31, 2008

A: Background and accounting policies (Continued)

Overseas subsidiaries

The assets and liabilities of insurance contracts of overseas subsidiaries are determined initially using local GAAP bases of accounting with subsequent adjustments where necessary to comply with the Group's accounting policies.

Jackson

The future policyholder benefit provisions for Jackson's conventional protection-type policies are determined using the net level premium method under US GAAP principles and assumptions as of the issue date as to mortality, interest, policy lapses and expenses plus provisions for adverse deviations. For non-conventional protection-type policies, the policyholder benefit provision included within policyholder liabilities in the consolidated balance sheet is the policyholder account balance.

For the business of Jackson, the determination of the expected emergence of margins, against which the amortization profile of the DAC asset is established, is dependent on certain key assumptions. For single premium deferred annuity business, the key assumption is the expected long-term spread between the earned rate and the rate credited to policyholders. For variable annuity business, the key assumption is the expected long-term level of equity market returns which, for 2008, 2007 and 2006, was 8.4 per cent per annum implemented using a mean reversion methodology. These returns affect the level of future expected profits through their effects on fee income and the required level of provision for guaranteed minimum death benefit claims.

Jackson accounts for the majority of its investment portfolio on an available-for-sale basis (see investment policies above) whereby unrealized gains and losses are recognized directly in equity. As permitted by IFRS 4, Jackson has used shadow accounting. Under shadow accounting, to the extent that recognition of unrealized gains or losses on available-for-sale securities causes adjustments to the carrying value and amortization patterns of DAC and deferred income, these adjustments are recognized directly in equity to be consistent with the treatment of the gains or losses on the securities.

Asian operations

Except for the operations in Taiwan, Vietnam and Japan, the future policyholder benefit provisions for Asian businesses are determined in accordance with methods prescribed by local GAAP adjusted to comply, where necessary, with UK GAAP. For the Hong Kong business, which is a branch of the PAC, and the Singapore and Malaysian operations the valuation principles and sensitivities to changes of assumptions of conventional with-profits and other protection-type policies are similar to those described above for equivalent products written by the UK operations.

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 these three operations the business written is primarily non-participating and linked business. The future policyholder benefit provisions for non-linked business are determined using the net level premium method, with an allowance for surrenders, maintenance and claim expenses. Rates of interest used in establishing the policyholder benefit provisions vary by operation depending on the circumstances attaching to each block of business. Where appropriate, liabilities for participating business for these

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December 31, 2008

A: Background and accounting policies (Continued)

three operations include provisions for the policyholders' interest in realized investment gains and other surpluses that have yet to be declared as bonuses.

Although the basis of valuation of Prudential's overseas operations is in accordance with the requirements of the Companies Act 1985 and ABI SORP, the valuation of policyholder benefit provisions for these businesses may differ from that determined on a UK MSB for UK operations with the same features.

Liability adequacy

The Group performs liability adequacy testing on its insurance provisions to ensure that the carrying amounts of provisions (less related DAC and present value of in-force business see policy on business acquisitions and disposals) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, the Group discounts all contractual cash flows and compares this amount to the carrying value of the liability. Any deficiency is immediately charged to the income statement.

Reinsurance

In the normal course of business, the Group seeks to reduce loss exposure by reinsuring certain levels of risk in various areas of exposure with other insurance companies or reinsurers. An asset or liability is recognized in the consolidated balance sheet representing premiums due to or payments due from reinsurers and the share of benefits and claims recoverable from reinsurers. The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts.

Gains arising on the purchase of reinsurance contracts by Jackson are deferred and amortized over the contract duration. Any loss is recognized in the income statement immediately.

Investment contracts (contracts which do not contain significant insurance risk as defined under IFRS 4)

For investment contracts with discretionary participation features, the accounting basis is consistent with the accounting for similar with-profits insurance contracts. Other investment contracts are accounted for on a basis that reflects the hybrid nature of the arrangements whereby part is accounted for as a financial instrument under IAS 39 and the investment management service component is accounted for under IAS 18.

For those investment contracts in the US with fixed and guaranteed terms, the Group uses the amortized cost model to measure the liability. On contract inception, the liability is measured at fair value less incremental, directly attributable acquisition costs. Remeasurement at future reporting dates is on an amortized cost basis utilizing an effective interest rate methodology whereby the interest rate utilized discounts to the net carrying amount of the financial liability.

Those investment contracts without fixed and guaranteed terms are designated at fair value through profit and loss. Fair value is based upon the fair value of the underlying assets of the fund. Where the contract includes a surrender option its carrying value is subject to a minimum carrying value equal to its surrender value.

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December 31, 2008

A: Background and accounting policies (Continued)

(c) Other assets, liabilities, income and expenditure

Basis of consolidation

The Group consolidates those entities it is deemed to control. The degree of control is determined by the ability of the Group to govern the financial and operating policies of an entity in order to obtain benefits. Consideration is given to other factors such as potential voting rights.

The Group has consolidated some special purpose entities (SPEs), such as funds holding collateralized debt obligations (CDOs), where equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. These SPEs are consolidated because the Group is deemed to control them under IFRS.

The Group holds investments in internally and externally managed open-ended investment companies (OEICs) and unit trusts. The Group's percentage ownership levels in these entities can fluctuate from day to day according to changes in the Group's and third-party participation in the funds. In instances where the Group's ownership of internally managed funds declines marginally below 50 per cent and, based on historical analysis and future expectations the decline in ownership is expected to be temporary, the funds continue to be consolidated as subsidiaries under IAS 27.

Where the Group exercises significant influence or has the power to exercise significant influence over an entity, generally through ownership of 20 per cent or more of the entity's voting rights, but does not control the entity, then this is considered to be an investment in an associate. With the exception of those referred to below, the Group's investments in associates are recorded at the Group's share of the associates' net assets. The carrying value of investments in associates is adjusted each year for the Group's share of the entities' profit or loss. This does not apply to investments in associates held by the Group's insurance or investment funds including the venture capital business or mutual funds and unit trusts, which are carried at fair value through profit and loss.

The Group's investments in joint ventures are recognized using proportional consolidation whereby the Group's share of an entity's individual balances are combined line-by-line with similar items into the Group financial statements.

Other interests in entities, where significant influence is not exercised, are carried as investments at fair value through profit and loss.

The consolidated financial statements of the Group include the assets, liabilities and results of the Company and subsidiary undertakings in which Prudential has a controlling interest, using accounts drawn up to December 31, 2008 except where entities have non-coterminous year ends. In such cases, the information consolidated is based on the accounting period of these entities and is adjusted for material changes up to December 31. Accordingly, the information consolidated is deemed to cover the same period for all entities throughout the Group. The results of subsidiaries are included in the financial statements from the date acquired to the effective date of disposal. All inter-company transactions are eliminated on consolidation. Results of asset management activities include those for managing internal funds.

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A: Background and accounting policies (Continued)

Investment properties

Investments in leasehold and freehold properties not for occupation by the Group are carried at fair value, with changes in fair value included in the income statement. Properties are valued annually either by the Group's qualified surveyors or professional external valuers using the Royal Institution of Chartered Surveyors (RICS) guidelines. The RICS guidelines apply separate assumptions to the value of the land, buildings and tenancy associated with each property. Each property is externally valued at least once every three years. The cost of additions and renovations is capitalized and considered when estimating fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific property. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices in less active markets.

Leases of investment property where the Group has substantially all the risks and rewards of ownership are classified as finance leases (leasehold property). Finance leases are capitalized at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Where a lease has a contingent rent element, the rent is calculated in accordance with individual lease terms and charged as an expense as incurred.

Pension schemes

The Group operates a number of pension schemes around the world. The largest of these schemes is the PSPS, a defined benefit scheme. The Group also operates defined contribution schemes. Defined contribution schemes are schemes where the Company pays contributions into a fund and the Company has no legal or constructive obligation to pay further contributions should the assets of that fund be insufficient to pay the employee benefits relating to employee service in both current and prior periods. Defined benefit schemes are post-employment benefit plans that are not defined contribution schemes.

For the Group's defined benefit schemes, if the present value of the defined benefit obligation exceeds the fair value of the scheme assets, then a liability is recorded in the Group's balance sheet. By contrast, if the fair value of the assets exceeds the present value of the defined benefit obligation then the surplus will only be recognized if the nature of the arrangements under the Trust Deed, and funding arrangements between the Trustee and the Company support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is a constructive obligation for the Company to pay deficit funding, this is also recognized.

The Group utilizes the projected unit credit method to calculate the defined benefit obligation. Estimated future cash flows are then discounted at a high-quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities where appropriate, to determine its present value. These calculations are performed by independent actuaries.

The plan assets of the Group's pension schemes exclude several insurance contracts that have been issued by the Group. These assets are excluded from plan assets in determining the pension obligation recognized in the consolidated balance sheet.

The aggregate of the actuarially determined service costs of the currently employed personnel and the unwind of discount on liabilities at the start of the period, less the expected investment return on

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A: Background and accounting policies (Continued)

scheme assets at the start of the period, is charged to the income statement. Actuarial gains and losses as a result of changes in assumptions or experience variances are also charged or credited to the income statement.

Contributions to the Group's defined contribution schemes are expensed when due. Once paid, the Group has no further payment obligations. Any prepayments are reflected as an asset on the balance sheet.

Share-based payments

The Group offers share award and option plans for certain key employees and a Save As You Earn (SAYE) plan for all UK and certain overseas employees. The arrangements for distribution to employees of shares held in trust relating to share award plans and for entitlement to dividends depend upon the particular terms of each plan. Shares held in trust relating to these plans are conditionally gifted to employees.

The compensation expense charged to the income statement is primarily based upon the fair value of the options granted, the vesting period and the vesting conditions. The Group revises its estimate of the number of options likely to be exercised at each balance sheet date and adjusts the charge to the income statement accordingly. Where the share-based payment depends upon vesting outcomes attaching to market-based performance conditions, additional modeling is performed to estimate the fair value of the awards. No subsequent adjustment is then made to the fair value charge for awards that do not vest on account of these performance conditions not being met.

The Company has established trusts to facilitate the delivery of Prudential plc shares under employee incentive plans and savings-related share option schemes. None of the trusts that hold shares for employee incentive and savings plans continue to hold these shares once they are issued to employees. The cost to the Company of acquiring these treasury shares held in trusts is shown as a deduction from shareholders' equity.

Tax

The Group's UK subsidiaries each file separate tax returns. Jackson and other foreign subsidiaries, where permitted, file consolidated income tax returns. In accordance with UK tax legislation, where one domestic UK company is a 75 per cent owned subsidiary of another UK company or both are 75 per cent owned subsidiaries of a common parent, the companies are considered to be within the same UK tax group. For companies within the same tax group, trading profits and losses arising in the same accounting period may be offset for purposes of determining current and deferred taxes.

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. To the extent that losses of an individual UK company are not offset in any one year, they can be carried back for one year or carried forward indefinitely to be offset against profits arising from the same company.

Deferred taxes are provided under the liability method for all relevant temporary differences, being the difference between the carrying amount of an asset or liability in the balance sheet and its value for tax purposes. IAS 12, 'Income Taxes' does not require all temporary differences to be provided for, in

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December 31, 2008

A: Background and accounting policies (Continued)

particular, the Group does not provide for deferred tax on undistributed earnings of subsidiaries where the Group is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. The tax effects of losses available for carry forward are recognized as an asset. Deferred tax assets are only recognized when it is probable that future taxable profits will be available against which these losses can be utilized. Deferred tax related to charges or credits taken directly to equity is also credited or charged directly to equity and is subsequently recognized in the income statement together with the deferred gain or loss.

The tax charge for long-term business includes tax expense on with-profits funds attributable to both the policyholders and the shareholders. Different tax rules apply under UK law depending upon whether the business is life insurance or pension business. Tax on the life insurance business is based on investment returns less expenses attributable to that business. Tax on the pension business is based on the shareholders' profits or losses attributable to that business. The shareholders' portion of the long-term business is taxed at the shareholders' rate with the remaining portion taxed at rates applicable to the policyholders.

Basis of presentation of tax charges

Tax charges in the income statement reflect the aggregate of the shareholder tax on the long-term business result and on the Group's other results.

Under UK Listing Authority rules, profit before tax is required to be presented. This requirement, coupled with the fact that IFRS does not contemplate tax charges which are attributable to policyholders and unallocated surplus of with-profits funds and unit-linked policies, necessitates the reporting of total tax charges within the presented results. The result before all taxes (i.e. 'profit before tax' as shown in the income statement) represents income net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders. Separately within the income statement, 'profit before tax attributable to shareholders' is shown after deduction of taxes attributable to policyholders and unallocated surplus of with-profits funds and unit-linked policies. Tax charges on this measure of profit reflect the tax charges attributable to shareholders. In determining the tax charges attributable to shareholders, the Group has applied a methodology consistent with that previously applied under UK GAAP reflecting the broad principles underlying the tax legislation of life assurance companies.

Property, plant and equipment

All property, plant and equipment such as owner occupied property, computer equipment and furniture and fixtures, are carried at depreciated cost. Costs including expenditure directly attributable to the acquisition of the assets are capitalized. Depreciation is calculated and charged on a straight-line basis over an asset's estimated useful life. The residual values and useful lives are reviewed at each balance sheet date. If the carrying amount of an asset is greater than its recoverable amount then its carrying value is written down to that recoverable amount.

Leasehold improvements to owner occupied property are depreciated over the life of the lease. Assets held under finance leases are capitalized at their fair value.

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A: Background and accounting policies (Continued)

Business acquisitions and disposals

Business acquisitions are accounted for by applying the purchase method of accounting, which adjusts the net assets of the acquired company to fair value at the date of purchase. The excess of the costs of acquisition over the fair value of the assets and liabilities of the acquired entity is recorded as goodwill. Should the fair value of the identifiable assets and liabilities of the entity exceed the cost of acquisition then this amount is recognized immediately in the income statement. Income and expenses of acquired entities are included in the income statement from the date of acquisition. Revenues and expenses of entities sold during the period are included in the income statement up to the date of disposal. The gain or loss on disposal is calculated as the difference between sale proceeds, net of selling costs, less the net assets of the entity at the date of disposal.

For life insurance company acquisitions, the adjusted net assets include an identifiable intangible asset for the present value of in-force business which represents the profits that are expected to emerge from the acquired insurance business. The present value of in-force business is calculated using best estimate actuarial assumptions for interest, mortality, persistency and expenses and is amortized over the anticipated lives of the related contracts in the portfolio. An intangible asset may also be recognized in respect of acquired investment management contracts representing the fair value of contractual rights acquired under these contracts.

The Company uses the economic entity method to purchase minority interests. Under the economic entity method any difference between consideration and the share of net assets acquired is recorded directly in equity.

Goodwill

Goodwill arising on acquisitions of subsidiaries and businesses is capitalized and carried on the Group balance sheet as an intangible asset at initial value less any accumulated impairment losses. Goodwill impairment testing is conducted annually and when there is an indication of impairment. For the purposes of impairment testing, goodwill is allocated to cash generating units. These cash generating units reflect the smallest group of assets that includes the goodwill and generates cash flows that are largely independent of the cash inflows from other groups of assets. If the carrying amount of the cash generating unit exceeds its recoverable amount then the goodwill is considered impaired. Impairment losses are recognized immediately in the income statement and may not be reversed in future periods.

Acquired intangible assets

Intangible assets acquired on the purchase of a subsidiary or portfolio of contracts are valued at acquisition and carried at cost less amortization and any accumulated impairment losses. Amortization calculated is charged on a straight-line basis over the estimated useful life of the assets. The residual values and useful lives are reviewed at each balance sheet date.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

A: Background and accounting policies (Continued)

Rights of offset

Assets and liabilities in the consolidated financial statements are only reported on a net basis when there is a legally enforceable right to offset and there is an intention to settle on a net basis.

Segments

In accordance with IAS 14, 'Segment Reporting' the Group reports its results and certain other financial information by primary and secondary segments. The Group's primary segments are its business segments, namely, insurance operations and asset management. The Group's secondary segments are its geographical segments, namely, UK, US and Asia.

Shareholders' dividends

Dividends to shareholders are recognized as a liability in the period in which they are declared. Where scrip dividends are issued, the value of such shares, measured as the amount of the cash dividend alternative, is credited to reserves and the amount in excess of the nominal value of the shares issued is transferred from the share premium account to retained earnings.

Share capital

Where there is no obligation to transfer assets, shares are classified as equity. The difference between the proceeds received on issue of the shares, net of share issue costs, and the nominal value of the shares issued, is credited to share premium. Where the Company purchases shares for the purposes of employee incentive plans, the consideration paid, net of issue costs, is deducted from retained earnings. Upon issue or sale any consideration received is credited to retained earnings net of related costs.

Foreign exchange

The Group's consolidated financial statements are presented in pounds sterling, the Group's presentation currency. Accordingly, the results and financial position of foreign subsidiaries must be translated into the presentation currency of the Group from their functional currencies, i.e. the currency of the primary economic environment in which the entity operates. All assets and liabilities of foreign subsidiaries are converted at year end exchange rates whilst all income and expenses are converted at average exchange rates where this is a reasonable approximation of the rates prevailing on transaction dates. The impact of these currency translations is recorded as a separate component of equity.

Foreign currency borrowings that have been used to provide a hedge against Group equity investments in overseas subsidiaries are translated at year end exchange rates and movements taken directly to shareholders' equity. Other foreign currency monetary items are translated at year end exchange rates with changes recognized in the income statement.

Foreign currency transactions are translated at the spot rate prevailing at the time.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

A: Background and accounting policies (Continued)

A5: New accounting pronouncements

The following standards, interpretations and amendments have either been effective and adopted in 2008 or have been issued but are not yet effective in 2008. This is not intended to be a complete list as only those standards, interpretations and amendments that are anticipated to have an impact upon the Group's financial statements have been discussed.

Accounting pronouncements adopted in 2008

IFRIC 14, 'IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset and clarifies the impact of minimum funding requirements on such assets. It also addresses when a minimum funding requirement might give rise to a liability. IFRIC 14 was effective for accounting periods beginning after December 31, 2007.

The Group adopted IFRIC 14 for its accounting period ended December 31, 2008. As a result of the adoption of this interpretation, in respect of the position at December 31, 2008, the Group has not recognized the underlying PSPS pension surplus, 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 has recognized a liability for deficit funding to April 5, 2010 in respect of PSPS.

Further details on the impact of adoption are provided in note I1. The 2007 comparatives have been adjusted accordingly for the adoption of IFRIC 14.

Reclassification of Financial Assets: Amendments to IAS 39, 'Financial Instruments: Recognition and Measurement' and IFRS 7, 'Financial Instruments: Disclosures'

In October 2008, the IASB issued these amendments to IAS 39 and IFRS 7. The amendments to IAS 39 permit the reclassification of certain 'held for trading' (at fair value through profit and loss but not those voluntarily designated as at fair value through profit and loss under the fair value option) and 'available-for-sale' financial assets into the 'loans and receivables' category carried at amortized cost if specific conditions are met as follows:

'Held for trading' financial assets are permitted to be reclassified into the 'loans and receivables' category in only rare circumstances or where the 'held for trading' financial assets would have met the definition of 'loans and receivables' if they had not been required to be classified as 'held for trading' at initial recognition and the entity has the intent and ability to hold it for the foreseeable future or until maturity;

'Available-for-sale' financial assets are permitted to be reclassified into the 'loans and receivables' category if they would have met the definition of 'loans and receivables' if they had not been designated as 'available-for-sale' and the entity has the intent and ability to hold the asset for the foreseeable future or until maturity; and

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

A: Background and accounting policies (Continued)

'Fair value through profit and loss' financial assets are permitted to be reclassified into the 'available-for-sale' category.

The amendments to IFRS 7 result in additional disclosures in accordance with the amendments to IAS 39.

The amendments to IAS 39 and IFRS 7 are effective July 1, 2008 applied on a prospective basis from the date of reclassification. Any reclassification made on or after November 1, 2008 takes effect from the date of the reclassification. Any reclassification made before November 1, 2008 can take effect from July 1, 2008 or a subsequent date.

The adoption of these amendments did not have an impact on the financial statements of the Group as the Group has not reclassified any non-derivative financial assets as permitted by the amendments.

Accounting pronouncements not yet effective

IFRS 8, 'Operating Segments'

IFRS 8 requires entities to adopt the 'management approach' to reporting the financial performance of its operating segments similar to the requirements under the US standard SFAS 131, 'Disclosures about Segments of an Enterprise and Related Information'. The amount of each operating segment item to be reported is the measure reported to the chief operating decision maker, which in some instances will be non-GAAP. IFRS 8 will require the Group to provide an explanation of the basis on which the segment information is prepared and a reconciliation to the amount recognized in the Group's consolidated financial statements. This standard is effective for accounting periods beginning on or after January 1, 2009. The Group is currently assessing the impact of these amendments on its financial statements.

Amendments to IAS 1,'Presentation of Financial Statements: A Revised Presentation'

The revised version of IAS 1 is aimed at improving users' ability to analyze and compare the information given in the financial statements.

The changes require information in financial statements to be aggregated on the basis of shared characteristics and introduce a statement of comprehensive income. The revisions also include changes to the titles of some of the financial statements to reflect their functions more clearly: for example the balance sheet is renamed a statement of financial position, though the new titles are not mandatory. This revised standard is effective for IASB compliant financial statements for accounting periods beginning on or after January 1, 2009. The Group is currently assessing the impact of these amendments on its financial statements.

Amendment to IFRS 2, 'Share-based Payment: Vesting Conditions and Cancellations'

The amendment to IFRS 2 clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This amendment is effective for accounting periods beginning on or after January 1, 2009.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

A: Background and accounting policies (Continued)

The Group is currently assessing the impact of this amendment but it is not expected to have a material impact on the financial statements of the Group.

Revised IFRS 3, 'Business Combinations' and Amendments to IAS 27, 'Consolidated and Separate Financial Statements'

The revised IFRS 3 and amended IAS 27 are the outcomes of the second phase of the IASB's and the US Financial Accounting Standards Board's (FASB) joint business combination project. The more significant changes from the revised IFRS 3 include:

- The immediate expensing of acquisition-related costs rather than inclusion in goodwill; and
- recognition and measurement at fair value of contingent consideration at acquisition date with subsequent changes to income.

The amendments to IAS 27 reflect changes to the accounting for non-controlling (minority) interests.

The revised IFRS 3 and amended IAS 27 are effective for business combinations occurring in the accounting period beginning on or after July 1, 2009.

Amendments to IAS 32, 'Financial instruments: Presentation' and IAS 1, 'Presentation of financial statements' Puttable Financial Instruments and Obligations Arising on Liquidation

The amendments to IAS 32 and IAS 1 requires entities to classify puttable financial instruments and instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The amendments may have the effect of altering the accounting for external fund holder investments in consolidated funds from minority interests to liabilities. These amendments also have consequential amendments to IFRS 7 and IAS 39.

These amendments are effective for IASB compliant financial statements for accounting periods beginning on or after January 1, 2009. The Group is currently assessing the impact of these amendments on its financial statements.

Amendment to IAS 39, 'Financial instruments: Recognition and Measurement' Eligible Hedged Items

This amendment to IAS 39 clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. This amendment is effective for IASB compliant financial statements for accounting periods beginning on or after July 1, 2009. The Group is currently assessing the impact of this amendment but it is not expected to have a material impact on the financial statements of the Group.

Improvements to IFRSs

In May 2008, the IASB published amendments to a number of standards as part of its annual improvements projects.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

A: Background and accounting policies (Continued)

These amendments are effective for accounting periods beginning on or after January 1, 2009. The Group is currently assessing the impact of these improvements to its financial statements.

IFRIC 16, 'Hedges of a net investment in a foreign operation'

This interpretation clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. This interpretation is effective for IASB compliant financial statements for accounting periods beginning on or after October 1, 2008.

The Group is currently assessing the impact of this interpretation but it is not expected to have a material impact on the financial statements of the Group.

Improving Disclosures about Financial Instruments (Amendments to IFRS 7)

On March 5, 2009, the IASB issued amendments to IFRS 7 which require enhanced disclosures about fair value measurements and liquidity risk. The amendments include the introduction of a three-level hierarchy for fair value measurement disclosures and require additional disclosures about the relative reliability of fair value measurements.

These amendments are effective for accounting periods beginning on or after January 1, 2009. However, an entity will not be required to provide comparative disclosures in the first year of application. The Group is currently assessing the impact of these amendments on the financial statements of the Group.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results

B1: Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in employee share trusts, which are treated as cancelled.

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's only class of dilutive potential ordinary shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

2008	Before tax £ million	Tax note F5 £ million	Minority interests £ million	Net of tax and minority interests £ million	Basic earnings per share Pence	Diluted earnings per share Pence
Based on loss for the year from continuing operations	**(450)**	**59**	**(5)**	**(396)**	**(16.0)p**	**(16.0)p**

There were no earnings from discontinued operations in 2008

2007	Before tax £ million	Tax note F5 £ million	Minority interests £ million	Net of tax and minority interests £ million	Basic earnings Per share Pence	Diluted earnings per share Pence
Based on profit for the year from continuing operations	1,063	(354)	(3)	706	28.8p	28.8p
Adjustment for post-tax results of discontinued operations*	222	19		241	9.9p	9.8p
Based on profit for the year	1,285	(335)	(3)	947	38.7p	38.6p

2006	Before tax	Tax note	Minority interests	Net of tax	Basic earnings	Diluted earnings

	F5			and minority interests	per share	per share
	£ million	£ million	£ million	£ million	Pence	Pence
Based on profit for the year from continuing operations	1,281	(365)	(3)	913	37.9p	37.9p
Adjustment for post-tax results of discontinued operations*	(150)	45	2	(103)	(4.3)p	(4.3)p
Based on profit for the year	1,131	(320)	(1)	810	33.6p	33.6p

*

Discontinued operations in 2007 and 2006 related entirely to UK Banking operations following the sale on May 1, 2007 of Egg Banking plc to Citi. Note I9 provides details of the sale of Egg.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results (Continued)

Number of shares

A reconciliation of the weighted average number of ordinary shares used for calculating basic and diluted earnings per share is set out as below:

	2008 millions	2007 millions	2006 millions
Weighted average shares for calculation of basic earnings per share	**2,472**	2,445	2,413
Shares under option at end of year	**7**	9	10
Number of shares that would have been issued at fair value on assumed option exercise	**(6)**	(6)	(7)
Weighted average shares for calculation of diluted earnings per share	**2,473**	2,448	2,416

B2: Dividends

	2008 £ million	2007 £ million	2006 £ million
Dividends declared and paid in reporting period			
Parent company:			
Interim dividend (2008: 5.99p, 2007: 5.70p, 2006: 5.42p per share)	**149**	140	131
Final dividend for prior period (2008: 12.30p, 2007: 11.72p, 2006: 11.02p per share)	**304**	286	267
Subsidiary company payments to minority interests	**2**	5	1
Total	**455**	431	399

As a result of shares issued in lieu of dividends of £157 million (2007: £176 million; 2006: £76 million), dividends paid in cash, as set out in the consolidated cash flow statement, were £297 million (2007: £255 million; 2006: £323 million).

	2008 £ million	2007 £ million	2006 £ million
Parent company dividends relating to reporting period:			
Interim dividend (2008: 5.99p, 2007: 5.70p, 2006: 5.42p per share)	**149**	140	131
Final dividend (2008: 12.91p, 2007: 12.30p, 2006:11.72p per share)	**322**	304	287
Total	**471**	444	418

A final dividend of 12.91 pence per share was proposed by the directors on March 18, 2009. Subject to shareholders' approval, the dividend will be paid on May 22, 2009 to shareholders on the register at the close of business on April 14, 2009. The dividend will absorb an estimated

£322 million of shareholders' funds but a scrip dividend alternative has been offered to shareholders.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results (Continued)

B3: Exchange translation

Exchange movement recorded directly in equity

	2008 £ million	2007 £ million	2006 £ million
Asian operations	**456**	16	(97)
US operations	**821**	(43)	(384)
Unallocated to a segment (central funds)	**(646)**	38	257
	631	11	(224)

The movements for Asian and US operations reflect the application of year end exchange rates to the assets and liabilities and average exchange rates to the income statement on translation of these operations into the presentation currency of the Group. The movement unallocated to a segment mainly reflects the translation of currency borrowings and forward contracts which have been designated as a net investment hedge against the currency risk of the net investment in Jackson.

The exchange rates applied were:

Local currency: £	Closing rate at 31 Dec 2008	Average for 2008	31 Dec 2007	Average for 2007	Closing rate at 31 Dec 2006	Average for 2006	Opening rate at Jan 1 2006
Hong Kong	**11.14**	**14.42**	15.52	15.62	15.22	14.32	13.31
Japan	**130.33**	**192.09**	222.38	235.64	233.20	214.34	202.63
Malaysia	**5.02**	**6.15**	6.58	6.88	6.90	6.76	6.49
Singapore	**2.07**	**2.61**	2.87	3.02	3.00	2.93	2.85
Taiwan	**47.28**	**58.24**	64.56	65.75	63.77	59.95	56.38
US	**1.44**	**1.85**	1.99	2.00	1.96	1.84	1.72

B4: Group balance sheet

The Group's primary reporting segments are insurance operations, asset management and, prior to disposal, banking. The Group's secondary reporting segments are geographical, namely the UK, the US and Asia. Details of disclosures in accordance with the requirements of IAS 14 for segment assets and liabilities are shown below.

Details of the primary reporting segments are as follows:

Insurance operations

This segment comprises long-term products that contain both significant and insignificant elements of insurance risk. The products are managed together and not classified in this way other than for accounting purposes. This segment also includes activity of the PAC with-profits funds' venture investments and other investment subsidiaries held for the purpose of supporting the Group's insurance operations.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results (Continued)

Asset management

The asset management segment is comprised of both internal and third-party asset management services, inclusive of portfolio and mutual fund management, where the Group acts as an adviser, and broker-dealer activities. The nature of the products and the managing of the business differ from the risks inherent in the other business segments, and the regulatory environment of the asset management industry differs from that of the other business segments.

2008	Insurance operations	Asset management	Unallocated to a segment	Intra-group eliminations	Total
	£ million	£ million	£ million	£ million	£ million
Consolidated total assets	**210,694**	**6,306**	**4,150**	**(5,608)**	**215,542**
Consolidated total liabilities	**(205,120)**	**(4,663)**	**(6,254)**	**5,608**	**(210,429)**

Segment assets by geographical segment	£ million
UK	**140,110**
US	**54,431**
Asia	**26,609**
Intra-group eliminations	**(5,608)**
Total assets per balance sheet	**215,542**

2007	Insurance operations	Asset management	Unallocated to a segment	Intra-group eliminations	Total
	£ million	£ million	£ million	£ million	£ million
Consolidated total assets	213,105	7,011	4,765	(5,499)	219,382
Consolidated total liabilities	(207,632)	(5,282)	(5,803)	5,499	(213,218)

Segment assets by geographical segment	£ million
UK	161,334
US	42,758
Asia	20,789
Intra-group eliminations	(5,499)
Total assets per balance sheet	219,382

To explain more comprehensively the assets, liabilities and capital of the Group's businesses it is appropriate to provide an analysis of the Group's balance sheet by a mixture of primary and secondary segments.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results (Continued)

This analysis is shown below for the Group balance sheet by business segment at December 31, 2008.

	2008							
	Insurance operations					Unallocated to a segment (central operations)		
By business segment	UK D2 £ million	US D3 £ million	Asia D4 £ million	Total insurance operations £ million	Asset management E2 £ million		Intra-group eliminations £ million	Group total £ million
Assets								
Intangible assets attributable to shareholders:								
Goodwill			**111**	**111**	**1,230**			**1,341**
Deferred acquisition costs and other intangible assets	**134**	**3,962**	**1,247**	**5,343**	**6**			**5,349**
TotalH1	**134**	**3,962**	**1,358**	**5,454**	**1,236**			**6,690**
Intangible assets attributable to with-profits funds:								
In respect of acquired subsidiaries for venture fund and other investment purposes	**174**			**174**				**174**
Deferred acquisition costs and other intangible assets	**13**		**113**	**126**				**126**
TotalH2	**187**		**113**	**300**				**300**
Total	**321**	**3,962**	**1,471**	**5,754**	**1,236**			**6,990**
Deferred tax assetsH4	**513**	**1,969**	**101**	**2,583**	**160**	**143**		**2,886**
Other non-investment and non-cash assetsH3-H6	**4,962**	**1,819**	**1,416**	**8,197**	**135**	**3,553**	**(5,608)**	**6,277**
Investment of long-term business and other operations:								

Investment properties	**11,959**	**13**	**20**	**11,992**				**11,992**
Investments accounted for using the equity method						**10**		**10**
Loans	**1,902**	**5,121**	**1,705**	**8,728**	**1,763**			**10,491**
Equity securities and portfolio holdings in unit trusts	**38,880**	**15,142**	**8,077**	**62,099**	**23**			**62,122**
Debt securities	**58,871**	**24,249**	**11,113**	**94,233**	**991**			**95,224**
Other investments	**4,160**	**1,256**	**144**	**5,560**	**462**	**279**		**6,301**
Deposits	**6,090**	**390**	**750**	**7,230**	**64**			**7,294**
Total investmentsnote a, G1,H7,H8	**121,862**	**46,171**	**21,809**	**189,842**	**3,303**	**289**		**193,434**
Held for sale assetsH9								
Cash and cash equivalentsH10	**2,571**	**246**	**1,501**	**4,318**	**1,472**	**165**		**5,955**
Total assets	**130,229**	**54,167**	**26,298**	**210,694**	**6,306**	**4,150**	**(5,608)**	**215,542**

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results (Continued)

2008

By business segment	Insurance operations UK D2 £ million	US D3 £ million	Asia D4 £ million	Total insurance operations £ million	Asset Management E2 £ million	Unallocated to a segment (central operations) £ million	Intra-group Eliminations £ million	Group total £ million
Equity and liabilities								
Equity								
Shareholders' equityH11	**1,655**	**1,698**	**2,167**	**5,520**	**1,642**	**(2,104)**		**5,058**
Minority interests	**47**		**7**	**54**	**1**			**55**
Total equity	**1,702**	**1,698**	**2,174**	**5,574**	**1,643**	**(2,104)**		**5,113**
Liabilities								
Policyholder liabilities and unallocated surplus of with-profits funds:								
Insurance contract liabilitiesH12	**72,756**	**42,476**	**20,798**	**136,030**				**136,030**
Investment contract liabilities with discretionary participation featuresG1	**23,367**		**79**	**23,446**				**23,446**
Investment contract liabilities without discretionary participation featuresG1	**11,584**	**2,885**	**32**	**14,501**				**14,501**
Unallocated surplus of with- profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)D2eii, H12	**8,254**		**160**	**8,414**				**8,414**

Total policyholder liabilities and unallocated surplus of with-profits fundsnote b	**115,961**	**45,361**	**21,069**	**182,391**				**182,391**
Core structural borrowings of shareholder-financed operations:H13								
Subordinated debt						**1,987**		**1,987**
Other		**173**		**173**		**798**		**971**
Total		**173**		**173**		**2,785**		**2,958**
Operational borrowings attributable to shareholder-financed operationsG1,H13	**54**	**511**	**130**	**695**	**4**	**1,278**		**1,977**
Borrowings attributable to with-profits fundsG1,H13	**1,308**			**1,308**				**1,308**
Other non-insurance liabilities:G1,H4,H9,H14,H15								
Obligations under funding, securities lending and sale and repurchase agreements	**2,251**	**3,321**		**5,572**				**5,572**
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**1,536**	**88**	**1,154**	**2,778**	**1,065**			**3,843**
Current tax liabilities	**127**		**76**	**203**	**40**	**599**		**842**
Deferred tax liabilities	**1,421**	**1,337**	**441**	**3,199**	**11**	**19**		**3,229**
Accruals and deferred income	**265**		**130**	**395**	**205**	**30**		**630**
Other creditors	**1,619**	**529**	**796**	**2,944**	**2,898**	**1,262**	**(5,608)**	**1,496**
Provisions	**267**	**23**	**37**	**327**	**97**	**37**		**461**
Derivative liabilities	**3,401**	**863**	**32**	**4,296**	**292**	**244**		**4,832**
Other liabilities	**317**	**263**	**259**	**839**	**51**			**890**
Total	**11,204**	**6,424**	**2,925**	**20,553**	**4,659**	**2,191**	**(5,608)**	**21,795**
Total liabilities	**128,527**	**52,469**	**24,124**	**205,120**	**4,663**	**6,254**	**(5,608)**	**210,429**
Total equity and liabilities	**130,229**	**54,167**	**26,298**	**210,694**	**6,306**	**4,150**	**(5,608)**	**215,542**

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results (Continued)

This analysis is shown below for the Group balance sheet by business segment at December 31, 2007.

2007

By business segment	Insurance operations: UK D2 £ million	US D3 £ million	Asia D4 £ million	Total insurance operations £ million	Asset Management E2 £ million	Unallocated to a segment (central operations) £ million	Intra-group Eliminations £ million	Group total £ million
Assets								
Intangible assets attributable to shareholders:								
Goodwill			111	111	1,230			1,341
Deferred acquisition costs and other intangible assets	157	1,928	745	2,830	6			2,836
TotalH1	157	1,928	856	2,941	1,236			4,177
Intangible assets attributable to PAC with-profits fund:								
In respect of acquired subsidiaries for venture fund and other investment purposes	192			192				192
Deferred acquisition costs	19			19				19
TotalH2	211			211				211
Total	368	1,928	856	3,152	1,236			4,388
Deferred tax assetsH4	105	657	73	835	95	21		951
Other non-investment and non-cash assetsH3-H6	4,110	994	689	5,793	426	4,292	(5,499)	5,012
Investment of long-term business and other operations:								
Investment properties	13,666	8	14	13,688				13,688
						12		12

Investments accounted for using the equity method								
Loans	1,245	3,258	1,087	5,590	2,334			7,924
Equity securities and portfolio holdings in unit trusts	60,829	15,507	9,804	86,140	17			86,157
Debt securities	57,180	19,002	6,920	83,102	882			83,984
Other investments	3,391	762	42	4,195	155	46		4,396
Deposits	7,228	258	377	7,863	26			7,889
Total investmentsnote a, G1,H7,H8	143,539	38,795	18,244	200,578	3,414	58		204,050
Held for sale assetsH9	30			30				30
Cash and cash equivalentsH10	1,869	169	679	2,717	1,840	394		4,951
Total assets	150,021	42,543	20,541	213,105	7,011	4,765	(5,499)	219,382

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results (Continued)

2007

By business segment	Insurance operations: UK D2 £ million	US D3 £ million	Asia D4 £ million	Total insurance operations £ million	Asset Management E2 £ million	Unallocated to a segment (central operations) £ million	Intra-group Eliminations £ million	Group total £ million
Equity and liabilities								
Equity								
Shareholders' equityH11	1,364	2,690	1,369	5,423	1,677	(1,038)		6,062
Minority interests	42	1	7	50	52			102
Total equity	1,406	2,691	1,376	5,473	1,729	(1,038)		6,164
Liabilities								
Policyholder liabilities and unallocated surplus of with-profits funds:								
Insurance contract liabilitiesH12	82,938	32,926	16,912	132,776				132,776
Investment contract liabilities with discretionary participation featuresG1	29,466		84	29,550				29,550
Investment contract liabilities without discretionary participation featuresG1	12,073	1,922	37	14,032				14,032
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)D2eii, H12	13,813		146	13,959				13,959
Total policyholder liabilities and unallocated	138,290	34,848	17,179	190,317				190,317

surplus of with-profits fundsnote b								
Core structural borrowings of shareholder-financed operations:H13								
Subordinated debt						1,570		1,570
Other		125		125		797		922
Total		125		125		2,367		2,492
Operational borrowings attributable to shareholder-financed operationsG1,H13	12	591		603	1	2,477		3,081
Borrowings attributable to with-profits fundsG1,H13	987			987				987
Other non-insurance liabilities:G1,H4,H9,H14,H15								
Obligations under funding, securities lending and sale and repurchase agreements	1,360	2,721		4,081				4,081
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	1,751	65	506	2,322	1,234			3,556
Current tax liabilities	507		24	531	36	670		1,237
Deferred tax liabilities	2,383	639	362	3,384	11	7		3,402
Accruals and deferred income	289		111	400	199			599
Other creditors	1,913	333	627	2,873	3,440	206	(5,499)	1,020
Provisions	326	19	33	378	166	31		575
Derivative liabilities	699	158	2	859	176	45		1,080
Other liabilities	98	353	321	772	19			791
Total	9,326	4,288	1,986	15,600	5,281	959	(5,499)	16,341
Total liabilities	148,615	39,852	19,165	207,632	5,282	5,803	(5,499)	213,218
Total equity and liabilities	150,021	42,543	20,541	213,105	7,011	4,765	(5,499)	219,382

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results (Continued)

This analysis is shown below for the Group balance sheet by business type at December 31, 2008.

	2008							2007
	Shareholder-backed							
By business type	**With-profits funds**	**Unit-linked and variable annuity**	**Non-linked business**	**Asset management operations**	**Unallocated to a segment (central operations)**	**Intra-group eliminations**	**Group total**	**Group total**
	£ million	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**
Assets								
Intangible assets attributable to shareholders:								
Goodwill			**111**	**1,230**			**1,341**	1,341
Deferred acquisition costs and other intangible assets			**5,343**	**6**			**5,349**	2,836
TotalH1			**5,454**	**1,236**			**6,690**	4,177
Intangible assets attributable to with-profits funds:								
In respect of acquired subsidiaries for venture fund and other investment purposes	**174**						**174**	192
Deferred acquisition costs and other intangible assets	**126**						**126**	19
TotalH2	**300**						**300**	211
Total	**300**		**5,454**	**1,236**			**6,990**	4,388
Deferred tax assetsH4	**279**		**2,304**	**160**	**143**		**2,886**	951
Other non-investment and non-cash assetsH3-H6	**3,095**	**579**	**4,523**	**135**	**3,553**	**(5,608)**	**6,277**	5,012
Investment of long-term business and other								

operations:								
Investment properties	**9,911**	**710**	**1,371**				**11,992**	13,688
Investments accounted for using the equity method					**10**		**10**	12
Loans	**2,154**	**113**	**6,461**	**1,763**			**10,491**	7,924
Equity securities and portfolio holdings in unit trusts	**31,821**	**29,211**	**1,067**	**23**			**62,122**	86,157
Debt securities	**42,965**	**6,298**	**44,970**	**991**			**95,224**	83,984
Other investments	**3,768**	**204**	**1,588**	**462**	**279**		**6,301**	4,396
Deposits	**4,828**	**903**	**1,499**	**64**			**7,294**	7,889
Total investmentsnote a, G1,H7,H8	**95,447**	**37,439**	**56,956**	**3,303**	**289**		**193,434**	204,050
Held for sale assetsH9								30
Cash and cash equivalentsH10	**1,733**	**1,148**	**1,437**	**1,472**	**165**		**5,955**	4,951
Total assets	**100,854**	**39,166**	**70,674**	**6,306**	**4,150**	**(5,608)**	**215,542**	219,382

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results (Continued)

	2008							2007
	Shareholder-backed							
By business type	**Participating funds**	**Unit-linked and variable annuity**	**Non-linked business D4**	**Asset management operations E2**	**Unallocated to a segment (central operations)**	**Intra-group Eliminations**	**Group total**	**Group total**
	£ million	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**
Equity and liabilities								
Equity								
Shareholders' equityH11			**5,520**	**1,642**	**(2,104)**		**5,058**	6,062
Minority interests	**47**		**7**	**1**			**55**	102
Total equity	**47**		**5,527**	**1,643**	**(2,104)**		**5,113**	6,164
Liabilities								
Policyholder liabilities and unallocated surplus of with-profits funds:								
Insurance contract liabilitiesH12	**58,310**	**27,799**	**49,921**				**136,030**	132,776
Investment contract liabilities with discretionary participation featuresG1	**23,446**						**23,446**	29,550
Investment contract liabilities without discretionary participation featuresG1	**32**	**10,277**	**4,192**				**14,501**	14,032
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK	**8,414**						**8,414**	13,959

regulated with-profits funds)D2eii, H12							
Total policyholder liabilities and unallocated surplus of with-profits fundsnote b	**90,202**	**38,076**	**54,113**			**182,391**	190,317
Core structural borrowings of shareholder-financed operations:H13							
Subordinated debt				**1,987**		**1,987**	1,570
Other			**173**	**798**		**971**	922
Total			**173**	**2,785**		**2,958**	2,492
Operational borrowings attributable to shareholder-financed operationsG1,H13			**695**	**4**	**1,278**	**1,977**	3,081
Borrowings attributable to with-profits fundsG1,H13	**1,308**					**1,308**	987
Other non-insurance liabilities:							
Obligations under funding, securities lending and sale and repurchase agreements	**1,570**		**4,002**			**5,572**	4,081
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**1,775**	**877**	**126**	**1,065**		**3,843**	3,556
Current tax liabilities	**61**		**142**	**40**	**599**	**842**	1,237
Deferred tax liabilities	**1,225**		**1,974**	**11**	**19**	**3,229**	3,402
Accruals and deferred income	**202**		**193**	**205**	**30**	**630**	599
Other creditors	**1,151**		**1,793**	**2,898**	**1,262**	**(5,608)**	**1,496**	1,020
Provisions	**76**		**251**	**97**	**37**	**461**	575
Derivative liabilities	**3,027**		**1,269**	**292**	**244**	**4,832**	1,080
Other liabilities	**210**	**213**	**416**	**51**		**890**	791
Total	**9,297**	**1,090**	**10,166**	**4,659**	**2,191**	**(5,608)**	**21,795**	16,341

Total liabilities	**100,807**	**39,166**	**65,147**	**4,663**	**6,254**	**(5,608)**	**210,429**	213,218
Total equity and liabilities	**100,854**	**39,166**	**70,674**	**6,306**	**4,150**	**(5,608)**	**215,542**	219,382

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results (Continued)

(a) Investments

Reconciliation of movement in investments

A reconciliation of the Group's directly held investments from the beginning of the year to the end of the year is as follows:

	Insurance operations			Total insurance operations	Asset management	Unallocated to a segment	Group total
	UK £ million	US £ million	Asia £ million	£ million	£ million	£ million	£ million
At January 1, 2007							
Total investments (including derivative assets)	138,537	36,129	13,725	188,391	2,963	240	191,594
Less: investments held by consolidated investment funds	(1,179)		(547)	(1,726)			(1,726)
Less: derivative liabilities	(268)	(92)	(4)	(364)	(142)	(4)	(510)
Directly held investments, net of derivative liabilities*	137,090	36,037	13,174	186,301	2,821	236	189,358
Net cash inflow from operating activities	3,128	2,612	2,731	8,471	317	(210)	8,578
Realized gains (losses) in the year	4,660	(47)	1,484	6,097	8	(16)	6,089
Unrealized gains (losses) in the year	(2,789)	636	(128)	(2,281)	(22)	3	(2,300)
Foreign exchange translation differences	99	(601)	298	(204)	104		(100)
Movement in the year of directly held investments, net of derivative liabilities	5,098	2,600	4,385	12,083	407	(223)	12,267

At December 31, 2007/January 1, 2008							
Total investments (including derivative assets)	143,539	38,795	18,244	200,578	3,414	58	204,050
Less: investments held by consolidated investment funds	(662)		(683)	(1,345)			(1,345)
Less: derivative liabilitiesG3	(689)	(158)	(2)	(849)	(186)	(45)	(1,080)
Directly held investments, net of derivative liabilities	142,188	38,637	17,559	198,384	3,228	13	201,625
Net cash inflow from operating activities	887	2,862	2,596	6,345	(615)	85	5,815
Realized gains (losses) in the year	73	(385)	(273)	(585)	9	(36)	(612)
Unrealized gains (losses) in the year	(26,932)	(8,825)	(4,199)	(39,956)	(156)	(19)	(40,131)
Foreign exchange translation differences	1,636	13,019	4,993	19,648	545	2	20,195
Movement in the year of directly held investments, net of derivative liabilities	(24,336)	6,671	3,117	(14,548)	(217)	32	(14,733)
At December 31, 2008							
Total investments (including derivative assets)	121,862	46,171	21,809	189,842	3,303	289	193,434
Less: investments held by consolidated investment funds	(609)		(1,101)	(1,710)			(1,710)
Less: derivative liabilitiesG3	(3,401)	(863)	(32)	(4,296)	(292)	(244)	(4,832)
Directly held investments, net of derivative liabilities	117,852	45,308	20,676	183,836	3,011	45	186,892

*

The above reconciliation analyses the movement of directly held investments net of derivative liabilities. The deduction of derivative liabilities reflects the fact that these are considered an integral part of the Group's investment portfolio and the exclusion from investments is merely a matter of required balance sheet

presentation. The analysis excludes investments held in the balance sheet as a result the consolidation of Open-Ended Investment Companies (OEICS) and unit trusts, as the Group's exposure is merely to its share of the value of the fund as a whole rather than to the underlying investments and other assets and liabilities.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results (Continued)

(i)

Information on the credit risks of debt securities

	2008						2007
	Insurance operations			Total insurance operations	Asset management	Group total	Group total
	UK £ million	US £ million	Asia £ million	£ million	£ million	£ million	£ million
S&P AAA	**18,981**	**5,321**	**2,632**	**26,934**	**342**	**27,276**	28,014
S&P AA+ to AA-	**6,012**	**853**	**3,746**	**10,611**	**274**	**10,885**	9,673
S&P A+ to A-	**15,929**	**5,244**	**808**	**21,981**	**319**	**22,300**	17,087
S&P BBB+ to BBB-	**7,413**	**7,077**	**902**	**15,392**		**15,392**	11,017
S&P Other	**1,033**	**1,321**	**253**	**2,607**		**2,607**	2,204
	49,368	**19,816**	**8,341**	**77,525**	**935**	**78,460**	67,995
Moody's Aaa	**681**	**458**	**494**	**1,633**	**24**	**1,657**	1,817
Moody's Aa1 to Aa3	**833**	**100**	**108**	**1,041**	**15**	**1,056**	750
Moody's A1 to A3	**678**	**111**	**398**	**1,187**		**1,187**	1,019
Moody's Baa1 to Baa3	**454**	**100**	**60**	**614**		**614**	588
Moody's Other	**162**	**95**	**50**	**307**		**307**	546
	2,808	**864**	**1,110**	**4,782**	**39**	**4,821**	4,720
Fitch	**560**	**464**	**41**	**1,065**		**1,065**	1,062
Other	**6,135**	**3,105**	**1,621**	**10,861**	**17**	**10,878**	10,207
Total debt securities	**58,871**	**24,249**	**11,113**	**94,233**	**991**	**95,224**	83,984

In the table above, Standard & Poor's (S&P) ratings have been used where available. For securities where S&P ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative. Notes D2(d), D3(d), D4(d) and E2 provide further details on the credit risks of debt securities by segment.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results (Continued)

(ii) Group exposure to holdings in asset-backed securities and monoline insurers

a Asset-backed securities

The Group's exposure to holdings in asset-backed securities which comprise residential mortgage-backed securities (RMBS), CDO funds and other asset-backed securities (ABS), at December 31, 2008 is as follows:

	2008 £ million
Shareholder-backed operations:	
UK insurance operations[note i]	**1,075**
US insurance operations[note ii]	**7,464**
Asian insurance operations[note iii]	**15**
Other operations[note iv]	**407**
	8,961
With-profits operations:	
UK insurance operations[note i]	**4,977**
Asian insurance operations[note iii]	**328**
	5,305
Total	**14,266**

i UK insurance operations

The UK insurance operations' exposure to asset-backed securities at December 31, 2008 is analyzed as follows:

	2008 £ million
Shareholder-backed business (70% AAA, 19% AA)	**1,075**
With-profits operations (74% AAA, 10% AA)	**4,977**
	6,052

The UK insurance operations' exposure to asset-backed securities is mainly made up of exposure to AAA rated securities as shown in the table above.

All of the £1,075 million exposure of the shareholder-backed business relates to the UK market and primarily relate to investments held by PRIL. £2,721 million of the £4,977 million exposure of the with-profits operations relates to exposure to the UK market while the remaining £2,256 million relates to exposure to the US market.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results (Continued)

ii US insurance operations

US insurance operations' exposure to asset-backed securities at December 31, 2008 comprises:

	2008 £ million
RMBS:	
Sub-prime (91% AAA, 3% AA)	**291**
Alt-A (60% AAA, 15% AA)	**646**
Prime (87% AAA, 5% AA)	**3,572**
CMBS (85% AAA, 9% AA)	**1,869**
CDO funds (34% AAA, 14% AA),* including £6 million exposure to sub-prime	**320**
ABS (31% AAA, 16% AA), including £51 million exposure to sub-prime	**766**
Total	**7,464**

*

Including the Group's economic interest in Piedmont and other consolidated CDO funds. Further details on Jackson's RMBS sub-prime and Alt-A securities are given in note D3(d).

iii Asian insurance operations

The Asian insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations.

The £328 million asset-backed securities exposure of the Asian with-profits operations comprises:

	2008 £ million
RMBS all without sub-prime exposure	**46**
CMBS	**88**
CDO funds and ABS	**194**
Total	**328**

The £328 million includes £259 million held by investment funds consolidated under IFRS in recognition of the control arrangements for those funds and included an amount not owned by the Group with a corresponding liability of £32 million on the balance sheet for net asset value attributable to external unit-holders in respect of these funds, which are non-recourse to the Group. Of the £328 million, 70% are investment graded by Standard & Poor's.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

B: Summary of results (Continued)

iv Other operations

Other operations' exposure to asset-backed securities at December 31, 2008 is held by Prudential Capital and comprises:

	2008 £ million
RMBS: Prime (75% AAA, 10% AA)	**106**
CMBS (68% AAA, 20% AA)	**230**
CDO funds all without sub-prime exposure (AAA)	**38**
ABS (92% AAA)	**33**
Total	**407**

b Direct holdings in monoline insurers

The Group has no significant exposure to direct holdings in monoline insurers at December 31, 2008.

(b) Reconciliation of movement in policyholder liabilities and unallocated surplus of with-profits funds

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of the Group from the beginning of the year to the end of the year is as follows:

	Insurance operations			Total insurance operations
	UK £ million	US £ million	Asia £ million	£ million
At January 1, 2007	133,904	31,746	12,889	178,539
Premiums	8,853	6,352	3,958	19,163
Surrenders	(4,528)	(3,476)	(1,032)	(9,036)
Maturities/Deaths	(6,787)	(490)	(395)	(7,672)
Shareholders' transfers post tax	(279)		(21)	(300)
Investment-related items and other movements	7,194	1,225	1,458	9,877
Foreign exchange translation differences	(67)	(509)	322	(254)
At December 31, 2007/January 1, 2008	138,290	34,848	17,179	190,317
Premiums	9,372	6,728	4,162	20,262
Surrenders	(4,281)	(3,852)	(1,191)	(9,324)
Maturities/Deaths	(8,324)	(564)	(354)	(9,242)
Shareholders' transfers post tax	(284)		(23)	(307)
Investment-related items and other movements	(16,331)	(4,552)	(4,293)	(25,176)
Foreign exchange translation differences	(2,481)	12,753	5,589	15,861

At December 31, 2008	115,961	45,361	21,069	182,391

The items above represent the amount attributable to changes in policyholder liabilities and unallocated surplus of with-profits funds as a result of each of the components listed.

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C: Group risk management

(a) Overview

As a provider of financial services, including insurance, the Group's business is the managed acceptance of risk. 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.

The Group's internal control processes are detailed in the Group Governance Manual. This is supported by the Group risk framework, which provides an overview of the Group-wide philosophy and approach to risk management. Where appropriate, more detailed policies and procedures have been developed at Group and/or business unit levels. These include Group-wide mandatory policies on certain operational risks, including: health, safety, fraud, money laundering, bribery, business continuity, information security and operational security. Additional guidelines are provided for some aspects of actuarial and finance activity.

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 risk governance framework is based on the concept of 'three lines of defence': Risk management, risk oversight and independent assurance. Primary responsibility for strategy, performance management and risk control lies with the Board, the Group Chief Executive and the chief executives of each business unit. Risk oversight is provided by Group-level risk committees, chaired by the Chief Financial Officer with representation from business units and Group Head Office functions. The committees' oversight is supported by the Group Chief Risk Officer. Independent assurance on the Group's and business unit internal control and risk management systems is provided by Group-wide Internal Audit reporting to the Group and business unit audit committees.

The Group's risk reporting framework forms an important part of the Group's business planning process. 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.

Additional information on the Group's risk framework is included in the risk and capital management section of the Group's business review.

The management of the risk attached to the Group's financial instruments and insurance liabilities, together with the inter-relationship with the management of capital may be summarized in the following sections.

(b) Group risk appetite

The Group risk appetite framework sets out the Group's tolerance to risk management and return optimization. The Group defines and monitors aggregate risk limits for its earnings volatility and its capital requirements.

(i) Earnings volatility:

The objectives of the limits are to ensure that (a) the volatility of earnings is consistent with stakeholder expectations, (b) the Group has adequate earnings (and cash flows) to service debt and

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

C: Group risk management (Continued)

expected dividends and (c) that earnings (and cash flows) are managed properly across geographies and are consistent with the Group's funding strategies. The two measures used currently are European Embedded Value (EEV) operating profit based on longer-term investment returns and International Financial Reporting Standards (IFRS) operating profit based on longer-term investment returns.

(ii) Capital requirements:

The objectives of the limits are to ensure that (a) the Group meets the economic 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 used are EU Insurance Groups Directive (IGD) capital requirements and economic capital requirements.

Business units must establish suitable market, credit, underwriting and liquidity limits that maintain financial risk exposures within the defined Group risk appetite.

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

The current market dislocation and increased risk of default led the Group to place an 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 in addition to business unit operational limits on credit risk, the Group sets counterparty risk limits at Group level. Limits on the total Group-wide exposures to a single counterparty are specified within different credit rating 'categories'. Actual exposures are monitored against these limits on a monthly basis.

(c) Risk mitigation and hedging

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

The Group 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.

(i) Use of derivatives

In the UK and Asia, Prudential uses derivatives to reduce equity and credit risk, interest rate and currency exposures, and to facilitate efficient investment management. In the US, Prudential uses derivatives to reduce interest rate risk, to facilitate efficient portfolio management and to match liabilities under annuity policies, and for certain equity-based product management activities.

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Notes to the Consolidated Financial Statements

December 31, 2008

C: Group risk management (Continued)

Further details of the Group's use of derivatives are explained in note G3.

(ii) Asset/liability management

Prudential manages its assets and liabilities locally, in accordance with local regulatory requirements and reflecting the differing types of liabilities of each business unit. Stochastic asset/liability modeling is carried out locally by business units to perform dynamic solvency testing and assess capital requirements. Reserve adequacy testing under a range of scenarios and dynamic solvency analysis is carried out, including under certain scenarios mandated by the US, the UK and Asian regulators.

A stochastic approach models the inter-relationship between asset and liability movements, taking into account asset correlation and policyholder behavior, under a large number of possible scenarios. These scenarios are projected forward over a period of time, typically 25 years, and the liabilities and solvency position of the fund are calculated in each scenario in each future year. This allows the identification of which extreme scenarios will have the most adverse effects and what the best estimate outcome may be. The fund's policy on management actions, including bonus and investment policy, are then set in order that they are consistent with the available capital and the targeted risk of default. This differs from a deterministic model, which would only consider the results from one carefully selected scenario.

For businesses that are most sensitive to interest rate changes, such as immediate annuity business, Prudential uses cash flow analysis to create a portfolio of fixed income securities whose value changes in line with the value of liabilities when interest rates change. This type of analysis helps protect profits and the capital position from changing interest rates. In the UK, the cash flow analysis is used in Prudential's annuity business while, in the US, it is used for its interest-sensitive and fixed index annuities and stable value products such as Guaranteed Investment Contracts (GICs). Perfect matching is not possible, for example because of the nature of the liabilities (which might include guaranteed surrender values) and options for prepayment contained in the assets or the unavailability of assets with a sufficiently long duration.

For businesses that are most sensitive to equity price changes, Prudential uses stochastic modeling and scenario testing to look at the expected future returns on its investments under different scenarios that best reflect the large diversity in returns that equities can produce. This allows Prudential to devise an investment and with-profits policyholder bonus strategy that, on the model assumptions, allows it to optimize returns to its policyholders and shareholders over time, while maintaining appropriate financial strength. Prudential uses this method extensively in connection with its UK with-profits business.

All of Prudential's investments are held either for risk management or investment purposes. This is because almost all of the investments support policyholder or customer liabilities of one form or another. Any assets that Prudential holds centrally that are not supporting customer liabilities are predominantly invested in short-term fixed income and fixed maturity securities.

The Group 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.

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December 31, 2008

C: Group risk management (Continued)

(d) Risk exposures

The Group publishes separately within its Form 20-F a section on key risk factors, which discusses inherent risks in the business and trading environment.

(i) Market risks

Market risk is the risk that arises from adverse changes in the value of, or income from, assets and changes in interest rates or exchange rates.

Equity and interest rate risk

Prudential faces equity risk and interest rate risk because most of its assets are investments that are either equity type investments and subject to equity price risk, or bonds, mortgages or cash deposits, the values of which are subject to interest rate risk. The amount of risk borne by Prudential's shareholders depends on the extent to which its customers share the investment risk through the structure of Prudential's products.

The split of Prudential's investments between equity investments and interest-sensitive instruments depends principally on the type of liabilities supported by those investments and the amount of capital Prudential has available. The nature of some liabilities allows Prudential to invest a substantial portion of its investment funds in equity and property investments that Prudential believes produce greater returns over the long term. On the other hand Prudential has some liabilities that contain guaranteed returns and allow instant access (for example, interest-sensitive fixed annuities and immediate annuities), which generally will be supported by fixed income investments.

Foreign exchange risk

Prudential faces foreign exchange risk, primarily because its presentation currency is pounds sterling, whereas Prudential has significant operations in the US and Asia. The exposure relating to the translation of reported earnings is not separately managed although its impact is reduced by interest payments on foreign currency borrowings and by the adoption of average exchange rates for the translation of foreign currency revenues.

Approximately 83 per cent of the Group's IFRS basis shareholders' equity at December 31, 2008 arose in Prudential's US and Asian operations (2007: approximately 70 per cent). To mitigate the exposure of the US component there are US$1.55 billion of borrowings held centrally. The Group has also entered into a US$2 billion net investment hedge which was reduced to US$600 million in December 2008 (see note G3). Net of the currency position arising from these instruments some 49 per cent of the Group's shareholders' funds are represented by net assets in currencies other than sterling.

Additional details on the market risks' exposures of the UK, US and Asian insurance operations are provided in notes D2, D3 and D4, respectively.

(ii) Credit risk

Credit risk is the risk of loss to the Group if another party fails to perform its obligations, or fails to perform them in a timely manner. Credit risk is the Group's most significant financial risk.

Prudential plc and Subsidiaries

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December 31, 2008

C: Group risk management (Continued)

Some of Prudential's businesses, in particular Jackson, the PAC with-profits fund and Prudential's UK pension annuity business hold large amounts of interest-sensitive investments that contain credit risk on which a certain level of defaults is expected. These expected losses are considered when Prudential determines the crediting rates, deposit rates and premium rates for the products that will be supported by these assets. The key shareholder business exposed to credit risks is Jackson. Certain over-the-counter derivatives contain a credit risk element that is controlled through evaluation of collateral agreements and master netting agreements on interest rate and currency swaps. Prudential is also exposed to credit-related losses in the event of non-performance by counterparties.

Further analysis of the credit quality for the Group is shown in note B4. Additional details on the credit quality of the debt security portfolios of UK, US and Asian insurance operations are shown in notes D2, D3 and D4, respectively.

(iii) Liquidity risk

Liquidity risk is the risk that Prudential, 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 the resources only at excessive cost. The parent company has significant internal resources of liquidity which are sufficient to meet all of its requirements for the foreseeable future without having to utilize external funding. The Group maintains committed borrowing and securities lending facilities. 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.

(iv) Insurance risk

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. This includes adverse mortality, morbidity and persistency experience.

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

For example, the assumption that Prudential makes about future 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 guaranteed payment, for as long as they live. 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 as published by the Institute and Faculty of Actuaries.

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

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December 31, 2008

C: Group risk management (Continued)

(v) Non-financial risks operational, business environment and strategic risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, systems or from external events. Business environment risk may arise from exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall objectives and strategy. Strategic risk may arise from 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.

Prudential is exposed to operational, business environment and strategic risk in the course of running its businesses. Prudential 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 has a significant number of third-party relationships that are important to the distribution and processing of its products, as market counterparties and as business partners.

Quantitative analysis of operational risk exposures material to the Group is used to inform decisions on the overall amount of capital held and the adequacy of the corporate insurance program.

(e) Regulatory capital requirements

Regulatory capital requirements apply at an individual company level for the Group's life assurance and asset management business. These are described in sections D5 and E3 respectively.

In addition, the Group as a whole is subject to the capital adequacy requirements of the Insurance Groups Directive (IGD) as implemented by the FSA. The IGD pertains to groups whose activities are primarily concentrated in the insurance sector. Under this test the surplus capital held in each of the regulated subsidiaries is aggregated with the free assets of non-regulated subsidiaries. From this total Group borrowings are deducted, other than subordinated debt issues which qualify as capital. No credit for the benefit of diversification is allowed for under this approach. The 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.

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

The FSA has established a structure for determining how much hybrid debt can count as capital which is similar to that used for banks. It categorizes capital as Tier 1 (equity and preference shares), Upper Tier 2 and Lower Tier 2. Up to 15 per cent of Tier 1 capital can be in the form of hybrid debt and is called 'Innovative Tier 1'. At December 31, 2008 the Group held £1,059 million (December 31, 2007: £763 million) of Innovative Tier 1 capital in the form of perpetual securities, £nil (£nil) of Upper Tier 2 and £1,101 million (£932 million) of Lower Tier 2 capital. The increase in these amounts reflects exchange rate movements in 2008. Further details on these amounts and other Group borrowings are shown in note H13.

At December 31, 2007, Prudential met the requirements of the IGD. In addition, during 2008, Prudential met the 'hard test' of the FSA under the IGD. At December 31, 2008, Prudential met the

Prudential plc and Subsidiaries

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December 31, 2008

C: Group risk management (Continued)

requirements of the IGD. The FSA has allowed the Group to include in the Group's IGD surplus going forward an additional £0.3 billion as a result of an innovative structure the Group has developed. The £0.3 billion additional capital reflects the Group's ability to realize a portion of the shareholders' economic interest in the future transfers from the PAC with-profits fund. The intended sale of the Taiwan agency business announced on February 20, 2009, as discussed in note I10, will when completed increase the IGD surplus capital by approximately £0.8 billion, further strengthening IGD surplus capital.

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 our decision-making processes for product launches, product design and product pricing.

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

Prudential's detailed understanding of risk adjusted performance allows to manage proactively its allocation of capital to write new business to maximize risk adjusted value creation.

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D: Life assurance business

D1: Group overview

(a) Products and classification for IFRS reporting

The measurement basis of assets and liabilities of long-term business contracts is dependent upon the classification of the contracts under IFRS. Under IFRS 4, contracts are initially classified as being either 'insurance' contracts, if the level of insurance risk in the contracts is significant, or investment contracts, if the risk is insignificant.

Insurance contracts

Insurance contracts are permitted to be accounted for under previously applied GAAP. The Group has chosen to adopt this approach. However, as an improvement to accounting policy, permitted by IFRS 4, the Group has applied the measurement principles for with-profits contracts of UK regulated entities and disclosures of the UK Standard FRS 27 from January 1, 2005. An explanation of the provisions under FRS 27 is provided in note D2.

Under the previously applied GAAP, UK GAAP, the assets and liabilities of contracts are reported in accordance with the MSB of reporting as set out in the ABI SORP.

The insurance contracts of the Group's shareholder-backed business fall broadly into the following categories:

UK insurance operations
bulk and individual annuity business, written primarily by Prudential Retirement Income Limited and other categories of non-participating UK business;

Jackson
fixed and variable annuity business and life insurance; and

Prudential Corporation Asia
non-participating term, whole life, and unit-linked policies, together with accident and health policies.

Investment contracts

Investment contracts are further delineated under IFRS 4 between those with and without discretionary participation features. For those contracts with discretionary participation features, IFRS 4 also permits the continued application of previously applied GAAP. The Group has adopted this approach, again subject to the FRS 27 improvement.

For investment contracts that do not contain discretionary participation 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 that may diverge from those previously applied.

Contracts of the Group, which are classified as investment contracts that do not contain discretionary participation features, can be summarized as:

UK
certain unit-linked savings and similar contracts;

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December 31, 2008

D: Life assurance business (Continued)

Jackson
GICs and funding agreements
minor amounts of 'annuity certain' contracts; and

Prudential Corporation Asia
minor amounts for a number of small categories of business.

The accounting for the contracts of UK insurance operations and Jackson's GICs and funding agreements are considered in turn below:

(i) Certain UK unit-linked savings and similar contracts

Deferred acquisition costs

Acquisition costs are deferred to the extent that it is appropriate to recognize an asset that represents the entity's contractual right to benefit from providing investment management services and are amortized as the entity recognizes the related revenue. IAS 18 further reduces the costs potentially capable of deferral to incremental costs only. Deferred acquisition costs are amortized to the income statement in line with service provision.

Deferred income reserves

These are required to be established under IAS 18 with amortization over the expected life of the contract. The majority of the relevant UK contracts are single premium with the initial deferred income reflecting the 'front-end load' i.e. the difference between the premium paid and the amount credited to the unit fund. Deferred income is amortized to the income statement in line with service provision. The amortization profile is either on a straight-line basis or, if more appropriate, a further deferral of income recognition is applied.

Sterling reserves

Prudent provisions established for possible future expenses not covered by future margins at a policy level reflecting the regulatory approach in the UK are not permitted for those contracts with insignificant insurance risk that are classified as investment contracts.

(ii) Jackson GICs and funding arrangements

Under a traditional GIC, the policyholder makes a lump sum deposit. The interest rate paid is fixed and established when the contract is issued. Funding agreements are of a similar nature but the interest rate may be floating, based on a rate linked to an external index. The US GAAP accounting requirements for such contracts are very similar to those under IFRS on the amortized cost model for liability measurement.

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December 31, 2008

D: Life assurance business (Continued)

(b) Concentration of risk

(i) Business accepted

The Group's exposure to life assurance risks is well-diversified. This is achieved through the geographical spread of the Group's operations and, within those operations, through a broad mix of product types.

As part of the risk management framework, the Group regularly monitors concentration of risk using a variety of risk monitoring tools. Scenario testing and sensitivity analysis for the Group capital and profitability metrics involving IGD, Group economic capital, EEV and IFRS help identify concentrations of risks by risk types, products and business units, as well as the benefits of diversification of risks.

Credit risk remains one of the largest risk exposures. This reflects the relative size of exposure in Jackson and the UK shareholder annuities business. An example of the diversification benefits for Prudential is that adverse scenarios do not affect all business units in the same way, providing natural hedges within the Group. For example, the Group's US business is sensitive to increasing interest rates, whereas, in contrast, several business units in Asia benefit from increasing rates. Conversely, these Asian business units are sensitive towards low interest rates, whereas for certain products in the US benefits from falling interest rates. The economic capital framework also takes into account situations where factors are correlated, for example the extent of correlation between UK and US economies.

The Group manages concentration of credit risks by setting limits on the maximum exposure to each counterparty based on their credit ratings. Business units are also required to disclose to the Group risk function all material risks, along with information on their severity and likelihood, and mitigating actions taken or planned.

(ii) Ceded business

The Group cedes certain business to other insurance companies. Although the ceding of insurance does not relieve the Group of liability to its policyholders, the Group participates in such agreements for the purpose of managing its loss exposure. The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risk from similar geographic regions, activities or economic characteristics of the reinsurers to minimize its exposure from reinsurer insolvencies. There are no significant concentrations of reinsurance risk. At December 31, 2008, 98 per cent (2007: 98 per cent) of the reinsurance recoverable insurance assets were ceded by the Group's UK and US operations, of which 91 per cent (2007: 88 per cent) of the balance were from reinsurers with Standard & Poor's rating AA- and above. As a result of downgrading subsequent to the year end based on the ratings at March 18, 2009, 93 per cent of the reinsurance recoverable insurance assets ceded by the Group UK and US operations were rated A and above with 39 per cent were rated AA- and above.

(c) Guarantees

Notes D2(e), D3(e), D4(e) and D4(j) provide details of guarantee features of the Group's life assurance products. In the UK, guarantees of the with-profits products are valued for accounting purposes on a market consistent basis for 2008 as described in section D2(g)(ii). The UK business also has products with guaranteed annuity option features, mostly within SAIF, as described in section D2(e).

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December 31, 2008

D: Life assurance business (Continued)

There is little exposure to financial options and guarantees in the shareholder-backed business of the UK operations. The US business annuity products have a variety of option and guarantee features as described in section D3(e). Jackson's derivative program seeks to manage the exposures as described in section D3(f). The most significant exposure for the Group arises on Taiwan whole of life policies as described in section D4(j)(iii).

(d) Amount, timing and uncertainty of future cash flows from insurance contracts

The factors that affect the amount, timing and uncertainty of future cash flows from insurance contracts depend upon the businesses concerned as described in subsequent sections. In general terms, the Group is managed by reference to a combination of measures. These measures include IFRS basis earnings, net shareholder cash flow to or from business units from or to central funds, and movements in the present value of future expected distributable earnings of in-force long-term insurance business. The latter item when added to the net assets is commonly referred to as Embedded Value.

The Group prepares and publishes supplementary information in accordance with the European Embedded Value (EEV) principles issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the addition of Additional Guidance on EEV Disclosures published in October 2005. Key elements of the EEV principles are the approach applied to allowing for risk and the use of best estimate assumptions to project future cash flows arising from the contracts.

The business covered by the EEV basis results includes both investment contracts as well as insurance contracts (as defined under IFRS 4). Investment contracts form a relatively small part of the Group's long-term business as demonstrated by the carrying value of policyholder liabilities shown in the Group balance sheet.

The projected cash flows are those expected to arise under the contracts such as those arising from premiums, claims and expenses after appropriate allowance for future lapse behavior and mortality and morbidity experience. The cash flows also include the expected future cash flows on assets covering liabilities and encumbered capital.

Encumbered capital is based on the Group's internal target for economic capital subject to it meeting at least the local statutory minimum requirements. Economic capital is assessed using internal models but does not take credit for the significant diversification benefits that exist within the Group.

The valuation of the future cash flows also takes account of the 'time value' of option and guarantee features of the Group's long-term business contracts. The time value reflects the variability of economic outcomes in the future. Where appropriate, a full stochastic valuation is undertaken to determine the value of the in-force business. Common principles are adopted across the Group for the stochastic asset model classes, for example, separate modeling of individual asset classes but with allowance for correlation between the various asset classes. In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions are modeled. In all instances, the modeled actions are in accordance with approved local practice and therefore reflect the options actually available to management. For the PAC with-profits sub-fund, the actions are consistent with those set out in the Principles and Practices of Financial Management.

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D: Life assurance business (Continued)

The present value of the future distributable earnings is calculated using a risk discount rate which reflects both the time value of money and the risks associated with the cash flows that are not otherwise allowed for. The risk allowance covers market and non-market risks.

Under Capital Asset Pricing Methodology (CAPM), the discount rate is determined as the aggregate of the risk-free rate and the risk margin for market risk. The latter is calculated as the 'beta' multiplied by the equity risk premium. Under CAPM, the beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product cash flows. They are determined by considering how the profits from each product are impacted by changes in expected returns on various asset classes, and by converting this into a relative rate of return, it is possible to derive a product specific beta.

Product specific discount rates are used in order to reflect the risk profile of each major territory and product group. No allowance is required for non-market risks where these are assumed to be fully diversifiable. The majority of non-market risks are considered to be diversifiable. Finance theory cannot be used to determine the appropriate component of beta for non-diversifiable non-market risks since there is no observable risk premium associated with it that is akin to the equity risk premium. Recognizing this, a pragmatic approach has been used. A constant margin of 50 basis points (2007: 50 basis points) has been added to the risk margin derived for market risk to cover the non-diversifiable non-market risks associated with the business. For the UK shareholder-backed annuity business an additional margin of 100 basis points was used (2007: 100 basis points).

Product level betas are calculated each year. They are combined with the most recent product mix to produce appropriate betas and risk discount rates for each major product grouping.

(e) Sensitivity of IFRS basis profit or loss and equity to market and other risks

(i) Overview of risks by business unit

The financial assets and liabilities attaching to the Group's life assurance business are, to varying degrees, subject to market and insurance risk and other changes of experience assumptions that may have a material effect on IFRS basis profit or loss and equity.

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

Currency risk: due to changes in foreign exchange rates;

interest rate risk: due to changes in market interest rates; and

other price risk: due to fluctuations in market prices (other than those arising from interest rate risk or currency risk).

Policyholder liabilities relating to the Group's life assurance businesses are also sensitive to the effects of other changes in experience, or expected future experience, such as for mortality, other insurance risk and lapse risk.

Prudential plc and Subsidiaries

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December 31, 2008

D: Life assurance business (Continued)

In addition, the profitability of the Group's life assurance businesses and, as described in Section E, Asset management business, is indirectly affected by the performance of the assets covering policyholder liabilities and related capital.

Three key points are to be noted, namely:

- The Group's with-profit and unit-linked funds absorb most market risk attaching to the fund's investments. Except for second order effects, for example on asset management fees and shareholders' share of cost of bonuses for with-profits business, shareholder results are not directly affected by market value movements on the assets of these funds;
- the Group's shareholder results are most sensitive to market risks for assets of shareholder-backed business; and
- the main exposures of the Group's IFRS basis results to market risk for life assurance operations on investments of shareholder-backed business are for debt securities.

The most significant items for which the IFRS basis profit or loss and equity for the Group's life assurance business is sensitive to these variables are shown in the following tables. The distinction between direct and indirect exposure is not intended to indicate the relative size of the sensitivity.

	Market and credit risk			
Type of business	**Investments/ derivatives**	**Liabilities/ unallocated**	**Other exposure**	**Insurance and lapse risk**
UK insurance operations (see also section D2(j))				
With-profits business (including Prudential Annuities Limited)	Net neutral direct exposure (Indirect exposure only)		Investment performance subject to smoothing through declared bonuses	Persistency risk to future shareholder transfers
SAIF sub-fund	Net neutral direct exposure (Indirect exposure only)		Asset management fees earned by M&G	
Unit-linked business	Net neutral direct exposure (Indirect exposure only)		Investment performance through asset management fees	Persistency risk

	Asset/liability mismatch risk	
Shareholder-backed annuity business	Credit risk	Mortality experience and assumptions for longevity
	Interest rate risk for assets in excess of liabilities i.e. representing shareholder capital	

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D: Life assurance business (Continued)

	Market and credit risk			
Type of business	**Investments/ derivatives**	**Liabilities/ unallocated**	**Other exposure**	**Insurance and lapse risk**
US insurance operations (see also section D3(j))				
All business	Currency risk			Persistency risk
Variable annuity business	Net effect of market risk arising from incidence of guarantee features and variability of asset management fees offset by derivative hedging program			
Fixed indexed annuity business	Derivative hedge program to the extent not fully hedged against liability and fund performance	Incidence of equity participation features		
Fixed indexed annuity, Fixed annuity and GIC business	Credit risk Interest rate risk These risks are reflected in volatile profit or loss and shareholders' equity for derivative value movements and impairment losses, and, in addition, for shareholders' equity for value movements on fixed income securities classified as 'available for sale' under IAS 39		Spread difference between earned rate and rate credited to policyholders	Lapse risk but the effects of extreme events are mitigated by the use of swaption contracts

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D: Life assurance business (Continued)

	Market and credit risk			
Type of business	**Investments/ derivatives**	**Liabilities/ unallocated**	**Other exposure**	**Insurance and lapse risk**
Asian insurance operations (see also section D4(j))				
All business	Currency risk			Mortality and morbity risk Persistency risk
With-profits business	Net neutral direct exposure (Indirect exposure only)		Investment performance subject to smoothing through declared bonuses	
Unit-linked business	Net neutral direct exposure (Indirect exposure only)		Investment performance through asset management fees	
Non-participating business (in particular Taiwan)	Interest rate and price risk	Long-term interest rates		

(ii) IFRS shareholder results Exposures for market and other risk

Key Group exposures

The IFRS total profit for UK insurance operations has high potential sensitivity for changes to longevity assumptions affecting the carrying value of liabilities to policyholders for shareholder-backed annuity business. In addition, the result is sensitive to temporary value movements on assets backing IFRS equity.

For Jackson, the sensitivity of IFRS profit to market and other risks arises primarily for the value movements on derivatives which are used to manage the liabilities to policyholders and backing investment assets of fixed annuity and other general account business. This feature is compounded by the use of the US GAAP measurement basis for the liabilities for the contracts of these types of business, which are largely insensitive to current period market movements. In addition to these effects the Jackson IFRS equity is sensitive to the impact of interest rate and credit spread movements on the value of fixed income securities. Movements in unrealized appreciation on these securities are included as movement in equity (i.e. outside the income statement).

For Asian operations, other than possibly for the impact of any alteration to assumed long-term interest rates in Taiwan, the result is mainly affected by the impact of market levels on unit-linked business persistency, and other insurance risk.

The Asian result is also affected by short-term value movements on the asset portfolio for non-linked shareholder-backed business.

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Notes to the Consolidated Financial Statements

December 31, 2008

D: Life assurance business (Continued)

M&G profits are affected primarily by movements in the growth in funds under management and of the effect any impairment on the loan book and fair value movements on debt securities held by Prudential Capital.

Market and credit risk

UK insurance operations

With-profits business

With-profits business

Shareholder results of UK with-profits business are sensitive to market risk only through the indirect effect of investment performance on declared policyholder bonuses.

The investment assets of the PAC with-profits fund are subject to market risk. However, changes in their carrying value, net of related changes to asset-share liabilities of with-profit contracts, affect the level of unallocated surplus of the fund. As unallocated surplus is accounted for as a liability under IFRS, movements in its value do not affect shareholders' profit or equity.

The shareholder results of the UK with-profits fund correspond to the shareholders' share of the cost of bonuses declared on the with-profits business. This currently corresponds to one-ninth of the cost of bonuses declared.

Investment performance is a key driver of bonuses, and hence the shareholders' share of cost of bonuses. Due to the 'smoothed' basis of bonus declaration the sensitivity to investment performance in a single year is low. However, over multiple periods it is important.

Prudential Annuities Limited (PAL)

PAL's business is not with-profit, it writes annuity business. However, as PAL is owned by the PAC with-profits sub-fund, changes in the carrying value of PAL's assets and liabilities are reflected in the liability for unallocated surplus which as described above, changes to which do not affect shareholder results.

Scottish Amicable Insurance Fund (SAIF)
SAIF is a ring-fenced fund in which, apart from asset management fees, shareholders have no interest. Accordingly, the Group's IFRS profit and equity are insensitive to the direct effects of market risk attaching to SAIF's assets and liabilities.

Shareholder-backed business

The factors that may significantly affect the IFRS results of UK shareholder-backed business are the mortality experience and assumptions and credit risk attaching to the annuity business of Prudential Retirement Income Limited and the PAC non-profit sub-fund.

Prudential Retirement Income Limited (PRIL)

The assets covering PRIL's liabilities are principally debt securities and other investments that are held to match the expected duration and payment characteristics of the policyholder liabilities.

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December 31, 2008

D: Life assurance business (Continued)

These liabilities are valued for IFRS reporting purposes by applying discount rates that reflect the market rates of return attaching to the covering assets.

Except mainly to the extent of any minor asset/liability duration mismatch and exposure to credit risk, the sensitivity of the Group's results to market risk for movements in the carrying value of PRIL's liabilities and covering assets is broadly neutral on a net basis.

The main market risk sensitivity for PRIL arises from interest rate risk on the debt securities which substantially represent IFRS equity. This equity comprises the net assets held within the long-term fund of the company that cover regulatory basis liabilities that are not recognized for IFRS reporting purposes, for example contingency reserves, and shareholder capital held outside the long-term fund.

The principal items affecting the IFRS results for PRIL are mortality experience and assumptions and credit risk.

PAC non-profit sub-fund

The PAC non-profit sub-fund principally comprises annuity business previously written by Scottish Amicable Life, credit life, unit-linked and other non-participating business.

The financial assets covering the liabilities for those types of business are subject to market risk. However, for the annuity business the same considerations as described above for PRIL apply, whilst the liabilities of the unit-linked business change in line with the matching linked assets. Other liabilities of the PAC non-profit sub-fund are broadly insensitive to market risk.

Other shareholder-backed unit-linked business

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

Jackson

The IFRS basis results of Jackson are highly sensitive to market risk on the assets covering liabilities other than variable annuity business segregated in the separate accounts.

Invested assets covering liabilities for these types of business and related capital comprise principally debt securities classified as available-for-sale. Value movements for these securities are reflected as movements in shareholders' equity. Other invested assets and derivatives are carried at fair value with the value movements reflected in the income statement.

By contrast, the IFRS insurance liabilities for these types of business of Jackson, by the application of grandfathered GAAP under IFRS 4, are measured on US GAAP bases which with the exception of certain items covered by the equity hedging program, are generally insensitive to temporary changes in market conditions or the short-term returns on the attaching asset portfolios.

These differences in carrying value of debt securities, other invested assets, derivatives and insurance liabilities give rise to potentially significant volatility in the IFRS income statement and shareholders' equity.

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December 31, 2008

D: Life assurance business (Continued)

In addition to these effects, the factors that most significantly affect the Jackson IFRS result are:

Variable annuity business net effect of market risk arising from the incidence and valuation guarantee features and variability of asset management fees offset by derivative hedging performance;

fixed annuity business the spread differential between the earned rate and the rate credited to policyholders; and

fixed index annuity business the spread differential between the earned rate and the rate credited to policyholders and incidence of equity index participation features, net of the related hedging performance.

Further, the total profit for Jackson is affected by the level of impairment losses on the debt securities portfolios, short-term value movements on derivatives held to manage the fixed annuity and other general account business, other temporary value movements on portfolio investments, and those arising on revaluing the embedded derivative components of variable annuity liabilities for the effects of short-term movements in AA corporate bond rate curves and equity volatility levels.

Asian operations

For Asian with-profits business the same features apply as described above for UK with-profits business. Similarly, as for other parts of the Group, for unit-linked business the main factor affecting IFRS basis results is investment performance through asset management fees.

The sensitivity of the IFRS basis results of the Group's Asian operations to market risk is primarily restricted to the non-participating business.

This sensitivity is primarily reflected through the volatility of asset returns coupled with the fact that the accounting carrying value of liabilities to policyholders are only partially sensitive to changed market conditions. In addition to these features the overriding factor that affects IFRS basis results for Asian non-participating business is the return on the assets covering the Taiwan whole of life policies. This factor directly affects the actual return in any given reporting period. In addition though, the measurement of the liabilities to policyholders and the carrying value of deferred acquisition costs for this business is dependant upon an assessment of longer-term interest rates. This key feature is described in more detail in notes D4(g) and (j)(iii).

Insurance and lapse risk

The features described above cover the main sensitivities of IFRS profit and loss and equity for market, insurance and credit risk. Lapse and longevity risk may also be a key determination of IFRS basis results with variable impacts.

In the UK, adverse persistency experience can affect the level of profitability from with-profits and unit-linked business.

For with-profits business in any given year, the amount represented by the shareholders' share of cost of bonus may be only marginally affected. However, altered persistency trends may affect future expected shareholder transfers.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

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D: Life assurance business (Continued)

By contrast, Group IFRS profit is particularly sensitive to longevity shocks that result in changes of assumption for the UK shareholder-backed annuity business.

Jackson is sensitive to lapse risk. However, Jackson uses swaption derivatives to ameliorate the effect of a sharp rise in interest rates, which would be the most likely cause of a sudden change in policyholder behavior.

(iii) Impact of diversification on risk exposure

The Group enjoys significant diversification benefits. This arises because not all risk scenarios will happen at the same time and across all geographic regions. The Group tests the sensitivities of results to different correlation factors such as:

Correlation across geographic regions

- Financial risk factors
- Non-financial risk factors.

Correlation across risk factors

- Longevity risk
- Expenses
- Persistency
- Other risks.

The effect of Group diversification is to significantly reduce the aggregate standalone volatility risk to the IFRS results. The effect is almost wholly explained by the correlations across risk types, in particular longevity risk.

(f) Duration of liabilities

Under the terms of the Group's contracts, as for life assurance contracts generally, the contractual maturity date is the earlier of the end of the contract term, death, other insurable events or surrender. The Group has therefore chosen to provide details of liability duration that reflect the actuarially determined best estimate of the likely incidence of these factors on contract duration. Details are shown in sections D2(k), D3(k) and D4(k).

In the years 2004 to 2008, claims paid on the Group's life assurance contracts including those classified as investment contracts under IFRS 4 ranged from £13 billion to £19 billion. Indicatively, it is to be expected that, of the Group's policyholder liabilities (excluding unallocated surplus) at December 31, 2008 of £174 billion, the amounts likely to be paid in 2009 will be of a similar magnitude.

Prudential plc and Subsidiaries

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D: Life assurance business (Continued)

D2: UK insurance operations

(a) Summary balance sheet

In order to explain the different types of UK business and fund structure, the balance sheet of the UK insurance operations may be analyzed by the assets and liabilities of the Scottish Amicable Insurance Fund (SAIF), the PAC with-profits sub-fund, unit-linked, annuity (principally PRIL) and other business. The assets and liabilities of these funds and subsidiaries are shown in the table below.

	PAC with-profits sub-fund note i				Other funds and subsidiaries			UK insurance operations	
	Scottish Amicable Insurance Fund note ii £ million	Excluding Prudential Annuities Limited £ million	Prudential Annuities Limited note iii £ million	Total note iv £ million	Unit-linked assets and liabilities £ million	Annuity and other long-term business £ million	Total £ million	2008 Total £ million	2007 Total £ million
Assets									
Intangible assets attributable to shareholders:									
Deferred acquisition costs and other intangible assets						134	134	**134**	157
						134	134	**134**	157
Intangible assets attributable to PAC with-profits fund:									
In respect of acquired subsidiaries for venture fund and other investment purposes		174		174				**174**	192
Deferred acquisition costs	3	10		10				**13**	19
	3	184		184				**187**	211

Total	3	184		184		134	134	**321**	368
Deferred tax assets	7	174	98	272		234	234	**513**	105
Other non-investment and non-cash assets	244	2,246	380	2,626	443	1,649	2,092	**4,962**	4,110
Investments of long-term business and other operations:									
Investment properties	882	8,365	664	9,029	710	1,338	2,048	**11,959**	13,666
Financial investments:									
Loansnote v	194	1,000	151	1,151		557	557	**1,902**	1,245
Equity securities and portfolio holdings in unit trusts	3,718	25,056	247	25,303	9,827	32	9,859	**38,880**	60,829
Debt securitiesnote vi	4,218	21,658	11,888	33,546	4,409	16,698	21,107	**58,871**	57,180
Other investmentsnote vii	777	2,761	219	2,980	136	267	403	**4,160**	3,391
Deposits	649	3,974	160	4,134	489	818	1,307	**6,090**	7,228
Total investments	10,438	62,814	13,329	76,143	15,571	19,710	35,281	**121,862**	143,539
Held for sale assets									30
Cash and cash equivalents	196	707	184	891	979	505	1,484	**2,571**	1,869
Total assets	**10,888**	**66,125**	**13,991**	**80,116**	**16,993**	**22,232**	**39,225**	**130,229**	**150,021**

Prudential plc and Subsidiaries

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December 31, 2008

D: Life assurance business (Continued)

	PAC with-profits sub-fund note i				Other funds and subsidiaries			UK insurance operations	
	Scottish Amicable Insurance Fund note ii £ million	Excluding Prudential Annuities Limited £ million	Prudential Annuities Limited note iii £ million	Total note iv £ million	Unit-linked assets and liabilities £ million	Annuity and other long-term business £ million	Total £ million	2008 Total £ million	2007 Total £ million
Equity and liabilities									
Equity									
Shareholders' equity						1,655	1,655	**1,655**	1,364
Minority interests	16	31		31				**47**	42
Total equity	16	31		31		1,655	1,655	**1,702**	1,406
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Insurance contract liabilities	9,524	29,486	11,477	40,963	6,041	16,228	22,269	**72,756**	82,938
Investment contract liabilities with discretionary participation features	494	22,873		22,873				**23,367**	29,466
Investment contract liabilities without discretionary participation features					10,277	1,307	11,584	**11,584**	12,073
Unallocated surplus of with-profits		6,705	1,549	8,254				**8,254**	13,813

funds (reflecting application of 'realistic' provisions for UK regulated with-profits funds)									
Total	10,018	59,064	13,026	72,090	16,318	17,535	33,853	**115,961**	138,290
Operational borrowings attributable to shareholder-financed operations						54	54	**54**	12
Borrowings attributable to with-profits funds	112	1,196		1,196				**1,308**	987
Other non-insurance liabilities:									
Obligations under funding, securities lending and sale and repurchase agreements	260	997	313	1,310		681	681	**2,251**	1,360
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		924	19	943	555	38	593	**1,536**	1,751
Current tax liabilities	3	35	19	54		70	70	**127**	507
Deferred tax liabilities	28	663	295	958		435	435	**1,421**	2,383
Accruals and deferred income	17	185		185		63	63	**265**	289
Other creditors	20	567	8	575		1,024	1,024	**1,619**	1,913
Provisions		67		67		200	200	**267**	326
Derivative liabilities	414	2,303	280	2,583		404	404	**3,401**	699
Other liabilities		93	31	124	120	73	193	**317**	98
Total	742	5,834	965	6,799	675	2,988	3,663	**11,204**	9,326
Total liabilities	10,872	66,094	13,991	80,085	16,993	20,577	37,570	**128,527**	148,615
Total equity and liabilities	**10,888**	**66,125**	**13,991**	**80,116**	**16,993**	**22,232**	**39,225**	**130,229**	**150,021**

Notes

i For the purposes of this table and subsequent explanation, references to the WPSF also include, for convenience, the amounts attaching to the Defined Charges Participating Sub-fund.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

D: Life assurance business (Continued)

ii

SAIF is a separate sub-fund within the PAC long-term business fund.

iii

Wholly-owned subsidiary of the PAC WPSF that writes annuity business.

iv

Excluding policyholder liabilities of the Hong Kong branch of PAC.

v

The loans of the Group's UK insurance operations of £1,902 million (2007: £1,245 million) comprise mortgage loans of £701 million (2007: £449 million), policy loans of £29 million (2007: £35 million) and other loans of £1,172 million (2007: £761 million). The mortgage loans are collateralized by properties. Other loans are all commercial loans and comprise mainly syndicated loans held by the PAC with-profits fund.

vi

Included in debt securities above are £13,026 million (2007: £11,149 million) of securities which are not quoted on active markets and for which fair value is determined using internal valuation techniques, or is provided by brokers or pricing services, where the specific securities have been valued using valuation techniques by these third-party providers. Of this amount, £12,341 million (2007: £10,640 million) related to securities held by with-profit operations and £685 million (2007: £509 million) related to securities held by the UK shareholder-backed business. See note G1 for additional details.

vii

Other investments comprise:

	2008 £ million	2007 £ million
Derivative assets note G3	**1,326**	571
Partnerships in investment pools and other	**2,834**	2,820
	4,160	3,391

Partnerships in investment pools and other comprise mainly investments held by the PAC with-profits fund. These investments are primarily venture fund investments and investment in property funds and limited partnerships.

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D: Life assurance business (Continued)

(b) Reconciliation of movement in investments

A reconciliation of the total investments of UK insurance operations from the beginning of the year to the end of the year is as follows:

	PAC with-profits sub-fund				Other funds and subsidiaries		
	Scottish Amicable Insurance Fund	Excluding Prudential Annuities Limited	Prudential Annuities Limited	Total	Unit-linked assets and liabilities	Annuity and other long-term business	UK insurance operations Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At January 1, 2007							
Total investments	14,201	74,463	15,305	89,768	17,237	17,331	138,537
Less: Investments held by consolidated investment funds						(1,179)	(1,179)
Less: Derivative liabilities	(36)	(169)	(44)	(213)		(19)	(268)
Directly held investments, net of derivative liabilities	14,165	74,294	15,261	89,555	17,237	16,133	137,090
Net cash inflow from operating activities	(829)	1,100	(216)	884	595	2,478	3,128
Realized gains (losses) in the year	637	3,364	73	3,437	693	(107)	4,660
Unrealized gains (losses) in the year	(420)	(847)	(650)	(1,497)	(478)	(394)	(2,789)
Foreign exchange translation differences		99		99			99
Movement in the year of directly held investments, net of derivative liabilities	(612)	3,716	(793)	2,923	810	1,977	5,098
At December 31, 2007/January 1, 2008							
Total investments	13,665	78,487	14,515	93,002	18,047	18,825	143,539
Less: Investments held by consolidated investment funds						(662)	(662)
Less: Derivative liabilitiesnote G3	(112)	(477)	(47)	(524)		(53)	(689)

Directly held investments, net of derivative liabilities	13,553	78,010	14,468	92,478	18,047	18,110	142,188
Net cash inflow from operating activities	(1,245)	(1,396)	(211)	(1,607)	811	2,928	887
Realized gains (losses) in the year	276	84	25	109	(156)	(156)	73
Unrealized gains (losses) in the year	(2,560)	(17,991)	(1,236)	(19,227)	(3,568)	(1,577)	(26,932)
Foreign exchange translation differences		1,631	3	1,634	(1)	3	1,636
Movement in the year of directly held investments, net of derivative liabilities	(3,529)	(17,672)	(1,419)	(19,091)	(2,914)	1,198	(24,336)
At December 31, 2008							
Total investments	10,438	62,814	13,329	76,143	15,571	19,710	121,862
Less: Investments held by consolidated investment funds		(145)		(145)	(424)	(40)	(609)
Less: Derivative liabilitiesnote G3	(414)	(2,331)	(280)	(2,611)	(14)	(362)	(3,401)
Directly held investments, net of derivative liabilities	10,024	60,338	13,049	73,387	15,133	19,308	117,852

Prudential plc and Subsidiaries

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December 31, 2008

D: Life assurance business (Continued)

(c) Reconciliation of movement in policyholder liabilities and unallocated surplus of with-profits fund

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of UK insurance operations from the beginning of the year to the end of the year is as follows:

	Other funds and subsidiaries			
	SAIF and PAC with-profits sub-fund £ million	Unit-linked liabilities £ million	Annuity and other long-term business £ million	UK insurance operations Total £ million
At January 1, 2007	101,616	18,187	14,101	133,904
Premiums	4,459	2,115	2,279	8,853
Surrenders	(2,879)	(1,636)	(13)	(4,528)
Maturities/Deaths	(4,987)	(790)	(1,010)	(6,787)
Shareholders transfers post tax	(279)			(279)
Switches	(352)	352		
Assumption changes (shareholder-backed business)[note D2(i)]			(34)	(34)
Investment-related items and other movements	6,256	749	223	7,228
Foreign exchange translation differences	(62)		(5)	(67)
At December 31, 2007/January 1,2008	103,772	18,977	15,541	138,290
Premiums	3,157	2,435	3,780	9,372
Surrenders	(2,336)	(1,838)	(107)	(4,281)
Maturities/Deaths	(6,309)	(666)	(1,349)	(8,324)
Shareholders transfers post tax	(284)			(284)
Switches	(360)	360		
Assumption changes (shareholder-backed business)[note D2(i)]			447	447
Investment-related items and other movements	(13,049)	(2,952)	(777)	(16,778)
Foreign exchange translation differences	(2,483)	2		(2,481)
At December 31, 2008	82,108	16,318	17,535	115,961

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December 31, 2008

D: Life assurance business (Continued)

(d) Information on credit risk of debt securities

The following table summarizes by rating the securities held by UK insurance operations as at December 31, 2008 and 2007:

	PAC with-profits sub-fund				Other funds and subsidiaries		UK insurance operations	
	Scottish Amicable Insurance Fund £ million	Excluding Prudential Annuities Limited £ million	Prudential Annuities Limited £ million	Total £ million	Unit-linked assets and liabilities £ million	Annuity and other long-term business £ million	2008 Total £ million	2007 Total £ million
S&P AAA	1,139	5,765	3,176	8,941	2,866	6,035	**18,981**	21,556
S&P AA+ to AA-	318	1,817	1,389	3,206	423	2,065	**6,012**	6,173
S&P A+ to A-	1,058	5,804	3,295	9,099	815	4,957	**15,929**	12,557
S&P BBB+ to BBB-	789	3,875	919	4,794	210	1,620	**7,413**	5,409
S&P Other	152	794	16	810	71		**1,033**	942
	3,456	18,055	8,795	26,850	4,385	14,677	**49,368**	46,637
Moody's Aaa	111	344	89	433	9	128	**681**	1,021
Moody's Aa1 to Aa	66	353	255	608		159	**833**	587
Moody's A1 to A3	43	222	232	454		181	**678**	944
Moody's Baa1 to Baa3	35	146	138	284		135	**454**	490
Moody's Other	4	136	12	148		10	**162**	410
	259	1,201	726	1,927	9	613	**2,808**	3,452
Fitch	34	181	188	369		157	**560**	682
Other	469	2,221	2,179	4,400	15	1,251	**6,135**	6,409
Total debt securities	4,218	21,658	11,888	33,546	4,409	16,698	**58,871**	57,180

In the table above S&P ratings have been used where available. For securities where S&P ratings are not available those produced by Moody's and then Fitch have been used as an alternative.

Where no external ratings are available internal ratings produced by the Group's asset management operations, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. Of the total debt securities held at December 31, 2008 which are not externally rated, £2,325 million (2007: £2,972 million) were internally rated AAA to A-, £3,149 million (2007: £2,844 million) were internally rated BBB+ to B- and £661 million (2007: £593 million) were unrated. The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them.

As detailed in note D2(j) below, the primary sensitivity of IFRS basis profit or loss and shareholders' equity relates to non-linked shareholder-backed business which covers other funds and subsidiaries in the table above.

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D: Life assurance business (Continued)

(e) Products and guarantees

Prudential's long-term products in the UK consist of life insurance, pension products and pension annuities.

These products are written primarily in:

One of three separate sub-funds of the PAC long-term fund, namely the with-profits sub-fund, SAIF, and the non-profit sub-fund;

Prudential Annuities Limited, which is owned by the PAC with-profits sub-fund;

Prudential Retirement Income Limited, a shareholder-owned subsidiary; or

Other shareholder-backed subsidiaries writing mainly non-profit unit-linked business.

(i) With-profits products and PAC with-profits sub-fund

Within the balance sheet of UK insurance operations at December 31, 2008, as shown in note D2(a), there are policyholder liabilities and unallocated surplus of £72.1 billion (2007: £90.5 billion) that relate to the WPSF. These amounts include the liabilities and capital of Prudential Annuities Limited, a wholly owned subsidiary of the fund. The WPSF mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). The WPSF's profits are apportioned 90 per cent to its policyholders and 10 per cent to shareholders as surplus for distribution is determined via the annual actuarial valuation.

With-profits products provide returns to policyholders through bonuses that are 'smoothed'. There are two types of bonuses: 'annual' and 'final'. Annual 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 guaranteed only until the next bonus declaration.

When determining policy payouts, including final bonuses, Prudential considers policyholders' reasonable expectations, the need to smooth claim values and payments from year to year and competitive considerations, together with 'asset shares' for specimen policies. Asset shares broadly reflect the value of premiums paid plus the investment return on the assets notionally attributed to the policy, less the other items to be charged such as expenses and the cost of the life insurance cover.

For many years, UK with-profits product providers, such as Prudential, have been required by law and regulation to consider the reasonable expectations of policyholders in setting bonus levels. This concept is established by statute but is not defined. However, it is defined within the regulatory framework, which also more recently contains an explicit requirement to treat customers fairly.

The WPSF held a provision of £42 million at December 31, 2008 (2007: £45 million) to honor guarantees on a small amount of guaranteed annuity products. SAIF's exposure to guaranteed annuities is described below.

Beyond the generic guarantees described above, there are very few explicit options or guarantees such as minimum investment returns, surrender values or annuities at retirement and any granted have generally been at very low levels.

Prudential plc and Subsidiaries

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D: Life assurance business (Continued)

(ii) Annuity business

Prudential's conventional annuities include level, fixed increase and retail price index (RPI) annuities. They are mainly written within the subsidiaries PAL, PRIL, Prudential Pensions Limited and the PAC with-profits sub-fund, but there are some annuity liabilities in the non-profit sub-fund and SAIF.

Prudential's fixed-increase annuities incorporate automatic increases in annuity payments by fixed amounts over the policyholder's life. The RPI annuities that Prudential offers provide for a regular annuity payment to which an additional amount is added periodically based on the increase in the UK RPI.

Prudential's with-profits annuities, which are written in the WPSF, combine the income features of annuity products with the investment smoothing features of with-profits products and enable policyholders to obtain exposure to investment return on the WPSF's equity shares, property and other investment categories over time. Policyholders select an 'anticipated bonus' from the specific range Prudential offers for the particular product. The amount of the annuity payment each year depends upon the relationship between the anticipated bonus rate selected by the policyholder when the product is purchased and the bonus rates Prudential subsequently declares each year during the term of the product. If the total bonus rates fall below the anticipated rate, then the annuity income falls.

On December 31, 2007, Prudential completed the transfer of 62,000 with-profits annuity policies from Equitable Life, with assets of approximately £1.7 billion. The policies transferred form part of the Defined Charge Participating Sub-Fund of Prudential's with-profit fund. Profits to shareholders will emerge on a 'charges less expenses' basis and policyholders will be entitled to 100 per cent of the investment earnings.

At December 31, 2008, £29.4 billion (2007: £29.5 billion) of investments relate to annuity business of PAL and PRIL. These investments are predominantly in debt securities (including retail price index-linked bonds to match retail price index-linked annuities), loans and deposits and are duration matched with the estimated duration of the liabilities they support.

(iii) SAIF

SAIF is a ring-fenced sub-fund of the PAC long-term fund formed following the acquisition of the mutually owned 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 incremental premiums are permitted on these policies.

The fund is solely for the benefit of policyholders of SAIF. Shareholders have no interest in the profits of this fund although they are entitled to asset management fees on this business.

The process for determining policyholder bonuses of SAIF with-profits policies, which constitute the vast majority of obligations of the funds, is similar to that for the with-profits policies of the WPSF. However, in addition, the surplus assets in SAIF are allocated to policies in an orderly and equitable distribution over time as enhancements to policyholder benefits i.e. in excess of those based on asset share.

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D: Life assurance business (Continued)

Provision is made for the risks attaching to some SAIF unitized with-profits policies that have MVR-free dates and for those SAIF products which have a guaranteed minimum benefit on death or maturity of premiums accumulated at four per cent per annum.

The Group's main exposure to guaranteed annuities in the UK is through SAIF and a provision of £391 million was held in SAIF at December 31, 2008 (2007: £563 million) to honor the guarantees. As SAIF is a separate sub-fund solely for the benefit of policyholders of SAIF this provision has no impact on the financial position of the Group's shareholders' equity.

(iv) Unit-linked (non-annuity) and other non-profit business

Prudential UK insurance operations also have an extensive book of unit-linked policies of varying types and provide a range of other non-profit business such as credit life and protection contracts. These contracts do not contain significant financial guarantees.

There are no guaranteed maturity values or guaranteed annuity options on unit-linked policies except for minor amounts for certain policies linked to cash units within SAIF.

(f) Exposure to market risk

(i) Non-linked life and pension business

For with-profits business, the absence of guaranteed surrender values and the flexibility given by the operation of the bonus system means that the majority of the investments backing the with-profits business are in equities and real estate with the balance in debt securities, deposits and loans.

The investments supporting the protection business are small in value and tend to be fixed maturities reflecting the guaranteed nature of the liabilities.

(ii) Pension annuity business

Prudential's UK annuity business mainly employs fixed income investments (including UK retail price index-linked assets) because the liabilities consist of guaranteed payments for as long as each annuitant or surviving partner is alive. Retail price index-linked assets are used to back pension annuities where the payments are linked to the RPI.

(iii) Unit-linked business

Except through the second order effect on asset management fees, the unit-linked business of the UK insurance operations is not exposed to market risk. The lack of exposure arises from the contract nature whereby policyholder benefits reflect asset value movements of the unit-linked funds.

(g) Process for setting assumptions and determining contract liabilities

(i) Overview

The calculation of the contract liabilities involves the setting of assumptions for future experience. This is done following detailed review of the relevant experience including, in particular, mortality, expenses, tax, economic assumptions and where applicable, persistency.

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D: Life assurance business (Continued)

For with-profits business written in the WPSF or SAIF, a market consistent valuation is performed (as described in section (ii) below). Additional assumptions required are for persistency and the management actions under which the fund is managed. Assumptions used for a market consistent valuation typically do not contain margins, whereas those used for the valuation of other classes of business do.

Mortality assumptions are set based on the results of the most recent experience analysis looking at the experience over recent years of the relevant business. For non-profit business, a margin for adverse deviation is added. Different assumptions are applied for different product groups. For annuitant mortality, assumptions for current mortality rates are based on recent experience investigations and expected future improvements in mortality. The expected future improvements are based on recent experience and projections of the business and industry experience generally.

Maintenance and, for some classes of business, termination expense assumptions are expressed as per policy amounts. They are set based on the expenses incurred during the year, including an allowance for ongoing investment expenditure and allocated between entities and product groups in accordance with the operation's internal cost allocation model. For non-profit business a margin for adverse deviation is added to this amount. Expense inflation assumptions are set consistent with the economic basis and based on the difference between yields on nominal gilts and index-linked gilts.

The actual renewal expenses charged to SAIF continued to be based on the tariff arrangement specified in the Scottish Amicable Life Assurance Society Scheme up to December 31, 2007, when the tariff arrangement terminated. This provided an additional margin in SAIF as the unit costs derived from actual expenses (and used to derive the recommended assumptions) were generally significantly greater than the tariff costs. From January 1, 2008 the full expenses incurred are being charged to SAIF.

The assumptions for asset management expenses are based on the charges specified in agreements with the Group's asset management operations, plus a margin for adverse deviation for non-profit business.

Tax assumptions are set equal to current rates of taxation.

For non-profit business excluding unit-linked business, the valuation interest rates used to discount the liabilities are based on the yields as at the valuation date on the assets backing the technical provisions. For fixed interest securities the gross redemption yield is used except for the PAL and PRIL annuity business where the internal rate of return of the assets backing the liabilities is used. For property it is the rental yield, and for equities it is the greater of the dividend yield and the average of the dividend yield and the earnings yield. An adjustment is made to the yield on non risk-free fixed interest securities and property to reflect credit risk. To calculate the non-unit reserves for linked business, assumptions have been set for the gross unit growth rate and the rate of inflation of maintenance expenses, as well as for the valuation interest rate as described above.

(ii) WPSF and SAIF

The policyholder liabilities reported for the WPSF are primarily for two broad types of business. These are accumulating and conventional with-profits contracts. The policyholder liabilities of the WPSF are accounted for under FRS 27.

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D: Life assurance business (Continued)

The provisions have been determined on a basis consistent with the detailed methodology included in regulations contained in the FSA's rules for the determination of reserves on the FSA's 'realistic' Peak 2 basis. In aggregate, the regime 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. These contracts are a combination of insurance and investment contracts with discretionary participation features, as defined by IFRS 4.

The FSA's Peak 2 calculation under the realistic regime requires the value of liabilities to be calculated as:

The with-profits benefits reserve (WPBR); plus

future policy related liabilities (FPRL); plus

the realistic current liabilities of the fund.

The WPBR is primarily based on the retrospective calculation of accumulated asset shares but is adjusted to reflect future expected policyholder benefits and other outgoings. Asset shares are calculated as the accumulation of all items of income and outgo that are relevant to each policy type. Income comprises credits for premiums, investment returns (including unrealized gains), and miscellaneous profits. Outgo comprises charges for tax (including an allowance for tax on unrealized gains), guarantees and smoothing, mortality and morbidity, shareholders' profit transfers, miscellaneous losses, and expenses and commission (net of any tax relief).

The FPRL must include a market consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount must be determined using either a stochastic approach, hedging costs or a series of deterministic projections with attributed probabilities.

The assumptions used in the stochastic models are calibrated to produce risk-free returns on each asset class. Volatilities of, and correlations between, investment returns from different asset classes are as determined by the Group's Portfolio Management Group and aim to be market consistent.

The cost of guarantees, options and smoothing is very sensitive to the bonus, market value reduction (MVR), and investment policy employed and therefore the stochastic modeling incorporates a range of management actions that would help to protect the fund in adverse investment scenarios. Substantial flexibility has been included in the modeled management actions in order to reflect the discretion that is retained in adverse investment conditions, thereby avoiding the creation of unreasonable minimum capital requirements. The management actions assumed are consistent with the Group's management policy for with-profits funds and the Group's disclosures in the publicly available Principles and Practices of Financial Management.

The contract liabilities for with-profits business also require assumptions for persistency. These are set based on the results of recent experience analysis.

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D: Life assurance business (Continued)

(iii) Annuity business

Credit risk provisions

For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest for discounting projected future annuity payments to policyholders that would have otherwise applied. The valuation rate that is applied includes a liquidity premium that reflects the residual element of current bond spreads over swap rates after providing for the credit risk allowance.

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL on the IFRS basis at December 31, 2008 based on the asset mix at that date are as follows:

	Pillar I Regulatory basis (bps)	2008 Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
Bond spread over swap rates[note i]	**323**		**323**
Credit risk allowance			
Long-term expected defaults[note ii]	**15**		**15**
Long-term credit risk premium[note iii]	**11**		**11**
Short-term allowance for credit risk[note iv]	**54**	**(25)**	**29**
Total credit risk allowance	**80**	**(25)**	**55**
Liquidity premium	**243**	**25**	**268**

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D: Life assurance business (Continued)

By comparison, for 2007, the weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business on the IFRS basis at December 31, 2007 based on the asset mix of the portfolio at that date were as follows:

	Pillar I Regulatory basis (bps)	2007 Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
Bond spread over swap rates[note i]	76		76
Credit risk allowance			
Long-term expected defaults[note ii]	13		13
Long-term credit risk premium[note iii]	10	(3)	7
Short-term allowance for credit risk[note iv]	10	(10)	
Total credit risk allowance	33	(13)	20
Liquidity premium	43	13	56

Notes

i Bond spread over swap rates reflect market observed data to credit spreads.

ii Long-term expected defaults; this is derived by applying Moody's data from 1970 to 2004 uplifted by between 100 per cent (B) and 200 per cent (AAA) according to credit rating on the annuity asset portfolio. The credit rating assigned to each asset held is based on external credit rating and for this purpose the credit rating assigned to each asset held is the lowest credit rating published by Moody's, Standard and Poors and Fitch.

iii Long-term credit risk premium; this provides compensation against the risk of potential volatility in the level of defaults and is derived by applying the 95th percentile from Moody's data from 1970 to 2004 to the annuity asset portfolio.

iv During the second half of 2007, corporate bond spreads widened significantly and the methodology was reviewed to ensure that it still made appropriate allowance for credit risk. As a result of this review a short-term allowance for credit risk was established to allow for the concern that credit ratings applied by rating agencies to individual bonds might be over optimistic.

The short-term allowance for credit risk assumed in the Pillar I solvency valuation has been determined as 25 per cent of the increase in corporate bond spreads (as estimated from the movements in published corporate bond indices) since December 31, 2006.

The approach for IFRS, however, aims to establish liabilities that are closer to 'best estimate'. The very prudent Pillar I regulatory basis reflects the overriding objective of ensuring sufficient provisions and capital to ensure payments to policyholders can be made. In previous years long-term IFRS default assumptions were set mid-way between the EEV and Pillar I assumptions. At December 31, 2008, in light of the increase uncertainty surrounding future credit default experience, the IFRS long-term assumptions have been strengthened to bring them into line with the long-term Pillar I default assumptions. In addition a short-term allowance for credit risk has been established but at a lower level than allowed for in the Pillar I regulatory basis.

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D: Life assurance business (Continued)

Mortality

The mortality assumptions are set in light of recent population and internal experience. The assumptions used are percentages of standard actuarial mortality tables with an allowance for future mortality improvements. Where annuities have been sold on an enhanced basis to impaired lives an additional age adjustment is made. The percentages of the standard table used are selected according to the source of business. The range of percentages used is set out in the following tables:

	PAL		PRIL	
2008	**Males**	**Females**	**Males**	**Females**
In payment	102% 126% PNMA00 (C = 2000) with medium cohort improvement table with a minimum annual improvement of 2.25% up to age 90, tapering to zero at age 120	84% 117% PNFA00 (C = 2000) with 75% of medium cohort improvement table with a minimum annual improvement of 1.25% up to age 90, tapering to zero at age 120	97% 102% PNMA00 (C = 2000) with medium cohort improvement table with a minimum annual improvement of 2.25% up to age 90, tapering to zero at age 120	88% 98% PNFA00 (C = 2000) with 75% of medium cohort improvement table with a minimum annual improvement of 1.25% up to age 90, tapering to zero at age 120
In deferment	AM92 minus 4 years	AF92 minus 4 years	AM92 minus 4 years	AF92 minus 4 years

	PAL		PRIL	
2007	**Males**	**Females**	**Males**	**Females**
In payment	106% 126% PNMA00 (C = 2000) with medium cohort improvement table with a minimum annual improvement of 2.25% up to age 90, tapering to zero at age 120	84% 117% PNFA00 (C = 2000) with 75% of medium cohort improvement table with a minimum annual improvement of 1.25% up to age 90, tapering to zero at age 120	99% 114% PNMA00 (C = 2000) with medium cohort improvement table with a minimum annual improvement of 2.25% up to age 90, tapering to zero at age 120	85% 103% PNFA00 (C = 2000) with 75% of medium cohort improvement table with a minimum annual improvement of 1.25% up to age 90, tapering to zero at age 120
In deferment	AM92 minus 4 years	AF92 minus 4 years	AM92 minus 4 years	AF92 minus 4 years

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D: Life assurance business (Continued)

	PAL		PRIL	
2006	**Males**	**Females**	**Males**	**Females**
In payment	106% 126% PNMA00 (C = 2000) with medium cohort improvement table with a minimum annual improvement of 1.25%	84% 117% PNFA00 (C = 2000) with 75% of medium cohort improvement table with a minimum annual improvement of 0.75%	99% 114% PNMA00 (C = 2000) with medium cohort improvement table with a minimum annual improvement of 1.25%	85% 103% PNFA00 (C = 2000) with 75% of medium cohort improvement table with a minimum annual improvement of 0.75%
In deferment	AM92 minus 4 years	AF92 minus 4 years	AM92 minus 4 years	AF92 minus 4 years

(iv) Unit-linked (non-annuity) and other non-profit business

The majority of other long-term business written in the UK insurance operations is unit-linked business or other business with similar features. For these contracts the attaching liability reflects the unit value obligation and provision for expenses and mortality risk. The latter component is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile.

For unit-linked business, the assets covering unit liabilities are exposed to market risk, but the residual risk when considering the unit-linked liabilities and assets together is limited to the effect on fund-based charges.

For those contracts where the level of insurance risk is insignificant the assets and liabilities arising under the contracts are distinguished between those that relate to the financial instrument liability and acquisition costs and deferred income that relate to the component of the contract that relates to investment management. Acquisition costs and deferred income are recognized consistent with the level of service provision in line with the requirements of IAS 18.

(h) Reinsurance

The Group's UK insurance business cedes only minor amounts of business outside the Group. During 2008, reinsurance premiums for externally ceded business were £61 million (2007: £59 million; 2006:£58 million) and reinsurance recoverable insurance assets were £416 million (2007: £335 million) in aggregate. The gains and losses recognized in profit and loss for these contracts were immaterial.

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D: Life assurance business (Continued)

(i) Effect of changes in assumptions used to measure insurance assets and liabilities

2008

Mortality

Recent mortality experience has been in line with expectations and no change is therefore required to the overall strength of mortality assumptions at December 31, 2008. However, current mortality assumptions have been rebalanced across different categories of business so that they are more closely aligned to the actual experience of each product category. The overall effect of rebalancing the assumptions between different product groups is financially neutral.

Credit risk

In total, for 2008, the effect of changes to the allowance for credit risk and the effect of portfolio rebalancing gives rise to a charge of £23 million. For shareholder- backed annuity and lifetime mortgage business, the loss before tax includes a charge of £413 million for the additional credit risk allowance in line with the assumptions shown above in D2(g), for the annuity portfolio as a whole. Partially offsetting this is a credit of £390 million for the effect of £2.8 billion of portfolio rebalancing to more closely align with management benchmark. The credit reflects the additional yield expected after allowing for additional credit risk arising from the rebalancing.

Aggregate effect of assumptions changes

For UK insurance operations, the effects of assumptions changes were as follows:

	2008	
	With-profits sub-fund £ million	Shareholder-backed business £ million
Effect of (strengthening) weakening of mortality assumptions	(60)	(4)
Modeling of management actions[note a]	421	
(Strengthening) weakening of other assumptions	75	
	436	(4)
Release of other margins:		
Projected benefit related	10	10
Investment related:		
Additional credit default margins	(369)	[note b](413)
Deflation risk margins	(30)	(32)
Expense related	36	(8)
Net credit to unallocated surplus	83	
Net charge to shareholder result		(447)

Notes

a

The £421 million credit for modeling of management actions relates primarily to enhancements for actions in the event of solvency distress scenarios.

b

Net of additional credit risk allowance attaching to effect of portfolio balancing described above.

c

In 2008, no changes to mortality assumptions were made or necessary.

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D: Life assurance business (Continued)

2007

The 2007 results for shareholder-backed annuity business were determined after making changes to mortality assumptions with a resulting charge of £276 million and releasing excess margins in the aggregate liabilities that had previously been set aside as an indirect extra allowance for longevity related risks of £310 million as shown in the table below.

For UK insurance operations, the 2007 results were determined after making changes to mortality assumptions for the annuity business and other assumptions for the WPSF and releasing excess margins in the aggregate liabilities that had previously been set aside as an indirect extra allowance for longevity related risks, as shown below.

	2007	
	With-profits sub-fund £ million	Shareholder-backed business £ million
Effect of strengthening of mortality assumptions[note a]	(435)	(276)
Modeling of management actions[note b]	(167)	
Strengthening of other assumptions[note c]	(62)	
	(664)	(276)
Release of other margins:		
Projected benefit related[note d]	13	104
Investment related:[note e]		
Default margins	199	48
Asset management fees	60	
	259	48
Expense related[notes c,f]		68
Other[notes c,g]		90
	272	310
Net charge to unallocated surplus	(392)	
Net credit to shareholder result		34

Notes

a The mortality assumptions have been strengthened by increasing the minimum level of future improvement rate.

b Given the continuing strong financial position of the fund, the assumed management actions relating to with-profits business have been revised in order to better reflect the benefits to policyholders that can be supported by the fund.

c

The effects of the strengthening of other assumptions for the WPSF of £62 million is net of a release of PAL's expense reserve of £11 million and other additional margins in PAL's liabilities of £40 million.

d

The release of projected benefit related margins primarily relates to modeling improvements that have been made during 2007.

e

The release of investment-related margins includes £48 million in respect of default margins for shareholder-backed business and £199 million for PAL. The resulting assumptions for expected defaults, after allowing for the release of margins, remain appropriate given economic conditions at December 31, 2007. In addition, for PAL, there is a release of £60 million in respect of asset management fees.

f

A release of expense reserves has been made following recent expense reductions.

g

This amount reflects the release of other additional margins in the liabilities that are no longer appropriate in light of the explicit strengthening of the mortality assumptions.

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D: Life assurance business (Continued)

2006

For with-profits business, there was no significant change in assumptions in 2006.

There was no change in mortality assumptions for PAL in 2006 which had a material effect on the measurement of the insurance liabilities. Liabilities for PAL were increased by £47 million for the effect of change of assumptions for renewal expenses. As PAL is owned by the WPSF, this change had no effect on shareholder profit.

In 2006, the FSA made regulatory changes for UK regulated shareholder- backed non-participating business. These changes were confirmed in the December 2006 policy statement PS06/14.

The changes to the FSA rules allow insurance liabilities for this business to incorporate more realism. In particular this is achieved by:

setting technical provisions for expenses not directly attributable to one particular contract at a homogenous risk group level and not, as previously, at an individual contract level for all non-profit business; and

recognizing the economic effect of making a prudent lapse rate assumption. Previously, no lapses were assumed.

Under IFRS 4, the effect of this change is accounted for as a change in estimate and there was a consequent increase in profit before tax of £46 million.

In addition to the £46 million credit described above, a charge of £4 million was recognized in 2006 for the effect of change of assumption for renewal and termination expenses mainly in respect of PAC.

(j) Sensitivity of IFRS basis profit or loss and equity to market and other risks

The risks to which the IFRS basis results of the UK insurance operations are sensitive are asset/liability matching, mortality experience and payment assumptions for shareholder-backed annuity business. Further details are described below.

(i) With-profits business

SAIF

Shareholders have no interest in the profits of SAIF but are entitled to the asset management fees paid on the assets of the fund.

With-profits sub-fund business

For with-profits business (including non-participating business of PAL which is owned by the WPSF) 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, shareholders' 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.

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D: Life assurance business (Continued)

The main factors that influence the determination of bonus rates are the return on the investments of the fund, the effect of inflation, taxation, the expenses of the fund chargeable to policyholders and the degree to which investment returns are smoothed. Mortality and other insurance risk are relatively minor factors.

Unallocated surplus represents the excess of assets over policyholder liabilities of the fund. As unallocated surplus of the WPSF is recorded as a liability, movements in its value do not affect shareholders' profits or equity.

The level of unallocated surplus is particularly sensitive to the level of investment returns on the portion of the life fund assets that represents the surplus. The effects for 2008 and 2007 are demonstrated in note D5.

(ii) Shareholder-backed annuity business

Profits from shareholder-backed annuity business are most sensitive to:

The extent to which the duration of the assets held closely matches the expected duration of the liabilities under the contracts. Assuming close matching, the impact of short-term asset value movements as a result of interest rate movements will broadly offset changes in the value of liabilities caused by movements in valuation rates of interest;

actual versus expected default rates on assets held;

the difference between long-term rates of return on corporate bonds and risk-free rates;

the variance between actual and expected mortality experience;

the extent to which expected future mortality experience gives rise to changes in the measurement of liabilities; and

changes in renewal expense levels.

A decrease in assumed mortality rates of one per cent would decrease gross profits by approximately £35 million (2007: £35 million). A decrease in credit default assumptions of five basis points would increase gross profits by £71 million (2007: £72 million). A decrease in renewal expenses (excluding asset management expenses) of five per cent would increase gross profits by £15 million (2007: £13 million). The effect on profits would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above.

(iii) Unit-linked and other business

Unit-linked and other business represents a comparatively small proportion of the in-force business of the UK insurance operations.

Profits from unit-linked and similar contracts primarily arise from the excess of charges to policyholders, for management of assets under the Company's stewardship, over expenses incurred. The former is most sensitive to the net accretion of funds under management as a function of new business and lapse and mortality experience. The accounting impact of the latter is dependent upon the amortization of acquisition costs in line with the emergence of margins (for insurance contracts) and

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D: Life assurance business (Continued)

amortization in line with service provision (for the investment management component of investment contracts). By virtue of the design features of most of the contracts which provide low levels of mortality cover, the profits are relatively insensitive to changes in mortality experience.

(iv) Shareholder exposure to interest rate risk and other market risk

By virtue of the fund structure, product features and basis of accounting described in note D2(e) and (g), the policyholder liabilities of the UK insurance operations are, except for pension annuity business, not generally exposed to interest rate risk. For pension annuity business, liabilities are exposed to fair value interest rate risk. However, the net exposure to the PAC WPSF (for PAL) and shareholders (for liabilities of PRIL and the non-profit sub-fund) is very substantially ameliorated by virtue of the close matching of assets with appropriate duration.

The close matching by the Group of assets of appropriate duration to annuity liabilities is based on maintaining economic and regulatory capital. The measurement of liabilities under capital reporting requirements and IFRS is not the same as detailed in note D2(g)(iii), with contingency reserves and some other margins for prudence within the assumptions required under the FSA regulatory solvency basis not included for IFRS reporting purposes. As a result IFRS equity is higher than regulatory capital and therefore more sensitive to interest rate risk.

In light of the recent market conditions, the Group has extended the range of the movements in interest rates that are reasonably possible to occur at December 31, 2008 in its interest rate sensitivity analysis. Consequently, in addition to the movement in interest rates of one per cent as applied at December 31, 2007, for 2008, the Group has also estimated the sensitivity to movement in interest rates of two per cent. The estimated sensitivity of the UK non-linked shareholder-backed business (principally pension annuities business) to a movement in interest rates of one per cent as at December 31, 2008 and 2007 and of a movement in interest rates of two per cent as at December 31, 2008 are as follows.

	2008				**2007**	
	A decrease of 2% £ million	**A decrease of 1% £ million**	**An increase of 1% £ million**	**An increase of 2% £ million**	**A decrease of 1% £ million**	**An increase of 1% £ million**
Carrying value of debt securities and derivatives	**4,362**	**1,983**	**(1,676)**	**(3,108)**	1,930	(1,634)
Policyholder liabilities	**(3,974)**	**(1,798)**	**1,503**	**2,773**	(1,777)	1,467
Related deferred tax effects	**(109)**	**(52)**	**48**	**94**	(43)	47
Net sensitivity of profit after tax and shareholders' equity	**279**	**133**	**(125)**	**(241)**	110	(120)

In addition the shareholder-backed portfolio of UK non-linked insurance operations covering liabilities and shareholders' equity includes equity securities and investment property. Similar to the sensitivity analysis to interest rate movement above, the Group has also extended the range of reasonably possible movements in the value of equity securities and investment property at December 31, 2008. In addition to the movement of 10 per cent as applied at December 31, 2007, for 2008, the Group has also estimated the sensitivity to movements of 20 and 40 per cent. Excluding any

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D: Life assurance business (Continued)

second order effects on the measurement of the liabilities for future cash flow to the policyholder, a 10 per cent fall in their value at December 31, 2008 and 2007 and a 20 and 40 per cent fall in their value at December 31, 2008 would have given rise to the following effects on pre-tax profit, profit after tax, and shareholders' equity.

	2008		2007	
	A decrease of 40% £ million	**A decrease of 20% £ million**	**A decrease of 10% £ million**	**A decrease of 10% £ million**
Pre-tax profit	**(508)**	**(254)**	**(127)**	(86)
Related deferred tax effects	**142**	**71**	**35**	24
Net sensitivity of profit after tax and shareholders' equity	**(366)**	**(183)**	**(92)**	(62)

A 10, 20 or 40 per cent increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market movements.

(k) Duration of liabilities

With the exception of most unitized with-profits bonds and other whole of life contracts the majority of the contracts of the UK insurance operations have a contract term. However, in effect, the maturity term of contracts reflects the earlier of death, maturity, or lapsation. In addition, with-profit contract liabilities as noted in note D2(g) above include projected future bonuses based on current investment values. The actual amounts payable will vary with future investment performance of SAIF and the WPSF.

The tables below show the carrying value of the policyholder liabilities. Separately, the Group uses cash flow projections of expected benefit payments as part of the determination of the value of in-force business when preparing EEV basis results. The tables below also show the maturity profile of the cash flows used for 2008 and 2007 for that purpose for insurance contracts, as defined by IFRS, i.e. those containing significant insurance risk, and investment contracts, which do not.

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D: Life assurance business (Continued)

	2008								
	With-profits business			Annuity business (Insurance contracts)			Other		
	Insurance contracts £ million	Investment contracts £ million	Total £ million	PAL £ million	PRIL £ million	Total £ million	Insurance contracts £ million	Investment contracts £ million	Total £ million
Policyholder liabilities	**39,010**	**23,367**	**62,377**	**11,477**	**12,513**	**23,990**	**9,756**	**11,584**	**21,340**
	%	%	%	%	%	%	%	%	%
Expected maturity:									
0 to 5 years	**47**	**26**	**38**	**30**	**29**	**29**	**31**	**32**	**32**
5 to 10 years	**26**	**23**	**25**	**24**	**23**	**23**	**23**	**22**	**23**
10 to 15 years	**13**	**19**	**15**	**18**	**17**	**18**	**18**	**18**	**18**
15 to 20 years	**7**	**15**	**10**	**12**	**13**	**13**	**12**	**12**	**12**
20 to 25 years	**4**	**11**	**7**	**8**	**8**	**8**	**8**	**7**	**7**
Over 25 years	**3**	**6**	**5**	**8**	**10**	**9**	**8**	**9**	**8**

	2007								
	With-profits business			Annuity business (Insurance contracts)			Other		
	Insurance contracts £ million	Investment contracts £ million	Total £ million	PAL £ million	PRIL £ million	Total £ million	Insurance contracts £ million	Investment contracts £ million	Total £ million
Policyholder liabilities	47,915	29,480	77,395	12,564	13,402	25,966	9,057	12,059	21,116
	%	%	%	%	%	%	%	%	%
Expected maturity:									
0 to 5 years	47	25	38	32	31	32	32	31	31
5 to 10 years	27	23	26	24	23	24	23	22	23
10 to 15 years	13	19	16	18	17	17	18	20	19
15 to 20 years	7	15	10	12	12	12	12	13	12
20 to 25 years	4	11	6	7	8	7	8	6	7
Over 25 years	2	7	4	7	9	8	7	8	8

Notes

i

The cash flow projections of expected benefit payments used in the maturity profile table above are from value of in-force business and exclude the value of future new business, including vesting of internal pension contracts.

ii

Benefit payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.

iii

Investment contracts under Other comprise certain unit-linked and similar contracts accounted for under IAS 39 and IAS 18.

iv

For business with no maturity term included within the contracts, for example with-profits investment bonds such as Prudence Bond, an assumption is made as to likely duration based on prior experience.

v

The maturity tables shown above have been prepared on a discounted basis. Details of undiscounted cash flow for investment contracts are shown in note G2.

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D: Life assurance business (Continued)

D3: US insurance operations

(a) Summary results and balance sheet

(i) Results and movements on shareholders' equity

	2008 £ million	2007 £ million	2006 £ million
(Loss) profit before shareholder tax	**(652)**	426	451
Tax	**72**	(126)	(150)
(Loss) profit for the year	**(580)**	300	301

	2008 £ million	2007 £ million	2006 £ million
(Loss) profit for the year	**(580)**	300	301
Items recognized directly in equity:			
Exchange movements	**785**	(42)	(377)
Unrealized valuation movements on securities classified as available-for-sale:			
Unrealized holding losses arising during the year	**(3,197)**	(231)	(208)
Less losses included in the income statement	**487**	(13)	7
	(2,710)	(244)	(201)
Related change in amortization of deferred income and acquisition costs	**1,070**	88	75
Related tax	**569**	54	50
Total items of income and expense recognized directly in equity	**(286)**	(144)	(453)
Total income and expense for the year	**(866)**	156	152
Transfers to Central companies	**(126)**	(122)	(91)
Net (decrease) increase in equity	**(992)**	34	(243)
Shareholders' equity at beginning of year	**2,690**	2,656	2,899
Shareholders' equity at end of year	**1,698**	2,690	2,656

Included within the movements in shareholders' equity is a net reduction in value of Jackson's debt securities classified as 'available-for-sale' under IAS 39 of £2,710 million (2007: £244 million). This reduction reflects the effects of widening of global credit spreads partially offset by the effect of reduced risk-free interest rates and a steepening yield curve. These temporary market movements do not reflect defaults or impairments.

With the exception of debt securities for US insurance operations classified as 'available-for-sale' under IAS 39, unrealized value movements on the Group's investments are booked within the income statement. For debt securities classified as 'available-for-sale', unless impaired, fair value movements are recorded as a movement in shareholder reserves direct to equity. Realized gains and losses, including

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D: Life assurance business (Continued)

impairments, are recorded in the income statement. In 2008, Jackson recorded £497 million (2007: £35 million; 2006:£32 million) of impairment losses arising from:

	2008 £ million	2007 £ million	2006 £ million
Residential mortgage-backed securities	**167**		
Public fixed income	**311**	21	4
Other	**19**	14	28
	497	35	32

Jackson's portfolio of debt securities is managed proactively with credit analysts closely monitoring and reporting on the credit quality of its holdings. Jackson continues to review its investments on a case-by-case basis to determine whether any decline in fair value represents an impairment. In addition, investment in structured securities where market prices are depressed are subject to a rigorous review of their future estimated cash flows, including expected and stress case scenarios, to identify potential shortfalls in contractual payments. Impairment charges are generally recorded on structured securities when the Company forecasts a contractual payment shortfall. The impairment loss reflects the difference between the fair value and book value.

A portion of the impairment losses arising in 2008 arose on residential mortgage-backed securities (RMBS). The impairment testing for RMBS was determined using a cash flow modeling approach designed to estimate future principal losses on underlying collateral mortgage loans supporting the investments in the structures. Principal loss estimates were based on the current delinquency/foreclosure statistics for the underlying pools. In aggregate, the more severe the current delinquency/foreclosure statistics for an underlying pool, the higher the principal losses projected. Projected underlying losses for each collateral pool are then run through a model of the bond structure to calculate the expected future cash flows of the bond. This cash flow simulation will indicate the extent of estimated future principal losses on securitization tranches held by Jackson. In 2008, the collateral performance of these RMBS has deteriorated coupled with the deterioration of the market price of these securities.

Note D3(d) below shows fair value of certain structured debt securities of Jackson when the markets are not active due to market illiquidity.

In general, the debt securities of the Group's US insurance operations are purchased with the intention and the ability to hold them for the longer term. In 2008, there was a movement in the balance sheet value for debt securities classified as available-for-sale from a net unrealized loss of £136 million to a net unrealized loss of £2,897 million (2007: net unrealized gain of £110 million to a net unrealized loss of £136 million). During 2008, as a result of these factors, the gross unrealized gain in the balance sheet decreased from £303 million at December 31, 2007 to £281 million at December 31, 2008 while the gross unrealized loss increased from £439 million at December 31, 2007 to £3,178 million at December 31, 2008. Details of the securities in an unrealized loss position are shown in D3(d) below.

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D: Life assurance business (Continued)

These features are included in the table shown below of the movements in the values of available-for-sale securities:

	2008 £ million	Changes in unrealized appreciation £ million	Foreign exchange translation £ million	2007 £ million
Assets fair valued at below book value				
Book value	**20,600**			10,730
Unrealized loss	**(3,178)**	(2,572)	(167)	(439)
Fair value (as included in balance sheet)	**17,422**			10,291
Assets fair valued at or above book value				
Book value	**6,296**			8,041
Unrealized gain	**281**	(138)	116	303
Fair value (as included in balance sheet)	**6,577**			8,344
Total				
Book value	**26,896**			18,771
Net unrealized (loss) gain	**(2,897)**	(2,710)	(51)	(136)
Fair value (as included in balance sheet)*	**23,999**			18,635
Reflected as part of movement in shareholders' equity				
Movement in unrealized appreciation	**(2,710)**			(244)
Exchange movements	**(51)**			(2)
	(2,761)			(246)

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* Debt securities for US operations as included in the balance sheet of £24,249 million (2007: £19,002 million) comprise £23,999 million (2007: £18,635 million) in respect of securities classified as 'available-for-sale' and £250 million (2007: £367 million) for securities of consolidated investment funds classified as 'fair value through profit and loss'.

Translated at the closing rate of US$1.44: £1

Included within the movement in unrealized losses for the debt securities of Jackson of £2,572 million (2007: £183 million) as shown above was a value reduction of £134 million (2007: £55 million) relating to the sub-prime and Alt-A securities as referred to in section B4.

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D: Life assurance business (Continued)

(ii) Balance sheet

	Variable annuity separate account assets and liabilities note i £ million	Fixed annuity, GIC and other business note i £ million	US insurance operations 2008 Total £ million	US insurance operations 2007 Total £ million
Assets				
Intangible assets attributable to shareholders:				
Deferred acquisition costs and other intangible assets		3,962	**3,962**	1,928
Total		3,962	**3,962**	1,928
Deferred tax assets		1,969	**1,969**	657
Other non-investment and non-cash assets		1,819	**1,819**	994
Investments of long-term business and other operations:				
Investment properties		13	**13**	8
Financial investments:				
Loans[note ii]		5,121	**5,121**	3,258
Equity securities and portfolio holdings in unit trusts	14,538	604	**15,142**	15,507
Debt securities[D3d]		24,249	**24,249**	19,002
Other investments[note iii]		1,256	**1,256**	762
Deposits		390	**390**	258
Total investments	14,538	31,633	**46,171**	38,795
Cash and cash equivalents		246	**246**	169
Total assets	**14,538**	**39,629**	**54,167**	**42,543**

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D: Life assurance business (Continued)

	Variable annuity separate account assets and liabilities note i £ million	Fixed annuity, GIC and other business note i £ million	US insurance operations 2008 Total £ million	US insurance operations 2007 Total £ million
Equity and liabilities				
Equity				
Shareholders' equity		1,698	**1,698**	2,690
Minority interests				1
Total equity		1,698	**1,698**	2,691
Liabilities				
Policyholder liabilities:[note iv]				
Insurance contract liabilities	14,538	27,938	**42,476**	32,926
Investment contract liabilities without discretionary participation features (GIC and annuity certain)		2,885	**2,885**	1,922
Total	14,538	30,823	**45,361**	34,848
Core structural borrowings of shareholder-financed operations		173	**173**	125
Operational borrowings attributable to shareholder-financed operations		511	**511**	591
Other non-insurance liabilities:				
Obligations under funding, securities lending and sale and repurchase agreements		3,321	**3,321**	2,721
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		88	**88**	65
Deferred tax liabilities		1,337	**1,337**	639
Other creditors		529	**529**	333
Provisions		23	**23**	19
Derivative liabilities		863	**863**	158
Other liabilities		263	**263**	353
Total		6,424	**6,424**	4,288
Total liabilities	14,538	37,931	**52,469**	39,852
Total equity and liabilities	**14,538**	**39,629**	**54,167**	**42,543**

Notes

i

Assets and liabilities attaching to variable annuity business that are not held in the separate account are shown within other business.

ii

Loans

The loans of Jackson of £5,121 million (2007: £3,258 million) comprise mortgage loans of £4,534 million (2007: £2,841 million) and policy loans of £587 million (2007: £417 million). All of the mortgage loans are commercial mortgage

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D: Life assurance business (Continued)

loans which are collateralized by properties. The property types are mainly industrial, multi-family residential, suburban office, retail and hotel.

Jackson's mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans.

The policy loans are fully secured by individual life insurance policies or annuity policies. These loans are accounted for at amortized cost, less any impairment.

iii

Other investments comprise:

	2008 £ million	2007 £ million
Derivative assetsnote G3	**675**	390
Partnerships in investment pools and other	**581**	372
	1,256	762

Partnerships in investment pools and other comprise primarily investments in limited partnerships. These include interest in the PPM America Private Equity Fund and diversified investments in 157 (2007: 164) other partnerships by independent money managers that generally invest in various equities and fixed income loans and securities.

iv

Summary policyholder liabilities (net of reinsurance) and reserves at December 31, 2008

The policyholder liabilities, net of reinsurers' share of £800 million (2007: £436 million), reflect balances in respect of the following:

	2008 £ million	2007 £ million
Policy reserves and liabilities on non-linked business:		
Reserves for future policyholder benefits and claims payable	**2,518**	916
Deposits on investment contracts (as defined under US GAAP)	**24,962**	16,784
Guaranteed investment contracts	**2,543**	1,685
Unit-linked (variable annuity) business	**14,538**	15,027

44,561	34,412

In addition to the policyholder liabilities above, Jackson has entered into a programme of funding arrangements under contracts which, in substance, are almost identical to GICs. The liabilities under these funding arrangements totaled £3,233 million (2007: £2,607 million) and are included in 'other non-insurance liabilities' in the balance sheet above.

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D: Life assurance business (Continued)

(b) Reconciliation of movement in investments

A reconciliation of the total investments of US insurance operations from the beginning of the year to the end of the year is as follows:

	Variable annuity separate account assets and liabilities £ million	Fixed annuity, GIC and other business £ million	US insurance operations Total £ million
At January 1, 2007			
Total investments	11,367	24,762	36,129
Less: Derivative liabilities		(92)	(92)
Directly held investments, net of derivative liabilities	11,367	24,670	36,037
Net cash inflow (outflow) from operating activities	3,227	(615)	2,612
Realized gains (losses) in the year		(47)	(47)
Unrealized gains (losses) in the year	620	16	636
Foreign exchange translation differences	(187)	(414)	(601)
Movement in the year of directly held investments, net of derivative liabilities	3,660	(1,060)	2,600
At December 31, 2007/January 1, 2008			
Total investments	15,027	23,768	38,795
Less: Derivative liabilities[note G3]		(158)	(158)
Directly held investments, net of derivative liabilities	15,027	23,610	38,637
Net cash inflow from operating activities	1,363	1,499	2,862
Realized gains (losses) in the year		(385)	(385)
Unrealized gains (losses) in the year	(5,924)	(2,901)	(8,825)
Foreign exchange translation differences	4,072	8,947	13,019
Movement in the year of directly held investments, net of derivative liabilities	(489)	7,160	6,671
At December 31, 2008			
Total investments	14,538	31,633	46,171
Less: Derivative liabilities[note G3]		(863)	(863)
Directly held investments, net of derivative liabilities	14,538	30,770	45,308

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D: Life assurance business (Continued)

(c) Reconciliation of movement in policyholder liabilities

A reconciliation of the total policyholder liabilities of US insurance operations from the beginning of the year to the end of the year is as follows:

	Variable annuity separate account liabilities £ million	Fixed annuity, GIC and other business £ million	US insurance operations Total £ million
At January 1, 2007	11,367	20,379	31,746
Premiums	3,970	2,382	6,352
Surrenders	(960)	(2,516)	(3,476)
Maturities/Deaths	(92)	(398)	(490)
Investment-related items and other movements	914	311	1,225
Foreign exchange translation differences	(172)	(337)	(509)
At December 31, 2007/January 1, 2008	15,027	19,821	34,848
Premiums	2,637	4,091	6,728
Surrenders	(1,053)	(2,799)	(3,852)
Maturities/Deaths	(161)	(403)	(564)
Investment-related items and other movements	(6,288)	1,736	(4,552)
Foreign exchange translation differences	4,376	8,377	12,753
At December 31, 2008	14,538	30,823	45,361

The positive investment-related and other movement during 2008 within fixed annuity, GIC and other business principally represents interest credited to the policyholder account and increases in reserves for variable annuity guarantees. Variable annuity separate account liabilities are mainly impacted by market movements.

(d) Information on credit risks of debt securities

Summary	2008 Carrying value £ million	2007 Carrying value £ million
Corporate security and commercial loans:		
Publicly traded and SEC Rule 144A traded	**13,198**	10,345
Non-SEC Rule 144A traded	**3,273**	2,613
	16,471	12,958
Residential mortgage-backed securities	**4,509**	3,177
Commercial mortgage-backed securities	**1,869**	1,532
Other debt securities	**1,400**	1,335

Total debt securities	**24,249**	19,002

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D: Life assurance business (Continued)

i Credit quality

For statutory reporting in the US, 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 as Classes 1 to 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 reflected in Class 1, BBB in Class 2, BB in Class 3 and B and below in Classes 4 to 6. If a designation is not currently available from the NAIC, Jackson's investment adviser, PPM America, provides the designation for the purposes of disclosure below.

The following table shows the quality of publicly traded and SEC Rule 144A traded debt securities held by the US operations as at December 31, 2008 and 2007 by NAIC classifications:

	2008 Carrying value		2007 Carrying value	
	£ million	% of total	£ million	% of total
NAIC designation:				
1	**5,380**	**41**	4,338	42
2	**6,849**	**52**	5,194	50
3	**690**	**5**	542	5
4	**200**	**1**	231	2
5	**75**	**1**	40	1
6	**4**			
	13,198	**100**	10,345	100

The following table shows the quality of the non-SEC Rule 144A traded private placement portfolio by NAIC classifications:

	2008 Carrying value		2007 Carrying value	
	£ million	% of total	£ million	% of total
NAIC designation:				
1	**1,268**	**39**	1,011	39
2	**1,655**	**50**	1,351	52
3	**285**	**9**	206	8
4	**54**	**2**	45	1
5	**11**	**0**		
	3,273	**100**	2,613	100

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D: Life assurance business (Continued)

The following table shows the quality of residential and commercial mortgage-backed securities:

	2008 Carrying value £ million (unless otherwise stated)	2007 Carrying value £ million (unless otherwise stated)
Residential mortgage-backed securities (included within debt securities)		
Total residential mortgage-backed securities	**4,509**	3,177
Residential mortgage-backed securities rated AAA or equivalent by a nationally recognized statistical ratings organization (including Standard & Poor's, Moody's and Fitch):		
Amount	**3,754**	2,724
Percentage of total	**83.3%**	85.7%
Residential mortgage-backed securities rated NAIC 1:		
Amount	**4,241**	3,170
Percentage of total	**94.1%**	99.8%
Commercial mortgage-backed securities (included within debt securities)		
Total commercial mortgage-backed securities	**1,869**	1,532
Commercial mortgage-backed securities rated AAA or equivalent by a nationally recognized statistical ratings organization (including Standard & Poor's, Moody's and Fitch):		
Amount	**1,586**	1,264
Percentage of total	**84.9%**	82.5%
Commercial mortgage-backed securities rated NAIC 1:		
Amount	**1,815**	1,462
Percentage of total	**97.1%**	95.4%

Included within other debt securities of £1,400 million (2007: £1,335 million) in the summary shown above are £893 million (2007: £706 million) of asset-backed securities held directly by Jackson, of which £663 million (2007: £579 million) were NAIC designation 1 and £159 million (2007: £127 million) NAIC designation 2. In addition, other debt securities includes £257 million (2007: £316 million) in respect of securities held by the Piedmont trust entity and £250 million (2007: £313 million) from the consolidation of investment funds managed by PPM America.

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D: Life assurance business (Continued)

In addition to the ratings disclosed above, the following table summarizes by rating the debt securities held by US insurance operations as at December 31, 2008 using Standard and Poor's (S&P), Moody's and Fitch ratings:

	2008 Carrying value £ million	2007 Carrying value £ million
S&P AAA	**5,321**	3,896
S&P AA+ to AA-	**853**	1,187
S&P A+ to A-	**5,244**	3,657
S&P BBB+ to BBB-	**7,077**	5,415
S&P Other	**1,321**	1,113
	19,816	15,268
Moody's Aaa	**458**	549
Moody's Aa1 to Aa3	**100**	118
Moody's A1 to A3	**111**	47
Moody's Baa1 to Baa3	**100**	79
Moody's Other	**95**	78
	864	871
Fitch	**464**	380
Other	**3,105**	2,483
Total debt securities	**24,249**	19,002

In the table above, S&P ratings have been used where available. For securities where S&P ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative.

The amounts within Other which are not rated by S&P, Moody's or Fitch have the following NAIC classifications:

	2008 £m £ million	2007 £m £ million
NAIC 1	**1,334**	1,079
NAIC 2	**1,650**	1,311
NAIC 3-6	**121**	93
	3,105	2,483

ii Determining the fair value of debt securities when the markets are not active

Under IAS 39, unless categorized as 'held to maturity' debt securities are required to be fair valued. Where available, quoted market prices are used. However, where securities are in inactive markets, IAS 39 requires that valuation techniques be applied. Included in debt securities are debt securities with

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D: Life assurance business (Continued)

a fair value of £24,246 million (2007: £18,996 million) which are not quoted on active markets and for which fair value is determined using internal valuation techniques, or is provided by brokers or pricing services, where the specific securities have been valued using valuation techniques by these third-party providers. Jackson selects the source of pricing and/or the valuation technique 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. Jackson performs quantitative and qualitative analysis of prices received from third-parties e.g. independent brokers or pricing services to consider whether these prices represent fair value, particularly when the markets are not active for the securities concerned.

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 use of such pricing sources has historically generated reliable fair values for these assets. 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, Jackson has therefore utilized internal valuation models, provided by PPM America, to derive fair values of all non agency residential mortgage-backed securities and asset-backed securities and certain commercial mortgage-backed securities. 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.

See note G1 for further details on the fair value measurement using valuation techniques when the markets are not active.

iii Sub-prime, Alt-A and CDO funds exposures

Included within the debt securities of Jackson at December 31, 2008 are exposures to sub-prime and Alt-A mortgages and CDO funds as follows:

	2008 Carrying value £ million	**2007 Carrying value £ million**
Sub-prime mortgages (91% S&P rated AAA, 3% AA (2007: 100% S&P rated AAA))	**291**	237
Alt-A mortgages (60% AAA, 15% AA (2007: 77% AAA, 17% AA))	**646**	660
	937	897
CDO funds*	**320**	260
	1,257	1,157

* Including Group's economic interest in Piedmont and other consolidated CDO portfolios.

Jackson defines its exposure to sub-prime mortgages as investments in residential mortgage-backed securities in which the underlying borrowers have a US Fair Isaac Credit Organization (FICO) credit score

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D: Life assurance business (Continued)

of 659 or lower. With an average FICO score of 610-620, Jackson's sub-prime collateral could be categorized as 'near prime' with a score close to a prime score of 660.

iv Debt securities classified as available-for-sale in an unrealized loss position

Debt securities above are shown net of cumulative impairment losses on retained securities of £846 million (2007: £246 million).

The unrealized losses in the US insurance operations balance sheet on unimpaired securities are £(3,178) million (2007: £(439) million). This reflects assets with fair market value and book value of £17,422 million (2007: £10,291 million) and £20,600 million (2007: £10,730 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:

	2008		2007	
Fair value of securities as a percentage of book value	**Fair value £ million**	**Unrealized loss £ million**	**Fair value £ million**	**Unrealized loss £ million**
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)

	2008	2007
By maturity of security	**Unrealized loss £ million**	**Unrealized loss £ million**
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.

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D: Life assurance business (Continued)

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:

	2008		2007	
Category analysis	**Fair value £ million**	**Unrealized loss £ million**	**Fair value £ million**	**Unrealized loss £ million**
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)

	2008		2007	
Age analysis	**Fair value £ million**	**Unrealized loss £ million**	**Fair value £ million**	**Unrealized loss £ million**
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)

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D: Life assurance business (Continued)

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:

	2008			2007		
Aged analysis of unrealized losses for the periods indicated	**Non-investment grade £ million**	**Investment grade £ million**	**Total £ million**	**Non-investment grade £ million**	**Investment grade £ million**	**Total £ million**
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:

	2008		2007	
Fair value of securities as a percentage of book value	**Fair value £ million**	**Unrealized loss £ million**	**Fair value £ million**	**Unrealized loss £ million**
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.

(e) Products and guarantees

Jackson provides long-term savings and retirement products to retail and institutional customers throughout the US. Jackson offers fixed annuities (interest-sensitive, fixed indexed and immediate annuities), variable annuities (VA), life insurance and institutional products.

(i) Fixed annuities

Interest-sensitive annuities

At December 31, 2008, interest-sensitive fixed annuities accounted for 29 per cent (2007: 25 per cent) of policy and contract liabilities of Jackson. Interest-sensitive fixed annuities are primarily deferred

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annuity products that are used for retirement planning and for providing income in retirement. They permit tax-deferred accumulation of funds and flexible payout options.

The policyholder of an interest-sensitive fixed annuity pays Jackson a premium, which is credited to the policyholder's account. Periodically, interest is credited to the policyholder's account and in some cases administrative charges are deducted from the policyholder's account. Jackson makes benefit payments at a future date as specified in the policy based on the value of the policyholder's account at that date.

The policy provides that at Jackson's discretion it may reset the interest rate, subject to a guaranteed minimum. The minimum guarantee varies from 1.5 per cent to 5.5 per cent (2007: 1.5 per cent to 5.5 per cent) depending on the jurisdiction of issue and the date of issue, with 83 per cent (2007: 80 per cent) of the fund at three per cent or less. The average guarantee rate is 3.1 per cent (2007: 3.1 per cent).

Approximately 34 per cent (2007: 30 per cent) of the interest-sensitive fixed annuities Jackson wrote in 2008 provide for a market value adjustment, that could be positive or negative, on surrenders in the surrender period of the policy. This formula-based adjustment approximates the change in value that assets supporting the product would realize as interest rates move up or down. The minimum guaranteed rate is not affected by this adjustment.

Fixed indexed annuities

Fixed indexed annuities accounted for eight per cent (2007: seven per cent) of Jackson's policy and contract liabilities at December 31, 2008. Fixed indexed annuities vary in structure, but generally are deferred annuities that enable policyholders to obtain a portion of an equity-linked return (based on participation rates and caps) but provide a guaranteed minimum return. These guaranteed minimum rates are generally set at three per cent.

Jackson hedges the equity return risk on fixed indexed products using futures and options linked to the relevant index. The cost of these hedges is taken into account in setting the index participation rates or caps. Jackson bears the investment and surrender risk on these products.

Immediate annuities

At December 31, 2008, immediate annuities accounted for two per cent (2007: two per cent) of Jackson's policy and contract liabilities. 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. 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.

(ii) Variable annuities

At December 31, 2008, VAs accounted for 39 per cent (2007: 45 per cent) of Jackson's policy and contract liabilities. VAs are deferred annuities that have the same tax advantages and payout options as interest-sensitive and fixed indexed annuities.

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The primary differences between VAs and interest-sensitive or fixed indexed annuities are investment risk and return. If a policyholder chooses a VA, the rate of return depends upon the performance of the selected fund portfolio. Policyholders may allocate their investment to either the fixed or variable account. Investment risk on the variable account is borne by the policyholder, while investment risk on the fixed account is borne by Jackson through guaranteed minimum fixed rates of return. At December 31, 2008, approximately 18 per cent (2007: approximately nine per cent) of VA funds were in fixed accounts.

Jackson issues VA contracts where it contractually guarantees to the contractholder either a) return of no less than total deposits made to the contract adjusted for any partial withdrawals, b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return, or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the contract anniversary. These guarantees include benefits that are payable in the event of death (guaranteed minimum death benefit (GMDB)), annuitization (guaranteed minimum income benefit (GMIB)), or at specified dates during the accumulation period (guaranteed minimum withdrawal benefit (GMWB)) and guaranteed minimum accumulation benefit (GMAB). Jackson hedges these risks using equity options and futures contracts as described in note D3(f). The GMIB is reinsured.

(iii) Life insurance

Jackson's life insurance products accounted for 10 per cent (2007: nine per cent) of Jackson's policy and contract liabilities at December 31, 2008. The products offered include variable universal life insurance, term life insurance and interest-sensitive life insurance.

(iv) Institutional products

Jackson's institutional products consist of GICs, funding agreements (including agreements issued in conjunction with Jackson's participation in the US Federal Home Loan Bank program) and medium-term note funding agreements. At December 31, 2008, institutional products accounted for 12 per cent of policy and contract liabilities (2007: 12 per cent). Under a traditional GIC, the policyholder makes a lump sum deposit. The interest rate paid is fixed and established when the contract is issued. If deposited funds are withdrawn earlier than the specified term of the contract, an adjustment is made that approximates a market value adjustment.

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. The average term of the funding arrangements is one to two years. Funding agreements terminable by the policyholder with less than 90 days' notice account for one per cent (2007: less than one per cent) of total policyholder reserves.

Medium-term note funding agreements are generally issued to support trust instruments issued on non-US exchanges or to qualified investors (as defined by SEC Rule 144A). Through the funding agreements, Jackson agrees to pay a rate of interest, which may be fixed or floating, to the holders of the trust instruments.

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(f) Exposure to market risk and risk management

Jackson's main exposures are to market risk through its exposure to interest rate risk and equity risk. Approximately 90 per cent (2007: 90 per cent) of its general account investments support interest-sensitive and fixed indexed annuities, life business and surplus and 10 per cent (2007: 10 per cent) support institutional business. All of these types of business contain considerable interest rate guarantee features and, consequently, require that the assets that support them are primarily fixed income or fixed maturity.

Prudential is exposed primarily to the following risks in the US arising from fluctuations in interest rates:

The risk of loss related to meeting guaranteed rates of accumulation following a sharp and sustained fall in interest rates;

the risk of loss related to policyholder withdrawals following a sharp and sustained increase in interest rates; and

the risk of mismatch between the expected duration of certain annuity liabilities and prepayment risk and extension risk inherent in mortgage-backed securities.

Prudential is also exposed to the following risks in the US arising from equity market movements:

The risk of loss related to the incidence of benefits related to guarantees issued in conjunction with its VA contracts;

the risk of loss related to meeting contractual accumulation requirements in FIA contracts; and

the risk that the hedge program is not effective in mitigation of periodic accounting risk.

Jackson enters into financial derivative transactions, including those noted below to reduce and manage business risks. These transactions manage the risk of a change in the value, yield, price, cash flows, or quantity of, or a degree of exposure with respect to assets, liabilities or future cash flows, which Jackson has acquired or incurred.

Jackson uses free-standing derivative instruments for hedging purposes. Additionally, certain liabilities, primarily trust instruments supported by funding agreements, fixed indexed annuities, certain GMWB variable annuity features and reinsured GMIB variable annuity features contain embedded derivatives as defined by IAS 39, 'Financial Instruments: Recognition and Measurement'. Jackson does not account for such derivatives as either fair value or cash flow hedges as might be permitted if the specific hedge documentation requirements of IAS 39 were followed. Financial derivatives, including derivatives embedded in certain host liabilities that have been separated for accounting and financial reporting purposes are carried at fair value.

Value movements on the derivatives are reported within the income statement The types of derivatives used by Jackson and their purpose are as follows:

Interest rate swaps 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;

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put-swaption contracts 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 and equity index call and put options are used to hedge Jackson's obligations associated with its issuance of fixed indexed immediate and deferred annuities and certain VA 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 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, 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.

Note D3(j) parts (iii) and (iv) show the sensitivities of Jackson's results through its exposure to equity risk and interest rate risk.

(g) Process for setting assumptions and determining contract liabilities

Under the MSB of reporting applied under IFRS 4 for insurance contracts, providing the requirements of the Companies Act, UK GAAP standards and the ABI SORP are met, it is permissible to reflect the previously applied UK GAAP basis. Accordingly, and consistent with the basis explained in note A4, in the case of Jackson the carrying values of insurance assets and liabilities are consolidated into the Group accounts based on US GAAP.

Under US GAAP, investment contracts (as defined for US GAAP purposes) 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. These amounts are for:

Any amounts that have been assessed to compensate the insurer for services to be performed over future periods (i.e. deferred income);

any amounts previously assessed against policyholders that are refundable on termination of the contract; and

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any probable future loss on the contract (i.e. premium deficiency).

Capitalized acquisition costs and deferred income for these contracts are amortized over the life of the book of contracts. The present value of the estimated gross profits is generally computed using the rate of interest that accrues to policyholder balances (sometimes referred to as the contract rate). Estimated gross profits include estimates of the following elements, each of which will be determined based on the best estimate of amounts of the following individual elements over the life of the book of contracts without provision for adverse deviation for:

Amounts expected to be assessed for mortality less benefit claims in excess of related policyholder balances;

amounts expected to be assessed for contract administration less costs incurred for contract administration;

amounts expected to be earned from the investment of policyholder balances less interest credited to policyholder balances;

amounts expected to be assessed against policyholder balances upon termination of contracts (sometimes referred to as surrender charges); and

other expected assessments and credits.

VA contracts written by Jackson may, as described above, provide for GMDB, GMIB, GMWB and GMAB 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 persistency assumptions.

The GMDB liability is determined each period end by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the life of the contract based on total expected assessments. At December 31, 2008, the GMDB liability was valued using a series of deterministic investment performance scenarios, a mean investment return of 8.4 per cent (2007: 8.4 per cent) and assumptions for lapse, mortality and expense that are the same as those used in amortizing the capitalized acquisition costs.

The direct GMIB liability is determined by estimating the expected value of the annuitization benefits in excess of the projected account balance at the date of annuitization and recognizing the excess ratably over the accumulation period based on total expected assessments.

The assumptions used for calculating the direct GMIB liability at December 31, 2008 and 2007 are consistent with those used for calculating the GMDB liability.

Jackson regularly evaluates estimates used and adjusts the additional GMDB and GMIB liability balances, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised.

GMIB benefits are essentially fully reinsured, subject to annual claim limits. As this reinsurance benefit is net settled, it is considered to be a derivative under IAS 39 and is, therefore, recognized at fair value with the change in fair value included in the income statement.

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Most GMWB features are considered to be embedded derivatives under IAS 39. Therefore, provisions for these benefits are recognized at fair value, with the change in fair value included in profit after tax. Certain GMWB features guarantee payments over a lifetime and, therefore, include mortality risk. Provisions for these GMWB amounts are valued consistent with the GMDB valuation method discussed above.

For periods prior to 2008, the fair values of Jackson's GMWB reserves and GMIB reinsurance were calculated based on actuarial and capital market assumptions related to projected cash flows, including benefits and related contract charges, over the lives of the contracts, incorporating expectations concerning policyholder behavior such as lapses, fund selection, resets and withdrawal utilization. Because of the dynamic and complex nature of these cash flows, best estimate assumptions and a stochastic process involving the generation of thousands of scenarios that assume risk neutral returns consistent with swap rates and incorporating implied volatility data and evaluations of historical volatilities for various indices were used. Estimating these cash flows involved numerous estimates and subjective judgements including those regarding expected market rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates, utilization of the benefit by policyholders under varying conditions and policyholder lapsation.

At each valuation date, Jackson assumed expected returns based on risk-adjusted spot rates as represented by the LIBOR forward curve as of that date and market volatility as determined with reference to implied volatility and evaluations of historical volatilities for various indices. The risk-adjusted spot rates as represented by the LIBOR spot curve as of the valuation date were used to determine the present value of expected future cash flows produced in the stochastic process. As GMWB obligations are relatively new in the marketplace, actual policyholder behavior experience is limited. As a result, estimates of future policyholder behavior are subjective and based on internal and external data. As markets change, mature and evolve and actual policyholder behavior emerges, management continually evaluates the appropriateness of its assumptions for this component of the fair value model.

Effective January 1, 2008, Jackson re-evaluated certain assumptions used in the calculation of the reserves related to GMWB and GMIB reinsurance. As a result, Jackson now bases its volatility assumptions solely on implied market volatility with no reference to historical volatility levels and explicitly incorporates Jackson's own credit risk in place of the risk-adjusted rates referenced above. Volatility assumptions are now based on a weighting of available market data on implied volatility for durations up to 12 years, at which point the projected volatility is held constant. Non-performance risk is incorporated into the calculation through the use of interest rates sourced from an AA corporate credit curve. Other risk margins, particularly for market illiquidity and policyholder behavior are also incorporated into the model through the use of explicitly conservative assumptions. On a periodic basis, Jackson rationalizes the resulting fair values based on comparisons to other models and market movements.

With the exception of the GMDB, GMIB, GMWB and GMAB features of VA contracts, the financial guarantee features of Jackson's contracts are in most circumstances not explicitly valued, but the impact of any interest guarantees would be reflected as they are earned in the current account value (i.e. the US GAAP liability).

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For traditional life insurance contracts, provisions for future policy benefits are determined under US GAAP standards SFAS 60, 'Accounting and Reporting by Insurance Enterprises' 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.

Institutional products are accounted for as investment contracts under IFRS with the liability classified as being in respect of financial instruments rather than insurance contracts, as defined by IFRS 4. In practice, there is no material difference between the IFRS and US GAAP basis of recognition and measurement for these contracts.

Certain institutional products representing obligations issued in currencies other than US dollars have been hedged for changes in exchange rates using cross-currency swaps. The fair value of derivatives embedded in funding agreements, as well as foreign currency transaction gains and losses, are included in the carrying value of the trust instruments supported by funding agreements recorded in other non-insurance liabilities.

(h) Reinsurance

The principal reinsurance ceded by Jackson outside the Group is on term life insurance, direct and assumed accident and health business and GMIB variable annuity guarantees. In 2008, the premiums for such ceded business amounted to £68 million (2007: £60 million; 2006:£66 million). Net commissions received on ceded business and claims incurred ceded to external reinsurers totaled £10 million and £49 million, respectively, during 2008 (2007: £10 million and £47 million respectively; 2006: £12 million and £53 million respectively). There were no deferred gains or losses on reinsurance contracts in either 2008, 2007 or 2006. The reinsurance asset for business ceded outside the Group was £800 million (2007: £436 million).

(i) Assumptions used to measure insurance assets and liabilities

2008

(a) Measurement basis for embedded derivatives of variable annuity business

There were no changes of assumptions that had a material effect on the Jackson results. However, there has been a significant change of estimation technique for two aspects of the basis of measuring 'embedded derivatives' for Guaranteed Minimum Withdrawal Benefit (GMWB) features of Jackson's variable annuity products and the reinsurance of the Guaranteed Minimum Income Benefit (GMIB). The two aspects are for the application of:

i
Implied current equity volatility levels rather than historic long-term average levels, which had been applied previously, and

ii
The reference basis for determining the discount rate to apply to future cash flows in the projection of the effect of the guarantees.

The change is to apply AA corporate bond rates based off appropriate Merrill Lynch indices, rather than LIBOR based swap rates that, in 2008, had become both anomalously low and distorted by comparison to US Treasury bond curve rates. In broad terms, corporate AA rates were approximately

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400 basis points higher than the LIBOR based swap rates at the end of 2008. Similarly, at the beginning of 2008 corporate AA rates were approximately 100 basis points higher than the LIBOR based swap rate.

The effect of the change in respect of equity volatility is to increase the total loss for 2008 for Jackson by £126 million. The effect of the change for the reference basis for discounting is to reduce the total loss by £173 million.

(b) Deferred acquisition costs

Income statement amortization for variable annuity business

Under IFRS 4, the Group applies US GAAP to the insurance assets and liabilities of Jackson. Under the US GAAP standard FAS 97, acquisition costs for Jackson's fixed and variable annuity business are deferred and then amortized in line with the expected emergence of margins. The amortization profile is dependant on assumptions which, for variable annuity business, the key assumption is the expected level of equity market returns. For 2008 and recent previous years a rate of 8.4 per cent has been applied using, as is industry practice, a mean reversion methodology.

The mean reversion methodology is applied with the objective of adjusting the amortization of deferred acquisition costs that would otherwise be highly volatile for the fact that the expected level of future gross profits fluctuates for altered variable annuity asset values arising from changes in equity market levels at the end of each reporting period.

The mean reversion methodology achieves this objective by dynamic adjustment to the level of expectations of short-term future investment returns. Under the methodology the projected returns for the next five years are, for the purposes of determining the amortization profile, set so that normally combined with the actual returns for the current and preceding two years the average rate of return is 8.4 per cent. The mean reversion methodology does, however, include a cap of 15 per cent per annum on the project return for each of the next five years. For 2008 this capping effect applied to restrict the projected returns below the rate of approximately 20 per cent per annum level that would have otherwise applied. Projected returns after the next five years are set at 8.4 per cent.

In 2008, US equity market indices fell by some 38.5 per cent. If there had been no mean reversion methodology in place there would have been an increased amortization charge of approximately £250 million.

However, as noted above, the mean reversion methodology allows for a substantial, but not complete, recovery of the lost fund value. As a result, DAC amortization, reflected in the 2008 results after incorporating the mean reversion has instead increased by some £140 million, of which £40 million arises due to the capping feature.

Statement of changes in equity 'shadow DAC adjustments'

Consequent upon the negative unrealized valuation movement in 2008 of £(2,710) million (2007: £(244) million) there is a credit of £1,070 million (2007: £88 million) for altered 'shadow' amortization booked within the statement of changes in equity. These adjustments reflect the changes to the pattern of reported gross profits that would have happened if the assets had been sold, crystallizing the loss,

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and the proceeds reinvested at correspondingly higher current yields. In the event of further unrealized losses, this dynamic would be constrained under two circumstances. Firstly, the DAC asset would not be written up any further beyond the original deferral plus a provision for interest accrual on the asset. Secondly, and more generally, the write up of DAC would be constrained if not supported by expectations of future profitability.

2007

The profit after tax for US insurance operations for 2007 has been determined after taking account of several changes of assumptions during the year. Generally, assumptions were modified in 2007 to conform to more recent experience. These changes included revisions to the assumptions regarding mortality rates, resulting in an increase in pre-tax profits of £14 million, and utilization of free partial withdrawal options, resulting in a decrease to pre-tax profits of £4 million. In addition, several smaller changes relating to lapse rates and other assumptions resulted in a decrease of £2 million in pre-tax profits. Combined with other minor modifications, the resulting net impact of all changes during the year was an increase in pre-tax profits of £8 million.

2006

The profit after tax for US for 2006 has been determined after taking account of several changes of assumptions during the year. Generally, assumptions were modified in 2006 to conform to more recent experience. These changes included revisions to the assumptions regarding utilization of free partial withdrawal options, resulting in a decrease in Deferred Acquisition Costs (DAC) of £12 million. In addition, several smaller changes relating to lapse rates, mortality rates and other assumptions resulted in an increase of £6 million in DAC. Combined with other minor modifications, the resulting net impact of all changes during the year was a decrease in pre-tax profits of £7 million.

(j) Sensitivity of IFRS basis profit and equity to market and other risks

(i) Currency fluctuations

Consistent with the Group's accounting policies, the profits of the Group's US operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2008, the rates were US$1.85 (2007: US$2.00) and US$1.44 (2007: US$1.99) to £1 sterling, respectively. A 10 per cent increase or decrease in these rates would reduce or increase profit before tax attributable to shareholders, profit for the year and shareholders' equity attributable to US insurance operations respectively as follows:

	A 10% increase in exchange rates		**A 10% decrease in exchange rates**	
	2008	**2007**	**2008**	**2007**
	£ million	**£ million**	**£ million**	**£ million**
(Loss) profit before tax attributable to shareholders	**59**	(39)	**(72)**	48
(Loss) profit for the year	**51**	(29)	**(62)**	35
Shareholders' equity attributable to US insurance operations	**(158)**	(242)	**193**	296

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The opposite effect of a 10 per cent increase and decrease of exchange rates on (loss) profit for 2008 compared to 2007 is due to a loss before and after tax for 2008 compared to a profit before and after tax for 2007.

(ii) Other sensitivities

The principal determinants of variations in profit after tax are:

Growth in the size of assets under management covering the liabilities for the contracts in force;

incidence of guarantees and the effectiveness of the related hedge program;

spread returns for the difference between investment returns and rates credited to policyholders; and

Amortization of deferred acquisition costs.

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 expected long-term spread between the earned rate and the rate credited to policyholders, which is based on an 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 Jackson, industry experience and future expectations.

A detailed analysis of actual experience is measured by internally developed mortality and persistency studies. For variable annuity business, the key assumption is the expected long-term level of equity market returns, which for 2008, 2007 and 2006 was 8.4 per cent per annum implemented using a mean reversion methodology. These returns affect the level of future expected profits through their effects on the fee income and the required level of provision for guaranteed minimum death benefit claims. The mean reversion methodology dampens the impact of equity market movements during a particular year, but does not fully eliminate the effects of movements in the equity markets.

In addition, the mean reversion methodology includes both a cap and a floor that determine the maximum impact that the methodology may have. Due to the significant market movements during 2008, Jackson exceeded the cap on future equity market returns, resulting in a higher level of DAC amortization than would have been recognized had the cap not been met.

Variations in fees and other income, offset by variations in market value adjustment payments and, where necessary, strengthening of liabilities.

Except to the extent of mortality experience, which primarily affects profits through variations in claim payments and GMDB reserves, the profits of Jackson are relatively insensitive to changes in insurance risk.

(iii) Exposure to equity risk

As noted in note D3(f), Jackson is exposed to equity risk through the options embedded in the fixed indexed liabilities and GMDB and GMWB guarantees included in certain VA benefits. This risk is

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managed using a comprehensive equity hedging program to minimize the risk of a significant economic impact as a result of increases or decreases in equity market levels while taking advantage of naturally offsetting exposures in Jackson's operations. Jackson purchases external futures and options that hedge the risks inherent in these products, while also considering the impact of rising and falling separate account fees.

As a result of this hedging program, if the equity markets were to increase, Jackson's free-standing derivatives would decrease in value. However, over time, this movement would be broadly offset by increased separate account fees and reserve decreases, net of the related changes to amortization of deferred acquisition costs. Due to the nature of the free-standing and embedded derivatives, this hedge, while highly effective on an economic basis, may not completely mute the immediate impact of the market movements as the free-standing derivatives reset immediately while the hedged liabilities reset more slowly (see note D3(g) for further details on the valuation of the guarantees) and fees are recognized prospectively.

At December 31, 2008 based on the hedges in place at that time, it is estimated that an immediate decrease in the equity markets of 10 per cent would result in an accounting charge, net of related DAC amortization, before tax of up to £20 million, excluding the impact on future separate account fees. After related deferred tax there would have been an estimated reduction in shareholders' equity at December 31, 2008 of up to £15 million. An immediate decrease in the equity markets of 20 and 40 per cent would result in an accounting charge, net of related DAC amortization, before tax of up to £40 million and £ 90 million respectively, excluding the impact on future separate account fees. After related deferred tax there would have been an estimated reduction in shareholders' equity at December 31, 2008 of up to £30 million and £60 million respectively. Since the year-end we have implemented additional equity hedging to reduce the exposure to further falls in the level of the S&P index.

An immediate increase in the equity markets of the percentages above would result in an approximately equal and opposite estimated effect on profit and shareholders' equity. At December 31, 2007, it was estimated that an immediate decrease in the equity markets at 10 per cent would result in an accounting benefit, net of related DAC amortization, before tax of up to £30 million, excluding the impact on future separate account fees. After related deferred tax, it was estimated that there would have been an increase in shareholders' equity of up to £20 million. The difference in the effects of a decrease in the equity markets at December 31, 2008 and 2007 was due to an increased number of GMDB and GMWB guarantees being 'in the money'. As a result of this changed position, the adverse effects from a decreasing equity market at December 31, 2008 more than offsets the benefits from the hedging instruments.

The actual impact on financial results would vary contingent upon the volume of new product sales and lapses, changes to the derivative portfolio, correlation of market returns and various other factors including volatility, interest rates and elapsed time.

In addition, Jackson is also exposed to equity risk from its holding of equity securities, partnerships in investment pools and other financial derivatives.

Jackson has extended the range of reasonably possible movements in the value of equity securities, partnerships in investment pools and other financial derivatives at December 31, 2008. Consequently, in

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addition to the movement of 10 per cent as applied at December 31, 2007, for 2008, Jackson has also estimated the sensitivity to movements of 20 and 40 per cent. A 10 per cent fall in their value at December 31, 2008 and 2007 and a 20 and 40 per cent fall in their value at December 31, 2008 would have given rise to the following effects on pre-tax profit, net of related changes in amortization of DAC, profit after tax and shareholders' equity.

	2008		2007	
	A decrease of 40% £ million	**A decrease of 20% £ million**	**A decrease of 10% £ million**	**A decrease of 10% £ million**
Pre-tax profit, net of related changes in amortization of DAC	**(255)**	**(141)**	**(98)**	(76)
Related deferred tax effects	**89**	**49**	**34**	26
Net sensitivity of profit after tax and shareholders' equity	**(166)**	**(92)**	**(64)**	(50)

(iv) Exposure to interest rate risk

Notwithstanding the market risk exposure described in note D3(f), 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 fixed annuity liabilities of Jackson 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 described in notes D3(e) and D3(g). The GMWB features attaching to variable annuity business represents embedded derivatives which are fair valued and so will be sensitive to changes in interest rate.

Debt securities and related derivatives are marked to fair value. Value movements on derivatives, again net of related changes to amortization of DAC and deferred tax, are recorded within profit and loss. Fair value movements on debt securities, net of related changes to amortization of DAC and deferred tax, are recorded within the statement of changes in equity. Similar to the sensitivity analysis to equity prices movement above, Jackson has extended the range of the movements in interest rates that are reasonably possible to occur at December 31, 2008 in its sensitivity analysis. In addition to the movement in interest rates of one per cent as applied at December 31, 2007, for 2008, Jackson has also estimated the sensitivity to movement in interest rates of two per cent. The estimated sensitivity of these items and policyholder liabilities to a one per cent decrease and increase in interest rates at

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D: Life assurance business (Continued)

December 31, 2008 and 2007 and to a two per cent decrease and increase in interest rates at December 31, 2008 is as follows:

	2008				2007	
	A 2% decrease £ million	A 1% decrease £ million	A 1% increase £ million	A 2% increase £ million	A 1% decrease £ million	A 1% increase £ million
Profit and loss						
Direct effect						
Derivatives value change	**(575)**	**(268)**	**283**	**639**	(116)	163
Policyholder liabilities	**(517)**	**(218)**	**182**	**350**	(38)	29
Related effect on amortization of DAC	**498**	**215**	**(193)**	**(395)**	52	(58)
Pre-tax profit effect	**(594)**	**(271)**	**272**	**594**	(102)	134
Related effect on charge for deferred tax	**206**	**94**	**(95)**	**(207)**	36	(47)
Net profit effect	**(388)**	**(177)**	**177**	**387**	(66)	87
Statement of changes in equity						
Direct effect on carrying value of debt securities	**2,476**	**1,238**	**(1,238)**	**(2,476)**	848	(848)
Related effect on amortization of DAC	**(619)**	**(310)**	**310**	**619**	(212)	212
Related effect on movement in deferred tax	**(650)**	**(325)**	**325**	**650**	(223)	223
Net effect	**1,207**	**603**	**(603)**	**(1,207)**	413	(413)
Total net effect on IFRS equity	**819**	**426**	**(426)**	**(820)**	347	(326)

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D: Life assurance business (Continued)

(k) Duration of liabilities

The Group uses cash flow projections of expected benefit payments as part of the determination of the value of in-force business when preparing EEV basis results. The maturity profile of the cash flows used for that purpose for 2008 and 2007 is as follows:

	2008		2007	
	Fixed annuity and other business (including GICs and similar contracts) £ million	Variable annuity £ million	Fixed annuity and other business (including GICs and similar contracts) £ million	Variable annuity £ million
Policyholder liabilities	**30,823**	**14,538**	19,821	15,027
	%	%	%	%
Expected maturity:				
0 to 5 years	**49**	**46**	51	48
5 to 10 years	**26**	**28**	26	30
10 to 15 years	**11**	**14**	11	13
15 to 20 years	**6**	**7**	5	6
20 to 25 years	**3**	**3**	3	2
Over 25 years	**5**	**2**	4	1

The maturity tables shown above have been prepared on a discounted basis. Details of undiscounted cash flows for investment contracts are shown in note G2.

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December 31, 2008

D: Life assurance business (Continued)

D4: Asian insurance operations

(a) Summary balance sheet

				Asian insurance operations	
	With-profits business note i	Unit-linked assets and liabilities	Other	2008 Total	2007 Total
	£ million	£ million	£ million	£ million	£ million
Assets					
Intangible assets attributable to shareholders:					
Goodwill			111	**111**	111
Deferred acquisition costs and other intangible assets			1,247	**1,247**	745
Total			1,358	**1,358**	856
Intangible assets attributable to with-profit funds:					
Deferred acquisition costs and other intangible assets	113			**113**	
Deferred tax assets			101	**101**	73
Other non-investment and non-cash assets	225	136	1,055	**1,416**	689
Investments of long-term business and other operations:					
Investment properties			20	**20**	14
Financial investments:					
Loans[note[nc_nb]ii]	809	113	783	**1,705**	1,087
Equity securities and portfolio holdings in unit trusts	2,800	4,846	431	**8,077**	9,804
Debt securities[note[nc_nb]d]	5,201	1,889	4,023	**11,113**	6,920
Other investments	11	68	65	**144**	42
Deposits	45	414	291	**750**	377
Total investments	8,866	7,330	5,613	**21,809**	18,244
Cash and cash equivalents	646	169	686	**1,501**	679
Total assets	**9,850**	**7,635**	**8,813**	**26,298**	**20,541**

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D: Life assurance business (Continued)

	With-profits business note i	Unit-linked assets and liabilities	Other	Asian insurance operations 2008 Total	Asian insurance operations 2007 Total
	£ million	£ million	£ million	£ million	£ million
Equity and liabilities					
Equity					
Shareholders' equity			2,167	**2,167**	1,369
Minority interests			7	**7**	7
Total equity			2,174	**2,174**	1,376
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds:					
Insurance contract liabilities	7,823	7,220	5,755	**20,798**	16,912
Investment contract liabilities with discretionary participation features	79			**79**	84
Investment contract liabilities without discretionary participation features	32			**32**	37
Unallocated surplus of with-profits funds	160			**160**	146
Total	8,094	7,220	5,755	**21,069**	17,179
Other non-insurance liabilities:					
Operational borrowings attributable to shareholders-financed operations			130	**130**	
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	832	322		**1,154**	506
Current tax liabilities	4		72	**76**	24
Deferred tax liabilities	239		202	**441**	362
Accruals and deferred income			130	**130**	111
Other creditors	556		240	**796**	627
Provisions	9		28	**37**	33
Derivative liabilities	30		2	**32**	2
Other liabilities	86	93	80	**259**	321
Total	1,756	415	754	**2,925**	1,986
Total liabilities	9,850	7,635	6,639	**24,124**	19,165
Total equity and liabilities	**9,850**	**7,635**	**8,813**	**26,298**	**20,541**

Notes

(i)

The balance sheet for with-profits business comprises the with-profits assets and liabilities of the Hong Kong, Malaysia and Singapore with-profits operations. Assets and liabilities of other participating business are included in the column for 'other business'.

(ii)

The loans of the Group's Asian insurance operations of £1,705 million (2007: £1,087 million) comprise mortgage loans of £238 million (2007: £132 million), policy loans of £675 million (2007: £430 million) and other loans of £792 million (2007: £525 million). The mortgage and policy loans are secured by properties and life insurance policies respectively. The majority of the other loans are commercial loans held by the Malaysian operation and which are all investment graded by two local rating agencies.

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December 31, 2008

D: Life assurance business (Continued)

Summary policyholder liabilities (net of reinsurance) and unallocated surplus

The policyholder liabilities (net of reinsurance of £24 million (2007: £12 million)) and unallocated surplus shown in the table above reflect the following balances:

	2008 £ million	2007 £ million
With-profits business	**7,934**	6,397
Unallocated surplus of Asian with-profits operations	**160**	146
Unit-linked business	**7,220**	6,971
Other business	**5,731**	3,653
	21,045	17,167

At December 31, 2008, the policyholder liabilities (net of reinsurance) and unallocated surplus for Asian operations of £21.0 billion (2007: £17.2 billion) comprised the following:

	2008 £m £ million	2007 £m £ million
Singapore	**5,426**	5,462
Hong Kong	**5,100**	3,901
Taiwan	**4,024**	2,781
Malaysia	**1,587**	1,201
Japan	**1,100**	695
Other countries	**3,808**	3,127
Total Asian operations	**21,045**	17,167

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December 31, 2008

D: Life assurance business (Continued)

(b) Reconciliation of movement in investments

A reconciliation of the total investments of Asian insurance operations from the beginning of the year to the end of the year is as follows:

	With-profits business £ million	Unit-linked assets and liabilities £ million	Other £ million	Asian insurance operations Total £ million
At January 1, 2007				
Total investments	5,945	4,066	3,714	13,725
Less: Investments held by consolidated investment funds	(242)	0	(305)	(547)
Less: Derivative liabilities	0	0	(4)	(4)
Directly held investments, net of derivative liabilities	5,703	4,066	3,405	13,174
Net cash inflow from operating activities	858	1,965	(92)	2,731
Realized gains (losses) in the year	783	327	374	1,484
Unrealized gains (losses) in the year	(255)	286	(159)	(128)
Foreign exchange translation differences	111	146	41	298
Movement in the year of directly held investments, net of derivative liabilities	1,497	2,724	164	4,385
At December 31 2007 January 1, 2008				
Total investments	7,418	6,790	4,036	18,244
Less: Investments held by consolidated investment funds	(218)	0	(465)	(683)
Less: Derivative liabilities[note G3]	0	0	(2)	(2)
Directly held investments, net of derivative liabilities	7,200	6,790	3,569	17,559
Net cash inflow from operating activities	342	1,786	468	2,596
Realized gains (losses) in the year	(236)	(99)	62	(273)
Unrealized gains (losses) in the year	(1,362)	(2,685)	(152)	(4,199)
Foreign exchange translation differences	2,217	1,385	1,391	4,993
Movement in the year of directly held investments, net of derivative liabilities	961	387	1,769	3,117
At December 31, 2008				
Total investments	8,866	7,330	5,613	21,809
	(705)	(153)	(243)	(1,101)

Less: Investments held by consolidated investment funds				
Less: Derivative liabilities[note[nc_nb]G3]			(32)	(32)
Directly held investments, net of derivative liabilities	8,161	7,177	5,338	20,676

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D: Life assurance business (Continued)

(c) Reconciliation of movement in policyholder liabilities and unallocated surplus of with-profits funds

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of Asian insurance operations from the beginning of the year to the end of the year is as follows:

	With-profits business	Unit-linked assets and liabilities	Other	Asian insurance operations Total
	£ million	£ million	£ million	£ million
At January 1, 2007	5,500	4,134	3,255	12,889
Premiums	860	2,457	641	3,958
Surrenders	(146)	(689)	(197)	(1,032)
Maturities/Deaths	(183)	(52)	(160)	(395)
Shareholders transfer post tax	(21)			(21)
Investment-related items and other movements	441	914	103	1,458
Foreign exchange translation differences	96	207	19	322
At December 31, 2007/January 1, 2008	6,547	6,971	3,661	17,179
Premiums	1,038	2,261	863	4,162
Surrenders	(354)	(614)	(223)	(1,191)
Maturities/Deaths	(181)	(14)	(159)	(354)
Shareholders' transfers post tax	(23)			(23)
Investment-related items and other movements	(1,320)	(3,158)	185	(4,293)
Foreign exchange translation differences	2,387	1,774	1,428	5,589
At December 31, 2008	8,094	7,220	5,755	21,069

The positive investment related items and other movements seen within Other during 2008 are principally driven from unwinding the discounted liabilities using the valuation interest rate. Variable annuity separate account liabilities are mainly impacted by market movements.

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D: Life assurance business (Continued)

(d) Information on credit risks of debt securities

The following table summarizes the credit quality of the debt securities of the Asian insurance operations as at December 31, 2008 by rating agency rating:

	2008				2007
	With-profits business £ million	Unit-linked business £ million	Other business £ million	Total £ million	Total £ million
S&P AAA	**2,085**	**341**	**206**	**2,632**	2,284
S&P AA+ to AA-	**997**	**303**	**2,446**	**3,746**	1,994
S&P A+ to A-	**640**	**96**	**72**	**808**	675
S&P BBB+ to BBB-	**198**	**184**	**520**	**902**	193
S&P Other	**77**	**63**	**113**	**253**	149
	3,997	**987**	**3,357**	**8,341**	5,295
Moody's Aaa	**382**	**54**	**58**	**494**	201
Moody's Aa1 to Aa3	**77**	**20**	**11**	**108**	45
Moody's A1 to A3	**80**	**287**	**31**	**398**	28
Moody's Baa1 to Baa3	**50**	**6**	**4**	**60**	19
Moody's Other	**8**	**39**	**3**	**50**	58
	597	**406**	**107**	**1,110**	351
Fitch	**7**	**30**	**4**	**41**	1
Other	**600**	**466**	**555**	**1,621**	1,273
Total debt securities	**5,201**	**1,889**	**4,023**	**11,113**	6,920

The increase in holdings of debt securities for Asian operations was principally due to exchange rate movements, a rise in the number of unit trusts and similar funds requiring consolidation, and portfolio change for equities to bonds.

Of the £555 million (2007: £598 million) debt securities for other business which are not rated in the table above, £231 million (2007: £317 million) are in respect of government bonds, £221 million (2007: £83 million) corporate bonds rated as investment grade by local external ratings agencies, and nil (2007: £71 million) structured deposits issued by banks which are themselves rated but where the specific deposits have not been.

(e) Products and guarantees

The life insurance products offered by the Group's Asian operations include a range of with-profits and non-participating term, whole life, endowment and unit-linked policies. The Asian operations also offer health, disability, critical illness and accident coverage to supplement its core life products.

The terms and conditions of the contracts written by the Asian operations and, in particular, the products' options and guarantees, vary from territory to territory depending upon local market circumstances.

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D: Life assurance business (Continued)

In general terms, the Asian participating products provide savings and 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 insurers. The Asian operations' non-participating term, whole life and endowment products offer savings and/or protection where the benefits are guaranteed or determined by a set of defined market-related parameters. Unit-linked products combine savings with protection, the cash value of the policy depends on the value of the underlying unitized funds. Accident and Health (A&H) policies provide mortality or morbidity benefits and include health, disability, critical illness and accident coverage. A&H products are commonly offered as supplements to main life policies but can be sold separately.

Subject to local market circumstances and regulatory requirements, the guarantee features described in note D2(e) in respect of UK business broadly apply to similar types of participating contracts written in the Hong Kong branch, Singapore and Malaysia. Participating products have both guaranteed and non-guaranteed elements.

Non-participating long-term products are the only ones where the insurer is contractually obliged to provide guarantees on all benefits. Investment-linked products have the lowest level of guarantee if indeed they have any.

Product guarantees in Asia can be broadly classified into four main categories, namely premium rate, cash value and interest rate guarantees, policy renewability, and convertibility options.

The risks on death coverage through premium rate guarantees are low due to appropriate product pricing.

Cash value and interest rate guarantees are of three types:

Maturity values
Maturity values are guaranteed for non-participating products and on the guaranteed portion of participating products. Declared annual bonuses are also guaranteed once vested. Future bonus rates and cash dividends are not guaranteed on participating products.

Surrender values
Surrender values are guaranteed for non-participating products and on the guaranteed portion of participating products. The surrender value of declared reversionary bonuses are also guaranteed once vested. Market value adjustments and surrender penalties are used where the law permits such adjustments in cash values.

Interest rate guarantees
It is common in Asia for regulations or market-driven demand and competition to provide some form of capital value protection and minimum crediting interest rate guarantees. This would be reflected within the guaranteed maturity and surrender values.

The guarantees are borne by shareholders for non-participating and investment-linked (non-investment guarantees only) products. Participating product guarantees are predominantly supported by the segregated life funds and their estates.

The most significant book of non-participating business in the Asian operations is Taiwan's whole of life contracts. For these contracts there are floor levels of policyholder benefits that accrue at rates set

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D: Life assurance business (Continued)

at inception which are set by reference to minimum terms established by local regulation also at the time of inception. These rates do not vary subsequently with market conditions.

Under these contracts, the cost of premiums are also fixed at inception based on a number of assumptions at that time, including long-term interest rates, mortality assumptions and expenses. The guaranteed maturity and surrender values reflect the pricing basis. The main variable that determines the amounts payable under the contracts is the duration of the contracts, which is determined by death or surrender. The sensitivity of the IFRS result for these contracts is shown in note (j) below.

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 Korean business has non-linked liabilities and linked liabilities at December 31, 2008 of £312 million and £742 million respectively (2007: £261 million and £728 million respectively). The business is much less sensitive to returns than Taiwan with a 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.

The method for determining liabilities of insurance contracts for UK GAAP, and hence IFRS, purposes for some Asian operations is based on US GAAP principles and this method applies to contracts with cash value and interest rate guarantees. Following standard US GAAP procedure, premium deficiency reserve calculations are performed each year to establish whether the carrying values of the liabilities are sufficient.

On the US GAAP basis the calculations are deterministic, that is to say based on a single set of projections, and expected long-term rates of return are applied.

(f) Exposure to market risk

The Asian operations sell with-profits and unit-linked policies and, although the with-profits business generally has a lower terminal bonus element than in the UK, the investment portfolio still contains a proportion of equities and, to a lesser extent, property. Non-participating business is largely backed by debt securities or deposits. With the principal exception of Taiwan's whole of life policy book, as described in note (j) below, the exposure to market risk of the Group arising from its Asian operations is at modest levels. This arises from the fact that the Asian operations have a balanced portfolio of with-profits, unit-linked and other types of business.

(g) Process for setting assumptions and determining liabilities

The future policyholder benefit provisions for Asian businesses in the Group's IFRS accounts and previously under the MSB, are determined in accordance with methods prescribed by local GAAP adjusted to comply, where necessary, with UK GAAP. For Asian operations in countries where local GAAP is not well established and in which the business written is primarily non-participating and linked business, US GAAP is used as the most appropriate reporting basis. Of the more significant Asian operations, this basis is applied in Taiwan, Japan and Vietnam. The future policyholder benefit provisions

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D: Life assurance business (Continued)

for non-linked business are determined under FAS 60 using the net level premium method, with an allowance for surrenders, maintenance and claims expenses. Rates of interest used in establishing the policyholder benefit provisions vary by operation depending on the circumstances attaching to each block of business.

For the traditional business in Taiwan, the economic scenarios used to calculate the IFRS results reflect the assumption of a phased progression of bond yields from current rates to long-term expected rates. The projections assume that the current bond yields of around 1.4 per cent (2007: 2.5 per cent) trend towards 5.5 per cent (2007: 5.5 per cent) at December 31, 2018 (2007: 2013).

(h) Reinsurance

The Asian businesses cede only minor amounts of business outside the Group with immaterial effects on reported profit. During 2008, reinsurance premiums for externally ceded business were £76 million (2007: £52 million; 2006: £47 million) and the reinsurance assets were £24 million (2007: £12 million) in aggregate.

(i) Effect of changes in bases and assumptions used to measure insurance assets and liabilities

a Changes in key assumptions

For 2008, the result for Asian operations was reduced by the effect of a number of individually small assumptions changes of, in aggregate, £21 million. There were no changes of assumptions that had a material impact on the 2007 and 2006 results for Asian operations.

For the Taiwanese life operation the profits attaching to legacy interest rate guaranteed products 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 previously applied under UK GAAP. Under this basis, the policy liabilities are calculated on sets of assumptions, which are locked in at the point of policy inceptions, and a deferred acquisition cost 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 reinvestment income. The assumed earned rates are used to discount the future cash flows. For 2008 the projection assumes that the current bond yields at December 31, 2008 of 1.4 per cent trend towards 5.5 per cent at December 31, 2018. This compares to the 2007 results for which the projections assume the current bond yields of around 2.5 per cent trend towards 5.5 per cent at December 31, 2013. Under the liability adequacy testing applied for IFRS the change of progression period had no effect on the carrying value of the deferred acquisition costs or liability to policyholders.

The liability adequacy test is more sensitive to changes in the expected long-term rate, further delays in the assumed progression period, or a combination thereof. However, as explained in note I10, on February 20, 2009 the Company announced the intended sale of the legacy agency book and agency force in Taiwan to China Life Insurance of Taiwan.

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D: Life assurance business (Continued)

b Deferral and amortization of acquisition costs

Under IFRS, the basis of accounting for insurance assets and liabilities reflects 'grandfathered' GAAP under the Modified Statutory Basis. In general, this requires the deferral and amortization of acquisition costs in line with the emergence of margins. In 2008, the basis of deferral and amortization has been adjusted for a number of territories to better reflect the MSB requirement as follows:

For the India life operation, reflecting the initial development stage of the business, acquisition costs had previously not been deferred. In 2008, £19 million of deferred acquisition costs, net of amortization in the year, has been established.

For the Korea life business, the deferral of acquisition costs had previously followed the local regulatory basis as being an appropriate proxy for the MSB basis. The regulatory basis is subject to constraints in respect of assumptions for expense loadings, the amortization period, and the DAC balance not being higher than the cash surrender value. This basis is no longer appropriate and on adjusting the basis £9 million of DAC has been established that reflects a revised estimate of the January 1, 2008 balance and a charge of £26 million for current year acquisition costs (net of amortization) for applying the more appropriate basis.

For Singapore, refinements have been made with a £21 million benefit (of which £7 million relates to the January 1, 2008 position) where the local risk based capital approach does not provide an appropriate basis of implicit allowance for acquisition costs for certain products.

In Hong Kong, adjustments have been made with a net overall effect of £10 million.

(j) Sensitivity of IFRS basis profit and equity to market and other risks

Currency translation

Consistent with the Group's accounting policies, the profits of the Asian operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2008, the rates for the most significant operations are given in note B3.

A 10 per cent increase or decrease in these rates and those of other Asian operations would have reduced or increased profit before tax attributable to shareholders, profit for the year and shareholders' equity, excluding goodwill, attributable to Asian operations respectively as follows:

	A 10% increase in exchange rates		**A 10% decrease in exchange rates**	
	2008 £ million	**2007 £ million**	**2008 £ million**	**2007 £ million**
Profit before tax attributable to shareholders	**(14)**	(16)	**18**	20
Profit for the year	**(6)**	(10)	**8**	13
Shareholders' equity, excluding goodwill, attributable to Asian operations	**(202)**	(124)	**246**	151

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Other risks

(i) With-profits business

Similar principles to those explained for UK with-profits business apply to profit emergence for the Asian with-profits business. Correspondingly, the profit emergence reflects bonus declaration and is relatively insensitive to period by period fluctuations in insurance risk or interest rate movements.

(ii) Unit-linked business

As for the UK insurance operations, the profits and shareholders' equity related to the Asian operations is primarily driven by charges related to invested funds. For the Asian operations, substantially all of the contracts are classified as insurance contracts under IFRS 4, i.e. containing significant insurance risk. The sensitivity of profits and equity to changes in insurance risk is minor and, to interest rate risk, not material.

(iii) Other business

Taiwan whole of life business interest rate risk on deferred acquisition costs and policyholders' liabilities

The principal other business of Asian operations which is most sensitive to interest rates is the traditional whole of life business written in Taiwan.

The in-force business of the Taiwan life operation includes traditional whole of life policies where the premium rates 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 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 level of bond rates in Taiwan gives rise to a negative spread for the majority of these policies. The current cash cost 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 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. For 2008 and 2007, it has been projected that rates of return for Taiwanese bond yields will trend from the current levels of some 1.4 per cent (2.5 per cent) to 5.5 per cent by December 31, 2018 (2007: 5.5 per cent by 2013).

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D: Life assurance business (Continued)

The liability adequacy test results are sensitive to the attainment of the trended rates during the trending period. 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 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 and 1.0 per cent from 5.5 per cent to 4.5 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.

The adequacy of the Taiwan insurance contract liabilities is also sensitive to movements in short-term movements in market interest rates. This is because a reduction in the current interest rates would alter the progression rate to the long-term rate and the assumed timing of attainment of the rate may be insufficient and they would have been deferred. Based on the in-force business at December 31, 2008, a delay of one to two years in the attainment of the long-term rate of 5.5 per cent would not give rise to an additional charge. Based on the in-force business at December 31, 2008, a delay of three to four years in the attainment of the long-term rate of 5.5 per cent would not give rise to a significant charge. A delay of five years would give rise to a charge of some £60 million.

For the Korean and Japanese life business exposures described in note (e) above, the results are comparatively unaffected by changes of assumption.

Interest rate risk for other business excluding Taiwan

In addition to the sensitivity of the Taiwan results to the impact of current period and longer-term interest rates on liability adequacy tests, as described above, the other business and solvency capital of Asian operations are also sensitive to the vagaries of routine movements in interest rates.

Asian operations offer a range of insurance and investment products, predominantly with-profits and non-participating term, whole life endowment and unit linked.

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December 31, 2008

D: Life assurance business (Continued)

Excluding with-profit and unit-linked business along with Taiwan, which is detailed above, 71 per cent (2007: 72 per cent) of the bond portfolio for other business of Asian operations at December 31, 2008 was held in Japan, Singapore and Vietnam with corporate bond rates varying from territory to territory and ranging from 1.17 per cent to 10.18 per cent at December 31, 2008 (1.5 per cent to 9.1 per cent at December 31, 2007) for these three countries. An analysis of movements in bond rates during previous periods and its impact on IFRS basis profit or loss and shareholders' equity has been undertaken, with reasonably possible movements for these countries being considered to be 0.5 per cent for Japan, 1.0 per cent for Singapore and 1.5 per cent for Vietnam.

Based on these movements, plus indicative changes for bonds held in other Asian operations within the region, the impact on IFRS basis profit or loss and shareholders' equity from a reasonably possible change in interest rates for Asian operations excluding Taiwan at December 31, 2008 has been assessed, with rate movements ranging from 0.5 per cent to 1.5 per cent (2007: 0.25 per cent to 1.0 per cent) dependent on country. Looking at the region in aggregate and noting that interest rates are unlikely to move consistently by the same degree from period to period, the range of movements considered to be reasonably possible would result in a change in IFRS profit or loss of plus or minus £56 million (2007: £30 million). After adjusting for deferred tax the reasonably possible effect on shareholders' equity is plus or minus £45 million (2007: £22 million).

Equity price risk

The principal holders of equity securities are the Taiwan, Singapore and Vietnam businesses. For the Taiwan and Singapore operations market changes have a direct effect on profit and loss with no matching effect on the carrying value of policyholder liabilities. This is also true for the Vietnam business. However, to the extent that equity investment appreciation is realized through sales of securities then policyholders' liabilities are adjusted to the extent that policyholders' participate.

In light of the recent market conditions, the Group has extended the range of reasonably possible movements in the value of equity prices at December 31, 2008. Consequently, in addition to the movement of 10 per cent as applied at December 31, 2007, for 2008, the Group has also estimated the sensitivity to movements of 20 and 40 per cent. The estimated sensitivity to a 10 per cent change in equity prices for shareholder-backed Asian other business, at December 31, 2008 and 2007 and to a 20 and 40 per cent change in equity prices at December 31, 2008 would be as follows:

	2008			2007
	A decrease of 40% £ million	**A decrease of 20% £ million**	**A decrease of 10% £ million**	**A decrease of 10% £ million**
Pre-tax	**(176)**	**(88)**	**(44)**	(73)
Related deferred tax (where applicable)	**5**	**3**	**1**	5
Net effect on profit and equity	**(171)**	**(85)**	**(43)**	(68)

A 10, 20 or 40 per cent increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The low tax rate effect relates to the availability of losses in some of the territories.

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D: Life assurance business (Continued)

(k) Duration of liabilities

The Group uses cash flow projections of expected benefit payments as part of the determination of the value of in-force business when preparing EEV basis results. The maturity profile of the cash flows, taking account of expected future premiums and investment returns, is as follows:

	2008 £ million	2007 £ million
Policyholder liabilities	**20,909**	17,033
	%	**%**
Expected maturity:		
0 to 5 years	**23**	22
5 to 10 years	**21**	22
10 to 15 years	**15**	16
15 to 20 years	**13**	13
20 to 25 years	**10**	9
Over 25 years	**18**	18

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December 31, 2008

D: Life assurance business (Continued)

D5: Capital position statement for life assurance businesses

(a) Summary statement

The Group's estimated capital position for life assurance businesses with reconciliations to shareholders' equity is shown below. Available capital for each fund or group of companies for the Group's life assurance business shown in the table below is determined by reference to local regulation at December 31, 2008 and 2007. Group capital requirements also apply as discussed in note D5(b)(iv).

December 31, 2008	SAIF £ million	WPSF note i £ million	Total PAC with-profits fund £ million	Other UK life assurance subsidiaries and funds note ii £ million	Jackson £ million	Asian life assurance subsidiaries £ million	Total life assurance operations £ million	M&G (including Prudential Capital) £ million	Parent company and shareholders' equity of other subsidiaries and funds £ million	Group total £ million
Group shareholders' equity										
Held outside long-term funds:										
Net assets				**735**	**1,698**	**2,056**	**4,489**	**147**	**(1,839)**	**2,797**
Goodwill						**111**	**111**	**1,153**	**77**	**1,341**
Total				**735**	**1,698**	**2,167**	**4,600**	**1,300**	**(1,762)**	**4,138**
Held in long-term fundsnote iii				**920**			**920**			**920**
Total Group shareholders' equity				**1,655**	**1,698**	**2,167**	**5,520**	**1,300**	**(1,762)**	**5,058**
Adjustments to regulatory basis										
Unallocated surplus of with-profits fundsnote v		**8,254**	**8,254**			**160**	**8,414**			

Shareholders' share of realistic liabilities		**(2,028)**	**(2,028)**				**(2,028)**
Deferred acquisition costs of non-participating business not recognized for regulatory reporting purposes	**(3)**	**(10)**	**(13)**	**(128)**	**(3,962)**	**(876)**	**(4,979)**
Jackson surplus notesnote iv					**173**		**173**
Investment and policyholder liabilities valuation differences between IFRS and regulatory basis for Jacksonnote ix					**4,819**		**4,819**
Adjustment from IAS 19 basis pension deficit attributable to WPSF to pension liability for regulatory purposesnote vii		**(147)**	**(147)**				**(147)**
Valuation difference on PAL between IFRS basis and regulatory basis		**(1,350)**	**(1,350)**				**(1,350)**
Other adjustments to restate these amounts to a regulatory basis (with SAIF and the WPSF on a Peak 2 realistic basis)note v	**3**	**643**	**646**	**(474)**	**30**	**(41)**	**161**

Total adjustments	**5,362**	**5,362**	**(602)**	**1,060**	**(757)**	**5,063**
Total available capital resources of life assurance businesses on local regulatory bases	**5,362**	**5,362**	**1,053**	**2,758**	**1,410**	**10,583**

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December 31, 2008

D: Life assurance business (Continued)

December 31, 2008	SAIF £ million	WPSF note i £ million	Total PAC with-profits fund £ million	Other UK life assurance subsidiaries and funds note ii £ million	Jackson £ million	Asian life assurance subsidiaries £ million	Total life assurance operations £ million
Policyholder liabilities							
With-profits liabilities of UK regulated with-profits funds:							
Insurance contracts	**9,260**	**26,466**	**35,726**			**4,416**	**40,142**
Investment contracts (with discretionary participating features)	**494**	**22,873**	**23,367**			**79**	**23,446**
Total	**9,754**	**49,339**	**59,093**			**4,495**	**63,588**
Other liabilities:							
Insurance contracts:							
With-profits liabilities of non-UK regulated funds						**3,407**	**3,407**
Unit-linked, including variable annuity		**1,872**	**1,872**	**6,041**	**14,538**	**7,220**	**29,671**
Other life assurance business	**264**	**12,625**	**12,889**	**16,228**	**27,938**	**5,755**	**62,810**
Investment contracts without discretionary participation features (principally unit-linked and similar contracts in the UK and GIC liabilities of Jackson)note vi				**11,584**	**2,885**	**32**	**14,501**
Total	**264**	**14,497**	**14,761**	**33,853**	**45,361**	**16,414**	**110,389**
Total policyholder liabilities shown in the consolidated balance sheet	**10,018**	**63,836**	**73,854**	**33,853**	**45,361**	**20,909**	**173,977**

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D: Life assurance business (Continued)

December 31, 2007	SAIF £ million	WPSF note i £ million	Total PAC with-profits fund £ million	Other UK life assurance subsidiaries and funds note ii £ million	Jackson £ million	Asian life assurance subsidiaries £ million	Total life assurance operations £ million	M&G (including Prudential Capital) £ million	Parent company and shareholders' equity of other subsidiaries and funds £ million	Group total £ million
Group shareholders' equity										
Held outside long-term funds:										
Net assets				550	2,690	1,258	4,498	271	(862)	3,907
Goodwill						111	111	1,153	77	1,341
Total				550	2,690	1,369	4,609	1,424	(785)	5,248
Held in long-term fundsnote iii				814			814			814
Total Group shareholders' equity				1,364	2,690	1,369	5,423	1,424	(785)	6,062
Adjustments to regulatory basis										
Unallocated surplus of with-profits fundsnote v		13,813	13,813			146	13,959			
Shareholders' share of realistic liabilities		(4,178)	(4,178)				(4,178)			
Deferred acquisition costs of	(4)	(15)	(19)	(143)	(1,928)	(790)	(2,880)			

non-participating business and goodwill not recognized for regulatory reporting purposes							
Jackson surplus notesnote iv				125		125	
Adjustment from IAS 19 basis pension deficit attributable to WPSF to pension liability for regulatory purposesnote vii		(138)	(138)			(138)	
Valuation difference on PAL between IFRS basis and regulatory basis		(1,117)	(1,117)			(1,117)	
Other adjustments to restate these amounts to a regulatory basis (with SAIF and the WPSF on a Peak 2 realistic basis)note v	4	355	359	(239)	1,364	149	1,633
Total adjustments		8,720	8,720	(382)	(439)	(495)	7,404
Total available capital resources of life assurance businesses on local regulatory bases		8,720	8,720	982	2,251	874	12,827

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December 31, 2008

D: Life assurance business (Continued)

December 31, 2007	SAIF £ million	WPSF note i £ million	Total PAC with-profits fund £ million	2007 Other UK life assurance subsidiaries and funds note ii £ million	Jackson £ million	Asian life assurance subsidiaries £ million	Total life assurance operations £ million
Policyholder liabilities							
With-profits liabilities of UK regulated with-profits funds:							
Insurance contracts	12,672	34,029	46,701			3,307	50,008
Investment contracts (with discretionary participating features)	693	28,773	29,466			84	29,550
Total	13,365	62,802	76,167			3,391	79,558
Other liabilities:							
Insurance contracts:							
With-profits liabilities of non-UK regulated funds						2,973	2,973
Unit-linked, including variable annuity		2,029	2,029	8,338	15,027	6,971	32,365
Other life assurance business	255	11,494	11,749	14,121	17,899	3,661	47,430
Investment contracts without discretionary participation features (principally unit-linked and similar contracts in the UK and GIC liabilities of Jackson)note vi		14	14	12,059	1,922	37	14,032
Total	255	13,537	13,792	34,518	34,848	13,642	96,800
Total policyholder liabilities shown in the consolidated balance sheet	13,620	76,339	89,959	34,518	34,848	17,033	176,358

Notes

(i)

WPSF unallocated surplus includes amounts related to the Hong Kong branch. Policyholder liabilities of the Hong Kong branch are included in the amounts of Asian life assurance subsidiaries.

(ii)

Excluding PAC shareholders' equity that are included in 'parent company and shareholders' equity of other subsidiaries and funds'.

(iii)

The term shareholders' equity held in long-term funds refers to the excess of assets over liabilities attributable to shareholders of funds which are required by law to be maintained with segregated assets and liabilities.

(iv)

For regulatory purposes the Jackson surplus notes are accounted for as capital.

(v)

Other adjustments to shareholders' equity and unallocated surplus include amounts for the value of non-participating business for UK regulated with-profits funds, deferred tax, admissibility and other items measured differently on the regulatory basis. For Jackson the principal reconciling item is deferred tax related to the differences between IFRS and regulatory basis as shown in the table above and other methodology differences.

(vi)

Insurance business accounted for as financial instruments under IAS 39.

(vii)

In determining the IAS 19 adjustment for the purposes of this table the deficit in the Group's main pension scheme used for the calculation includes amounts for investments in Prudential insurance policies (see note I1).

(viii)

Asia 2007 comparative adjustments reflect adjustments for intra-group balances that are recognized on a local regulatory basis.

(ix)

The investment and policyholder liabilities valuation difference between IFRS and regulatory bases for Jackson is mainly due to not all investments being carried at fair value under the regulatory basis and also for the valuation difference on annuity reserves.

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D: Life assurance business (Continued)

(b) Basis of preparation, capital requirements and management

Each of the Group's long-term business operations is capitalized to a sufficiently strong level for its individual circumstances. Details by the Group's major operations are shown below.

(i) UK insurance operations

The FSA rules which govern the Prudential regulation of insurance form part of the Prudential Sourcebook for Insurers, the General Prudential Sourcebook and Interim Prudential Sourcebook for Insurers. Overall, the net requirements of the General Prudential Sourcebook are intended to align the capital adequacy requirements for insurance business more closely with those of banking and investment firms and building societies, for example, by addressing tiers of capital, rather than looking at net admissible assets. An insurer must hold capital resources equal at least to the Minimum Capital Requirement (MCR).

The Prudential Sourcebook for Insurers also contains rules on Individual Capital Assessments. Under these rules and the rules of the General Prudential Sourcebook all insurers must assess for themselves the amount of capital needed to back their business. If the FSA views the results of this assessment as insufficient, it may draw up its own Individual Capital Guidance for a firm, which can be superimposed as a requirement.

PAC WPSF and SAIF

Under FSA rules, insurers with with-profits liabilities of more than £500 million must hold capital equal to the higher of the MCR and the Enhanced Capital Requirement (ECR). The ECR is intended to provide a more risk responsive and 'realistic' measure of a with-profit insurer's capital requirements, whereas the MCR is broadly speaking equivalent to the previous required minimum margin under the Interim Prudential Sourcebook and satisfies the minimum EU Standards.

Determination of the ECR involves the comparison of two separate measurements of the firm's resources requirement, which the FSA refers to as the 'twin peaks' approach.

The two separate peaks are:

(i) The requirement comprised by the mathematical reserves plus the 'Long-Term Insurance Capital Requirement' (LTICR), together known as the 'regulatory peak'; and

(ii) a calculation of the 'realistic' present value of the insurer's expected future contractual liabilities together with projected 'fair' discretionary bonuses to policyholders, plus a risk capital margin, together known as the 'realistic peak'.

Available capital of the WPSF and SAIF of £5.4 billion (2007: £8.7 billion) represents the excess of assets over liabilities on the FSA realistic basis. Unlike the previously discussed FRS 27 basis, realistic liabilities on the regulatory basis include the shareholders' share of future bonuses. These amounts are shown before deduction of the risk capital margin (RCM) which is estimated to be £2.1 billion at December 31, 2008 (2007: £2.0 billion).

The FSA's basis of setting the RCM is to target a level broadly equivalent to a Standard & Poor's credit rating of BBB and to judge this by ensuring there are sufficient assets to absorb a 1 in 200 year

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D: Life assurance business (Continued)

event. The RCM calculation achieves this by setting rules for the determination of margins to cover defined stress changes in asset values and yields for market risk, credit risk and termination risk for with-profits policies.

As noted in section D2(g)(ii), PAC has discretion in its management actions in the case of adverse investment conditions. Management actions encompass, but are not confined to, investment allocation decisions, levels of reversionary bonuses, crediting rates and total claim values. To illustrate the flexibility of management actions, rates of regular bonus are determined for each type of policy primarily by targeting them at a prudent proportion of the long-term expected future investment return on the underlying assets. The expected future investment return is reduced as appropriate for each type of policy to allow for items such as expenses, charges, tax and shareholders' transfers. However, the rates declared may differ by product type, or by date of payment of the premiums or date of issue of the policy, if the accumulated annual bonuses are particularly high or low relative to a prudent proportion of the achieved investment return.

When target bonus levels change, the PAC board has regard to the overall financial strength of the long-term fund when determining the length of time over which it will seek to achieve the amended product target bonus level.

In normal investment conditions, PAC expects changes to regular bonus rates to be gradual over time and changes are not expected to exceed one per cent per annum over any year. However, discretion is retained as to whether or not a regular bonus is declared each year, and there is no limit on the amount by which regular bonus rates can be changed.

As regards smoothing of maturity and death benefits, in normal circumstances PAC does not expect most pay-out values on policies of the same duration to change by more than 10 per cent up or down from one year to the next, although some larger changes may occur to balance pay-out values between different policies. Greater flexibility may be required in certain circumstances, for example following a significant rise or fall in market values (either sudden or over a period of years) and in such situations the PAC board may decide to vary the standard bonus smoothing limits to protect the overall interests of policyholders.

For surrender benefits, any substantial fall in the market value of the assets of the with-profits sub-fund would lead to immediate changes in the application of MVRs for accumulating with-profits policies, firstly to increase the size of MVRs already being applied and, secondly, to extend the range of policies for which an MVR is applied.

Other UK life assurance subsidiaries and funds

The available capital of £1,053 million (2007: £982 million) reflects the excess of regulatory basis assets over liabilities of the subsidiaries and funds, before deduction of the capital resources requirement of £884 million (2007: £841 million).

The capital resources requirement for these companies broadly reflects a formula which, for active funds, equates to a percentage of regulatory reserves plus a percentage of death strains.

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D: Life assurance business (Continued)

(ii) Jackson

The regulatory framework for Jackson is governed by the requirements of the US NAIC approved risk-based capital standards. Under these requirements life insurance companies report on a formula-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 available capital of Jackson shown above of £2,758 million (2007: £2,251 million) reflects US regulatory basis assets less liabilities including asset valuation reserves. The asset valuation reserve is designed to provide for future credit-related losses on debt securities and losses on equity investments. Available capital includes a reduction for the effect of the interest maintenance reserve, which is designed by state regulators to defer recognition of non-credit related realized capital gains and losses and to recognize them rateably in the future.

Jackson's risk-based capital ratio is significantly in excess of regulatory requirements. Effective for 2008 reporting, the local regulator granted Jackson three permitted practices, which expire October 1, 2009, unless extended by the local regulator. One permitted practice allows Jackson to carry interest rate swaps at book value, as if statutory hedge accounting were in place, instead of at fair value as would have been otherwise required. Jackson must also demonstrate the effectiveness of its interest rate swap program pursuant to the Michigan Insurance Code. The local regulator also granted a permitted practice to allow Jackson to recognize book to tax differences that will reverse within the next three years (instead of one year as required by the NAIC) in determining the admissible tax asset (subject to a limitation of 15 per cent of capital and surplus versus the 10 per cent limitation imposed by the NAIC guidance). Finally, the local regulator granted a permitted practice to allow Jackson to use an average interest rate in calculating certain regulatory requirements. The permitted practice requires that Jackson maintain certain minimum capital levels excluding the effect of the permitted practices. The total effect of these permitted practices was to increase statutory surplus by £588 million and reduce authorized control level required capital by £57 million at December 31, 2008.

(iii) Asian operations

The available capital shown above of £1,410 million (2007: £874 million) represents the excess of local regulatory basis assets over liabilities before deduction of required capital of £407 million (2007: £265 million). These amounts have been determined applying the local regulations in each of the operations.

The businesses in Asia are subject to local capital requirements in the jurisdictions in which they operate. The Hong Kong business branch of PAC and its capital requirements are subsumed within those of the PAC long-term fund. For the other material Asian operations, the details of the basis of determining regulatory capital and regulatory capital requirements are as follows:

Singapore

In Singapore a risk-based regulatory framework applies rather than one based on a net premium approach.

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D: Life assurance business (Continued)

For participating business, a gross premium reserve, determined using prudent best estimate assumptions and which makes allowance for future bonus, is held. The amount held is subject to a minimum of the higher of the assets attributed to participating business and a gross premium reserve calculated on specified assumptions, but without allowance for future bonus, that include prescribed provisions for adverse deviations (PADs).

For non-participating business, gross premium reserves are held. For linked business the value of units is held together with a non-unit reserve calculated in accordance with standard actuarial methodology.

Taiwan

Basic policy reserves are determined using a net premium method. Both mortality and interest rates are specified. For more recent issues, the valuation rate of interest has been linked to the prevailing market rate on 10-year government bonds.

Solvency capital is determined using a risk-based capital approach. In 2008, due to the financial crisis, the local regulator provided relief to ease certain of the requirements in determining the risk-based capital surplus. This relief applies to 2008 and 2009.

Japan

Mathematical reserves for traditional business are determined on a net premium basis using prescribed mortality and interest rates. Interest rates reflect the original pricing assumptions.

For linked business the value of units is held together with a non-unit reserve calculated in accordance with standard actuarial methodology.

With regard to solvency, the adjusted solvency capital assets of the Company must exceed 200 per cent of the risk related capital requirement value at risk. It is thus a risk-based capital approach.

Malaysia

Mathematical reserves for traditional business are determined on a modified net premium basis using prescribed mortality and interest rates (no higher than four per cent).

For linked business the value of units is held together with a non-unit reserve calculated in accordance with standard actuarial methodology.

The capital requirement is determined as four per cent of reserves plus a specified percentage of sums at risk. There is an overriding minimum capital requirement of 100 million Malaysian Ringgit.

Malaysia is adopting a risk-based capital framework from 2009, which has not been reflected in the tables presented.

Vietnam

Mathematical reserves are calculated using a modified net premium approach, using a stable set of assumptions agreed with the regulator.

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D: Life assurance business (Continued)

The capital requirement is determined as four per cent of reserves plus a specified percentage of 0.1 per cent of sums at risk for policies with original term less than or equal to five years or 0.3 per cent of sums at risk for policies with original term of more than five years. An additional capital requirement of Vietnamese Dong 200 billion is also required for companies transacting unit-linked business.

Korea

Policy reserves for traditional business are determined on net premium reserve basis using pricing mortality and prescribed standard interest rates.

For linked business, the value of units is held together with the non-unit reserves calculated in accordance with regulatory standard actuarial methodology.

The capital requirement in Korea is determined as four per cent of the policy reserves and expected claims after reinsurance. Insurance companies in Korea are expected to maintain a level of free surplus in excess of the capital requirements with the usual level of solvency margin being around 200 per cent of the required capital.

(iv) Group capital requirements

In addition to the requirements at individual company level, FSA requirements under the IGD apply additional prudential requirements for the Group as a whole. Discussion of the Group's IGD position at December 31, 2008 is provided in section C. During 2008, Prudential met the 'hard test' of the FSA under IGD. At December 31, 2008, Prudential met the requirements of the IGD.

(c) Movements in total available capital

Total available capital for the Group's life assurance operations has changed during 2008 as follows:

2008	WPSF note i £ million	Other UK life assurance subsidiaries and funds note iii £ million	Jackson note ii £ million	Asian life assurance subsidiaries note iv £ million	Group total £ million
Available capital at December 31, 2007	**8,720**	**982**	**2,251**	**874**	**12,827**
Changes in assumptions	**(149)**	**(624)**		**(7)**	**(780)**
Changes in management policy		**372**		**60**	**432**
Changes in regulatory requirements			**(57)**	**134**	**77**
New business and other factors	**(3,209)**	**323**	**564**	**349**	**(1,973)**
Available capital at December 31, 2008	**5,362**	**1,053**	**2,758**	**1,410**	**10,583**

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D: Life assurance business (Continued)

Detail on the movement for 2007 is as follows:

2007	WPSF note i £ million	Other UK life assurance subsidiaries and funds note iii £ million	Jackson note ii £ million	Asian life assurance subsidiaries note iv £ million	Group total £ million
Available capital at December 31, 2006	8,688	903	2,083	745	12,419
Changes in assumptions	(335)	(33)		4	(364)
Changes in management policy				12	12
Changes in regulatory requirements			(7)		(7)
New business and other factors	367	112	175	113	767
Available capital at December 31, 2007	8,720	982	2,251	874	12,827

Notes

(i) WPSF

The decrease in 2008 reflects primarily the negative investment returns earned on the opening available capital and £149 million negative effect of changes in assumptions on a regulatory basis compares to the £83 million effect of change in assumptions on an IFRS basis as shown in note D2(i).

The increase in 2007 reflects investment return earned on the opening available capital partially offset by the £335 million effect of assumption changes and a £214 million impact from a change in the risk-free yield curve which affects the outlook for future investment returns.

The £335 million effect of assumption changes on a regulataory basis compares to the £392 million effect of change in assumptions on an IFRS basis as shown in note D2(i).

(ii) Jackson

The increase of £507 million reflects an underlying decrease of £358 million (applying the 2008 year end exchange rate of 1.44) and £865 million of exchange translation gain.

The increase of £168 million in 2007 reflects an underlying increase of £203 million (applying the 2007 year end exchange rate of 1.99) and

£35 million of exchange translation loss.

(iii) Other UK life assurance subsidiaries and funds
The effect from the changes in assumptions of valuation interest rates on insurance liabilities is broadly matched by the corresponding effect on assets leaving no significant impact on the available capital.

(iv) Asian life assurance subsidiaries
Asia's 2006 and 2007 comparative adjustments reflect the intra-group balances that are recognized on a local regulatory basis.

(d) Transferability of available capital

For PAC and all other UK long-term insurers, long-term business assets and liabilities must, by law, be maintained in funds separate from those for the assets and liabilities attributable to non-life insurance business or to shareholders. Only the 'established surplus' the excess of assets over liabilities in the long-term fund determined through a formal valuation may be transferred so as to be available for

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D: Life assurance business (Continued)

other purposes. Distributions from the with-profits sub-fund to shareholders reflect the shareholders' one-ninth share of the cost of declared policyholders' bonuses.

Accordingly, the excess of assets over liabilities of the PAC long-term fund is retained within that company. The retention of the capital enables it to support with-profits and other business of the fund by, for example, providing the benefits associated with smoothing and guarantees. It also provides 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.

For other UK long-term business subsidiaries, the amounts retained within the companies are at levels which provide an appropriate level of capital strength in excess of the regulatory minimum.

For Jackson, capital retention is maintained at a level consistent with an appropriate rating by Standard & Poor's. Currently Jackson is rated AA. Jackson can pay dividends on its capital stock only out of earned surplus unless prior regulatory approval is obtained. Furthermore, dividends which exceed the greater of 10 per cent of Jackson's statutory surplus or statutory net gain from operations for the prior year require prior regulatory approval.

For Asian subsidiaries, the amounts retained within the companies are at levels that provide an appropriate level of capital strength in excess of the local regulatory minimum. For ring-fenced with-profits funds, the excess of assets over liabilities is retained with distribution tied to the shareholders' share of bonuses through declaration of actuarially determined surplus. The Singapore and Malaysian businesses may, in general, remit dividends to the UK, provided the statutory insurance fund meets the capital adequacy standard required under local statutory regulations.

Available capital of the non-insurance business units is transferable to the life assurance businesses after taking account of an appropriate level of operating capital, based on local regulatory solvency targets, over and above basis liabilities. The economic capital model described in section D1 (concentration of risks) takes into account restrictions on mobility of capital across the Group with capital transfers to and from business units triggered at a solvency level consistent with these targets. The model takes into account restrictions on the availability to the Group of the estate of the various with-profits funds throughout the Group.

(e) Sensitivity of liabilities and total capital to changed market conditions and capital management policies

Prudential manages its assets, liabilities and capital locally, in accordance with local regulatory requirements and reflecting the different types of liabilities Prudential has in each business. As a result of the diversity of products offered by Prudential and the different regulatory requirements in which it operates, Prudential employs differing methods of asset/liability and capital management, depending on the business concerned.

Stochastic modeling of assets and liabilities is undertaken in the UK, Jackson and Asia to assess the economic capital requirements under different confidence intervals and time horizons. In addition, reserve adequacy testing under a range of scenarios and dynamic solvency testing is carried out, including under certain scenarios mandated by the UK, the US and Asian regulators.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

D: Life assurance business (Continued)

A stochastic approach models the inter-relationship between asset and liability movements, taking into account asset correlation, management actions and policyholder behavior under a large number of alternative economic scenarios. These scenarios are projected forward over a period of time, typically 25 years or longer, and the liabilities and solvency position of the fund are calculated in each scenario in each future year. The fund's policy on management actions, including bonus and investment policy, continue to be set in order that they are consistent with the available capital and the targeted risk of default.

The sensitivity of liabilities and other components of total capital vary depending upon the type of business concerned and this conditions the approach to asset/liability management.

For example, for businesses that are most sensitive to interest rate changes, such as immediate annuity business, Prudential uses cash flow analysis to create a portfolio of debt securities whose value changes in line with the value of liabilities when interest rates change. This type of analysis helps protect profits from changing interest rates. This type of analysis is used in the UK for annuity business and by Jackson for its interest-sensitive and fixed indexed annuities and stable value products.

For businesses that are most sensitive to equity price changes, Prudential uses stochastic modeling and scenario testing to look at the future returns on its investments under different scenarios which best reflect the large diversity in returns that equities can produce. This allows Prudential to devise an investment and with-profits policyholder bonus strategy that, on the model assumptions, allows it to optimize returns to its policyholders and shareholders over time while maintaining appropriate financial strength. Prudential uses this methodology extensively in connection with its UK with-profits business.

(f) Intra-group arrangements in respect of SAIF

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 long-term fund or the Group's shareholders' funds, under their obligation to maintain the capital position of long-term funds generally, having to contribute to SAIF is remote.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

E: Asset management (including US broker-dealer) and other operations

The Group's asset management operations are based in the UK, Asia and the US where they operate different models and under different brands tailored to their markets.

Asset management in the UK is undertaken through M&G which is made up of three distinct businesses, being Retail, Wholesale and Finance, and whose operations include retail asset management, institutional fixed income, pooled life and pension funds, property and private finance.

Asset management in Asia serves both the life companies in Asia by managing the life funds and funds underlying the investment linked products and third-party customers through mutual fund business. Asia offers mutual fund investment products in a number of countries within the region, allowing customers to participate in debt, equity and money market investments.

Asset management in the US is undertaken through PPM America which manages assets for the Group's US, UK and Asian affiliates plus also provides investment services to other affiliated and unaffiliated institutional clients including CDOs, private investment funds, institutional accounts and mutual funds. In addition, broker-dealer activities are undertaken in the US where trades in securities are carried out for both third-party customers and for its own account.

Other operations covers unallocated corporate activities and includes the head office functions.

E1: Income statement for asset management operations

The profit included in the income statement in respect of asset management operations for the year is as follows:

	2008				2007	2006
Asset management operations	**M&G**	**US**	**Asia**	**Total**	**Total**	**Total**
	£ million	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**
Revenue*	53	409	202	**664**	1,397	1,080
Charges	28	(402)	(150)	**(524)**	(1,053)	(797)
Profit before tax	81	7	52	**140**	344	283

* Included within revenue for 2008 M&G are realized and unrealized net losses of £673 million in respect of consolidated investment funds and Prudential Capital. The investment funds are managed on behalf of third-parties and are consolidated under IFRS in recognition of the control arrangements for the funds. The investment losses in respect of the investment funds are non-recourse to M&G and the Group and are added back through charges and consequently there is no impact on the profit before tax. Excluding the anomaly in respect of the consolidated investment funds the revenue for M&G would be £494 million and the charges, £413 million.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

E: Asset management (including US broker-dealer) and other operations (Continued)

E2: Balance sheet for asset management operations

Assets, liabilities and shareholders' funds included in the Group consolidated balance sheet in respect of asset management operations are as follows:

Asset management operations	M&G £ million	US £ million	Asia £ million	2008 Total £ million	2007 Total £ million
Assets					
Intangible assets:					
Goodwill	1,153	16	61	**1,230**	1,230
Deferred acquisition costs	6			**6**	6
Total	1,159	16	61	**1,236**	1,236
Other non-investment and non-cash assets	27	169	99	**295**	521
Financial investments:					
Loans[note i]	1,763			**1,763**	2,334
Equity securities and portfolio holdings in unit trusts	11		12	**23**	17
Debt securities[note ii]	975		16	**991**	882
Other investments[note v]	432	24	6	**462**	155
Deposits	35	16	13	**64**	26
Total investments	3,216	40	47	**3,303**	3,414
Cash and cash equivalents[note v]	1,329	39	104	**1,472**	1,840
Total assets	5,731	264	311	**6,306**	7,011
Equity and liabilities					
Equity					
Shareholders' equity[note iii]	1,300	114	228	**1,642**	1,677
Minority interests	1			**1**	52
Total equity	1,301	114	228	**1,643**	1,729
Liabilities					
Intra Group debt represented by operational borrowings at Group level[note iv]	1,278			**1,278**	2,477
Net asset value attributable to external holders of consolidated funds[note v]	1,065			**1,065**	1,234
Other liabilities	2,087	150	83	**2,320**	1,571
Total liabilities	4,430	150	83	**4,663**	5,282
Total equity and liabilities	5,731	264	311	**6,306**	7,011

Notes

i

Loans

The M&G loans of £1,763 million relates to bridging loan finance managed by Prudential Capital. The bridging loan finance assets generally have no external credit ratings available, with internal ratings prepared by the Group's asset management operations as part of the risk management process rating £1,100 million BBB+ to BBB- and £663 million BB+ to BB-.

ii

Debt securities

Of the debt securities of £975 million for M&G at December 31, 2008, £959 million were rated AAA to A-by Standard and Poor's or Aaa rated by Moody's.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

E: Asset management (including US broker-dealer) and other operations (Continued)

iii

M&G shareholder funds include those in respect of Prudential Capital, with the net reduction in the year primarily due to unrealized value movements of £190 million, on Prudential Capital's bond portfolio.

iv

Intra Group debt represented by operational borrowings at Group level
Operational borrowings for M&G are in respect of Prudential Capital's short-term fixed income security program and comprise £1,269 million of commercial paper and £9 million of medium-term notes.

v

Consolidated investment funds
The M&G balance sheet shown above includes Prudential Capital together with investment funds which are managed on behalf of third-parties. In respect of the consolidated investment funds, the balance sheet includes cash and cash equivalents of £835 million, £345 million of other investments, £(115) million of other net assets and liabilities and the net asset value attributable to external unit holders of £1,065 million in respect of these funds, which are non-recourse to M&G and the Group.

Reconciliation of movement in investments

A reconciliation of the total investments of asset management operations from the beginning of the year to the end of the year is as follows:

Asset management operations	**M&G £ million**	**US £ million**	**Asia £ million**	**Total £ million**
At January 1, 2007				
Total investments	2,903	35	25	2,963
Less: Derivative liabilities	(142)			(142)
Directly held investments, net of derivative liabilities	2,761	35	25	2,821
Net cash inflow from operating activities	296		21	317
Realized gains in the year	8			8
Unrealized (losses) in the year	(22)			(22)
Foreign exchange translation differences	105	(1)		104
Movement in the year of directly held investments, net of derivative liabilities	387	(1)	21	407
At December 31, 2007/January 1, 2008				
Total investments	3,334	34	46	3,414
Less: Derivative liabilities	(186)			(186)
Directly held investments, net of derivative liabilities	3,148	34	46	3,228
Net cash outflow from operating activities	(601)		(14)	(615)
Realized gains in the year	9			9
Unrealized (losses) in the year	(148)	(7)	(1)	(156)

Foreign exchange translation differences	516	13	16	545
Movement in the year of directly held investments, net of derivative liabilities	(224)	6	1	(217)
At December 31, 2008				
Total investments	3,216	40	47	3,303
Less: Derivative liabilities	(292)			(292)
Directly held investments, net of derivative liabilities	2,924	40	47	3,011

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

E: Asset management (including US broker-dealer) and other operations (Continued)

E3: Regulatory capital positions

Asset management operations in the UK, Hong Kong, Singapore, Vietnam and China are subject to regulatory requirements based on fixed operating expenses and other operating considerations. The movement in the year of the surplus regulatory capital position of these operations, combined with the movement in the IFRS basis shareholders' funds for other asset management operations, is as follows:

Asset management operations

Capital surplus position	M&G £ million	US £ million	Asia £ million	2008 Total £ million	2007 Total £ million
Beginning of year	99	81	92	**272**	243
Exchange movement	(3)	39	31	**67**	(1)
Movement in capital requirement	(28)		25	**(3)**	(9)
Gains during the year	89	1	46	**136**	189
Distributions made		(8)	(34)	**(42)**	(150)
End of year	157	113	160	**430**	272

The movement in the year reflects changes in regulatory requirements whilst gains are driven by profits generated during the year. Distributions consist of dividends paid up to the parent company.

The M&G figures include those for Prudential Capital.

E4: Sensitivity of profit and equity to market and other financial risk

(i) Currency translation

Consistent with the Group's accounting policies, the profits of the Asia and PPM America asset management operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2008, the rates for the most significant operations are given in note B3.

A 10 per cent increase in these rates and those of other Asian operations would have reduced reported profit before tax attributable to shareholders and shareholders' equity, excluding goodwill attributable to Asia and PPM America asset management operations, by £5 million (2007: £7 million) and £26 million (2007: £18 million) respectively.

(ii) Other sensitivities to other financial risks for asset management operations

The principal sensitivities to other financial risk of asset management operations are credit risk on the bridging loan portfolio (as described in note E2) of M&G's Prudential Capital operation and the indirect effect of changes to market values of funds under management. Due to the nature of the asset management operations there is limited direct sensitivity to movements in interest rates. Total debt securities held at December 31, 2008 by asset management operations were £991 million (2007: £882 million), the majority of which are held by the Prudential Capital operation of M&G. Debt securities held by M&G are in general variable rate bonds and so market value is limited in sensitivity to interest rate movements and consequently any change in interest rates would not have a material impact

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

E: Asset management (including US broker-dealer) and other operations (Continued)

on profit or shareholder's equity. Asset management operations do not hold significant investments in property or equities.

E5: Other operations

Other operations consist of unallocated corporate activities relating to Group Head Office and the Asia regional head office, with net income and expenditure for the year of negative £260 million (2007: negative £260 million; 2006: negative £248 million). An analysis of the assets and liabilities of other operations is shown in note B4.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

F: Income statement notes

F1: Segmental information

The Group's primary and secondary segments are described in detail in note B4.

Primary segment information

The segment results for the years ended December 31, 2008, 2007 and 2006 are as follows:

	2008 £ million	2007 £ million	2006 £ million
Revenue			
Insurance operations	**(10,798)**	31,555	34,197
Asset management	**664**	1,397	1,080
Unallocated corporate	**157**	186	51
Intra group revenue eliminated on consolidation	**(290)**	(268)	(284)
Total revenue, net of reinsurance, per income statement[note i]	**(10,267)**	32,870	35,044
Analyzed as:			
Investment returns[note iii]	**(30,202)**	12,225	17,141
Other items	**19,935**	20,645	17,903
	(10,267)	32,870	35,044
Charges (before income tax attributable to policyholders and unallocated surplus of long-term insurance funds)			
Insurance operations, including post-tax transfers from (to) unallocated surplus of with-profits funds	**8,980**	(30,533)	(32,162)
Asset management	**(524)**	(1,053)	(797)
Unallocated corporate	**(553)**	(494)	(258)
Intra group charges eliminated on consolidation	**290**	268	284
Total charges, net of reinsurance, per income statement[note i]	**8,193**	(31,812)	(32,933)
Segment results revenue less charges (continuing operations)			
Insurance operations	**(1,818)**	1,022	2,035
Asset management	**140**	344	283
Unallocated corporate	**(396)**	(308)	(207)
(Loss) profit before tax (being tax attributable to shareholders' and policyholders' returns)[note ii]	**(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' (loss) profit	**59**	(354)	(365)
(Loss) profit from continuing operations after tax	**(391)**	709	916
Segment results discontinued operations			
Banking[I9]		241	(105)
(Loss) profit for the year	**(391)**	950	811

Notes

i

Total revenue for 2008 is negative £10,267 million whilst charges are a credit of £8,193 million. These abnormal effects arise from the basis of preparation whereby revenue includes investment appreciation, which is negative in 2008, and charges reflect the allocation, where appropriate, of investment return to policyholder benefits.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

F: Income statement notes (Continued)

ii

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

iii

Investment return principally comprises

Interest and dividends;

Realized and unrealized gains and losses on securities and derivatives classified as fair value through profit and loss under IAS 39; and

Realized gains and losses, including impairment losses, on securities classified as available-for-sale under IAS 39.

In its capacity as fund manager to fellow Prudential plc subsidiaries, M&G earns fees for asset management and related services. These services are charged at appropriate arm's length prices, typically priced as a percentage of funds under management.

Total charges include a credit of £25,419 million (2007: charge of £11,295 million) for non-cash expenses other than depreciation and amortization mainly due to the impact of negative market returns experienced during the year on benefit claims and movement in unallocated surplus of with-profits funds.

Secondary segment information

Although the Company is UK registered, the Group manages its business on a global basis. The operations are based in three main geographical areas: UK, US and Asia.

	2008 £ million	2007 £ million	2006 £ million
Revenue			
UK	**(12,213)**	17,890	21,225
US	**915**	8,271	8,562
Asia	**1,321**	6,977	5,541
Intra group revenue	**(290)**	(268)	(284)
Total revenue per income statement	**(10,267)**	32,870	35,044

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

F: Income statement notes (Continued)

F2: Revenue

	2008 £ million	2007 £ million	2006 £ million
Long-term business premiums			
Insurance contract premiums	**17,573**	17,308	13,805
Investment contracts with discretionary participation feature premiums	**964**	874	1,249
Inwards reinsurance premiums	**454**	177	1,103
Less: reinsurance premiums ceded	**(202)**	(171)	(171)
Earned premiums, net of reinsurance	**18,789**	18,188	15,986
Realized and unrealized gains and losses on securities at fair value through profit and loss	**(34,157)**	2,634	5,977
Realized and unrealized gains and losses on derivatives at fair value through profit and loss	**(5,261)**	270	932
Realized gains and losses on available-for-sale securities, previously recognized directly in equity	**(487)**	13	(7)
Realized gains and losses on loans	**210**	47	(3)
Interest[note i]	**6,739**	5,857	5,827
Dividends	**2,023**	2,730	3,666
Other investment income	**731**	674	749
Investment income	**(30,202)**	12,225	17,141
Fee income from investment contract business and asset management[note ii]	**1,109**	1,039	886
Income from venture investments of the PAC with-profits funds[note iii]	**37**	1,418	1,031
Other income	**1,146**	2,457	1,917
Total revenue	**(10,267)**	32,870	35,044

Notes

i Interest income includes £11 million (2007: £2 million; 2006: £3 million) accrued in respect of impaired securities.

ii Fee income includes £7 million (2007: £31 million; 2006: £34 million) relating to financial instruments that are not held at fair value through profit and loss. These fees primarily related to prepayment fees, late fees and syndication fees.

iii

In November 2007 the Group sold PPM Capital and as a result the Group no longer controls venture fund investments managed by the sold entity and consequently has ceased to consolidate these operations from that date.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

F: Income statement notes (Continued)

F3: Acquisition costs and other operating expenditure

	2008 £ million	2007 £ million	2006 £ million
Acquisition costs[notes i,ii]	**1,185**	1,030	1,238
Staff and pension costs[I1]	**913**	1,402	924
Administrative and operating costs[note iv]	**361**	2,427	2,327
Total acquisition costs and other operating expenditure[notes iii,iv]	**2,459**	4,859	4,489

Notes

i

Acquisition costs in 2008 comprise amounts related to insurance contracts of £1,048 million (2007: £939 million; 2006: £1,165 million), and investment contracts and asset management contracts of £137 million (2007: £91 million; 2006: £73 million). These costs include amortization of £520 million (2007: £410 million; 2006: £299 million) and £15 million (2007: £3 million; 2006: £6 million) respectively.

ii

Acquisition costs also include fee expenses relating to financial liabilities held at amortized costs of £nil (2007: £1 million; 2006: £2 million).

iii

The total depreciation and amortization expense is £618 million (2007: £523 million; 2006: £472 million). Of this amount, £535 million (2007: £413 million; 2006 £305 million) relates to amortization of deferred acquisition costs of insurance contracts and asset management contracts, which is primarily borne by the long-term business segment. Of the remainder of the depreciation and amortization charge of £83 million (2007: £110 million; 2006: £167 million), £57 million (2007: £98 million: 2006: £156 million) relates to long-term business, £10 million (2007: £8 million; 2006: £8 million) to asset management and £16 million (2007: £4 million; 2006: £3 million) to other operations.

iv

In November 2007, the Group sold PPM Capital and as a result, the Group no longer controls venture fund investments managed by the sold entity and consequently has ceased to consolidate these operations from that date with this resulting in a reduction of associated operating expenditure.

F4: Finance costs: Interest on core structural borrowings of shareholder-financed operations

Finance costs consist of £161 million (2007: £158 million; 2006: £166 million) interest on core debt of central companies and £11 million (2007: £10 million; 2006: £11 million) on US operations' surplus notes.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

F: Income statement notes (Continued)

F5: Tax

(a) Total tax credit (charge) by nature of expense

An analysis of the total tax benefit (expense) of continuing operations recognized in the income statement by nature of benefit (expense) is as follows:

	2008 £ million	2007 £ million	2006 £ million
Current tax benefit (expense):			
Corporation tax	**(225)**	(806)	688
Adjustments in respect of prior years	**359**	185	(34)
Total current tax	**134**	(621)	654
Deferred tax arising from:			
Origination and reversal of temporary differences	**1,629**	222	510
(Expense) benefit in respect of a previously unrecognized tax loss, tax credit or temporary difference from a prior period	**(77)**	50	31
Write down or reversal of a previous write down of a deferred tax asset	**(3)**		
Total deferred tax credit	**1,549**	272	541
Total tax credit (charge)	**1,683**	(349)	1,195

The total tax benefit (expense) arises as follows:

	2008 £ million	2007 £ million	2006 £ million
Current tax benefit (expense):			
UK	**280**	(377)	381
Foreign	**(146)**	(244)	273
	134	(621)	654
Deferred tax (credit) expense:			
UK	**1,478**	349	271
Foreign	**71**	(77)	270
	1,549	272	541
Total	**1,683**	(349)	1,195

The total tax credit of £1,683 million for 2008 (2007: charge of £349 million; 2006: credit of £1,195 million) comprises a credit of £1,758 million (2007: charge of £28 million; 2006: credit of £652 million) for UK tax and a charge of £75 million (2007: £321 million; 2006: credit of £543 million) for overseas tax. This tax credit comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders. The tax credit attributable to shareholders of £59 million for 2008 (2007: charge of £354 million; 2006: charge of £365 million) comprises a credit of £95 million (2007: charge of £148 million; 2006: charge of £115 million) for UK tax and a charge of £36 million (2007: £206 million; 2006: £250 million) for overseas tax.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

F: Income statement notes (Continued)

The prior year adjustments primarily relate to the settlement of issues with HM Revenue Customs (HMRC) at an amount below previously provided, the reduction in amounts previously provided on outstanding issues with HMRC and the routine revision of tax returns.

The total deferred tax (credit) expense arises as follows:

	2008 £ million	2007 £ million	2006 £ million
Unrealized gains and losses on investments	**1,521**	225	(236)
Short-term timing differences	**(29)**	(10)	(110)
Capital allowances	**2**	4	(2)
Balances relating to investment and insurance contracts	**(239)**	41	(198)
Unused tax losses	**294**	12	5
Deferred tax credit (expense)	**1,549**	272	(541)

In April 2008 the standard corporation tax rate for the UK changed from 30% to 28%. Deferred tax at the end of 2007 for UK operations had been provided at the new rate of 28 per cent on the basis that materially all of the temporary differences are expected to reverse once the new rate took effect. The effect on the deferred tax assets and liabilities at December 31, 2007was £20 million.

In 2008, a deferred tax credit of £637 million (2007: £54 million; 2006: £41 million) has been taken directly to reserves. Other movements in deferred tax totaling a £21 million credit is mainly comprised of foreign exchange movements. When these amounts are taken with the deferred tax credit shown above the result is a decrease of £2.2 billion (or £2.1 billion taking into account the restated 2007 comparative deferred tax as a result of the interpretation of IFRIC 14) in the Group's net deferred tax liability (2007 decrease of £419 million; 2006: increase of £500 million).

The tax credit related to discontinued banking operations in 2007 which was all attributable to shareholders, amounted to £19 million.

b Reconciliation of effective tax rate

The total tax expense is attributable to shareholders and policyholders as summarized in the income statement.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

F: Income statement notes (Continued)

(i) Summary of pre-tax (loss) profit and tax credit (charge)

The income statement includes the following items:

	2008 £ million	2007 £ million	2006 £ million
(Loss) profit before tax	**(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' (losses) profits:			
Tax credit (charge)	**1,683**	(349)	(1,195)
Less: tax attributable to policyholders' returns	**(1,624)**	(5)	830
Tax attributable to shareholders' (losses) profits	**59**	(354)	365
(Loss) profit from continuing operations after tax	**(391)**	709	916

(ii) Overview

For the purposes of explaining the relationship between tax expense and accounting profit, it is appropriate to consider the sources of profit and tax by reference to those that are attributable to shareholders and policyholders, as follows:

	2008			2007			2006		
	Attributable to shareholders £ million	Attributable to policyholders* £ million	Total £ million	Attributable to shareholders £ million	Attributable to policyholders* £ million	Total £ million	Attributable to shareholders £ million	Attributable to policyholders* £ million	Total £ million
Loss) rofit efore tax	**(450)**	**(1,624)**	**(2,074)**	1,063	(5)	1,058	1,281	830	2,111
axation harge:									
xpected ax rate	**41%**	**100%**	**87%**	31%	100%	30%	30%	100%	57%
xpected ax harge	**187**	**1,624**	**1,811**	(327)	5	(322)	(391)	(830)	(1,221)
ariance rom xpected	**(128)**		**(128)**	(27)		(27)	26		26

ax harge(note (ii))									
ctual tax edit harge)	**59**	**1,624**	**1,683**	(354)	5	(349)	(365)	(830)	(1,195)
verage fective x rate	**13%**	**100%**	**81%**	33%	100%	33%	28%	100%	57%

*

For the column entitled 'Attributable to policyholders', the profit before tax represents income, net of post-tax transfers to unallocated surplus of with-profits funds, before tax attributable to policyholders and unallocated surplus of with-profits funds and unit-linked policies.

Due to the requirements of the financial reporting standards IAS 1 and IAS 12, the profit before tax and tax charge reflect the aggregate of amounts that are attributable to shareholders and policyholders.

Profit before tax comprises profit attributable to shareholders and pre-tax profit attributable to policyholders of linked and with-profits funds and unallocated surplus of with-profits funds.

The total tax charge for linked and with-profits business includes tax expense on unit-linked and with-profits funds attributable to policyholders, the unallocated surplus of with-profits funds and the shareholders' profits. This feature arises from the basis of taxation applied to life and pension business, principally in the UK, but with similar bases applying in certain Asian operations, and is explained in note (iii) below.

Furthermore, the basis of preparation of Prudential's financial statements incorporates the additional feature that, as permitted under IFRS 4, the residual equity of the Group's with-profits funds, i.e. unallocated surplus, is recorded as a liability with transfers to and from that liability reflected in

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

F: Income statement notes (Continued)

pre-tax profits. This gives rise to anomalous effective tax rates for profits attributable to policyholders (as described in note (iv) below).

In meeting the reconciliation requirements set out in paragraph 81I of IAS 12, the presentation shown in this disclosure note seeks to ensure that the explanation of the relationship between tax expense and accounting profit draw properly the distinction between the elements of the profit and tax charge that are attributable to policyholders and shareholders as explained below in notes (iv) and (v) respectively. Due to the nature of the basis of taxation of UK life and pension business (as described in note (iii) below), and the significance of the results of the business to the Group, it is inappropriate to seek to explain the effective tax rate on profit before tax by traditional approach that would apply for other industries.

The shareholder elements are the components of the profit and tax charge that are of most direct relevance to investors, and it is this aspect that the IAS 12 requirement is seeking to explain for companies that do not need to account for both with-profits and unit-linked funds, where tax is borne by the Company on the policyholders' behalf and which is not contemplated by IFRS requirement.

(iii) Basis of taxation for UK life and pension business

Different rules apply under UK tax law for taxing pension business and life insurance business and there are detailed rules for apportioning the investment return and profits of the fund between the types of business.

The investment return referable to pension business, and some other less significant classes of business, is exempt from taxation, but tax is charged on the profit that shareholders derive from writing such business at the corporate rate of tax. The rules for taxing life insurance business are more complex. Initially, the UK regime seeks to tax the regulatory basis investment return less management expenses (I-E) on this business as it arises. However, in determining the actual tax charge, a calculation of the shareholder profits for taxation purposes from writing life insurance business also has to be made and compared with the I-E profit.

If the shareholder profit is higher than the I-E amount, extra income is attributable to the I-E calculation until the I-E profit equals the shareholder profit. If on the other hand, the I-E profit is the greater, then an amount equal to the shareholder profit is taxed at the corporate rate of tax, with the remainder of the I-E profit being taxed at the lower policyholder rate of tax.

The purpose of this approach is to ensure that the Company is always as a minimum taxed on the profit, as defined for taxation purposes by reference to the Company's regulatory returns (rather than IFRS basis results), that it has earned. The shareholders' portion of the long-term business is taxed at the shareholders' rate, with the remaining portion taxed at rates applicable to the policyholders.

It is to be noted that the calculations described are determined using data from the regulatory basis returns rather than the IFRS basis results. The differences between the regulatory and accounting bases are very significant and extremely complex rendering any explanation in general purpose financial statements to be of little if any use to users.

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December 31, 2008

F: Income statement notes (Continued)

(iv) Profits attributable to policyholders and related tax

As noted above, it is necessary under IFRS requirements to include the total tax charge of the Company (both policyholder and shareholder elements) in the tax charge disclosed in the income statement.

For with-profits business, total pre-tax profits reflect the aggregate of profits attributable to policyholders and shareholders. However, amounts attributable to the equity of with-profits funds are carried in the liability for unallocated surplus. Also, as described in note (iii), UK with-profits business is taxed on a basis that affects policyholders' unallocated surplus of with-profits funds and shareholders. For the PAC with-profits sub-fund, transfers to and from unallocated surplus are recorded in the income statement, so that after charging the total tax borne by the fund, the net balance reflects the statutory transfer from the fund for the year. The statutory transfer represents 10 per cent of the actuarially determined surplus for the year that is attributable to shareholders.

For SAIF similar transfers are made. However, in the case of SAIF, a net nil balance is derived, reflecting the lack of shareholder interest in the financial performance of the fund (other than through asset management arrangements).

The accounting anomaly that arises under IFRS is that due to the fact that the net of tax profit attributable to with-profits policyholders is zero, the Company's presentation of pre-tax profit attributable to policyholders reflects an amount that is the mirror image of the tax charge attributable to policyholders.

For unit-linked business, pre-tax profits also reflect the aggregate of profits attributable to policyholders and shareholders. The pre-tax profits attributable to policyholders represent fees earned that are used to pay tax borne by the Company on policyholders' behalf. The net of tax profit attributable to policyholders for unit-linked business is thus zero.

The combined effect of these features is such that providing a reconciliation of the tax charge attributable to policyholders to an expected charge based on the standard corporate rate of tax on IFRS basis profits attributable to policyholders is not relevant.

In summary, for accounting purposes, in all cases and for all reporting periods, the apparent effective rate for profit attributable to policyholders and unallocated surplus is 100 per cent. However, it is to be noted that the 100 per cent rate does not reflect a rate paid on the profits attributable to policyholders. It instead reflects the basis of accounting for unallocated surplus coupled with the distinction made for performance reporting between sources of profit attributable to shareholders, policyholders and unallocated surplus and IFRS requirements in respect of reporting of all pre-tax profits and all tax charges irrespective of policyholder or shareholder economic interest.

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December 31, 2008

F: Income statement notes (Continued)

(v) Reconciliation of tax charge on profits attributable to shareholders

2008	Asian insurance operations	US insurance operations	UK insurance operations	Other operations	Total
	£ million	£ million	£ million	£ million	£ million
Profit before tax attributable to shareholders	92	(652)	323	(213)	(450)
Expected tax rate[note i]	16%	35%	28%	31%	42%
Expected tax credit (charge) based on expected tax rates	(15)	228	(91)	65	187
Variance from expected tax charge[note ii]	(58)	(156)	49	37	(128)
Actual tax credit (charge)	(73)	72	(42)	102	59
Actual tax rate	79%	11%	13%	48%	13%

Notes

i

Expected tax rates for profit attributable to shareholders: Expected tax rates shown in the table above reflect the corporate tax rates generally applied to taxable profits of the relevant country jurisdictions. For Asian operations the expected tax rates reflect the corporate tax rates weighted by reference to the source of profits of operations contributing to the aggregate business result. The expected tax rate for Other operations reflects the mix of business between UK and overseas operations, which are taxed at a variety of rates. The rate will fluctuate from year to year dependent on the mix of profits between jurisdictions.

ii

For 2008, the principal variances arise from differences between the standard corporation tax rate and actual rates due to a number of factors, including:

a

For Asian long-term operations, tax losses in several jurisdictions which are not expected to be available for relief against future profits, and losses on investments in jurisdictions which do not provide corresponding tax relief;

b

For Jackson, the inability to fully recognise deferred tax assets on losses being carried forward which has partially been offset by the benefit of a deduction from taxable income of a proportion of dividends received attributable to the variable annuity business;

c

For UK insurance operations, prior year adjustments arising from the routine revisions of tax returns, the settlement of outstanding issues with HMRC at an amount below that previously provided and the

different tax bases of UK life business; and

d

For Other operations, the settlement of issues with HMRC at amounts below those previously provided and a reduction in amounts previously provided on outstanding issues with HMRC which has been partially offset by the inability to recognise a deferred tax asset on various tax losses.

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Notes to the Consolidated Financial Statements

December 31, 2008

F: Income statement notes (Continued)

2007	Asian insurance operations £ million	US insurance operations £ million	UK insurance operations £ million	Other operations £ million	Total £ million
Profit before tax attributable to shareholders	103	426	474	60	1,063
Expected tax rate[note i]	18%	35%	30%	28%	31%
Expected tax credit (charge) based on expected tax rates	(19)	(149)	(142)	(17)	(327)
Variance from expected tax charge[note ii]	(29)	23	(27)	6	(27)
Actual tax charge	(48)	(126)	(169)	(11)	(354)
Actual tax rate	47%	30%	36%	18%	33%

Notes

i

Expected tax rates for profit attributable to shareholders: Expected tax rates shown in the table above reflect the corporate tax rates generally applied to taxable profits of the relevant country jurisdictions. For Asian operations the expected tax rates reflect the corporate tax rates weighted by reference to the source of profits of the operations contributing to the aggregate business result. Expected rates for 2007 for Asia are lower than 2006 due to an increased proportion of profits in low tax jurisdictions. The expected rate for other operations is lower than 2006.The tax rate of 28 per cent reflects the mix of business between UK and overseas operations which are taxed at a variety of rates. The rates will fluctuate year on year dependent on the mix of profits between jurisdictions.

ii

Variances from expected tax charge for results attributable to shareholders: For 2007, the principal variances arise from differences between the standard corporation tax rate and actual rates due to a number of factors, including:

a

For UK insurance operations, disallowed expenses and prior year adjustments arising from routine revisions of tax returns;

b

For Jackson, the benefit of a deduction from taxable income of a proportion of dividends received attributable to the variable annuity business;

c

For Asian long-term operations, tax losses in several jurisdictions which are not expected to be available for relief against future profits, and losses on investments in jurisdictions which do not provide corresponding tax relief; and

d

For other operations, the availability of capital losses brought forward on which no deferred tax had previously been recognized, which have been used against capital gains in the period.

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December 31, 2008

F: Income statement notes (Continued)

2006	Asian insurance operations £ million	US insurance operations £ million	UK insurance operations £ million	Other operations £ million	Total £ million
Profit before tax attributable to shareholders	309	451	426	95	1,281
Expected tax rate[note i]	25%	35%	30%	30%	31%
Expected tax credit (charge) based on expected tax rates	(77)	(158)	(128)	(28)	(391)
Variance from expected tax charge[note ii]	(5)	8	19	4	26
Actual tax charge	(82)	(150)	(109)	(24)	(365)
Actual tax rate	27%	33%	26%	25%	28%

Notes

(i)

Expected tax rates for profit attributable to shareholders

Expected tax rates shown in the table above reflect the corporate tax rates generally applied to taxable profits of the relevant country jurisdictions. For Asian operations the expected tax rates reflect the corporate tax rate weighted by reference to the source of profits of the operations contributing to the aggregate business result. In 2006, the expected tax rate on total profits of 31 per cent is in part due to the Asian long-term business (which is subject to lower tax rates than the UK and US) being a greater proportion of Group results.

(ii)

Variances from expected tax charge for results attributable to shareholders

For 2006, the principal variances arise from differences between the standard corporation tax rate and actual rates due to a number of factors, including:

(a)

The tax credit arising from relief for excess expenses in respect of the shareholder-backed protection business.

(b)

Prior year adjustments arising from routine revisions of tax returns.

(iii)

The results from continuing operations shown above exclude those in respect of discontinued banking operations. On May 1, 2007, the Company sold Egg Banking plc. Comparative results for 2006 have been adjusted accordingly from those previously published.

Prudential plc and Subsidiaries

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G: Financial assets and liabilities

G1: Financial instruments designation and fair values

The Group designates all financial assets as either fair value through profit and loss, available-for-sale, or as loans and receivables. Financial liabilities are designated as either fair value through profit and loss or amortized cost, or as investment contracts with discretionary participating features accounted for under IFRS 4 as described in note A4.

2008	Fair value through profit and loss £ million	Available-for-sale £ million	Loans and receivables £ million	Total carrying value £ million	Fair value £ million
Financial assets					
Cash and cash equivalents			**5,955**	**5,955**	**5,955**
Deposits			**7,294**	**7,294**	**7,294**
Equity securities and portfolio holdings in unit trusts	**62,122**			**62,122**	**62,122**
Debt securities[note i]	**71,225**	**23,999**		**95,224**	**95,224**
Loans[note ii]			**10,491**	**10,491**	**10,043**
Other investments[note iii]	**6,301**			**6,301**	**6,301**
Accrued investment income			**2,513**	**2,513**	**2,513**
Other debtors			**1,232**	**1,232**	**1,232**
	139,648	**23,999**	**27,485**	**191,132**	

2008	Fair value through profit and loss £ million	Amortized cost £ million	IFRS 4 basis value £ million	Total carrying value £ million	Fair value £ million
Financial liabilities					
Core structural borrowings of shareholder-financed operations[notes i,H13]		**2,958**		**2,958**	**2,137**
Operational borrowings attributable to shareholder-financed operations[H13]		**1,977**		**1,977**	**1,977**
Borrowings attributable to with-profits funds[H13]	**158**	**1,150**		**1,308**	**1,320**
Obligations under funding, securities lending and sale and repurchase agreements		**5,572**		**5,572**	**5,676**
Net asset value attributable to unit holders of consolidated unit trust and similar funds	**3,843**			**3,843**	**3,843**

Investment contracts with discretionary participating features[note iv]			**23,446**	**23,446**	
Investment contracts without discretionary participating features	**11,616**	**2,885**		**14,501**	**14,568**
Other creditors		**1,496**		**1,496**	**1,496**
Derivative liabilities	**4,832**			**4,832**	**4,832**
Other liabilities		**890**		**890**	**890**
	20,449	**16,928**	**23,446**	**60,823**	

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

G: Financial assets and liabilities (Continued)

2007	Fair value through profit and loss £ million	Available-for-sale £ million	Loans and receivables £ million	Total carrying value £ million	Fair value £ million
Financial assets					
Cash and cash equivalents			4,951	4,951	4,951
Deposits			7,889	7,889	7,889
Equity securities and portfolio holdings in unit trusts	86,157			86,157	86,157
Debt securities[note i]	65,349	18,635		83,984	83,984
Loans[note ii]			7,924	7,924	8,105
Other investments[note iii]	4,396			4,396	4,396
Accrued investment income			2,023	2,023	2,023
Other debtors			909	909	909
	155,902	18,635	23,696	198,233	

2007	Fair value through profit and loss £ million	Amortized cost £ million	IFRS 4 basis value £ million	Total carrying value £ million	Fair value £ million
Financial liabilities					
Core structural borrowings of shareholder-financed operations[notes i,H13]		2,492		2,492	2,476
Operational borrowings attributable to shareholder-financed operations[H13]		3,081		3,081	3,081
Borrowings attributable to with-profits funds[H13]	204	783		987	1,006
Obligations under funding, securities lending and sale and repurchase agreements		4,081		4,081	4,100
Net asset value attributable to unit holders of consolidated unit trust and similar funds	3,556			3,556	3,556
Investment contracts with discretionary participating features[note iv]			29,550	29,550	
Investment contracts without discretionary participating features	12,110	1,922		14,032	14,034
Other creditors		1,020		1,020	1,020
Derivative liabilities	1,080			1,080	1,080
Other liabilities	1	790		791	791

	16,951	14,169	29,550	60,670

Notes

i

As at December 31, 2008, £620 million (2007: £722 million) of convertible bonds were included in debt securities and £363 million (2007: £278 million) were included in borrowings.

ii

Loans and receivables are reported net of allowance for loan losses of £27 million (2007: £13 million).

Prudential plc and Subsidiaries

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December 31, 2008

G: Financial assets and liabilities (Continued)

iii

See note G3 for details of the derivative assets included. The balance also contains the PAC with-profits fund's participation in various investment funds and limited liability property partnerships.

iv

It is impractical to determine the fair value of investment contracts with discretionary participation features due to the lack of a reliable basis to measure such features.

v

For financial liabilities designated as fair value through profit and loss there was no impact on profit from movements in credit risk during 2008 and 2007.

Determination of fair value

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

The fair values of the financial instruments for which fair valuation is required under IFRS and which are in an active market are determined by the use of current market bid prices for quoted investments, or by using quotations from independent third-parties, such as brokers and pricing services. If the market for a financial investment of the Group is not active, the fair values of the financial instruments are established by using valuation techniques. 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. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. The source of pricing for the financial investments valued using valuation techniques could be from using quotations from independent third-parties, such as brokers and pricing services or by using valuation techniques modeled internally by the Group. Priority is given to publicly available prices from independent sources, when available but overall, the source of pricing is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The fair value estimates are made at a specific point in time, based upon available market information and judgements about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Group's entire holdings of a particular financial instrument, nor do they consider the tax impact of the realization of unrealized gains or losses. In some cases the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realized in immediate settlement of the financial instrument. Illiquid market conditions have resulted in inactive markets for certain of the Group's financial instruments. As a result, there is generally no or limited observable market information for these instruments. Fair value estimates for financial instruments deemed to be in an illiquid market are based on judgements regarding current economic conditions, liquidity discounts, currency, credit and interest rate risks, loss experience and other factors. These fair values are estimates and involve considerable uncertainty and variability as a result of the inputs selected and may differ significantly from the values that would have been used had the ready market existed, and the differences could be material.

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December 31, 2008

G: Financial assets and liabilities (Continued)

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

The estimated fair value of derivative financial instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. This amount is determined using quotations from independent third-parties or valued internally using standard market practices. In accordance with the Group's risk management framework, all internally generated valuations are subject to independent assessment against external counterparties' valuations.

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

Section A4 provides details of the determination of fair value for investment contracts without fixed and guaranteed terms (notably UK unit-linked policies). For investment contracts in the US with fixed and guaranteed terms the fair value is determined based on the present value of future cash flows discounted at current interest rates.

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

Use of valuation techniques

The carrying value of financial investments (including derivative liabilities) on the balance sheet of the Group which are not quoted on active markets and for which fair value is determined using internal valuation techniques, or is provided by brokers or pricing services, where the specific securities have been valued using valuation techniques by these third-party providers are as follows:

	Shareholder-backed business				
2008	**UK with-profits fund* £ million**	**UK insurance operations £ million**	**US insurance operations £ million**	**Other operations £ million**	**Total £ million**
Debt securities	**12,341**	**685**	**24,246**	**47**	**37,319**
Equity securities	**661**		**235**		**896**
Other investments (including derivative assets)	**2,189**	**257**	**1,215**	**324**	**3,985**
	15,191	**942**	**25,696**	**371**	**42,200**
Derivative liabilities	**(496)**	**(238)**	**(863)**	**(351)**	**(1,948)**
Net of derivative liabilities	**14,695**	**704**	**24,833**	**20**	**40,252**

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December 31, 2008

G: Financial assets and liabilities (Continued)

	Shareholder-backed business				
2007	**UK with-profits fund* £ million**	**UK insurance operations £ million**	**US insurance operations £ million**	**Other operations £ million**	**Total £ million**
Debt securities	10,640	509	18,996		30,145
Equity securities	683		166		849
Other investments (including derivative assets)	2,425	103	744	73	3,345
	13,748	612	19,906	73	34,339
Derivative liabilities	(168)	(53)	(158)	(138)	(517)
Net of derivative liabilities	13,580	559	19,748	(65)	33,822

* Including SAIF

The majority of the financial investments valued using valuation techniques were debt securities. The debt securities shown above 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 above 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 include US securities managed by PPM America with a value of £8,773 million. This amount comprises £8,738 million in respect of securities for which the fair value has been measured using valuation techniques for which all inputs significant to the measurement are based on observable market data. This categorization corresponds to 'Level 2' assets under amendments to IFRS 7. £35 million is in respect of securities for which the fair value has been measured using valuation techniques that include any input significant to the measurement that is not based on observable market data i.e. 'Level 3' securities.

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December 31, 2008

G: Financial assets and liabilities (Continued)

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 comprises '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 have 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. 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 as shown on the table above 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.

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December 31, 2008

G: Financial assets and liabilities (Continued)

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 is 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).

The 2007 comparatives shown above differ from the previously published information for the inclusion of the financial investments for which prices have been provided by independent third-parties, such as pricing services and brokers, and for which the prices have been derived using valuation techniques by these providers. The previously published information included only the financial investments valued internally using valuation techniques. The 2006 total amount of the change in fair value estimation using valuation techniques recognized in the income statement information is not available on the same basis. However, the majority of the amount would have been related to the with-profit fund investments for which the changes in values have no direct effect on the profit or loss attributable to shareholders or shareholders' equity as described above.

Interest income and expense

The interest income on financial assets not at fair value through profit and loss for the year ended December 31, 2008 from continuing operations was £2,532 million (2007: £2,016 million; 2006: £2,006 million).

The interest expense on financial liabilities not at fair value through profit and loss for the year ended December 31, 2008 from continuing operations was £645 million (2007: £699 million; 2006: £624 million).

G2: Market risk

Interest rate risk

The following table shows an analysis of the classes of financial assets and liabilities and their direct exposure to interest rate risk. Each applicable class of the Group's financial assets or liabilities is

Prudential plc and Subsidiaries

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December 31, 2008

G: Financial assets and liabilities (Continued)

analyzed between those exposed to fair value interest rate risk, cash flow interest rate risk and those with no direct interest rate risk exposure:

2008	Fair value interest rate risk £ million	Cash flow interest rate risk £ million	Not directly exposed to interest rate risk £ million	Total £ million
Financial assets				
Cash and cash equivalents			**5,955**	**5,955**
Deposits	**1,126**	**6,084**	**84**	**7,294**
Debt securities	**89,353**	**5,532**	**339**	**95,224**
Loans	**6,979**	**3,485**	**27**	**10,491**
Other investments (including derivatives)	**1,539**	**686**	**4,076**	**6,301**
	98,997	**15,787**	**10,481**	**125,265**
Financial liabilities				
Core structural borrowings of shareholder-financed operations	**2,958**			**2,958**
Operational borrowings attributable to shareholder-financed operations	**1,520**	**454**	**3**	**1,977**
Borrowings attributable to with-profits funds	**729**	**482**	**97**	**1,308**
Obligations under funding, securities lending and sale and repurchase agreements	**889**	**4,683**		**5,572**
Investment contracts without discretionary participation features	**2,885**		**11,616**	**14,501**
Derivative liabilities	**1,185**	**785**	**2,862**	**4,832**
Other liabilities	**218**	**105**	**567**	**890**
	10,384	**6,509**	**15,145**	**32,038**

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

G: Financial assets and liabilities (Continued)

2007	Fair value interest rate risk £ million	Cash flow interest rate risk £ million	Not directly exposed to interest rate risk £ million	Total £ million
Financial assets				
Cash and cash equivalents			4,951	4,951
Deposits	678	7,211		7,889
Debt securities	76,481	7,503		83,984
Loans	4,319	3,605		7,924
Other investments (including derivatives)	664	285	3,447	4,396
	82,142	18,604	8,398	109,144
Financial liabilities				
Core structural borrowings of shareholder-financed operations	2,492			2,492
Operational borrowings attributable to shareholder-financed operations	2,743	331	7	3,081
Borrowings attributable to with-profits funds	451	441	95	987
Obligations under funding, securities lending and sale and repurchase agreements	594	3,487		4,081
Investment contracts without discretionary participation features	1,922		12,110	14,032
Derivative liabilities	244	145	691	1,080
Other liabilities	178	98	515	791
	8,624	4,502	13,418	26,544

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

G: Financial assets and liabilities (Continued)

Liquidity analysis

2008	1 year or less £ million	After 1 year to 5 years £ million	After 5 years to 10 years £ million	After 10 years to 15 years £ million	After 15 years to 20 years £ million	Over 20 years £ million	No stated maturity £ million	Total carrying value £ million
Financial liabilities								
Core structural borrowings of shareholder-financed operations[H13]	249			801		849	1,059	2,958
Operational borrowings attributable to shareholder-financed operations[H13]	1,584	339				54		1,977
Borrowings attributable to with-profits funds[H13]	272	580	278			78	100	1,308
Obligations under funding, securities lending and sale and repurchase agreements	5,572							5,572
Derivative liabilities	3,066	448	266	408	156	488		4,832
Other liabilities	646	11	5				228	890
	11,389	1,378	549	1,209	156	1,469	1,387	17,537

2007	1 year or less £ million	After 1 year to 5 years £ million	After 5 years to 10 years £ million	After 10 years to 15 years £ million	After 15 years to 20 years £ million	Over 20 years £ million	No stated maturity £ million	Total carrying value £ million
Financial liabilities								
Core structural borrowings of shareholder-financed operations[H13]		248		366	315	801	762	2,492
Operational borrowings attributable to shareholder-financed operations[H13]	2,618	51	355			57		3,081
Borrowings attributable to with-profits funds[H13]	103	232	265			83	304	987
Obligations under funding, securities lending and sale and repurchase agreements	4,081							4,081
Derivative liabilities	684	174	10	33	6	173		1,080

Other liabilities (including derivatives)	630	7	2				152	791
	8,116	712	632	399	321	1,114	1,218	12,512

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Notes to the Consolidated Financial Statements

December 31, 2008

G: Financial assets and liabilities (Continued)

The table below shows the maturity profile for investment contracts on an undiscounted basis to the nearest billion. This maturity profile has been based on the cash flow projections of expected benefit payments as part of the determination of the value of in-force business when preparing EEV basis results.

2008	1 year or less £ billion	After 1 year to 5 years £ billion	After 5 years to 10 years £ billion	After 10 years to 15 years £ billion	After 15 years to 20 years £ billion	Over 20 years £ billion	Total undiscounted value £ billion
Life assurance investment contracts	**3**	**18**	**12**	**12**	**9**	**13**	**67**

2007	1 year or less £ billion	After 1 year to 5 years £ billion	After 5 years to 10 years £ billion	After 10 years to 15 years £ billion	After 15 years to 20 years £ billion	Over 20 years £ billion	Total undiscounted value £ billion
Life assurance investment contracts	3	12	16	16	15	25	87

The maturity profile above excludes certain corporate unit-linked business with gross policyholder liabilities of £8 billion (2007: £8 billion) which has no stated maturity.

This table has been prepared on an undiscounted basis and accordingly the amounts shown for life assurance investment contracts differ from those disclosed on the balance sheet. Durations of long-term business contracts, covering insurance and investment contracts, on a discounted basis are included in section D.

Credit risk

Of the total loans and receivables held £21 million (2007: £5 million) are past their due date but have not been impaired. Of the total past due but not impaired, £21 million (2007: £5 million) are less than one year past their due date. The Group expects full recovery of these loans and receivables. Financial assets that would have been past due or impaired had the terms not been renegotiated amounted to £1 million (2007: £nil).

There was no collateral held against loans that are past due and impaired or that are past due but not impaired at December 31, 2008 (2007: £nil).

In addition, during the year the Group took possession of £66 million (2007: £7 million) of other collateral held as security, which mainly consists of assets that could be readily convertible into cash.

Currency risk

As at December 31, 2008, the Group held 20 per cent (2007: 19 per cent) and 13 per cent (2007: 13 per cent) of its financial assets and financial liabilities respectively, in currencies, mainly US dollar and Euro, other than the functional currency of the relevant business unit.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

G: Financial assets and liabilities (Continued)

The financial assets, of which 77 per cent (2007: 86 per cent) are held by the PAC with-profits fund, allow the PAC with-profits fund to obtain exposure to foreign equity markets.

The financial liabilities, of which 38 per cent (2007: 19 per cent) are held by the PAC with-profits fund, mainly relate to foreign currency borrowings.

The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts (note G3 below).

The amount of exchange gains recognized in the income statement in 2008, except for those arising on financial instruments measured at fair value through profit and loss, is £638 million (2007: £102 million; 2006: £73 million). This constitutes £32 million (2007: £109 million; 2006: £107 million) gains on Medium Term Notes (MTN) liabilities and £606 million of net gains (2007: £7 million net losses; 2006: £34 million net losses), mainly arising on investments of the PAC with-profits fund. The gains on MTN liabilities are fully offset by value movements on cross-currency swaps, which are measured at fair value through profit and loss.

G3: Derivatives and hedging

Derivatives

The Group enters into 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 the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these market master agreements.

The total fair value balances of derivative assets and liabilities as at December 31, 2008 were as follows:

2008	UK insurance operations	US insurance operations	Asian insurance operations	Asset management	Unallocated to a segment	Group total
	£ million	£ million	£ million	£ million	£ million	£ million
Derivative assets	**1,326**	**675**	**15**	**74**	**280**	**2,370**
Derivative liabilities	**(3,401)**	**(863)**	**(32)**	**(292)**	**(244)**	**(4,832)**
	(2,075)	**(188)**	**(17)**	**(218)**	**36**	**(2,462)**

2007	UK insurance operations	US insurance operations	Asian insurance operations	Asset management	Unallocated to a segment	Group total
	£ million	£ million	£ million	£ million	£ million	£ million
Derivative assets	571	390	15	118	3	1,097
Derivative liabilities	(689)	(158)	(2)	(186)	(45)	(1,080)

	(118)	232	13	(68)	(42)	17

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December 31, 2008

G: Financial assets and liabilities (Continued)

The above derivative assets are included in 'other investments' in the primary statements.

The notional amount of the derivatives, distinguishing between UK insurance and US operations, was as follows:

	UK insurance operations Notional amount on which future payments are based		US insurance operations Notional amount on which future payments are based	
2008	**Asset £ million**	**Liability £ million**	**Asset £ million**	**Liability £ million**
As at December 31, 2008				
Cross-currency swaps*	**838**	**1,014**	**448**	**218**
Equity index call options	**17**	**32**		
Swaptions	**980**	**980**	**28,863**	
Futures	**3,286**	**4,055**		**460**
Forwards*	**14,315**	**16,489**		
Inflation swaps	**2,559**	**2,482**		
Credit default swaps	**123**	**14**		
Single stock options	**1**	**1**		
Credit derivatives			**31**	**177**
Put options			**6,573**	
Equity options	**2**	**4**	**3,785**	**5**
Total return swaps	**479**	**514**		**313**
Interest rate swaps*	**5,074**	**5,245**	**1,704**	**4,514**

*

In addition, the other operations, including the Group Treasury function and the Asian operations, have cross-currency swap assets and liabilities with notional amounts of £1,503 million (2007: £730 million) and £605 million (2007: £1,401 million) respectively, forward currency contracts assets and liabilities with notional amounts of £1,419 million (2007: £983 million) and £2,310 million (2007: £773 million) respectively, interest rate swaps assets and liabilities of £1,407 million (2007: £2,799 million) and of £2,316 million (2007: £1,563 million), respectively, and cliquet options assets of £1,525 million (2007: £nil).

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

G: Financial assets and liabilities (Continued)

2007	UK insurance operations Notional amount on which future payments are based		US insurance operations Notional amount on which future payments are based	
	Asset £ million	Liability £ million	Asset £ million	Liability £ million
As at December 31, 2007				
Cross-currency swaps*	658	648	602	
Equity index call options		23		
Swaptions	1,125		25,620	1,005
Futures	1,905	2,176		371
Forwards*	17,243	17,635		
Inflation swaps	1,758	1,319		
Credit default swaps	4,181	59		
Single stock options				
Credit derivatives			3	20
Put options			3,642	
Equity options			5,545	11
Total return swaps	956	955	226	
Interest rate swaps*	4,335	4,663	1,708	3,587

*

In addition, the other operations, including the Group Treasury function and the Asian operations, have cross-currency swap assets and liabilities with notional amounts of £1,503 million (2007: £730 million) and £605 million (2007: £1,401 million) respectively, forward currency contracts assets and liabilities with notional amounts of £1,419 million (2007: £983 million) and £2,310 million (2007: £773 million) respectively, interest rate swaps assets and liabilities of £1,407 million (2007: £2,799 million) and of £2,316 million (2007: £1,563 million), respectively, and cliquet options assets of £1,525 million (2007: £nil).

These derivatives are used for efficient portfolio management to obtain cost effective and efficient exposure to various markets in accordance with the Group's investment strategies and to manage exposure to interest rate, currency, credit and other business risks. See also note D3 for use of derivatives by the Group's US operations.

The Group uses various interest rate derivative instruments such as interest rate swaps to reduce exposure to interest rate volatility.

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. See also note G2 above. 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 other derivatives. This is in order to avoid a mismatch of the

with-profits investment 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.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

G: Financial assets and liabilities (Continued)

Some of the Group's products, especially those sold in the US, have certain guarantee features linked to equity indexes. A mismatch between product liabilities and the performance of the underlying assets backing them, 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.

The US operations and some of the UK operations hold large amounts of interest-rate sensitive investments that contain credit risks on which a certain level of defaults is expected. These entities have purchased some swaptions in order to manage the default risk on certain underlying assets and hence reduce the amount of regulatory capital held to support the assets.

Hedging

The Group has formally assessed and documented the effectiveness of the following hedges under IAS 39.

Fair value hedges

The Group uses interest rate derivatives to hedge the interest exposures on its US$1 billion, 6.5 per cent perpetual subordinated capital securities and US$300 million, 6.5 per cent perpetual subordinated capital securities. Where the hedge relationship is de-designated and re-designated, the fair value adjustment to the hedged item up to the point of de-designation continues to be reported as part of the basis of the hedged item and is amortized to the income statement based on a recalculated effective interest rate over the residual period to the first break clause date of the perpetual subordinated capital securities.

In addition, Jackson had a common stock equity collar hedge entered into in March 2005. This was to protect Jackson's unrealized gain of US$5.9 million on an equity investment. The hedge expired in March 2008.

The fair value of the derivatives designated as fair value hedges above at December 31, 2008, were an asset of £17 million and liabilities of £nil (2007: asset of £5 million and liabilities of £25 million). Movements in the fair value of the hedging instruments of a net loss of £4 million (2007: net gain of £6 million; 2006: net gain of £4 million) and the hedged items of a net gain of £7 million (2007: net loss of £4 million; 2006: net loss of £4 million) are recorded in the income statement in respect of the fair value hedges above.

Cash flow hedges

Following the sale of Egg in 2007, the Group has no cash flow hedges in place. There was no ineffective portion of the cash flow hedge recognized in the income statement in 2007 during the period of ownership and 2006.

Net investment hedges

The Group has entered into a series of one to three-month period forward currency transactions which together form a US$2 billion net investment hedge of the currency exposure of the net

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

G: Financial assets and liabilities (Continued)

investments in the US operations. The forward currency contracts were renewed throughout 2008 and 2007. The forward currency contracts in place at December 31, 2008 expire in January 2009. In December 2008, the Group de-designated the US$2 billion forward currency contract and re-designated only US$600 million of the forward currency contract as a partial net investment hedge of the currency exposure of the net investments in the US operations. The change reflected consideration of the direct US dollar exposure for accounting purposes, and the indirect offsetting exposure within the Group's IGD solvency reporting. The fair value of the forward currency contracts at December 31, 2008 was a liability of £56 million (2007: a liability of £44 million), of which £17 million (2007: a liability of £44 million) was designated as a net investment hedge of the currency exposure of the net investments in the US operations.

In addition, the Group has designated perpetual subordinated capital securities totaling US$1.55 billion as a net investment hedge to hedge the currency risks related to the net investment in Jackson. The carrying value of the subordinated capital securities was £1,059 million (2007: £763 million) as at December 31, 2008. The foreign exchange loss of £299 million (2007: gain of £13 million; 2006: gain of £110 million) on translation of the borrowings to pounds sterling at the balance sheet date is recognized in the translation reserve in shareholders' equity.

The net investment hedges were 100 per cent effective.

G4: Derecognition and collateral

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.

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Notes to the Consolidated Financial Statements

December 31, 2008

G: Financial assets and liabilities (Continued)

G5: Impairment of financial assets

In accordance with the Group's accounting policy set out in note A4, impairment reviews were performed for available-for-sale securities and loans and receivables. In addition, impairment reviews were undertaken for the reinsurers' share of insurance contract liabilities.

During the year ended December 31, 2008, impairment losses of £525 million (2007: £184 million; 2006: £416 million) were recognized for available-for-sale securities and loans and receivables. These were £497 million (2007: £35 million; £2006: £32 million) in respect of available-for-sale securities held by Jackson and £28 million (2007: £149 million; 2006: £384 million) in respect of loans and receivables. The 2008 impairment charge for loans and receivables of £28 million relates primarily to loans held by the UK with-profits fund. The 2007 impairment charge of £149 million (2006: £384 million) related to loans and advances to customers in the discontinued banking operations during the period of ownership.

Impairment losses recognized on available-for-sale securities amounted to £497 million (2007: £35 million; 2006 £24 million). Of this amount, 8 per cent (2007: 14 per cent; 2006: 76 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. Of the losses related to the impairment of fixed maturity securities the top five individual corporate issuers made up 27 per cent (2007: 57 per cent; 2006: 24 per cent), reflecting a deteriorating business outlook of the companies concerned.

The impairment losses have been recorded in 'investment income' in the income statement.

In 2008, the Group realized gross losses on sales of available-for-sale securities of £184 million (2007: £86 million; 2006: £58 million) with 55 per cent (2007: 46 per cent; 2006: 30 per cent) of these losses related to the disposal of fixed maturity securities of six (2007: six: 2006: six) individual issuers, which were disposed of to rebalance the portfolio in the US operations in response to the unstable mortgage lending. 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 in note A3. 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 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.

For 2008 the amounts of gross unrealized losses for fixed maturity securities classified as available-for-sale under IFRS in an unrealized loss position was £3,178 million (2007: £439 million; 2006: £256 million). Note D3 provides further details on the impairment charges and unrealized losses of Jackson's available-for-sale securities.

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Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items

H1: Intangible assets attributable to shareholders

(a) Goodwill

	2008 £ million	2007 £ million
Cost		
At January 1, and December 31,	**1,461**	1,461
Aggregate impairment		
At January 1, and December 31,	**(120)**	(120)
Net book amount at December 31,	**1,341**	1,341

Impairment testing

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to cash generating units (CGUs) for the purposes of impairment testing. These CGUs are based upon how management monitors the business and represent the lowest level to which goodwill can be allocated on a reasonable basis. An allocation to CGUs of the Group's goodwill attributable to shareholders is shown below:

	2008 £ million	2007 £ millions
M&G	**1,153**	1,153
Other	**188**	188
	1,341	1,341

'Other' represents goodwill amounts allocated across CGUs in Asia and US operations. These goodwill amounts are not individually material.

Assessment of whether goodwill may be impaired

With the exception of M&G, the goodwill attributable to shareholders in the balance sheet mainly relates to acquired life businesses. The Company routinely compares the aggregate of net asset value and acquired goodwill on an IFRS basis of acquired life business with the value of the business as determined using the EEV methodology, as described in note D1. Any excess of IFRS over EEV carrying value is then compared with EEV basis value of current and projected future new business to determine whether there is any indication that the goodwill in the IFRS balance sheet may be impaired.

Goodwill is tested for impairment by comparing the CGUs carrying amount, excluding any goodwill, with its recoverable amount.

M&G

The recoverable amount for the M&G CGU has been determined by calculating its value in use. This has been calculated by aggregating the present value of future cash flows expected to be derived from the component businesses of M&G (based upon management projections).

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Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

The discounted cash flow valuation has been based on a five-year plan prepared by M&G, and approved by management, and cash flow projections for later years.

The value in use is particularly sensitive to a number of key assumptions as follows:

i
The set of economic, market and business assumptions used to derive the five-year plan. The direct and secondary effects of recent developments, e.g. the fall in global equity markets, are considered in arriving at the expectations for the financial projections for the plan.

ii
The assumed growth rate on forecast cash flows beyond the terminal year of the budget. A growth rate of 2.5 per cent has been used to extrapolate beyond the plan period.

iii
The risk discount rate. Differing discount rates have been applied in accordance with the nature of the individual component businesses. For retail and institutional business a risk discount rate of 12 per cent has been applied to post-tax cash flows. This represents an average implied discount rate for comparable UK listed asset managers calculated by reference to risk-free rates, equity risk premiums of five per cent and an average 'beta' factor for relative market risk of comparable UK listed asset managers. A similar approach has been applied for the other component businesses of M&G.

iv
That asset management contracts continue on similar terms.

Management believes that any reasonable change in the key assumptions would not cause the carrying amount of M&G to exceed its recoverable amount.

Japanese life company

The aggregate goodwill impairment of £120 million at December 31, 2008 and 2007 relates to the goodwill held in relation to the Japanese life operation which was impaired in 2005.

Prudential plc and Subsidiaries

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December 31, 2008

H: Other information on balance sheet items (Continued)

(b) Deferred acquisition costs and other intangible assets

Deferred acquisition costs and other intangible assets in the Group consolidated balance sheet attributable to shareholders consist of:

	2008 £ million	2007 £ million
Deferred acquisition costs (DAC) related to insurance contracts as classified under IFRS 4	**5,097**	2,644
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	**108**	113
	5,205	2,757
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4	**64**	59
Present value of future profits of acquired investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	**1**	4
Distribution rights	**79**	16
	144	79
Total of deferred acquisition costs and other intangible assets	**5,349**	2,836
Arising in:		
UK insurance operations	**134**	157
US insurance operations	**3,962**	1,928
Asian insurance operations	**1,247**	745
Asset management operations	**6**	6
	5,349	2,836

The movement in the year comprises:

	2008 £ million	2007 £ million
Balance at January 1	**2,836**	2,497
Additions	**959**	717
Amortization to income statement	**(551)**	(424)
Exchange differences	**1,035**	(42)
Change in shadow DAC (note D3 (i))	**1,070**	88
Balance at December 31	**5,349**	2,836

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

Deferred acquisition costs related to insurance contracts attributable to shareholders

The movement in deferred acquisition costs relating to insurance contracts attributable to shareholders is as follows:

	2008 £ million	2007 £ million
Deferred acquisition costs at January 1	**2,644**	2,315
Additions	**887**	694
Amortization	**(520)**	(410)
Exchange differences	**1,016**	(44)
Change in shadow DAC	**1,070**	89
Deferred acquisition costs at December 31	**5,097**	2,644

Deferred acquisition costs related to investment management contracts attributable to shareholders

Incremental costs associated with the origination of investment management contracts written by the Group's insurance and asset management businesses are capitalized and amortized as the related revenue is recognized. Deferred acquisition costs related to investment management contracts are all internally generated.

Amortization of this intangible asset is included in the 'acquisition costs and other operating expenditure' line in the income statement.

	2008 £ million	2007 £ million
At January 1		
Gross amount	**136**	130
Accumulated amortization	**(23)**	(20)
Net book amount	**113**	110
Additions (through internal development)	**12**	7
Amortization	**(17)**	(3)
Other charges		(1)
At December 31	**108**	113
Comprising:		
Gross amount	**148**	136
Accumulated amortization	**(40)**	(23)
Net book amount	**108**	113

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Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

Present value of acquired in-force business of long-term business contracts attributable to shareholders

Prior to the adoption of IFRS 4, the present value of acquired in-force business (PVAIF) was accounted for under UK GAAP. On January 1, 2005, following the adoption of IFRS 4, PVAIF relating to investment contracts without discretionary participation features, which was previously included within long-term business, is removed and replaced by an asset representing the present value of the future profits of the asset management component of these contracts, where applicable. These contracts are accounted for under the provisions of IAS 18. The remainder of the PVAIF balance relates to insurance contracts and is accounted for under UK GAAP as permitted by IFRS 4.

The present value of future profits of acquired asset management contracts relates to unit-linked contracts acquired as part of the M&G acquisition in 1999.

Amortization is charged to the 'acquisition costs and other operating expenditure' line in the income statement over the period of provision of asset management services as those profits emerge.

	2008		**2007**	
	Insurance contracts	**Investment management**	**Insurance contracts**	**Investment management**
	£ million	**£ million**	**£ million**	**£ million**
At January 1,				
Cost	**161**	**12**	220	12
Accumulated amortization	**(102)**	**(8)**	(154)	(6)
Net book amount	**59**	**4**	66	6
Exchange differences	**14**		2	
Amortization charge	**(9)**	**(3)**	(9)	(2)
At December 31,	**64**	**1**	59	4
Comprising:				
Cost	**184**	**12**	161	12
Accumulated amortization	**(120)**	**(11)**	(102)	(8)
Net book amount	**64**	**1**	59	4

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

Distribution rights attributable to the Asian insurance operations

Distribution rights relate to facilitation fees paid in respect of the bancassurance partnership arrangements in Asia for the bank distribution of Prudential's insurance products for a fixed period of time. The distribution rights amounts are amortized over the term of the distribution contracts.

	2008 £ million	2007 £ million
At January 1		
Gross amount	**16**	
Accumulated amortization	**0**	
	16	
Additions	**62**	16
Amortization charge	**(4)**	
Exchange differences	**5**	
At December 1	**79**	16
Comprising:		
Gross amount	**84**	16
Accumulated amortization	**(5)**	
	79	16

H2: Intangible assets attributable to with-profits funds

(a) Goodwill in respect of acquired investment subsidiaries for venture fund and other investment purposes

	2008 £ million
Goodwill	
Carrying value at January 1, 2008	**192**
Amortization charge	
Impairment	**(18)**
At December 1, 2008	**174**

All the goodwill relates to the UK and the insurance operations segments.

Following the sale by the Group of PPM Capital in November 2007, the only venture fund investment consolidated by the Group relates to an investment by PAC with-profits fund managed by M&G. The goodwill shown in the table above relates to this venture fund investment. Goodwill is tested for impairment for this investment by comparing the investment's carrying value with its recoverable amount. The recoverable amount of the investment was determined by calculating its fair value less costs to sell. At December 31, 2008, following the impairment testing carried out, £18 million of the goodwill was deemed to be impaired and written off accordingly.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

The impairment charge of £18 million is recorded under 'acquisition costs and other operating expenditure' but is also taken account of in determining the charge/credit in the income statement for the transfer to the liability for unallocated surplus of with-profits funds.

(b) Deferred acquisition costs and other intangible assets

Other intangible assets in the Group consolidated balance sheet attributable to with-profit funds consist of:

	2008 £ million	2007 £ million
Deferred acquisition costs related to insurance contracts attributable to the PAC with-profit fund	**13**	19
Distribution rights attributable to with-profit funds of the Asian insurance operations	**113**	
	126	19

Deferred acquisition costs related to insurance contracts attributable to the PAC with-profit fund

The movement in deferred acquisition costs relating to insurance contracts attributable to the PAC with-profit fund is as follows:

	2008 £ million	2007 £ million
At January 1	**19**	31
Additions		1
Amortization charge	**(6)**	(13)
At December 31	**13**	19

The above costs relate to non-participating business written by the PAC with-profits sub-fund.

No deferred acquisition costs are established for the participating business.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

Distribution rights attributable to with-profit funds of the Asian insurance operations

Distribution rights relate to facilitation fees paid in relation to the bancassurance partnership arrangements in Asia for the bank distribution of Prudential's insurance products for a fixed period of time. The distribution rights amounts are amortized over the term of the distribution contracts.

	2008 £ million
Gross amount	
Accumulated amortization	
Additions	**115**
Amortization charge	**(2)**
Exchange differences	
At December 31,	**113**
Comprising:	
Gross amount	**115**
Accumulated amortization	**(2)**
	113

H3: Reinsurers' share of insurance contract liabilities

	2008 £ million	2007 £ million
Insurance contract liabilities	**1,176**	724
Claims outstanding	**64**	59
	1,240	783

The movement on reinsurers' share of insurance contract liabilities is as follows:

	2008 £ million	2007 £ million
At January 1	**724**	878
Movement in the year	**243**	(147)
Foreign exchange translation differences	**209**	(7)
At December 31	**1,176**	724

H4: Tax assets and liabilities

Assets

Of the £657 million (2007: £285 million) current tax recoverable, the majority is expected to be recovered in one year or less.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

Deferred tax asset

	2008 £ million	2007 £ million
Unrealized losses on investments	**1,267**	129
Balances relating to investment and insurance contracts	**12**	2
Short-term timing differences	**1,282**	770
Capital allowances	**16**	20
Unused deferred tax losses	**309**	30
Total	**2,886**	951

The deferred tax asset at December 31, 2008 and 2007 arises in the following parts of the Group.

	2008 £ million	2007 £ million
UK insurance operations:		
SAIF	**7**	1
PAC with-profits fund (including PAL)	**272**	93
Other	**234**	11
US insurance operations	**1,969**	657
Asian insurance operations	**101**	73
Other operations	**303**	116
	2,886	951

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 available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. The significant increases in 2008 reflect the incidence of unrealized losses on the fixed income securities of US insurance operations, for which there is the intent and ability to hold for the longer term. In addition, deferred tax balances to UK shareholder-backed insurance business has increased reflecting losses carried forward on the tax basis which reflects the regulatory basis.

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 trading or capital nature may affect the recognition of deferred tax assets. Accordingly, 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. Forecasts as to when the tax losses and other temporary differences are likely to be utilized indicate that they may not be utilized in the short term.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

Liabilities

Of the £842 million (2007: £1,237 million) current tax liability, it is not practicable to estimate how much is expected to be settled in one year or less due to the uncertainty over when outstanding issues will be agreed with HM Revenue & Customs.

Deferred tax liability

	2008 £ million	2007 £ million
Unrealized gains on investments	**765**	2,098
Balances relating to investment and insurance contracts	**968**	599
Short-term timing differences	**1,490**	693
Capital allowances	**6**	12
	3,229	3,402

Unprovided deferred income tax liabilities on temporary differences associated with investments in subsidiaries, associates and interests in joint ventures are considered to be insignificant due to the availability of various UK tax exemptions and reliefs.

Discounting

Deferred tax asset and liability balances have not been discounted.

H5: Accrued investment income and other debtors

	2008 £ million	2007 £ million
Accrued investment income		
Interest receivable	**1,775**	1,434
Other	**738**	589
Total	**2,513**	2,023
Other debtors		
Premiums receivable:		
From policyholders	**194**	154
From intermediaries	**17**	13
From reinsurers	**253**	104
Other	**768**	638
Total	**1,232**	909
Total accrued investment income and other debtors	**3,745**	2,932

Of the £3,745 million (2007: £2,932 million) of accrued investment income and other debtors, £114 million (2007: £64 million) is expected to be settled after one year or more.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

H6: Property, plant and equipment

Property, plant and equipment comprise Group occupied properties, development property and tangible assets. A reconciliation of the carrying amount of these items from the beginning of the year to the end of the year is as follows:

	Group occupied property	Development property	Tangible assets	Continuing operations	Discontinued operations	Total
	£ million	£ million	£ million	£ million	£ million	£ million
At January 1, 2007						
Cost	225	479	917	1,621	226	1,847
Accumulated depreciation	(33)		(518)	(551)	(163)	(714)
Net book amount	192	479	399	1,070	63	1,133
Year ended December 31, 2007						
Opening net book amount	192	479	399	1,070	63	1,133
Exchange differences	2		1	3		3
Depreciation charge	(48)		(50)	(98)	(9)	(107)
Additions	71	48	109	228	3	231
Arising on acquisition of subsidiaries	5		33	38		38
Disposal of subsidiaries					(57)	(57)
Deconsolidated venture fund investments[I6]	(69)		(261)	(330)		(330)
Disposals	(2)		(25)	(27)		(27)
Reclassification from held for investment		120		120		120
Reclassification from held for sale		8		8		8
Closing net book amount	151	655	206	1,012		1,012
At January 1, 2008						
Cost	**172**	**655**	**612**	**1,439**		**1,439**
Accumulated depreciation	**(21)**		**(406)**	**(427)**		**(427)**
Net book amount	**151**	**655**	**206**	**1,012**		**1,012**
Year ended December 31, 2008						
Opening net book amount	**151**	**655**	**206**	**1,012**		**1,012**
Exchange differences	**45**		**40**	**85**		**85**
Depreciation charge	**(3)**		**(67)**	**(70)**		**(70)**
Additions	**3**	**152**	**85**	**240**		**240**
Disposals	**(1)**		**(23)**	**(24)**		**(24)**
Reclassification from (to) held for investment	**68**	**(676)**		**(608)**		**(608)**
Closing net book amount	**263**	**131**	**241**	**635**		**635**

At December 31, 2008					
Cost	**292**	**131**	**717**	**1,140**	**1,140**
Accumulated depreciation	**(29)**		**(476)**	**(505)**	**(505)**
Net book amount	**263**	**131**	**241**	**635**	**635**

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

All additions arising on acquisition of subsidiaries in 2007 related to acquisitions of venture investment subsidiaries of the PAC with-profits fund.

Capital expenditure: property, plant and equipment by primary segment

	2008 £ million	2007 £ million
Insurance operations	**212**	206
Asset management	**13**	11
Unallocated corporate	**16**	11
Continuing operations	**241**	228
Discontinued banking operations		3
Total	**241**	231

Capital expenditure: property, plant and equipment by secondary segment

	2008 £ million	2007 £ million
UK	**173**	145
US	**20**	33
Asia	**48**	50
Continuing operations	**241**	228
Discontinued banking operations		3
Total	**241**	231

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

H7: Investment properties

Investment properties principally relate to the PAC with-profits fund and are carried at fair value. A reconciliation of the carrying amount of investment properties at the beginning and end of the year is set out below:

	2008 £ million	2007 £ million
At January 1	**13,688**	14,491
Additions:		
Resulting from acquisitions	**1,414**	1,707
Resulting from expenditure capitalized	**218**	128
Resulting from acquisitions through business combinations	**463**	
Disposals	**(1,010)**	(1,378)
Net loss from fair value adjustments	**(3,784)**	(1,128)
Net foreign exchange differences	**395**	14
Transfers to held for sale assets		(25)
Transfers from (to) development properties	**676**	(121)
Transfers to owner occupied properties	**(68)**	
At December 31	**11,992**	13,688

The income statement includes the following items in respect of investment properties:

	2008 £ million	2007 £ million	2006 £ million
Rental income from investment properties	**726**	670	744
Direct operating expenses (including repairs and maintenance expenses) arising from investment properties:			
That generated rental income during the year	**109**	117	118
That did not generate rental income during the year	**1**		8
Total direct operating expenses	**110**	117	126

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

Investment properties of £3,559 million (2007: £3,665 million) are held under finance leases. A reconciliation between the total of future minimum lease payments at the balance sheet date, and their present value is shown below:

	2008 £ million	2007 £ million
Future minimum lease payments at December 31,	**963**	979
Future finance charges on finance leases	**(863)**	(877)
Present value of minimum lease payments	**100**	102
Future minimum lease payments are due as follows:		
Less than 1 year	**5**	5
1 to 5 years	**22**	22
Over 5 years	**936**	952
Total	**963**	979
The present values of these minimum lease payments are:		
Less than 1 year	**5**	5
1 to 5 years	**22**	22
Over 5 years	**73**	75
Total	**100**	102

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the future value of a factor that changes other than with the passage of time. Contingent rent recognized as an expense in 2008 amounted to £nil (2007: £14 million; 2006: £11 million). Contingent rents recognized as income in the year amounted to £nil (2007: £26 million; 2006: £33 million).

The Group's policy is to rent investment properties to tenants through operating leases. Minimum future rentals to be received on non-cancellable operating leases are receivable in the following periods:

	2008 £ million	2007 £ million
Less than 1 year	**742**	679
1 to 5 years	**2,599**	2,464
Over 5 years	**9,106**	8,266
Total	**12,447**	11,409

The total minimum future rentals to be received on non-cancellable sub-leases for land and buildings at December 31, 2008 are £3,730 million (2007: £2,746 million).

H8: Investments in associates and joint ventures

Investments in associates

The Group had four associates at December 31, 2008 (2007: four) that are accounted for using the equity method. The Group's associates are a 30 per cent interest in The Nam Khang, a Vietnamese

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

property developer, a 30 per cent interest in Apollo Education and Training Organization Vietnam, a 25 per cent interest in OYO Developments Limited, and a 26.8 per cent interest in IFonline Group Limited (IFonline).

The Group also has investments in associates which meet the IAS 28 criteria for measurement at fair value through profit and loss in accordance with IAS 39.

Associates accounted for using the equity method

Equity accounting is applied to IFonline based on its reporting period of the year to November 30, and is adjusted for material changes up to December 31. Accordingly, the information is deemed to cover the same period as that of the Group.

A summary of the movements in investments in associates accounted for using the equity method in 2008, 2007 and 2006 is set out below:

	Share of capital £ million	Share of reserves £ million	Share of net assets £ million	Goodwill £ million	Total carrying value £ million
Balance at January 1, 2006	4	(6)	(2)	7	5
Share of profit for the year after tax		1	1		1
Balance at December 31, 2006	4	(5)	(1)	7	6
Acquisitions	5		5	1	6
Share of profit for the year after tax					
Balance at December 31, 2007	9	(5)	4	8	12
Impairment of goodwill				(6)	(6)
Exchange translation and other movements	3	1	4		4
Share of loss for the year after tax					
Balance at December 31, 2008	**12**	**(4)**	**8**	**2**	**10**

There have been no changes recognized directly in the equity of associates that would also be recognized directly in equity by the Group.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

The Group's share of the assets and liabilities, of associates accounted for using the equity method at December 31, 2008 and 2007 and their revenues and profit and loss for 2008, 2007 and 2006 are as follows:

	2008 £ million	2007 £ million
Financial position		
Total assets (excluding goodwill)	**12**	7
Total liabilities	**(4)**	(3)
Net assets	**8**	4

	2008 £ million	2007 £ million	2006 £ million
Results of operations			
Revenue	**3**	5	3
Profit in the year			1

Associates carried at fair value through profit and loss

The Group's associates that are carried at fair value through profit and loss comprise investments in OEICs, unit trusts, funds holding collateralized debt obligations, property unit trusts, and venture capital investments of the PAC with-profits fund where the Group has significant influence. These investments are incorporated both in the UK and overseas, and some have year ends which are non-coterminous with that of the Group. In these instances, the investments are recorded at fair value at December 31, 2008 based on valuations or pricing information at that specific date. The aggregate fair value of associates carried at fair value through profit and loss where there are published price quotations is approximately £4 billion (2007: £2 billion) at December 31, 2008.

The aggregate assets of these associates are approximately £8 billion (2007: £9 billion). Aggregate liabilities, excluding liabilities to unit holders and shareholders for unit trusts and OEICs, are approximately £2 billion (2007: £2 billion). Fund revenues, with revenue arising in unit trusts and OEICs deemed to constitute the investment return for these vehicles, were approximately £0.8 billion (2007: £0.5 billion) and net loss in the year, excluding unit trusts and OEICs where all investment returns accrue to unit holders or shareholders respectively, was approximately £0.3 billion (2007: profit of £0.2 billion).

Investments in joint ventures

Joint ventures represent activities over which the Group exercises joint control through contractual agreement with one or more parties. The Group's significant joint ventures, which are accounted for

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

using proportionate consolidation, comprise various joint ventures relating to property investments where the Group has a 50 per cent interest as well as the following interests:

Investment	% held	Principal activity	Country
ICICI Prudential Life Insurance Company Limited	26	Life assurance	India
BOCI Prudential Asset Management Limited	36	Pensions	China
PruHealth	50	Private medical insurance	UK
CITIC Prudential Life Insurance Company Limited	50	Life assurance	China
CITIC Prudential Fund Management Company Limited	49	Asset management	China
Prudential ICICI Asset Management Company Limited	49	Asset management	India
Prudential BSN Takaful Berhad	49	General and life insurance	Malaysia

In August 2007, the Group increased its stake in CITIC Prudential Fund Management Company Limited from 33 per cent to 49 per cent.

On September, 29 2007, following expiry of the previous management agreement, a revised arrangement was put in place in respect of CITIC Prudential Life Insurance Company Limited following which the Group's investment has been accounted for as a joint venture. Prior to the change in management agreement CITIC Prudential Life Insurance Company Limited was accounted for as a subsidiary undertaking. Whilst the management agreement has been revised there has been no change in the Group's level of holding.

The investments noted in the table above have the same accounting year end as the Group, except for ICICI Prudential Life Insurance Company Limited and Prudential ICICI Asset Management Company Limited. Although these investments have reporting periods ending March 31, 12 months of financial information up to December 31, is recorded. Accordingly, the information is deemed to cover the same period as that of the Group.

The summarized financial data for the Group's share of investments in joint ventures is as follows:

	2008 £ million	2007 £ million
Financial position		
Current assets	**250**	1,277
Non-current assets	**1,212**	173
Total assets	**1,462**	1,450
Current liabilities	**(159)**	(115)
Non-current liabilities	**(1,063)**	(1,121)
Total liabilities	**(1,222)**	(1,236)
Net equity	**240**	214

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

	2008 £ million	2007 £ million	2006 £ million
Results of operations			
Revenues	**656**	500	265
Expenses	**(649)**	(546)	(273)
Net profit (loss)	**7**	(46)	(8)

There are several minor service agreements in place between the joint ventures and the Group. During 2008, the aggregate amount of the transactions was £15.9 million (2007: £5.4 million) and the balance outstanding as at December 31, 2008 was £22.5 million (2007: £4.7 million).

The joint ventures have no significant contingent liabilities to which the Group is exposed nor does the Group have any significant contingent liabilities in relation to its interest in the joint ventures.

H9: Assets held for sale

Assets held for sale in 2007 of £30 million comprised investment property of the PAC with-profits fund.

Investment properties are classified as held for sale when contracts have been exchanged but the sale has not been completed at the period end. There were no assets held for sale at December 31, 2008.

Gains on disposal of held for sale assets are recorded in 'investment income' within the income statement.

H10: Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2008 £ million	2007 £ million
Cash	**5,362**	4,528
Cash equivalents	**593**	423
Total cash and cash equivalents	**5,955**	4,951

Cash and cash equivalents held centrally are considered to be available for general use by the Group. These funds amount to £165 million and £394 million at December 31, 2008 and 2007, respectively. The remaining funds are considered not to be available for general use by the Group, and include funds held for the benefit of policyholders.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

H11: Shareholders' equity: Share capital, share premium and reserves

	2008 £ million	2007 £ million
Share capital and share premium		
Share capital	**125**	123
Share premium	**1,840**	1,828
Reserves		
Retained earnings	**3,604**	4,301
Translation reserve	**638**	(112)
Available-for-sale reserve	**(1,149)**	(78)
Total shareholders' equity	**5,058**	6,062

The authorized share capital of the Company is £220 million (2007: £220 million) (divided into 4,000,000,000 (2007: 4,000,000,000) ordinary shares of 5 pence each and 2,000,000,000 sterling preference shares of 1 pence each) and US$20 million (divided into 2,000,000,000 US dollar preference shares of 1 cent each) and Euros 20 million (divided into 2,000,000,000 Euro preference shares of 1 cent each). None of the preference shares have been issued. A summary of the ordinary shares in issue is set out below:

Share capital and share premium

	Number of ordinary shares	Share capital £ million	Share premium £ million
2007			
Issued shares of 5p each fully paid:			
At the beginning of the year	2,444,312,425	122	1,822
Shares issued under share option schemes	803,818		6
Shares issued in lieu of cash dividends	24,900,997	1	175
Transfer to retained earnings in respect of shares issued in lieu of cash dividends			(175)
At end of the year	2,470,017,240	123	1,828
2008			
Issued shares of 5p each fully paid:			
At the beginning of the year	**2,470,017,240**	**123**	**1,828**
Shares issued under share option schemes	**2,307,469**		**12**
Shares issued in lieu of cash dividends	**24,622,979**	**2**	**156**
Transfer to retained earnings in respect of shares issued in lieu of cash dividends			**(156)**
At end of the year	**2,496,947,688**	**125**	**1,840**

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December 31, 2008

H: Other information on balance sheet items (Continued)

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account.

At December 31, 2008, there were options outstanding under Save As You Earn schemes to subscribe for 6,825,343 (2007: 9,017,442) shares at prices ranging from 266 pence to 617 pence (2007: 266 pence to 695 pence) and exercisable by the year 2015 (2014). In addition, there are 967,652 (2007: 2,037,220) conditional options outstanding under the RSP and 4,906,234 (2007: 3,485,617) under the GPSP exercisable at nil cost within a 10-year period.

The cost of own shares of £75 million as at December 31, 2008 (2007: £60 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans and savings-related share option schemes. At December 31, 2008, 6.4 million (2007: 6.6 million) Prudential plc shares with a market value of £27 million (2007: £47 million) were held in such trusts. Of this total, 6.0 million (2007: 5.1 million) shares were held in trusts under employee incentive plans. In 2008, the Company purchased 5.4 million (2007: 1.2 million) shares in respect of employee incentive plans at a cost of £27 million (2007: £9 million). The maximum number of shares held in the year was 6.6 million which was at the beginning of the year.

Of the total shares held in trust, 0.4 million (2007: 1.5 million) shares were held by a qualifying employee share ownership trust. These shares are expected to be fully distributed in the future on maturity of savings-related share option schemes.

The Group has consolidated a number of authorized investment funds where it is deemed to control these funds under IFRS. Certain of these funds hold shares in Prudential plc. The total number of shares held by these funds at December 31, 2008 was 9.2 million (2007: 4.1 million) and the cost of acquiring these shares of £47 million (2007: £22 million) is included in the cost of own shares. The market value of these shares as at December 31, 2008 was £37 million (2007: £29 million).

Reserves

The translation reserve represents cumulative foreign exchange translation differences taken directly to equity in accordance with IFRS, net of related tax. In accordance with IFRS 1, cumulative translation differences are deemed to be zero at January 1, 2004, the date of transition to IFRS.

The available-for-sale reserve represents gains or losses arising from changes in the fair value of available-for-sale securities of Jackson, net of the related change in amortization of deferred income and acquisition costs and of the related tax.

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Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

H12: Insurance contract liabilities and unallocated surplus of with-profits funds

Movement in year

	Insurance contract liabilities £ million	Unallocated surplus of with-profits funds £ million
At January 1, 2007	123,339	13,425
Income and expense included in the income statement	9,604	541
Foreign exchange translation differences	(167)	(7)
At December 31, 2007	132,776	13,959
At January 1, 2008	**132,776**	**13,959**
Income and expense included in the income statement	**(12,760)**	**(5,815)**
Foreign exchange translation differences	**16,014**	**270**
At December 31, 2008	**136,030**	**8,414**

Note B4 provides further analysis of the movement in the year of the Group's policyholder liabilities and unallocated surplus of the with-profits funds.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

H13: Borrowings

Core structural borrowings of shareholder-financed operations

	Innovative Tier 1* £ million	Lower Tier 2* £ million	Senior £ million	2008 Total £ million	2007 Total £ million
Parent company					
Subordinated debt:					
€500m 5.75% Subordinated Notes 2021[note i]		482		**482**	365
€20m Medium-Term Subordinated Notes 2023[note ii]		19		**19**	15
£435m 6.125% Subordinated Notes 2031		427		**427**	427
US$1,000m 6.5% Perpetual Subordinated Capital Securities[note iii]	696			**696**	485
US$250m 6.75% Perpetual Subordinated Capital Securities[note iv]	173			**173**	124
US$300m 6.5% Perpetual Subordinated Capital Securities[notes iv,v]	190			**190**	154
	1,059	928		**1,987**	1,570
Senior debt:					
£249m 5.5% Bonds 2009			249	**249**	248
£300m 6.875% Bonds 2023			300	**300**	300
£250m 5.875% Bonds 2029			249	**249**	249
			798	**798**	797
Total parent company	**1,059**	**928**	**798**	**2,785**	**2,367**
Jackson					
US$250m 8.15% Surplus Notes 2027[note vi]		173		**173**	125
Total[note vii]	**1,059**	**1,101**	**798**	**2,958**	**2,492**

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* These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the FSA Handbook.

Including central finance subsidiaries.

The senior debt ranks above subordinated debt in the event of liquidation.

Notes

(i)

The €500 million 5.75 per cent borrowings have been swapped into borrowings of £333 million with interest payable at six month £Libor plus 0.962 per cent.

(ii)

The €20 million Medium-Term Subordinated Notes were issued at 20-year Euro Constant Maturity Swap (capped at 6.5 per cent). These have been swapped into borrowings of £14 million with interest payable at three month £Libor plus 1.2 per cent.

(iii)

Interest on the US$1,000 million 6.5 per cent borrowings was swapped into floating rate payments at three month US$Libor plus 0.80 per cent. In January 2009, this swap was cancelled.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

(iv)

The US$250 million 6.75 per cent borrowings and the US$300 million 6.5 per cent borrowings can be converted, in whole or in part, at the Company's option and subject to certain conditions, on any interest payment date falling on or after 23 March 2010 and 23 March 2011 respectively, into one or more series of Prudential preference shares.

(v)

Interest on the US$300 million 6.5 per cent borrowings was swapped into floating rate payments at three month US$Libor plus 0.0225 per cent. In January 2008, this was swapped back into fixed rate payments at 6.5 per cent.

(vi)

The Surplus Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of Jackson.

(vii)

Maturity analysis

The following table sets out the maturity analysis of the Group's core structural borrowings:

	2008 £ million	2007 £ million
Less than 1 year	**249**	
1 to 2 years		248
2 to 3 years		
3 to 4 years		
4 to 5 years		
Over 5 years	**2,709**	2,244
Total	**2,958**	2,492

Operational borrowings attributable to shareholder-financed operations

	2008 £ million	2007 £ million
Borrowings in respect of short-term fixed income securities programs		
Commercial paper	**1,269**	2,422
Medium-Term Notes 2008		48
Medium-Term Notes 2010	**9**	7
	1,278	2,477

Non-recourse borrowings of US operations[note i]		
Jackson[note ii]	**104**	126
Investment subsidiaries	**23**	9
Piedmont and CDO funds[note iii]	**384**	456
	511	591
Other borrowings		
Bank loans and overdrafts[note iv]	**185**	6
Obligations under finance leases	**3**	7
	188	13
Total[note vi]	**1,977**	3,081

Notes

(i) In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of those subsidiaries and funds.

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December 31, 2008

H: Other information on balance sheet items (Continued)

(ii)

This represents senior debt issued through the Federal Home Loan Bank of Indianapolis and is secured on collateral posted with FHLB by Jackson. The interest rate on this debt is variable based on a market rate and was 0.47 per cent at December 31, 2008.

(iii)

Piedmont is an investment trust investing in certain asset-backed and mortgage-backed securities in the US. These borrowings pertain to debt instruments issued to external parties.

(iv)

Bank loans and overdrafts include a short-term loan of £130 million in Asian operations (2007: £nil).

(v)

In addition to the operational borrowings shown in the table above, in October 2008 Prudential plc issued £200 million Floating Rate Notes 2009, which were wholly subscribed to by a Group subsidiary. These borrowings have been eliminated on consolidation.

(vi)

Maturity analysis

The following table sets out the maturity analysis of the Group's operational borrowings attributable to shareholder-financed operations:

	2008 £ million	2007 £ million
Less than 1 year	**1,584**	2,618
1 to 2 years	**9**	
2 to 3 years	**38**	7
3 to 4 years	**52**	44
4 to 5 years	**240**	54
Over 5 years	**54**	358
Total	**1,977**	3,081

Borrowings attributable to with-profits funds

	2008 £ million	2007 £ million
Non-recourse borrowings of consolidated investment funds[note i]	**1,161**	789

£100m 8.5% Undated Subordinated Guaranteed Bonds of Scottish Amicable Finance plc[note ii]	**100**	100
Other borrowings (predominantly obligations under finance leases)	**47**	98
Total[note iii]	**1,308**	987

Notes

(i)

In all instances the holders of the debt instruments issued by these funds do not have recourse beyond the assets of those funds.

(ii)

The interests of the holders of the bonds issued by Scottish Amicable Finance plc, a subsidiary of the Scottish Amicable Insurance Fund, are subordinate to the entitlements of the policyholders of that fund.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

(iii)

Maturity analysis

The following table sets out the maturity analysis of the Group's borrowings attributable to with-profits funds:

	2008 £ million	2007 £ million
Less than 1 year	**272**	103
1 to 2 years	**12**	16
2 to 3 years	**150**	62
3 to 4 years	**418**	
4 to 5 years		154
Over 5 years	**456**	652
Total	**1,308**	987

H14: Provisions and contingencies

Provisions

	2008 £ million	2007 £ million
Provision in respect of defined benefit pension schemes:[I1]		
Deficit, gross of deferred tax, based on scheme assets held, including investments in Prudential insurance policies:		
Attributable to PAC with-profits fund (i.e. absorbed by the liability for unallocated surplus)	**67**	98
Attributable to shareholder-financed operations (i.e. to shareholders' equity)	**82**	85
	149	183
Add back: Investments in Prudential insurance policies	**157**	172
Provision after elimination of investments in Prudential insurance policies and matching policyholder liability from Group balance sheet	**306**	355
Other provisions (see below)	**155**	220
Total provisions	**461**	575

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

H: Other information on balance sheet items (Continued)

Analysis of other provisions:

	2008 £ million	2007 £ million
At January 1,	**220**	238
Charged to income statement:		
Additional provisions	**48**	116
Unused amounts released	**(24)**	(23)
Used during the year	**(101)**	(112)
Exchange differences	**12**	1
At December 31,	**155**	220
Comprising:		
Legal provisions	**23**	19
Restructuring provisions	**21**	35
Other provisions	**111**	166
Total	**155**	220

Of the other provisions balance of £155 million (2007: £220 million), £90 million (2007: £77 million) is expected to be settled within one year. Employer contributions expected to be paid into defined benefit pension schemes within one year are shown in note I1.

Legal provisions

The legal provisions of £23 million (2007: £19 million) relate predominantly to Jackson. Jackson has been named in civil proceedings, which appear to be substantially similar to other class action litigation brought against many life insurers in the US, alleging misconduct in the sale of insurance products. During 2008, £2 million was paid.

Restructuring provisions

Restructuring provisions of £21 million (2007: £35 million) relate to restructuring activities of UK insurance operations.

In 2004 and 2005, UK insurance operations implemented restructurings relating to document management review, streamlining operations, and the relocation of activities to an offshore base in India. In December 2005, the Group announced an initiative for UK insurance operations to work more closely with M&G and in the process facilitate the realization of substantial annualized pre-tax cost savings and opportunities for revenue synergies.

On November 28, 2007 UK insurance operations announced it had entered into a partnership agreement with Capita Group Plc (Capita) to outsource a large proportion of its in-force and new business policy administration. Under the terms of the proposed agreement, Capita will provide customer servicing, policy administration, new business processing, claims activity and related IT support.

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H: Other information on balance sheet items (Continued)

At January 1, 2007, a provision of £72 million was brought forward, and during 2007 an additional £21 million was provided, £14 million of unused provision was released, and £44 million was paid.

During 2008, an additional provision of £4 million was provided, £7 million of unused provision was released, and £11 million was paid.

Other provisions

Other provisions of £111 million (2007: £166 million) include provisions of £95 million (2007: £155 million) relating to staff benefit schemes. During 2008, another £37 million was provided (including exchange movements of £6 million), £15 million of unused provision was released and £82 million was paid. In 2007, a provision of £134 million was brought forward, an additional £78 million was provided, £3 million of unused provision was released and £54 million was paid. Other provisions also include £16 million (2007: £11 million) relating to various onerous contracts where, in 2008, an additional £10 million was provided and £5 million was used. In 2007, £18 million was brought forward, £2 million was provided and £1 million was released and £8 million was paid.

Contingencies and related obligations

Litigation

In addition to the legal proceedings relating to Jackson mentioned above, the Group is involved in other litigation and regulatory issues. Whilst the outcome of such matters cannot be predicted with certainty, the directors believe that the ultimate outcome of such litigation and regulatory issues will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

Pension mis-selling review

In 1988, the UK government introduced new pensions legislation intended to encourage more individuals to make their own arrangements for their pensions. During the period from April 1988 to June 1994, many individuals were advised by insurance companies, Independent Financial Advisers and other intermediaries to not join, to transfer from or to opt out of their occupational pension schemes in favor of private pension products introduced under the UK Income and Corporation Taxes Act 1988. The UK insurance regulator (previously the Personal Investment Authority, now the FSA), subsequently determined that many individuals were incorrectly advised and would have been better off not purchasing the private pension products sold to them. Industry participants are responsible for compensating the persons to whom private pensions were mis-sold. As a result, the FSA required that all UK life insurance companies review their potential cases of pension mis-selling and pay compensation to policyholders where necessary and, as a consequence, record a provision for the estimated costs. The Group met the requirement of the FSA to issue offers to all cases by 30 June 2002.

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H: Other information on balance sheet items (Continued)

The table below summarizes the change in the pension mis-selling provision for the years ended December 31, 2008 and 2007. The change in the provision is included in benefits and claims in the income statement and the movement in unallocated surplus of with-profits funds has been determined accordingly.

	2008 £ million	2007 £ million
Balance at beginning of year	**448**	401
Changes to actuarial assumptions and method of calculation	**(75)**	71
Discount unwind	**20**	22
Redress to policyholders	**(46)**	(41)
Payment of administrative costs	**(2)**	(5)
Balance at end of year	**345**	448

The pension mis-selling provision is included within the liabilities in respect of investment contracts with discretionary participation features under IFRS 4.

The pension mis-selling provision at December 31, 2008 set out above of £345 million is stochastically determined on a discounted basis. The average discount rate implied in the movement in the year is 4.0 per cent. The undiscounted amounts at December 31, 2008 expected to be paid in each of the years ending December 31, are as follows:

	2008 £ million
Year ended December 31,	
2009	**17**
2010	**8**
2011	**9**
2012	**13**
2013	**12**
Thereafter	**572**
Total undiscounted amount	**631**
Aggregate discount	**(286)**
Discounted pension mis-selling provision at December 31, 2008	**345**

The liability accounting for the contracts which are the subject of the mis-selling provision is reflected in two elements, namely the core policyholder liability determined on the basis applied for other contract liabilities and the mis-selling provision. The overall liability for these contracts remains appropriate in the context of the accounting for policyholder liabilities that determines the calculation of both elements. However, the constituent elements are reallocated and remeasured for the changes arising from the application of the realistic Peak 2 basis of liabilities for the core policyholder liability, as reflected in the IFRS policy improvement to apply the UK GAAP standard FRS 27 as described in section A4.

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H: Other information on balance sheet items (Continued)

The FSA periodically updates the actuarial assumptions to be used in calculating the provision, including interest rates and mortality assumptions. The pension mis-selling provision represents the discounted value of future expected payments, including benefit payments and all internal and external legal and administrative costs of adjudicating, processing and settling those claims. To the extent that amounts have not been paid, the provision increases each year reflecting the shorter period of discount.

The directors believe that, based on current information, the provision, together with future investment return on the assets backing the provision, will be adequate to cover the costs of pension mis-selling as well as the costs and expenses of the Group's pension review unit established to identify and settle such cases. Such provision represents the best estimate of probable costs and expenses. However, there can be no assurance that the current provision level will not need to be increased.

The costs associated with the pension mis-selling review have been met from the inherited estate (see below). Accordingly, these costs have not been charged to the asset shares used in the determination of policyholder bonus rates. Hence policyholders' pay-out values have been unaffected by pension mis-selling.

In 1998, Prudential stated that deducting mis-selling costs from the inherited estate would not impact its bonus or investment policy and it 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.

This review was completed on 30 June 2002. The assurance will continue to apply to any policy in force at December 31, 2003, both for premiums paid before January 1, 2004, and for subsequent regular premiums (including future fixed, RPI or salary related increases and Department of Work and Pensions rebate business). The assurance has not applied to new business 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.

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

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.

Mortgage endowment products review

In common with several other UK insurance companies, the Group used to sell low-cost endowment products related to repayment of residential mortgages. At sale, the initial sum assured is set at a level such that the projected benefits, including an estimate of the annual bonus receivable over the life of the policy, will equal or exceed the mortgage debt. Because of a decrease in expected future investment returns since these products were sold, the FSA is concerned that the maturity value of some of these

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December 31, 2008

H: Other information on balance sheet items (Continued)

products will be less than the mortgage debt. The FSA has worked with insurance companies to devise a program whereby the companies write to customers indicating whether they may have a possible shortfall and outline the actions that the customers can take to prevent this possibility.

The Group is exposed to mortgage endowment products in respect of policies issued by Scottish Amicable Life plc (SAL) and policies issued by Scottish Amicable Life Assurance Society (SALAS) which were transferred into SAIF. At December 31, 2008, provisions of £5 million (2007: £5 million) in SAL and £40 million (2007: £43 million) in SAIF were held to cover potential compensation in respect of mortgage endowment product mis-selling claims. As SAIF is a separate sub-fund of the Prudential Assurance long-term business fund, this provision has no impact on shareholders.

In addition, in the year ended December 31, 2008 Prudential Assurance's main with-profits fund paid compensation of £1 million (2007: £5 million) in respect of mortgage endowment products mis-selling claims and at December 31, 2008 held a provision of £54 million (2007: £55 million) in respect of further compensation. The movement in this provision has no impact on the Group's profit before tax.

In May 2006, the Group introduced a deadline for both Prudential and Scottish Amicable mortgage endowment complaints. Impacted customers have three years to lodge a mis-selling complaint in line with the time limit prescribed by the FSA and the ABI.

Guaranteed annuities

Prudential Assurance used to sell guaranteed annuity products in the UK and at December 31, 2008 held a provision of £42 million (2007: £45 million) within the main with-profits fund to honor guarantees on these products. The Group's main exposure to guaranteed annuities in the UK is through SAIF and at December 31, 2008 a provision of £391 million (2007: £563 million) was held in SAIF to honor the guarantees. As SAIF is a separate sub-fund of the Prudential Assurance long-term business fund, the movement in this provision has no impact on shareholders.

Other matters

Inherited estate of the PAC long-term fund

The assets of the with-profits sub-fund (WPSF) within the long-term fund of The Prudential Assurance Company Limited (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 WPSF 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 WPSF 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

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H: Other information on balance sheet items (Continued)

investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

Prudential 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 Prudential 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 Prudential's overriding priority which is to maintain the long-term financial security of the WPSF and to continue delivering strong performance for the benefit of its policyholders.

Support for long-term business funds by shareholders' funds

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, represented by the unallocated surplus of with-profits funds, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers ('the excess assets') in the long-term 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 the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Group's ability to satisfy policyholders' reasonable expectations 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 1997, the business of SALAS, a mutual society, was transferred to Prudential Assurance. In effecting the transfer, a separate sub-fund, SAIF, was established within Prudential Assurance's long-term business fund. This sub-fund contains all the with-profits business and all other pension business that was transferred. No new business has been or will be written in the sub-fund and the sub-fund is managed to ensure that all the invested assets are distributed to SAIF policyholders over the lifetime of SAIF. With the exception of certain amounts in respect of the unitized with-profits life business, all future earnings arising in SAIF are retained for SAIF policyholders. Any excess (deficiency) of revenue over expense within SAIF during a period is offset by a transfer to (from) the SAIF unallocated surplus. Shareholders have no interest in the profits of SAIF but are entitled to the asset management fees paid on this business. With the exception of certain guaranteed annuity products mentioned earlier in this note, and certain products which include a minimum guaranteed rate of accumulation, 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 Prudential Assurance 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 Prudential Assurance long-term fund or the Group's shareholders' funds having to contribute to SAIF is remote.

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H: Other information on balance sheet items (Continued)

Guarantees and commitments

Guarantee funds in both the UK and the US provide for payments to be made to policyholders on behalf of insolvent life insurance companies. These guarantee funds are financed by payments assessed on solvent insurance companies based on location, volume and types of business. The Group estimated its reserve for future guarantee fund assessments for Jackson to be £18 million at December 31, 2008 (2007: £9 million). Similar assessments for the UK businesses were not significant. The directors believe that the reserve is adequate for all anticipated payments for known insolvencies.

At December 31, 2008, Jackson has unfunded commitments of £400 million (2007: £181 million) related to its investments in limited partnerships and of £24 million (2007: £104 million) related to commercial mortgage loans. These commitments were entered into in the normal course of business and the directors do not expect a material adverse impact on the operations to arise from them.

Jackson owns debt instruments issued by two separate securitization trusts managed by PPM America which are consolidated into the Group accounts, SERVES 2001-6 (SERVES 2) and SERVES 2004-1 (SERVES 3). Jackson has a £50 million debt interest in SERVES 2 and a £33 million debt interest in SERVES 3. The creditors of the entities have no recourse to the general credit of Jackson. During 2008, Jackson entered into 'Option Put and Forbearance Agreements' with the counterparty to these two entities in exchange for the counterparty forbearing its right to initiate forced liquidations of the entities under certain market value triggers. The support provided by the agreements could potentially expose Jackson to maximum losses of £118 million and £103 million for SERVES 2 and SERVES 3, respectively, if circumstances allowed the forbearance period to cease. Jackson believes that, so long as the forbearance period continues, the risk of loss under the agreements is remote.

The Group has provided other guarantees and commitments to third-parties entered into in the normal course of business but the directors do not consider that the amounts involved are significant.

H15: Other liabilities

	2008 £ million	2007 £ million
Creditors arising from direct insurance and reinsurance operations	**552**	538
Interest payable	**139**	76
Other items	**199**	177
Total	**890**	791

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I: Other notes

I1: Staff and pension plans

(a) Staff and employment costs

The average number of staff employed by the Group during the year were:

	2008 £ million	2007 £ million	2006 £ million
Business operations:			
UK operations	**6,231**	7,732	8,259
US operations	**3,298**	3,123	2,863
Asian operations	**20,154**	16,807	12,114
Venture fund investment subsidiaries of the PAC with-profits fund (see below)		21,184	8,898
Continuing operations	**29,683**	48,846	32,134
Discontinued banking operations		770	2,655
Total	**29,683**	49,616	34,789

The costs of employment for continuing operations were:

	2008 £ million	2007 £ million	2006 £ million
Business operations:			
Wages and salaries	**791**	819	761
Social security costs	**54**	62	58
Other pension costs (see below)	**78**	96	67
Pension actuarial and other (gains) losses charged to income statement	**(10)**	2	(192)
	68	98	(125)
Venture fund investment subsidiaries of the PAC with-profits fund (see below)		423	230
Total for continuing operations	**913**	1,402	924
Discontinued banking operations		21	76
Total	**913**	1,423	1,000

Other pension costs comprises £47 million (2007: £68 million; 2006: £45 million) relating to defined benefit schemes and £31 million (2007: £28 million; 2006: £22 million) relating to defined contribution schemes of continuing operations. Of the defined contribution scheme costs, £21 million (2007: £19 million; 2006: £14 million) related to overseas defined contribution schemes. The £47 million (2007: £68 million; 2006:£45 million) comprises a charge of £29 million (2007: £41 million; £2006: £14 million) relating to PSPS and a charge of £18 million (2007: £27 million; 2006: £31 million) for other schemes.

Consistent with the derecognition of the Company's interest in the underlying IAS 19 surplus of PSPS as described in note (b)(i)1 below, the £29 million (2007: £41 million) for PSPS represents the cash cost of contributions for ongoing service of active members and the unwind of discount on the opening provision for deficit funding for PSPS. The 2006 charge of £14 million for PSPS comprises a £

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I: Other notes (Continued)

7 million charge on an economic basis reflecting the total assets of the scheme, and a further £7 million charge to adjust for the amounts invested in Prudential insurance policies to arrive at the IAS 19 basis charge. The charge of £18 million (2007: £27 million; 2006: £31 million) for other schemes comprises a £7 million (2007: £17 million; 2006: £22 million) charge on an economic basis, reflecting the total assets of the schemes, and a further £11 million (2007: £10 million; 2006: £9 million) charge to adjust for amounts invested in Prudential insurance policies to arrive at the IAS 19 basis charge.

The gains of £10 million (2007: loss of £2 million; 2006: gains of £192 million) for actuarial and other gains comprises a loss of £21 million (2007: loss of £7 million; 2006: gains of £201 million) for actuarial and other losses on an economic basis and £31 million actuarial gains (2007: gains of £5 million; 2006: loss of £9 million) to adjust for amounts invested in Prudential insurance policies. The derivation of these amounts is shown in note (b)(i)5 below.

Of the £423 million costs of employment for venture fund investment subsidiaries in 2007 (2006: £230 million), £349 million (2006: £189 million) related to wages and salaries, £70 million (2006: £27 million) related to social security costs and £4 million (2006: £14 million) related to pension costs. Following the change of control arrangements put in place at the same time as the sale by the Group of PPM Capital in November 2007, the Group no longer controls those venture fund investment subsidiaries managed by the sold entity and consequently ceased to consolidate these operations subsequent to this, with the average number of staff employed and costs of employment for 2007 detailed above reflecting the period prior to disposal.

Of the £21 million costs of employment for discontinued banking operations in 2007, £18 million (2006: £64 million) related to wages and salaries, £2 million (2006: £7 million) related to social security costs and £1 million (2006: £5 million) related to pension costs.

(b) Pension plans

(i) Defined benefit plans

1. Summary and the effects of the adoption of IFRIC 14

The Group business operations operate a number of pension schemes. The specific features of these plans vary in accordance with the regulations of the country in which the employees are located, although they are, in general, funded wholly by the Group and based either on a cash balance formula or on years of service and salary earned in the last year or years of employment. The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS), 87 per cent (2007: 87 per cent) of the underlying scheme liabilities of the Group defined benefit schemes are accounted for within PSPS.

The Group also operates two smaller defined benefit schemes for UK employees in respect of Scottish Amicable and M&G activities. For all three schemes the projected unit method was used for the most recent full actuarial valuations. There is also a small defined benefit scheme in Taiwan.

Defined benefit schemes in the UK are generally required to be subject to full actuarial valuation every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. PSPS was last actuarially valued as at April 5, 2005. This

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I: Other notes (Continued)

valuation demonstrated the scheme to be 94 per cent funded, with a shortfall of actuarially determined assets to liabilities of six per cent, representing a deficit of £243 million.

As a result, changes were made to the basis of funding for the scheme with effect from that date. Based on that valuation, deficit funding amounts designed to eliminate the actuarial deficit over a 10 year period have been and are being made. Total contributions to the Scheme for deficit funding and employer's contributions for ongoing service for current employees are expected to be of the order of £70-75 million per annum subject to a reassessment when the subsequent valuation is completed. In 2008, total contributions for the year including expenses and augmentations were £79 million (2007: £82 million). Deficit funding for PSPS is apportioned in the ratio of 70/30 between the PAC life fund and shareholder-backed operations following detailed consideration in 2005 of the sourcing of previous contributions. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity. The PSPS valuation as at April 5, 2008 is currently being finalized.

The deficit of the Scottish Amicable Pension Scheme of £44 million (2007: £54 million) has been allocated 50 per cent to the PAC with-profits fund and 50 per cent to the PAC shareholders fund.

The adoption of IFRIC 14

As mentioned in notes A2 and A5, the Group has adopted IFRIC 14 for pension schemes in 2008. The adoption of IFRIC 14, which gives guidance on assessing the limit in IAS 19 on the amount of surplus in a defined benefit pension scheme that can be recognized as an asset thereby providing reliable and more relevant information. The recognition of an asset is restricted to those that are demonstrably recoverable, either by refund or reduction in future contributions. It also addresses when a minimum funding requirement might give rise to a liability. The assessment of recoverability and any additional liability is made by reference to the terms of the Trust Deed of pension schemes and, unless substantively enacted or contractually agreed, with no account taken of potential changes to current funding arrangements.

This adoption of the principles of IFRIC 14 has had an effect on the Group's interest in the financial position of the Group's main UK defined benefit pension scheme, PSPS. The change relates solely to the accounting measurement of the Group's interest in the financial position of PSPS. Adoption of the principles of IFRIC 14 does not affect the Group's interest in the Group's other defined benefit pension schemes.

Under the terms of the Trust Deed, the Group has no unconditional right of refund to any surplus in PSPS. Also, the Group has no ability under the guidance in IFRIC 14 to anticipate a reduction in the level of future contributions for ongoing services from those currently being paid. In addition, the Group currently has a committed five-year deficit funding arrangement in place as agreed with the Trustees of the PSPS following the last triennial valuation of PSPS as at April 5, 2005 finalized in April 2006.

The asset and liabilities of PSPS are unaffected by the impact of the adoption of IFRIC 14. PSPS is managed on an economic basis for the longer-term benefit of its current and deferred pensioners and active members. The surplus in PSPS is available to absorb future adverse asset value movements and, if required, strengthening in mortality assumptions. The fluctuating nature of the surplus is demonstrated by the increase in the underlying gross surplus from £528m at December 31, 2007 to £728m at December 31, 2008.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

The summary effect of the adoption of IFRIC 14

In respect of the position at December 31, 2008, the Group has not recognized 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 has 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 are £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 is a reduction of £175 million as shown below.

The comparative figures in these consolidated financial statements have been adjusted accordingly for the adoption of IFRIC 14. In 2006, the first period in which these consolidated financial statements were presented, the underlying PSPS financial position changed from a deficit position at the beginning of the year to a surplus position at the end of the year. The Group's interest in the underlying PSPS deficit position at the beginning of 2006 continued to be recognized under the principles of IFRIC 14 but the Group's interest in the underlying PSPS surplus at the end of 2006 was derecognized. In addition, as the deficit funding arrangement in place following the last triennial valuation of PSPS as at April 5, 2005 was finalized during 2006, no liability for deficit funding was recognized at January 1, 2006.

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December 31, 2008

I: Other notes (Continued)

The effect of the change on the consolidated income statement, earnings per share and consolidated balance sheet are as follows:

	2008 Adjustments incorporated in the results Increase £ million	2007 Adjustments made to the previously published results (decrease) £ million	2006 Adjustments made to the previously published results in profit £ million
Consolidated income statement			
Investment return	**47**	4	13
Benefit and claims and movement in unallocated surplus of with-profits funds	**66**	205	154
Other operating expenditure	**(173)**	(336)	(277)
Profit (loss) before tax (being tax attributable to shareholders' and the policyholders' returns)	**(60)**	(127)	(110)
Tax attributable to policyholders' returns	**11**	24	19
Profits (loss) before tax attributable to shareholders	**(49)**	(103)	(91)
Tax attributable to shareholders' (loss) profit	**13**	28	27
Profit (loss) from continuing operations after tax/profit (loss) for the year	**(36)**	(75)	(64)

	Increase (decrease) in earnings per share (in pence)		
Earnings per share			
Basic and diluted based on profit (loss) from continuing operations attributable to equity holders of the company	**(1.5)p**	(3.1)p	(2.6)p

	Increase (decrease) in shareholders' equity £ million	£ million
Consolidated balance sheet		
Deferred tax assets	**10**	26
Other debtors	**(625)**	(388)
Policyholders' liability contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	**(103)**	(140)
Unallocated surplus of with-profits funds	**495**	392

Deferred tax liabilities	**113**	73
Provisions	**(65)**	(102)
Shareholders' equity	**(175)**	(139)

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December 31, 2008

I: Other notes (Continued)

As at December 31, 2008, after the effect of the adoption of IFRIC 14, the shareholders' share of the pension liability for PSPS deficit funding obligation and the deficits of the defined benefit pension schemes amounted to a £61 million liability net of related tax relief (2007: £63 million). These amounts are determined after including amounts invested by the M&G scheme in Prudential policies as explained later in this note.

On the economic basis (including investments of the M&G scheme in Prudential policies as assets) for 2008, a £26 million (2007: £35 million; 2006: £28 million) pre-tax shareholder charge to total profits. In addition, included in total profits is a pre-tax shareholder loss of £14 million (2007: loss of £1 million; 2006: gain of £76 million).

In addition, also on the economic basis, the PAC with-profits sub-fund was charged £10 million (2007: charge of £23 million; 2006: credit of £1 million) for its share of the pension charge of PSPS and Scottish Amicable and charged with £7 million (2007: charge of £6 million; 2006: credit of £125 million) for its share of net actuarial and other losses on the scheme assets and liabilities. As shareholder profits for the PAC with-profits sub-fund reflects the surplus for distribution, these amounts are effectively absorbed by an increased charge in the income statement for the transfer to the liability for unallocated surplus.

At December 31, 2008, after the effect of the adoption of IFRIC 14, the total share of the liability for deficit funding on PSPS and the deficit on the smaller Scottish Amicable Scheme attributable to the PAC with-profits fund amounted to a liability of £60 million (2007: £88 million) net of related tax relief.

2. Corporate governance

The rules of the Group's largest pension arrangement, the defined benefit section of PSPS, a final salary scheme, specify that, in exercising its investment powers, the Trustee's objective is to achieve the best overall investment return consistent with the security of the assets of the scheme. In doing this, regard is had to the nature and duration of the scheme's liabilities. The Trustee sets the benchmark for the asset mix, following analysis of the liabilities by the Scheme's Actuary and, having taken advice from the Investment Managers, then selects benchmark indices for each asset type in order to measure investment performance against a benchmark return.

The Trustee reviews strategy, the asset mix benchmark and the Investment Managers' objectives every three years, to coincide with the Actuarial Valuation, or earlier if the Scheme Actuary recommends. Interim reviews are conducted annually based on changing economic circumstances and financial market levels.

The Trustee sets the general investment policy and specifies any restrictions on types of investment and the degrees of divergence permitted from the benchmark, but delegates the responsibility for selection and realization of specific investments to the Investment Managers. In carrying out this responsibility, the Investment Managers are required by the Pensions Act 1995 to have regard to the need for diversification and suitability of investments. Subject to a number of restrictions contained within the relevant asset management agreements, the Investment Managers are authorized to invest in any class of investment asset. However, the Investment Managers will not invest in any new class of investment asset without prior consultation with the Trustee.

Prudential plc and Subsidiaries

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December 31, 2008

I: Other notes (Continued)

The Trustee consults the Principal Employer, the Prudential Assurance Company, on these investment principles, but the ultimate responsibility for the investment of the assets of the scheme lies with the Trustee.

The investment policies and strategies for the other two UK defined benefit schemes, the M&G Group Pension Scheme and the Scottish Amicable Staff Pension Scheme, which are both final salary schemes, follow similar principles, but have different target allocations reflecting the particular requirements of the schemes.

3. Assumptions

The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the years ended December 31, were as follows:

	2008 %	2007 %	2006 %
Discount rate*	**6.1**	5.9	5.2
Rate of increase in salaries	**5.0**	5.3	5.0
Rate of inflation	**3.0**	3.3	
Rate of increase of pensions in payment for inflation:			
Guaranteed (maximum 5%)	**3.0**	3.3	3.0
Guaranteed (maximum 2.5%)	**2.5**	2.5	2.5
Discretionary	**2.5**	2.5	2.5
Expected returns on plan assets	**6.2**	5.9	5.9

*

The discount rate of 6.1% has been determined by reference to an 'AA' corporate bond index adjusted to allow for the difference in duration between the index and the pension liabilities.

The rates of 2.5 per cent shown are those for PSPS. Assumed rates of increase of pensions in payment for inflation for all other schemes are 3.0 per cent in 2008 (2007: 3.3 per cent; 2006: 3.0 per cent).

The calculations are based on current actuarially calculated mortality estimates with a specific allowance made for future improvements in mortality, which is broadly in line with that adopted for the 92 series of mortality tables prepared by the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries. In 2007, the mortality assumptions were strengthened by including a floor to the medium cohort improvements.

The tables used for PSPS at December 31, 2008 were:

Male: 100 per cent PMA92 with CMIR17 improvements to the valuation date and medium cohort improvements subject to a floor of 1.75 per cent up to the age of 90, decreasing linearly to zero by age of 120; and

Female: 100 per cent PFA92 with CMIR17 improvements to the valuation date and 75 per cent medium cohort improvements subject to a floor of one per cent up to the age of 90 and decreasing linearly to zero by age of 120.

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I: Other notes (Continued)

The assumed life expectancies on retirement at age 60, based on the mortality table used was:

	2008 years		2007 years	
	Male	Female	Male	Female
Retiring today	**26.4**	**28.4**	26.2	28.3
Retiring in 15 years' time	**28.9**	**29.8**	28.7	29.3

The mean term of the current PSPS liabilities is around 18 years.

Using external actuarial advice provided by Watson Wyatt Partners for the valuation of PSPS and by Aon Limited for the M&G scheme, and Hazell Carr for the Scottish Amicable scheme, the most recent full valuations have been updated to December 31, 2008, applying the principles prescribed by IAS 19.

4. Summary financial position

The Group liability in respect of defined benefit pension schemes is as follows:

	2008 £ million	2007 £ million	2006 £ million
Deficit included in balance sheet under IAS 19	**(306)**	(355)	(380)
Add back: investments in Prudential insurance policies (offset on consolidation in the Group financial statements against insurance liabilities)	**157**	172	161
Economic deficit	**(149)**	(183)	(219)
Economic position:			
Deficit, gross of deferred tax, based on scheme assets held, including investments in Prudential insurance policies:			
Attributable to the PAC with-profits fund (i.e. absorbed by the liability for unallocated surplus)	**(67)**	(98)	(120)
Attributable to shareholder-financed operations (i.e. to shareholders' equity)	**(82)**	(85)	(99)
Economic deficit	**(149)**	(183)	(219)

The following disclosures explain the IAS 19 basis of accounting after eliminating investment in Prudential insurance policies on consolidation.

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December 31, 2008

I: Other notes (Continued)

5. IAS 19 basis financial position as consolidated

The IAS 19 basis pensions deficit can be summarized as follows:

	2008 £ million	2007 £ million	2006 £ million	2005 £ million	2004 £ million
Fair value of plan assets, end of year	**5,057**	5,150	4,988	4,622	4,092
Present value of funded benefit obligation	**(4,493)**	(4,826)	(5,023)	(5,228)	(4,777)
Funded status	**564**	324	(35)	(606)	(685)
Present value of unfunded obligations (M&G scheme)*	**(180)**	(189)	(187)	(190)	(140)
	384	135	(222)	(796)	(825)
Effect of the change in accounting policy for pension schemes:					
Derecognition of PSPS' surplus	**(728)**	(528)	(141)		
Set up obligation for deficit funding for PSPS until April 5, 2010	**(65)**	(102)	(143)		
Adjustment in respect of investment of PSPS in Prudential policies	**103**	140	126		
Deficit recognized in the balance sheet	**(306)**	(355)	(380)	(796)	(825)

* The M&G pension scheme assets are invested in Prudential insurance policies. For IFRS accounting purposes, the M&G scheme is in effect unfunded. Please see above for more details.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

	2008 £ million	2007 £ million	2006 £ million
Components of net periodic pension cost			
Current service cost	**(45)**	(58)	(69)
Curtailment credit	**44**		
Interest cost	**(289)**	(265)	(255)
Expected return on assets economic basis	**336**	309	295
Less: expected return on investments of scheme assets in Prudential insurance policies	**(22)**	(20)	(16)
Expected return on assets IAS 19 basis	**314**	289	279
	24	(34)	(45)
Effect of the adoption of IFRIC 14	**(71)**	(34)	
Pension cost (as referred to in note[I1a])	**(47)**	(68)	(45)
Actuarial and other gains and losses economic basis	**60**	295	485
Less: actuarial losses on investments of scheme assets in Prudential insurance policies	**79**	1	(16)
	139	296	469
Effect of the adoption of IFRIC 14	**(129)**	(298)	(277)
Actuarial gains and losses IAS 19 basis* (as referred to in note[I1a])	**10**	(2)	192
Net periodic pension cost (included within acquisition and other operating expenditure in the income statement)	**(37)**	(70)	147

*

Consistent with the derecognition of the Company's interest in the underlying IAS 19 surplus of PSPS, the effect on the 2008 and 2007 net periodic pension cost for PSPS was to replace the usual IAS 19 pension charges and credits with the cash cost of contribution for ongoing services of active members and also not to report the actuarial gains and losses. 2006 was the transitional year in which the underlying PSPS financial position moved from a deficit position at the beginning of the year, which continued to be recognized, to a surplus position at the end of the year, which was derecognized under the principles of IFRIC 14. For 2006, the usual IAS 19 pension charges and credits continued to be included. The transitional effect of the adoption of IFRIC 14 in derecognizing the Company's interest in the underlying surplus of PSPS at the end of the year was applied against actuarial and other gains and losses.

In determining the expected return on scheme assets for 2008, the 5.9 per cent rate shown below has been applied to the opening assets.

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I: Other notes (Continued)

The long-term expected rate of return has been taken to be the weighted average (by market value) of the long-term expected rates of return on each major asset class shown below:

	2008		2007		2006		2005		2004	
	£ million	%	£ million	%	£ million	%	£ million	%	£ million	%
Scheme assets (IAS 19 basis before effect of adoption of IFRIC 14)										
Equity	**875**	**17**	1,332	26	1,432	29	2,376	51	2,516	61
Bonds	**2,619**	**52**	1,299	25	2,185	44	1,593	35	993	24
Properties	**290**	**6**	583	11	621	12	575	12	520	13
Cash-like investments	**1,273**	**25**	1,936	38	750	15	78	2	63	2
Total	**5,057**	**100**	5,150	100	4,988	100	4,622	100	4,092	100

	Prospectively for 2009	2008	2007	2006
	%	%	%	%
Long-term expected rate of return				
Equity	**6.8**	7.5	7.5	7.1
Bonds	**4.8**	5.4	4.8	4.5
Properties	**6.05**	6.75	6.8	6.4
Cash	**2.0**	5.5	5.0	4.5
Weighted average long-term expected rate of return	**4.5**	6.1	5.9	6.1

The expected rates of return have been determined by reference to long-term expectations, the carrying value of the assets and equity and other market conditions at the balance sheet date.

The actual return on scheme assets was a loss £20 million (2007: gain of £282 million; 2006: gain of £419 million) on an IAS 19 basis.

None of the scheme assets included shares in Prudential plc or property occupied by the Prudential Group.

	2008 £ million	2007 £ million	2006 £ million	2005 £ million	2004 £ million
Fair value of scheme assets, end of year (IAS 19 basis)	**5,057**	5,150	4,988	4,622	4,092
Present value of the benefit obligation, end of year	**(4,673)**	(5,015)	(5,210)	(5,418)	(4,917)
Underlying scheme assets in surplus (deficit) of benefit obligation, before the effect of the adoption of IFRIC 14	**384**	135	(222)	(796)	(825)

Experience adjustments on scheme	**145**	(14)	18	1	(17)
Percentage of scheme liabilities at December 31,	**3.10%**	0.28%	(0.35)%	(0.02)%	0.35%
Experience adjustments on scheme assets (IAS 19 basis)	**(277)**	(7)	140	527	112
Percentage of scheme assets at December 31,	**(5.48)%**	(0.14)%	2.81%	11.42%	2.74%

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December 31, 2008

I: Other notes (Continued)

The experience adjustments on scheme liabilities in 2008 of a gain of £145 million relate mainly to the 'true up' reflecting improvements in data consequent upon the ongoing triennial valuation of PSPS.

Total employer contributions expected to be paid into the Group defined benefit schemes for the year ending December 31, 2009 amounts to £98 million (2008: £90 million; 2007: £93 million), subject to a reassessment when the valuation at April 5, 2008 is completed.

6. Sensitivity of the financial position of the PSPS, Scottish Amicable and M&G pension schemes to key variables

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 (2007: £4,361 million, £454 million and £189 million) to changes in discount rates and inflation rates.

2008

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 in 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 in 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% with consequent reduction in salary increases	Decrease in scheme liabilities by:	
		PSPS	0.8%
		Scottish Amicable	4.5%
		M&G	3.8%

2007

Assumption	Change in assumption	Impact on scheme liabilities on IAS 19 basis	
Discount rate	Decrease by 0.2% from 5.9% to 5.7%	Increase in scheme liabilities by:	
		PSPS	3.5%
		Scottish Amicable	5.3%
		M&G	4.8%
Discount rate	Increase by 0.2% from 5.9% to 6.1%	Decrease in scheme liabilities by:	
		PSPS	3.4%
		Scottish Amicable	5.1%
		M&G	4.5%
Rate of inflation	Decrease by 0.2% from 3.3% to 3.1% with consequent reduction in salary increases	Decrease in scheme liabilities by:	
		PSPS	1.3%
		Scottish Amicable	5.0%

M&G	4.4%

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

7. Transfer value of PSPS scheme

At December 31, 2008, it is estimated that the assets of the scheme are broadly sufficient to cover the liabilities of PSPS on a 'buyout' basis including an allowance for expenses. The 'buyout' basis refers to a basis that might apply in the circumstance of a transfer to another appropriate financial institution. In making this assessment it has been assumed that a more conservative investment strategy applies together with a more prudent allowance for future mortality improvements and no allowance for discretionary pension increases.

8. Reconciliation to IAS 19 basis financial position

The economic financial position of the defined benefit pension schemes reflects the total assets of the schemes including investments in Prudential policies. This is to be contrasted with the IAS 19 basis assets of the M&G schemes, as consolidated into the Group balance sheet, which exclude investments in Prudential insurance policies which on the financial statement presentation are offset against policyholder liabilities.

The M&G pension scheme has invested £157 million at December 31, 2008 (2007: £172 million; 2006: £161 million) in Prudential insurance policies. As required by IFRS, this amount of scheme asset is eliminated against the policyholder liability and hence, for the purposes of preparing the consolidated balance sheet, the IAS 19 basis net pension liability is £157 million (2007: £172 million; 2006: £161 million) lower than the 'economic basis' deficit of £149 million (2007: 'economic basis' deficit of £183 million; 2006: £219 million). Additionally, the PSPS scheme has invested £103 million at December 31, 2008 (2007: £140 million; 2006:£126 million) in Prudential insurance policies. However, these assets are not recognized due to the effects of the change in accounting policy for the adoption of IFRIC 14 as described in note 1 above.

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December 31, 2008

I: Other notes (Continued)

The change in the present value of the benefit obligation and the change in fair value of the assets for the total of the PSPS, Scottish Amicable, M&G and Taiwan schemes over the period were as follows:

	PSPS		Other schemes			Total
2008	Provision for deficit funding £ million	IAS 19 basis: change in fair value of plan assets £ million	Investments in Prudential insurance policies £ million	Economic basis: total assets £ million	IAS 19 basis: change in present value of benefit obligations £ million	Economic basis: net obligations £ million
Fair value of plan assets, beginning of year		401	172	573		573
Present value of benefit obligation, beginning of year					(654)	(654)
Provision for deficit funding for PSPS	(102)					(102)
	(102)	401	172	573	(654)	(183)
Service cost current charge only					(19)	(19)
Curtailment credit					14	14
Interest cost					(39)	(39)
Expected return on plan assets		26	11	37		37
Employee contributions			1	1	(1)	
Employer contributions	79	7	9	16		95
Actuarial gains (losses)		(67)	(31)	(98)	90	(8)
Benefit payments		(10)	(5)	(15)	15	
Cash costs and unwind of discount on the opening provision for deficit funding for PSPS	(29)					(29)
Movement in the provision for deficit funding for PSPS	(13)					(13)
Exchange translation difference					(4)	(4)
Fair value of plan assets, end of year		357	157	514		514
Present value of benefit obligation, end of year					(598)	(598)

Provision for deficit funding of PSPS	**(65)**	**(65)**
Economic basis deficit		**(149)**

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Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

	PSPS		Other schemes			Total
2007	**Provision for deficit funding £ million**	**IAS 19 basis: change in fair value of plan assets £ million**	**Investments in Prudential insurance policies £ million**	**Economic basis: total assets £ million**	**IAS 19 basis: change in present value of benefit obligations £ million**	**Economic basis: net obligations £ million**
Fair value of plan assets, beginning of year		366	161	527		527
Present value of benefit obligation, beginning of year					(603)	(603)
Provision for deficit funding for PSPS	(143)					(143)
	(143)	366	161	527	(603)	(219)
Service cost current charge only					(19)	(19)
Interest cost					(31)	(31)
Expected return on plan assets		23	10	33		33
Employee contributions			1	1	(1)	
Employer contributions	82	10	9	19		101
Actuarial gains (losses)		9	(5)	4	(11)	(7)
Benefit payments		(7)	(4)	(11)	11	
Cash costs and unwind of discount on the opening liability for deficit funding for PSPS	(41)					(41)
Fair value of plan assets, end of year		401	172	573		573
Present value of benefit obligation, end of year					(654)	(654)
Provision for deficit funding for PSPS	(102)					(102)
Economic basis deficit						(183)

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December 31, 2008

I: Other notes (Continued)

		Other schemes			Total
2006	**PSPS Economic basis***	**IAS 19 basis: change in fair value of plan assets**	**Investments in Prudential insurance policies**	**Economic basis: total assets**	**IAS 19 basis: change in present value of benefit obligations**	**Economic basis: net obligations**
	£ million	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**
Fair value of plan assets, beginning of year	4,393	335	147	482		4,875
Present value of benefit obligation, beginning of year	(4,813)				(605)	(5,418)
	(420)	335	147	482	(605)	(543)
Service cost current charge only	(47)				(22)	(69)
Interest cost	(226)				(29)	(255)
Expected return on plan assets	266	20	9	29		295
Employee contributions		1	1	2	(2)	
Employer contributions	137	11	4	15		152
Actuarial gains (losses)	431	8	3	11	43	485
Benefit payments		(9)	(3)	(12)	12	
Transitional effect of the derecognition of PSPS surplus	(141)					(141)
Setting up of provision for deficit funding for PSPS	(143)					(143)
Fair value of plan assets, end of year		366	161	527		527
Present value of benefit obligation, end of year					(603)	(603)
Provision for deficit funding for PSPS	(143)					(143)
Economic basis deficit						(219)

*

At the beginning of 2006, the PSPS scheme had invested £106 million in Prudential insurance policies and therefore, the IAS 19 basis pension deficit for PSPS would have been £526 million, being £106 million higher than the £420 million deficit on an 'economic basis' as shown above. At the end of 2006, the PSPS scheme had invested £126 million in Prudential insurance policies. However, these assets are not recognized due to the effects of the adoption of IFRIC 14 as described in note 1 above.

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Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

9. Group economic financial position

On the 'economic basis', after including the underlying assets represented by the investments in Prudential insurance policies as scheme assets, the underlying balance sheets of the schemes at December 31, were:

	2008				2007			
	PSPS £ million	Other schemes note iii £ million	Total £ million	% £ million	PSPS £ million	Other schemes note iii £ million	Total £ million	% £ million
Equities	**823**	**213**	**1,036**	**19**	1,278	265	1,543	28
Bonds	**2,430**	**277**	**2,707**	**51**	1,134	249	1,383	25
Properties	**283**	**18**	**301**	**6**	545	54	599	11
Cash-like investmentsnote i	**1,267**	**6**	**1,273**	**24**	1,932	5	1,937	36
Total value of assets	**4,803**	**514**	**5,317**	**100**	4,889	573	5,462	100
Present value of benefit obligations	**(4,075)**	**(598)**	**(4,673)**		(4,361)	(654)	(5,015)	
	728	**(84)**	**644**		528	(81)	447	
Effect of the adoption of IFRIC 14 for pension schemes:								
Derecognition of PSPS surplus	**(728)**		**(728)**		(528)		(528)	
Set up obligation for deficit funding for PSPS until April 5, 2010	**(65)**		**(65)**		(102)		(102)	
Pre-tax deficitnote ii	**(65)**	**(84)**	**(149)**		(102)	(81)	(183)	

Notes

i

The PSPS has entered into a derivatives based strategy to match the duration and inflation profile of its liabilities. This involved a reallocation from other investments to cash-like investments with an interest and inflation swap overlay. In broad terms, the scheme is committed to making a series of payments related to LIBOR on a nominal amount and in return the scheme receives a series of fixed and inflation-linked payments which match a proportion of its liabilities. As at December 31, 2008, the nominal value of the interest and inflation-linked swaps amounted to £1.2 billion (2007: £1.2 billion) and £0.3 billion (2007: £0.7 billion) respectively.

ii

The resulting scheme deficit arising from the excess of liabilities over assets at December 31, 2008 of £149 million comprised a deficit of £67 million (2007: deficit of £98 million) attributable to the PAC with-profits fund and deficit of £82 million (2007: deficit of £85 million) attributable to shareholder operations.

iii

In addition to PSPS, there are two smaller schemes in the UK, the Scottish Amicable Pension Scheme, and the M&G Pension Scheme, with a combined deficit at December 31, 2008 of £67 million (2007: £71 million), gross of tax. There is also a small scheme in Taiwan, which at December 31, 2008 had a deficit of £17 million (2007: £10 million), gross of tax.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

The movements in the deficit on the 'economic basis' between scheme assets and liabilities were:

	2008 %	2007 %	2006 %
Current service cost	**(19)**	(19)	(69)
Curtailment credit	**14**		
Other finance income	**(2)**	2	40
Cash costs and unwind of discount on opening provision for deficit funding for PSPS for 2008 and 2007	**(29)**	(41)	
Contributions	**95**	101	152
Actuarial and other gains and losses	**(21)**	(7)	201
Exchange translation difference	**(4)**		
Net increase in deficit	**34**	36	324

Estimated pension scheme deficit attributable to shareholder operations economic basis

Movements on the pension scheme deficit (determined on the 'economic basis'), to the extent attributable to shareholder operations are as follows:

2008	At beginning of year £ million	Pension charge note i £ million	Actuarial and other gains (losses) attributable to shareholders note ii £ million	Contributions paid by shareholder operations £ million	Exchange translation difference £ million	At end of year £ million
Gross of tax deficit	**(85)**	**(26)**	**(14)**	**47**	**(4)**	**(82)**
Related deferred tax	**22**	**7**	**5**	**(13)**		**21**
Net of tax deficit	**(63)**	**(19)**	**(9)**	**34**	**(4)**	**(61)**

2007	At beginning of year £ million	Pension charge note i £ million	Actuarial and other gains (losses) attributable to shareholders note ii £ million	Contributions paid by shareholder operations £ million	£ million	At end of year £ million

Gross of tax deficit	(99)	(35)	(1)	50	(85)
Related deferred tax	27	8	1	(14)	22
Net of tax deficit	(72)	(27)		36	(63)

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

2006	At beginning of year £ million	Pension charge note i £ million	Actuarial and other gains (losses) attributable to shareholders note ii £ million	Contributions paid by shareholder operations £ million	£ million	At end of year £ million
Gross of tax deficit	(214)	(28)	76	67		(99)
Related deferred tax	61	9	(23)	(20)		27
Net of tax deficit	(153)	(19)	53	47		(72)

Notes

i The pension charge comprises:

	2008 £ million	2007 £ million	2006 £ million
Current service cost	**(19)**	(19)	(69)
Curtailment credit	**14**		
Finance income (expense):			
Interest on pension scheme liabilities	**(39)**	(31)	(255)
Expected return on pension scheme assets	**37**	33	295
	(2)	2	40
Total charge net of finance income	**(7)**	(17)	(29)
Cash cost and unwind of discount on opening provision for deficit funding for PSPS*	**(29)**	(41)	
Less: amount attributable to PAC with-profits fund	**10**	23	1
Pension charge	**(26)**	(35)	(28)

*

Consistent with the derecognition of the Company's interest in the underlying IAS 19 surplus of PSPS, the effect of the accounting policy change on the 2008 and 2007 pension charge is to replace the usual IAS 19 pension charges and credits with the cash cost of contributions for ongoing service of active members. In addition, the charge also includes a charge for the unwind of discount on the opening provision for deficit funding for PSPS. 2006 was the transitional year in which the underlying PSPS financial position moved from a deficit position at the beginning of the year, which continued to be recognized, to a surplus position at the end of the year, which was derecognized under the principles of IFRIC 14. For 2006, the usual IAS 19 pension charges and credits continued to be included. The transitional effect of the adoption of IFRIC 14 in derecognizing the Company's interest in the underlying surplus of PSPS at the end of the year was applied against actuarial and other gains and losses as shown below.

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Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

ii

Actuarial and other gains and losses
This comprises:

	2008 £ million	2007 £ million	2006 £ million
Actuarial gains and losses:			
Actual less expected return on pension scheme assets	**(97)**	4	156
Experience gains (losses) on scheme liabilities	**18**	(4)	18
Changes in assumptions underlying the present value of scheme liabilitiesa	**71**	(7)	311
2006 transitional effect of derecognition of PSPS surplus as a result of adoption of IFRIC 14			(141)
Total actuarial losses (gains)	**(8)**	(7)	344
Less: amount attributable to PAC with-profits fund	**(2)**	6	(225)
	(10)	(1)	119
Other gains and losses:			
Change in the provision for deficit funding for PSPSb	**(13)**		(143)
Less: amount attributable to PAC with-profits fund	**9**		100
	(4)		(43)
Actuarial gains and losses attributable to shareholders, included in profit before tax attributable to shareholdersb	**(14)**	(1)	76

a

The gains of £71 million relating to changes in assumptions comprise the gains due to the effect of an increase in the risk discount rate combined with the effect of decreases in inflation rates.

b

The amounts of actuarial gains and losses shown in the table above for 2008 and 2007 relate to Scottish Amicable, M&G and a small Taiwan defined benefit pension scheme. Consistent with the derecognition of the underlying IAS 19 surplus of PSPS, the amounts in 2008 and 2007 do not include actuarial gains and losses for PSPS. In addition, as a result of the adoption of IFRIC 14, the Group has recognized a provision for deficit funding to April 5, 2010 in respect of PSPS. The change in the period in relation to this provision is recognized above as other gains and losses on defined benefit pension schemes. For 2006, as mentioned above, the transitional effect of the adoption of IFRIC 14 in derecognizing the Company's interest in the underlying surplus of PSPS at the end of the year of

£141 million was applied against actuarial and other gains and losses. In addition, during 2006, following the last financial valuation of PSPS as at April 5, 2005, the Group was committed to a five-year deficit funding arrangement as agreed with the Trustees of the PSPS. At December 31, 2006, the liability for this deficit funding obligation was £143 million.

Since shareholder profits in respect of the PAC with-profits fund are a function of the actuarially determined surplus for distribution, the overall income statement result is not directly affected by the level of pension cost or other expenses attributable to the fund.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

Estimated pension scheme deficit attributable to PAC with-profits fund economic basis

Movements on the pension scheme deficit determined on the 'economic basis' are as follows:

2008	At beginning of year £ million	Pension charge (credit) note i above £ million	Actuarial and other gains (losses) note ii above £ million	Contributions paid by PAC with-profits fund £ million	At end of year £ million
Gross of tax deficit	**(98)**	**(10)**	**(7)**	**48**	**(67)**
Related deferred tax	**10**	**1**	**1**	**(5)**	**7**
Net of tax deficit	**(88)**	**(9)**	**(6)**	**43**	**(60)**

2007	At beginning of year £ million	Pension charge (credit) note i above £ million	Actuarial and other gains (losses) note ii above £ million	Contributions paid by PAC with-profits fund £ million	At end of year £ million
Gross of tax deficit	(120)	(23)	(6)	51	(98)
Related deferred tax	12	2	1	(5)	10
Net of tax deficit	(108)	(21)	(5)	46	(88)

2006	At beginning of year £ million	Pension charge note i above £ million	Actuarial and other gains (losses) note ii above £ million	Contributions paid by PAC with-profits fund £ million	At end of year £ million
Gross of tax deficit	(329)	(1)	125	85	(120)
Related deferred tax	33	0	(13)	(8)	12

Net of tax deficit	(296)	(1)	112	77	(108)

The pension charges and credits which comprise service costs less net finance income for the Scottish Amicable Scheme and the cash costs and unwind of discount on pension provision for deficit funding for PSPS, and actuarial and other gains and losses are included within the income statement but also taken account of in determining the charge in the income statement for the transfer to the liability for unallocated surplus of with-profits funds.

(ii) Other pension plans

The Group operates various defined contribution pension schemes including schemes in Jackson and Asia. As noted earlier, the cost of the Group's contributions for continuing operations to these schemes in 2008 was £31 million (2007: £28 million; 2006: £22 million).

I2: Share-based payments

The Group maintains 12 main share award and share option plans relating to Prudential plc shares, which are described below.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

The Group Performance Share Plan (GPSP) is the incentive plan in which all executive directors and other senior executives within the Group can participate. This scheme was established as a replacement for the Restricted Share Plan (RSP) under which no further awards could be made after March 2006. Awards are granted either in the form of a nil cost option, conditional right over shares, or such other form that shall confer to the participant an equivalent economic benefit, with a vesting period of three years. The performance measure for the awards is that Prudential's Total Shareholder Return (TSR) outperforms an index comprising of peer companies. Vesting of the awards between each performance point is on a straight line sliding scale basis. Participants are entitled to the value of reinvested dividends that would have accrued on the shares that vest. Shares are currently purchased in the open market by a trust for the benefit of qualifying employees.

The RSP was, until March 2006, the Group's long-term incentive plan for executive directors and other senior executives designed to provide rewards linked to shareholder return. Each year participants were granted a conditional option to receive a number of shares. There was a deferment period of three years at the end of which the award vested to an extent that depended on the performance of the Group's shares including notional reinvested dividends and on the Group's underlying financial performance. After vesting, the option may be exercised at zero cost at any time, subject to closed period rules, in the balance of a 10-year period. Shares are purchased in the open market by a trust for the benefit of qualifying employees. The RSP replaced the Executive Share Option Scheme in 1995 and all options under this plan had been exercised at December 31, 2005.

No rights were granted in the RSP if the Company's TSR performance as ranked against the comparator group is below 50th percentile. For performance at 50th percentile, an option of 25 per cent of the maximum award is made. The maximum grant is made only if the TSR ranking of the Company is 20th percentile or above. Between these points, the size of the grant of option made is calculated on a straight line sliding scale.

The BUPP is an incentive plan created to provide a common framework under which awards would be made to senior employees and in the UK, Jackson and Asia include the Chief Executive Officers. Awards under this plan in 2007 and 2008 were based on growth in Shareholder Capital Value on the European Embedded Value (EEV) basis with performance measured over three years. Upon vesting, half of the vested award is released as shares and the other half released in cash. Participants are entitled to receive the value of reinvested dividends over the performance period for those shares that vest. The growth parameters for the awards are relevant to each region and vesting of the awards between each performance point is on a straight line sliding scale basis.

UK-based executive directors are eligible to participate in the Prudential HM Revenue & Customs (HMRC) approved UK Savings Related Share Option Scheme (SAYE scheme) and the Asia-based executive directors can participate in the equivalent International SAYE scheme. The schemes allow employees to save towards the exercise of options over Prudential plc shares, at an option price set at the beginning of the savings period at a discount of up to 20 per cent to the market price. Savings contracts may be up to £250 per month for three or five years, or additionally in the UK scheme seven years. On maturity at the end of the set term, participants may exercise their options within six months of the end of the savings period and purchase Prudential plc shares. If an option is not exercised within six months, participants are entitled to a refund of their cash contributions plus interest if applicable under the rules. Shares are issued to satisfy options that are exercised. No options may be granted

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

under the schemes if the grant would cause the number of shares which have been issued, or which remain issuable pursuant to options granted in the preceding 10 years under the scheme and other share option schemes operated by the Company, or which have been issued under any other share incentive scheme of the Company, to exceed 10 per cent of the Company's ordinary share capital at the proposed date of grant.

UK-based executive directors are also eligible to participate in the Company's HMRC approved Share Incentive Plan which allows all UK-based employees to purchase shares of Prudential plc (partnership shares) on a monthly basis out of gross salary. For every four partnership shares bought, an additional matching share is awarded, purchased on the open market. Dividend shares accumulate while the employee participates in the plan. Partnership shares may be withdrawn from the scheme at any time. If the employee withdraws from the plan within five years, the matching shares are forfeit and if within three years, dividend shares are forfeit.

Jackson operates a performance-related share award which, subject to the prior approval of the Jackson Remuneration Committee, may grant share awards to eligible Jackson employees in the form of a contingent right to receive shares or a conditional allocation of shares. These share awards have vesting periods of four years and are at nil cost to the employee. Award holders do not have any right to dividends or voting rights attaching to the shares. The shares are held in the employee share trust in the form of American Depository Receipts which are tradable on the New York Stock Exchange.

The new Prudential Corporation Asia Long-Term Incentive Plan (PCA LTIP) is an incentive plan for senior employees and Chief Executive Officers replacing the Asia Business Unit Performance Plan (BUPP). Awards under the new PCA LTIP will vest after three years subject to the employee being in employment at the time of vesting without any performance conditions. Awards will be discretionary and on a year by year basis determined by Prudential's full year financial results and the employee's contribution to the business. All awards will be in Prudential shares except for countries where share awards are not feasible due to securities and/or tax reasons, where awards will be replaced by the cash value of the shares that would otherwise have been transferred.

Certain senior executives have annual incentive plans with awards paid in cash up to the target level of their plan. The portion of any award for above target performance is made in the form of awards of shares deferred for three years, with the release of shares subject to close periods. The shares are held in the employee share trust and shares equivalent to dividends otherwise payable will accumulate for the benefit of award holders during the deferral period up to the release date.

In addition, there are other share awards which included the 1,000 Day Long Term Incentive Plan (LTIP) and other arrangements.

The 1,000 Day LTIP plan was a UK insurance operations performance-based plan in which the UK Remuneration Committee could, at any time up to October 5, 2005, select employees at its absolute discretion, for participation in the plan. The performance period was 1,000 days and, based on the final performance level being at, or above, the threshold level, the committee shall grant participants 10 per cent of the allocated award in 2005, 20 per cent in 2006 and the remaining 70 per cent in 2007. There are no beneficial interests, or any rights to dividends until such time as the awards are released, at nil cost, to participants. There are no outstanding shares awarded through this scheme.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

The PruCap Business Deferred Bonus Plan is an incentive plan for senior employees of Prudential Capital which was adopted in 2007, where a portion of their bonus award is made in the form of awards of shares deferred over a set period, with the release of shares subject to close periods. The shares are held in the employee share trust and shares equivalent to dividends otherwise payable will accumulate for the benefit of award holders during the deferral period up to the release date.

In March 2009 the Prudential Deferred Bonus Plan 2009 was introduced in Asia. This is a plan for senior employees based in Asia where a percentage of their bonus will be made in the form of a deferred bonus award, with the release of shares subject to close periods, and a possible matching award given by Prudential to the participant. Shares equivalent to dividends otherwise payable will accumulate for the benefit of award holders during the deferral period to the release date.

The other arrangements relate to various awards that have been made without performance conditions to individual employees, typically in order to secure their appointment or ensure retention.

Movements in share options outstanding under the Group's share-based compensation plans relating to Prudential plc shares during 2008, 2007 and 2006 were as follows:

	2008		**2007**		**2006**	
Options outstanding (including conditional options)	**Number of option (millions)**	**Weighted average exercise price £**	**Number of options (millions)**	**Weighted Average Exercise price £**	**Number of options (millions)**	**Weighted average exercise price £**
Beginning of year:	**14.5**	**2.57**	16.5	2.47	17.2	2.23
Granted	**6.9**	**3.28**	4.0	2.69	7.7	2.96
Exercised	**(3.5)**	**2.73**	(1.9)	3.42	(5.1)	2.75
Forfeited	**(1.5)**	**0.69**	(1.4)	1.37	(1.2)	0.85
Expired	**(3.7)**	**4.94**	(2.7)	2.13	(3.1)	4.09
Adjustment in respect of Egg's employees					1.0	3.64
End of year	**12.7**	**2.44**	14.5	2.57	16.5	2.47
Options immediately exercisable, end of year	**0.6**	**2.29**	0.2	3.35	0.2	3.56

The weighted average share price of Prudential plc for the year ended December 31, 2008 was £5.46 compared to £7.15 for the year ended December 31, 2007 and compared to £6.25 for the year ended December 31, 2006.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

Movements in share awards outstanding under the Group's share-based compensation plans relating to Prudential plc shares at December 31, 2008, 2007 and 2006 were as follows:

	2008 Number of awards (millions)	2007 Number of awards (millions)	2006 Number of awards (millions)
Awards outstanding			
Beginning of year:	**8.0**	6.6	4.9
Granted	**3.5**	3.8	3.2
Exercised	**(1.7)**	(1.3)	(1.0)
Forfeited	**(0.9)**	(1.1)	(0.5)
Expired	**(0.3)**		
End of year	**8.6**	8.0	6.6

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at December 31, 2008.

	Outstanding			Exercisable	
Range of exercise prices	Number outstanding (millions)	Weighted average remaining contractual life (years)	Weighted average exercise prices £	Number exercisable (millions)	Weighted average exercise prices £
Between £0 and £1	**5.9**	**8.3**		**0.3**	
Between £1 and £2					
Between £2 and £3	**0.3**	**1.7**	**2.66**	**0.0**	**2.66**
Between £3 and £4	**0.5**	**1.4**	**3.56**	**0.0**	**3.65**
Between £4 and £5	**4.6**	**3.3**	**4.45**	**0.3**	**4.07**
Between £5 and £6	**1.4**	**2.8**	**5.59**		
Between £6 and £7	**0.0**	**0.4**	**6.17**	**0.0**	**6.17**
Between £7 and £8					
	12.7	**5.5**	**2.44**	**0.6**	**2.29**

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I: Other notes (Continued)

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at December 31, 2007.

	Outstanding			Exercisable	
Range of exercise prices	**Number outstanding (millions)**	**Weighted average remaining contractual life (years)**	**Weighted average exercise prices £**	**Number exercisable (millions)**	**Weighted average exercise prices £**
Between £0 and £1	5.5	8.6			
Between £1 and £2					
Between £2 and £3	2.7	1.3	2.66		
Between £3 and £4	1.2	1.7	3.62	0.2	3.37
Between £4 and £5	2.9	2.7	4.62		
Between £5 and £6	2.2	3.5	5.62		
Between £6 and £7		0.9	6.55		6.95
Between £7 and £8					
	14.5	4.7	2.57	0.2	3.35

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at December 31, 2006.

	Outstanding			Exercisable	
Range of exercise prices	**Number outstanding (millions)**	**Weighted average remaining contractual life (years)**	**Weighted average exercise prices £**	**Number exercisable (millions)**	**Weighted average exercise prices £**
Between £0 and £1	5.7	8.6			
Between £1 and £2					
Between £2 and £3	3.2	2.3	2.66		2.66
Between £3 and £4	3.1	2.0	3.52	0.2	3.62
Between £4 and £5	3.8	3.6	4.60		
Between £5 and £6	0.7	3.3	5.63		5.79
Between £6 and £7		0.6	6.41		6.34
Between £7 and £8		0.9	7.15		
	16.5	4.8	2.47	0.2	3.56

The years shown above for weighted average remaining contractual life include the time period from end of vesting period to expiration of contract.

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Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

The weighted average fair values of Prudential plc options and awards granted during the period are as follows:

2008 Weighted average fair value			2007 Weighted average fair value			2006 Weighted average fair value		
GPSP	Other options	Awards	RSP and GPSP	Other options	Awards	RSP and GPSP	Other options	Awards
£	£	£	£	£	£	£	£	£
4.16	**2.14**	**5.69**	4.78	2.55	7.33	4.30	2.05	6.46

The fair value amounts relating to all options including conditional nil cost options above were determined using the Black-Scholes and the Monte Carlo option-pricing models using the following assumptions:

	2008		2007		2006	
	GPSP	Other options	RSP and GPSP	Other options	RSP and GPSP	Other options
Dividend yield (%)	**3.60**	**3.60**	2.32	2.32	2.64	2.64
Expected volatility (%)	**30.87**	**34.67**	28.90	27.17	25.48	34.32
Risk-free interest rate (%)	**4.23**	**4.46**	5.46	5.25	4.68	4.70
Expected option life (years)	**3.00**	**3.74**	3.00	3.48	3.00	3.42
Weighted average exercise price (£)		**4.74**		5.62		5.06
Weighted average share price (£)	**6.63**	**6.16**	7.52	7.47	6.80	6.51

Under IFRS, compensation costs for all share-based compensation plans are determined using the Black-Scholes model and the Monte Carlo model. Share options and awards are valued using the share price at the date of grant. The compensation costs for all awards and options are recognized in net income over the plans' respective vesting periods. The Group uses the Black-Scholes model to value all options and awards other than the GPSP, for which the Group uses a Monte Carlo model in order to allow for the impact of the TSR performance conditions. These models are used to calculate fair values for share options and awards at the grant date based on the quoted market price of the stock at the measurement date, the amount, if any, that the employees are required to pay, the dividend yield, expected volatility, risk-free interest rates and exercise prices.

The expected volatility is measured as the standard deviation of expected share price returns based on statistical analysis of daily share prices over a period up to the grant date equal to the expected life of options. Risk-free interest rates are UK gilt rates with projections for three, five and seven year terms to match corresponding vesting periods. Dividend yield is determined as the average yield over the year of grant and expected dividends are not incorporated into the measurement of fair value. For the GPSP, volatility and correlation between Prudential and an index constructed from a simple average of the TSR growth of 11 companies is required. For grants in 2008, an average index volatility and correlation of 26 per cent and 82 per cent respectively, were used.

When options are granted or awards made to employees, an estimate is made of what percentage is more than likely to vest, be forfeited, lapse or cancelled based on historical information. Based on these estimates, compensation expense to be accrued at that date is calculated and amortized over the vesting

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Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

period. For early exercises of options or release of awards due to redundancy, death or resignation, the compensation expense is immediately recognized and for forfeitures due to employees leaving the Group, any previously recognized expense is reversed. However, if an employee loses their award because of the Group's failure to meet the performance criteria, previously recognized expense is not reversed.

During the year, the Group granted share options to certain non-employee independent financial advisors. Those options were measured using the Black-Scholes option pricing model with assumptions consistent with those of other share options. These transactions were measured using an option model because the Group does not receive a separate and measurable benefit from those non-employees in exchange for the options granted. As such, the fair value of the options themselves is more readily determinable than the services received in return.

(c) Total share-based payment expense

Total expense recognized in the year in the consolidated financial statements related to share-based compensation is as follows:

	2008 £ million	2007 £ million	2006 £ million
Share-based compensation expense	**23**	28	22
Amount accounted for as equity-settled	**27**	19	14
Carrying value at December 31, of liabilities arising from share-based payment transactions	**12**	18	18
Intrinsic value of above liabilities for which rights had vested at December 31,	**4**	4	3

I3: Key management remuneration

Key management constitutes the directors of Prudential plc as they have authority and responsibility for planning, directing and controlling the activities of the Group.

Total key management remuneration amounts to £18,122,000 (2007: £15,670,000; 2006: £13,524,000). This comprises salaries and short-term benefits of £10,425,000 (2007: £9,496,000; 2006: £8,927,000) post-employment benefits of £1,003,000 (2007: £967,000; 2006: £1,020,000), leaving benefits of £507,000 (2007: £nil; 2006: £291,000) and share-based payments of £6,187,000 (2007: £5,207,000; 2006: £3,286,000).

Post-employment benefits comprise the change in the transfer value of the accrued benefit relating to directors' defined benefit pension schemes in the year and the total contributions made to directors' other pension arrangements.

The share-based payments charge is the sum of £4,624,000 (2007: £3,456,000; 2006: £1,880,000), which is determined in accordance with IFRS 2, 'Share-Based Payments' (see note I2) and £1,563,000 (2007: £1,751,000; £2006: £1,406,000) of deferred share awards.

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Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

Total key management remuneration includes total directors' emoluments of £12,683,000 (2007: £11,959,000; 2006: £11,804,000) as shown in Item 6 'Directors, Senior Management and Employees' and additional amounts in respect of pensions and share-based payments.

I4: Fees payable to auditor

	2008 £ million	2007 £ million	2006 £ million
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**1.6**	1.8	2.3
Fees payable to the Company's auditor and its associates for other services:			
Audit of subsidiaries and associates pursuant to legislation	**5.0**	4.4	3.8
Other services supplied pursuant to legislation	**2.4**	2.9	4.0
Other services relating to taxation	**0.6**	0.4	0.2
Valuation and actuarial services	**0.7**	0.7	0.0
Services relating to corporate finance transactions		0.2	0.7
All other services	**0.5**	1.0	1.3
Total	**10.8**	11.4	12.3

In addition, there were fees incurred of £0.2 million (2007: £0.2 million; 2006: £0.2 million) for the audit of pension schemes.

The Audit Committee regularly monitors the non-audit services provided to the Group by its auditor and has developed a formal Auditor Independence Policy which sets out the types of services that the auditor may provide, consistent with the guidance in Sir Robert Smith's report 'Audit Committees Combined Code Guidance' and with the provisions of the US Sarbanes-Oxley Act.

The Audit Committee annually reviews the auditor's objectivity and independence.

I5: Related party transactions

Transactions between the Company and its subsidiaries are eliminated on consolidation.

In addition, the Company has transactions and outstanding balances with certain unit trusts, OEICs, collateralized debt obligations and similar entities which are not consolidated and where a Group company acts as manager. These entities are regarded as related parties for the purposes of IAS 24. The balances are included in the Group's balance sheet at fair value or amortized cost in accordance with their IAS 39 classifications. The transactions are included in the income statement and include amounts paid on issue of shares or units, amounts received on cancellation of shares or units and paid in respect of the periodic charge and administration fee. Further details of the aggregate assets, liabilities, revenues, profits or losses and reporting dates of entities considered to be associates under IFRS are disclosed in note H8.

Executive officers and directors of the Company may from time to time purchase insurance, asset management or annuity products marketed by Group companies in the ordinary course of business on

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

substantially the same terms as those prevailing at the time for comparable transactions with other persons.

Apart from the transactions with directors referred to below, no director had interests in shares, transactions or arrangements that require disclosure, other than those given in Item 6 'Directors, Senior Management and Employee'. Key management remuneration is disclosed in note I3.

In 2007, prior to disposal, three directors (2006: three) had credit cards with the discontinued banking operations. In 2008 and 2007, other transactions with directors were de-minimis both by virtue of their size and in the context of the directors' financial positions. As indicated above, all of these transactions are on terms broadly equivalent to those that prevail in arm's length transactions.

I6: Subsidiary undertakings

(i) Principal subsidiaries

The principal subsidiary undertakings of the Company at December 31, 2008, all wholly owned except PCA Life Assurance Company Limited, were:

	Main activity	Country of incorporation
The Prudential Assurance Company Limited	Insurance	England and Wales
Prudential Annuities Limited*	Insurance	England and Wales
Prudential Retirement Income Limited (PRIL)*	Insurance	Scotland
M&G Investment Management Limited*	Asset management	England and Wales
Jackson National Life Insurance Company*	Insurance	US
Prudential Assurance Company Singapore (Pte) Limited*	Insurance	Singapore
PCA Life Assurance Company Limited* (99% owned)	Insurance	Taiwan

* Owned by a subsidiary undertaking of the Company.

Each subsidiary has one class of ordinary shares and operates mainly in its country of incorporation, except for PRIL which operates mainly in England and Wales.

On February 20, 2009, the Company 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. Further details are set out in note I10.

(ii) Dividend restrictions and minimum capital requirements

Certain Group subsidiaries are subject to restrictions on the amount of funds they may transfer in the form of cash dividends or otherwise to the parent company. UK insurance companies are required to maintain solvency margins which must be supported by capital reserves and other resources, including unrealized gains on investments. Jackson can pay dividends on its capital stock only out of earned surplus unless prior

regulatory approval is obtained. Furthermore, without the prior regulatory approval, dividends cannot be distributed if all dividends made within the preceding 12 months exceed the greater of Jackson's statutory net gain from operations or 10 per cent of Jackson's statutory surplus for

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

the prior year. In 2009, the maximum amount of dividends that can be paid by Jackson without prior regulatory approval is US$290 million (£202 million) (in 2008: US$490 million (£246 million)). The Group's Asian subsidiaries, mainly the Singapore and Malaysia businesses, may remit dividends to the Group, in general, provided the statutory insurance fund meets the capital adequacy standard required under local statutory regulations.

PAC and Jackson are the two principal insurance subsidiaries of the Group, which together comprise approximately 77 per cent (2007: 78 per cent) of total Group assets. At December 31, 2008, the PAC long-term fund's excess of available capital resources over its regulatory requirement (as per line 42 of Form 2 of the PAC FSA regulatory returns) was estimated to be £4.7 billion (2007: £10.5 billion) and the statutory capital and surplus of Jackson was US$3 billion (£2 billion) (2007: US$4.0 billion (£2.0 billion)). The Group capital position statement for life assurance businesses is set out in note D5.

(iii) Acquisition and disposal of subsidiaries

2007

On May 1, 2007, the Company completed the sale of Egg Banking plc to Citi. Additional details regarding the disposal are set out in note I9.

On November 9, 2007, the Company completed the sale of PPM Capital, its direct private equity business.

2008

There were no acquisitions or disposals of subsidiaries during the year. Subsequent to the year end, on February 20, 2009, the Company 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, subject to regulatory approval. Additional details regarding this transfer are set out in note I10.

(iv) PAC with-profits fund acquisitions and disposals

The PAC with-profits fund acquired a number of venture capital holdings through PPM Capital and M&G. Prior to November 2007, the Group was deemed to have a controlling interest in these venture capital holdings, in aggregate with, if applicable, other holdings held by, for example, the Prudential Staff Pension Scheme. In November 2007, the Group disposed of PPM Capital following which the Group no longer had a controlling interest in venture fund investment subsidiaries that it managed and consequently ceased to consolidate these investments from that date. The Group continues to consolidate, where applicable, the venture capital holdings managed by M&G.

2007

The acquisitions made in 2007 were as follows:

71 per cent of the voting equity interest of Orizon AG, an employment hiring agency, which was managed by PPM Capital; and

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

78 per cent of the voting equity interest of Red Funnel, a ferry company, which was managed by M&G.

These acquisitions are considered individually immaterial and therefore all information relating to the acquisitions has been presented in aggregate in this note.

The results of the acquisitions have been included in the consolidated financial statements of the Group and contributed a loss of £8.3 million to earnings within the income statement.

The table below identifies the net assets of these acquisitions and minor business purchases by existing venture holdings and reconciles the net assets to the consideration paid:

	Fair value on acquisition 2007 £ million
Cash and cash equivalents	20
Other current assets	26
Property, plant and equipment	38
Intangible assets other than goodwill	1
Other non-current assets	3
Less liabilities, including current liabilities and borrowings	(304)
Net assets acquired	(216)
Goodwill	313
Cash consideration	97

Aggregate goodwill of £313 million was recognized for the excess of the cost over the Group's interest in the net fair value of the entities' assets, liabilities, and contingent liabilities acquired.

Following the disposal of PPM Capital, SUSPA, TJ Hughes, Sterigenics, Muller & Weygandt, TMF Group, JOST, Histoire D'or, Azzuri Communications, Paramount plc and Orizon AG ceased to be consolidated as subsidiary undertakings and goodwill and other intangible assets, net of amortization, relating to these investments were derecognized accordingly.

2008

There were no new acquisitions or disposals of venture capital investments in 2008. However, during the year, the holding in the voting equity interest of Red Funnel increased from 78 per cent to 90 per cent.

I7: Commitments

(i) Operating leases

The Group leases various offices to conduct its business. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

	2008 £ million	2007 £ million	2006 £ million
Future minimum lease payments for non-cancellable operating leases fall due during the following periods:			
Not later than 1 year	**86**	38	53
Later than 1 year and not later than 5 years	**199**	126	142
Later than 5 years	**140**	111	160

The total minimum future sublease rentals to be received on non-cancellable operating leases for land and buildings for the year ended December 31, 2008 was £0.2 million (2007: £0.4 million; 2006:£1 million).

Minimum lease rental payments for the year ended December 31, 2008 of £84 million (2007: £50 million; 2006: £50 million) are included in the consolidated income statement.

(ii) Capital commitments

The Group has provided, from time to time, certain guarantees and commitments to third-parties including funding the purchase or development of land and buildings and other related matters. At December 31, 2008, the aggregate amount of contractual obligations to purchase and develop investment properties amounted to £1 million (2007: £64 million).

I8: Cash flows

Structural borrowings of shareholder-financed operations comprise core debt of the parent company and Jackson surplus notes. Core debt excludes borrowings to support short-term fixed income securities programs and non-recourse borrowings of investment subsidiaries and consolidated investment funds of shareholder-financed operations and other borrowings. Cash flows in respect of these borrowings are included within cash flows from operating activities.

Structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds which contribute to the solvency base of SAIF. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds are also included within cash flows from operating activities.

Cash flows relating to discontinued operations, as detailed in note I9, are inflows of £157 million for the period of ownership in 2007. All of these related to cash flows from operating activities except for an outflow of £33 million in 2006 which related to financing activities.

I9: Discontinued banking operations

Discontinued banking operations in 2007 and 2006 related entirely to UK banking operations following the sale on May 1, 2007 of Egg Banking plc to Citi. Consideration paid to the Company was, net of expenses, £527 million cash. Cash and cash equivalents disposed of in 2007 were £1,065 million.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

Accordingly, the cash outflow for the Group in 2007 arising from the disposal of Egg, as shown in the consolidated cash flow statement, was £538 million.

The profit included in the 2007 and 2006 income statement in respect of discontinued banking operations for the period of ownership was as follows:

	2007 £ million	2006 £ million
Interest income	261	783
Interest expense	(148)	(453)
Net interest income	113	330
Fee and commission income	41	153
Fee and commission expense	(8)	(23)
Other operating income		15
Operating income	146	475
General administrative expenses	(56)	(192)
Impairment losses on loans and cash advances to customers	(149)	(384)
Other operating expenses	(9)	49)
Profit on sale of Egg Banking plc	290	
Profit before tax	222	(150)
Tax attributable to shareholders' profits	19	45
Profit for the year	241	(105)

The interest income on financial assets not at fair value through profit and loss for the period of ownership in 2007 was £241 million (2006: £769 million). The interest expense on financial liabilities not at fair value through profit and loss for the period of ownership in 2007 was £148 million (2006: £428 million).

Fee and commission income in 2007 includes £27 million (2006: £83 million) relating to financial instruments held at amortized cost. These fees primarily related to balance transfer fees and late payment fees. Fee and commission expense in 2007 includes fee expenses relating to financial liabilities held at amortized cost of £4 million (2006: £13 million) which related to treasury fees.

Of the loss for the period of ownership in 2007 and 2006, a loss of £nil and a loss of £2 million, respectively was attributable to minority interests in Egg.

I10: Post balance sheet events

(i) Intended sale of legacy agency book and agency force in Taiwan to China Life Insurance of Taiwan

On February 20, 2009, the Company announced that it had entered into an agreement to sell the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan ('China Life') for the nominal sum of NT$1, subject to regulatory approval.

Prudential plc and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2008

I: Other notes (Continued)

In addition, the Company will invest £45 million to purchase a 9.95 per cent stake in China Life through a share placement. The business to be transferred represents 94 per cent of Prudential's in-force liabilities in Taiwan and includes its legacy interest rate guaranteed products with IFRS basis gross assets at December 31, 2008 of £4.5 billion. After taking account of IFRS shareholders' funds of the business at December 31, 2008 and restructuring and other costs, the Group's IFRS shareholders' funds are expected to decrease by approximately £595 million. In addition, on completion there will be a net increase in the Company's Insurance Groups Directive surplus of approximately £800 million.

The movement in shareholders' IFRS equity of the total Taiwan life business for 2008 comprised:

	£ million
Loss before tax	(8)
Total tax	(8)
Loss for the financial year	(16)
Minority interests	
Investments by Parent Company*	93
Exchange and other reserve movements	111
Net movement	188
Equity brought forward at January 1, 2008	289
Equity carried forward at December 31, 2008	477

* Comprising £66 million for solvency capital and £27 million for business development.

The carrying value of the IFRS equity reflects the application of 'grandfathered' US GAAP under IFRS. This does not, and is not designed to include the cost of holding economic capital, to support the legacy interest rate guaranteed products as recognized under the Company's supplementary reporting basis under European Embedded Value principles.

(ii) Insurance Groups Directive Group solvency position

The IGD group solvency position as at December 31, 2008 was submitted to the FSA on April 30, 2009. The FSA has, after the year end, allowed the Group to include an additional £0.3 billion in the Group's IGD surplus going forward as a result of an innovative structure the Group has developed. The £0.3 billion additional capital reflects the ability to realize a portion of the shareholders' economic interest in the future transfers from the PAC with-profits fund.

In May 2009, the Group has taken advantage of recent improvements in debt markets and raised £0.4 billion from a hybrid debt placement (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.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE CONDENSED FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Shareholders of Prudential plc

Under date of May 18, 2009, we reported on the consolidated balance sheets of Prudential plc ("the Company") and its subsidiaries (collectively, "the Group") as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2008, prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), which are included herein. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related condensed financial statement schedule included herein and appearing on pages S-3 to S-12, which has been prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"). This condensed financial statement schedule is the responsibility of the Group's management. Our responsibility is to express an opinion on this schedule based on our audits.

In our opinion, such condensed financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Accounting principles under UK GAAP vary in certain significant respects from IFRS as issued by the IASB. Information relating to the nature and effect of such differences is presented in note 3 to this condensed financial statement schedule.

Our report on the consolidated financial statements of the Company refers to the adoption of IFRIC 14, 'IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*' which provides guidance on the recognition of surpluses in, and funding obligations for, defined benefit pension schemes.

May 18, 2009 By: /s/ KPMG AUDIT PLC

KPMG Audit Plc
London, England

SCHEDULE II

CONDENSED FINANCIAL INFORMATION OF REGISTRANT PRUDENTIAL plc

PROFIT AND LOSS ACCOUNTS (UK GAAP BASIS)

Years ended December 31

	2008	2007	2006
	(In £ Millions)		
Investment income	**1,060**	638	1,499
Investment expenses and charges	**(591)**	(509)	(771)
Other charges:			
Corporate expenditure	**(97)**	(81)	(60)
Provision against loans	**(17)**	(30)	(62)
Foreign currency exchange (losses) gains	**(104)**	2	259
Profit on ordinary activities before tax	**251**	20	865
Tax credit (charge) on profit on ordinary activities	**235**	(37)	(31)
Profit (loss) for the financial year	**486**	(17)	834

The accompanying notes are an integral part of this condensed financial information

SCHEDULE II

CONDENSED FINANCIAL INFORMATION OF REGISTRANT PRUDENTIAL plc

BALANCE SHEETS (UK GAAP BASIS)

December 31

	2008	2007*
	(In £ Millions)	
Fixed assets		
Investments:		
Shares in subsidiary undertakings	**7,193**	7,170
Loans to subsidiary undertakings	**3,212**	2,809
	10,405	9,979
Current assets		
Debtors:		
Derivative assets	**267**	10
Amounts owed by subsidiary undertakings	**1,986**	3,291
Deferred tax	**111**	
Other debtors	**11**	25
Cash at bank and in hand	**102**	178
	2,477	3,504
Less liabilities: amounts falling due within one year		
Debenture loans	**(249)**	
Commercial paper	**(1,269)**	(2,422)
Other borrowings	**(200)**	(48)
Derivative liabilities	**(235)**	(144)
Amounts owed to subsidiary undertakings	**(3,341)**	(2,455)
Tax payable	**(311)**	(332)
Sundry creditors	**(19)**	(6)
Accruals and deferred income	**(44)**	(44)
	(5,668)	(5,451)
Net current liabilities	**(3,191)**	(1,947)
Total assets less current liabilities	**7,214**	8,032
Less liabilities: amounts falling due after more than one year		
Subordinated liabilities	**(1,983)**	(1,566)
Debenture loans	**(549)**	(797)
Other borrowings	**(9)**	(7)
Amounts owed to subsidiary undertakings	**(1,464)**	(2,643)
	(4,005)	(5,013)
Total net assets (excluding pension)	**3,209**	3,019
Pension asset (net of related deferred tax)	**36**	117
Total net assets (including pension)	**3,245**	3,136
Capital and reserves		
Share capital	**125**	123
Share premium	**1,840**	1,828

Profit and loss account	**1,280**	1,185
Shareholders' funds	**3,245**	3,136

*

The parent company has adopted the principles of UITF 44 in accounting for share-based payments, with consequential changes to the 2007 comparative figures. Note 1 explains the effect of the change.

The accompanying notes are an integral part of this condensed financial information

SCHEDULE II

CONDENSED FINANCIAL INFORMATION OF REGISTRANT PRUDENTIAL plc

STATEMENT OF TOTAL RECOGNIZED GAINS AND LOSSES (UK GAAP BASIS)

Years ended December 31

	2008	2007	2006
	(In £ Millions)		
Profit (loss) for the financial year	**486**	(17)	834
Actuarial (losses) gains recognized in respect of the pension scheme (net of related deferred tax)	**(103)**	66	83
Reserve movements in respect of share-based payments*	**9**	5	5
Total recognized gains relating to the financial year*	**392**	54	922
Effect of the adoption of UITF 44 in respect of prior years*	**19**		
Total gains recognized since last report	**411**		

*

The parent company has adopted the principles of UITF 44 in accounting for share-based payments, with consequential changes to 2007 and 2006 comparative figures. Note 1 explains the effect of this change.

The accompanying notes are an integral part of this condensed financial information

SCHEDULE II

CONDENSED FINANCIAL INFORMATION OF REGISTRANT PRUDENTIAL plc

STATEMENT OF TOTAL RECOGNIZED GAINS AND LOSSES (UK GAAP BASIS) (Continued)

Years ended December 31

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' CAPITAL AND RESERVES (UK GAAP BASIS)

	Number of Ordinary Shares (In Millions)	Ordinary Share Capital	Share Premium	Retained Profit and Loss Reserve	Total
			(In £ Millions)		
January 1, 2006, as previously reported	2,387	119	1,564	774	2,457
Effect of the adoption of UITF 44 in respect of prior years*				9	9
January 1, 2006, as adjusted*	2,387	119	1,564	783	2,466
Total recognized gains relating to 2006				922	922
Dividends				(398)	(398)
New share capital subscribed	57	3	333		336
Transfer for shares issued in lieu of cash dividends			(75)	75	
January 1, 2007, as previously reported	2,444	122	1,822	1,368	3,312
Effect of the adoption of UITF 44 in respect of prior years*				14	14
January 1, 2007, as adjusted*	2,444	122	1,822	1,382	3,326
Total recognized gains relating to 2007				54	54
Dividends				(426)	(426)
New share capital subscribed	26	1	181		182
Transfer for shares issued in lieu of cash dividends			(175)	175	
January 1, 2008, as previously reported	**2,470**	**123**	**1,828**	**1,166**	**3,117**
Effect of the adoption of UITF 44 in respect of prior years*				19	19
January 1, 2008, as adjusted*	**2,470**	**123**	**1,828**	**1,185**	**3,136**
Total recognized gains relating to 2008				**392**	**392**
Dividends				**(453)**	**(453)**
New share capital subscribed	**27**	**2**	**168**		**170**
Transfer for shares issued in lieu of cash dividends			**(156)**	**156**	
December 31, 2008	**2,497**	**125**	**1,840**	**1,280**	**3,245**

* The parent company has adopted the principles of UITF 44 in accounting for share-based payments, with consequential changes to the 2007 and 2006 comparative figures. Note 1 explains the effect of the change.

The accompanying notes are an integral part of this condensed financial information

SCHEDULE II

CONDENSED FINANCIAL INFORMATION OF REGISTRANT PRUDENTIAL plc

STATEMENTS OF CASH FLOWS (UK GAAP BASIS)

Years ended December 31

	2008	2007	2006
	(In £ Millions)		
Operations			
Net cash inflow from operating activities before interest and tax	**1,248**	591	1,509
Interest paid	**(422)**	(380)	(344)
Taxes recovered	**88**	15	122
Acquisitions and disposals			
Investment in shares in subsidiary undertakings	**(27)**	(1,792)	(35)
Disposal of Egg Banking plc		527	
Net cash outflow from acquisitions and disposals	**(27)**	(1,265)	(35)
Equity dividends paid	**(295)**	(250)	(323)
Net cash inflow (outflow) before financing	**592**	(1,289)	929
Financing			
Issue of ordinary share capital	**12**	6	15
Issue of borrowings, net of repayment	**200**	0	(1)
Movement in commercial paper and other borrowings to support a short-term fixed income securities reinvestment program	**(1,199)**	446	560
Movement in net amount owed by subsidiary undertakings	**319**	760	(1,369)
Net cash inflow (outflow) from financing	**(668)**	1,212	(795)
Net cash (outflow) inflow for the year	**(76)**	(77)	134
Reconciliation of profit on ordinary activities before tax to net cash inflow from operating activities			
Profit on ordinary activities before tax	**251**	20	865
Add back: interest charged	**550**	440	463
Adjustments for non-cash items:			
Fair value adjustments on derivatives	**35**	18	7
Pension scheme	**(29)**	(24)	(41)
Foreign currency exchange movements	**397**	59	(152)
Provisions against investments and loans	**17**	30	363
Loss on sale of Egg		51	
Decrease (increase) in debtors	**14**	17	14
Increase (decrease) in creditors	**13**	(20)	(10)
Net cash inflow from operating activities	**1,248**	591	1,509

The accompanying notes are an integral part of this condensed financial information

SCHEDULE II

CONDENSED FINANCIAL INFORMATION OF REGISTRANT PRUDENTIAL plc

NOTES TO THE CONDENSED FINANCIAL STATEMENT SCHEDULE

December 31, 2008

1 Accounting policies

The financial statements of the parent company are prepared in accordance with applicable accounting standards under UK Generally Accepted Accounting Practice (UK GAAP), including Financial Reporting Standards (FRS) and Statements of Standard Accounting Practice (SSAP). This is in line with the parent company's UK statutory basis of reporting.

Changes in accounting policies

UITF 44, 'Group and Treasury Share Transactions' which is an interpretation of FRS 20, 'Share-based Payment' became effective in 2008. Where a parent company grants the options or awards of its equity instruments to employees of its subsidiary, and such share-based compensation is accounted for as equity-settled in the consolidated financial statements, UITF 44 requires the subsidiary to record a compensation expense with a corresponding increase in equity as a capital contribution equal to the value of the share-based payment in accordance with FRS 20. Consequently, in the financial statements of the parent company, an increase in the investment in the subsidiary is recorded for the value of the share options and awards granted to the employees of the subsidiary. As a result of the adoption of UITF 44, the Company has recognized an addition to investment in subsidiary undertakings of the aggregate amount of the contributions for equity instruments it granted, primarily under the Save As You Earn (SAYE) plan, subsequent to 7 November 2002. As at December 31, 2008, the addition to investment in subsidiary undertakings of the Company was £28 million with a corresponding credit to equity for the same amount. The 2007 and 2006 comparatives have also been adjusted accordingly for the adoption of UITF 44 with an addition to investment in subsidiary undertakings of £19 million and £14 million, respectively with a corresponding credit to equity. There is no impact on the profit or loss of the Company.

In October 2008, the Accounting Standards Board (ASB) approved the 'Amendments to FRS 26 (IAS 39) and FRS 29 (IFRS 7): Reclassification of Financial Assets' that permit the reclassification of certain 'held for trading' and 'available-for-sale' financial assets into the 'loans and receivables' category carried at amortized cost if specific conditions are met and additional disclosures are made regarding any assets so reclassified. The adoption of these amendments to FRS 26 and FRS 29 did not have an impact on the balance sheet or profit and loss account of the Company as the Company has not made any such reclassification of financial assets as permitted by the amendments.

Significant accounting policies

Shares in subsidiary undertakings

Shares in subsidiary undertakings in the balance sheet of the parent company are shown at the lower of cost and estimated realizable value.

Loans to subsidiary undertakings

Loans to subsidiary undertakings in the balance sheet of the parent company are shown at cost, less provisions.

SCHEDULE II

CONDENSED FINANCIAL INFORMATION OF REGISTRANT PRUDENTIAL plc

NOTES TO THE CONDENSED FINANCIAL STATEMENT SCHEDULE (Continued)

December 31, 2008

1 Accounting policies (Continued)

Derivatives

Derivative financial instruments are used to reduce or manage interest rate and currency exposures. The parent company's policy is that amounts at risk through derivative transactions are covered by cash or by corresponding assets. Derivative financial instruments are carried at fair value with changes in fair value included in the profit and loss account.

Under FRS 26, hedge accounting is permissible only if certain criteria are met regarding the establishment of documentation and continued measurement of hedge effectiveness. For derivative financial instruments designated as fair value hedges, the movements in the fair value are recorded in the profit and loss account with the accompanying change in fair value of the hedged item attributable to the hedged risk.

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs, and subsequently accounted for on an amortized cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds (net of transaction costs) is amortized through the profit and loss account to the date of maturity.

Dividends

Dividends are recognized in the period in which they are declared. Dividends declared after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event.

Where scrip dividends are issued, the value of such shares, measured as the amount of the cash dividend alternative, is credited to reserves and the amount in excess of the nominal value of the shares issued is transferred from the share premium account to retained profit.

Share premium

The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of the shares issued is credited to the share premium account.

Foreign currency translation

Foreign currency borrowings that have been used to finance or provide a hedge against Group equity investments in overseas subsidiaries, are translated at year end exchange rates. The impact of these currency translations is recorded within the profit and loss account for the year.

Other assets and liabilities denominated in foreign currencies are also converted at year end exchange rates with the related foreign currency exchange gains or losses reflected in the profit and loss account for the year.

SCHEDULE II

CONDENSED FINANCIAL INFORMATION OF REGISTRANT PRUDENTIAL plc

NOTES TO THE CONDENSED FINANCIAL STATEMENT SCHEDULE (Continued)

December 31, 2008

1 Accounting policies (Continued)

Tax

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. To the extent that losses of an individual UK company are not offset in any one year, they can be carried back for one year or carried forward indefinitely to be offset against profits arising from the same company.

Deferred tax assets and liabilities are recognized in accordance with the provisions of FRS 19 "Employee Benefits". The parent company has chosen not to apply the option available of recognizing such assets and liabilities on a discounted basis to reflect the time value of money. Except as set out in FRS 19, deferred tax is recognized in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are recognized to the extent that it is regarded as more likely than not that they will be recovered.

The Group's UK subsidiaries each file separate tax returns. In accordance with UK tax legislation, where one domestic UK company is a 75 per cent owned subsidiary of another UK company or both are 75 per cent owned subsidiaries of a common parent, the companies are considered to be within the same UK tax group. For companies within the same tax group, trading profits and losses arising in the same accounting period may be offset for the purposes of determining current and deferred taxes.

Pensions

The parent company assumes a portion of the pension surplus or deficit of the Group's largest pension scheme, the Prudential Staff Pension Scheme (PSPS). The parent company applies the requirements of FRS 17 "Retirement Benefits" (as amended in December 2006) to its portion of the PSPS surplus or deficit.

A pension surplus or deficit is recorded as the difference between the present value of the scheme liabilities and the fair value of the scheme assets.

The assets and liabilities of the defined benefit pension schemes of the Group are subject to a full triennial actuarial valuation using the projected unit method. Estimated future cashflows are then discounted at a high quality corporate bond rate to determine its present value. These calculations are performed by independent actuaries.

The aggregate of the actuarially determined service costs of the currently employed personnel and the unwind of the discount on liabilities at the start of the period, less the expected investment return on the scheme assets at the start of the period, is recognized in the profit and loss account.

Actuarial gains and losses as a result of the changes in assumptions, the difference between actual and expected investment return on scheme assets or experience variances are recorded in the statement of total recognized gains and losses.

SCHEDULE II

CONDENSED FINANCIAL INFORMATION OF REGISTRANT PRUDENTIAL plc

NOTES TO THE CONDENSED FINANCIAL STATEMENT SCHEDULE (Continued)

December 31, 2008

1 Accounting policies (Continued)

Share-based payments

The Group offers share award and option plans for certain key employees and a SAYE plan for all UK and certain overseas employees. The share-based payment plans operated by the Group are mainly equity-settled plans with a few cash-settled plans.

Following the adoption of UITF 44, where the Company, as the parent company, grants the options or awards of its equity instruments to employees of its subsidiary, and such share-based payment is accounted for as equity-settled in the Group financial statements, the Company records an increase in the investment in the subsidiary undertakings for the value of the share options and awards granted with a corresponding credit entry recognized directly in equity. The value of the share options and awards granted is based upon the fair value of the options and awards at the grant date, the vesting period and the vesting conditions.

2 Dividends declared in the reporting period from subsidiary undertakings

	2008	2007	2006
	(In £ Millions)		
The Prudential Assurance Company Limited	**482**	288	248
Prudential Holdings Limited	**120**		862
M&G Group Limited	**106**	99	165
Other subsidiaries	**124**		28
Total dividends	**832**	387	1,303

3 Reconciliation from UK GAAP to IFRS

The parent company financial statements are prepared in accordance with UK GAAP and the consolidated financial statements are prepared in accordance with IFRS as issued by the IASB. The tables below provide a reconciliation between UK GAAP and IFRS.

	2008	2007	2006
	(In £ Millions)		
Profit after tax			
Profit (loss) for the financial year of the parent company in accordance with UK GAAP	**486**	(17)	834
IFRS adjustment	**(11)**	(9)	28
Profit for the financial year of the parent company (including dividends from subsidiaries) in accordance with IFRS	**475**	(26)	862
Share in the IFRS profit of the Group, net of distributions to the parent company	**(871)**	973	(52)
Profit after tax of the Group attributable to shareholders in accordance with IFRS	**(396)**	947	810

SCHEDULE II

CONDENSED FINANCIAL INFORMATION OF REGISTRANT PRUDENTIAL plc

NOTES TO THE CONDENSED FINANCIAL STATEMENT SCHEDULE (Continued)

December 31, 2008

3 Reconciliation from UK GAAP to IFRS (Continued)

	2008	2007
	(In £ Millions)	
Net Equity		
Shareholders' equity of the parent company in accordance with UK GAAP*	**3,245**	3,136
IFRS adjustment	**(50)**	(139)
Shareholders' equity of the parent company in accordance with IFRS*	**3,195**	2,997
Share in the IFRS net equity of the Group	**1,863**	3,065
Shareholders' equity of the Group in accordance with IFRS	**5,058**	6,062

*

Under UK GAAP, the parent company has adopted the principles of UITF 44 in accounting for share-based payments, with consequential changes to the 2007 and 2006 comparative figures. Note 1 explains the effect of the change. An equivalent pronouncement, IFRIC 11, "Group and Treasury Share Transactions" applies under IFRS.

Under IFRS the Group has adopted the principles of IFRIC 14 in accounting for pension schemes. The adoption gives rise to consequential changes to the comparative IFRS results for 2007 and 2006. Note I1 of Prudential's consolidated financial statements explains the effects of the change.

The "IFRS adjustment" lines in the above tables represent the difference in the accounting treatment for pension schemes between UK GAAP and IFRS. In 2008, under IFRS, IFRIC 14, an interpretation of IAS 19, was adopted with the effect of derecognizing the parent company's interest in the PSPS surplus and recognizing an additional liability for deficit funding obligation of PSPS to April 5, 2010. Under UK GAAP, the parent company's interest in PSPS surplus recognized on the balance sheet represents the element which is recoverable through reduced future contribution. The shares in the IFRS profit and net equity of the Group represent the parent company's equity in the earnings and net assets of its subsidiaries and associates. The profit for the financial year of the parent company in accordance with UK GAAP and IFRS includes dividends declared in the year from subsidiary undertakings of £832 million, £387 million and £1,303 million for the years ended December 31, 2008, 2007, and 2006, respectively (see note 2).

As stated in note 1, under UK GAAP, the parent company accounts for its investments in subsidiary undertakings at the lower of cost and estimated realizable value. For the purpose of this reconciliation, no adjustment is made to the parent company in respect of any valuation adjustments to shares in subsidiary undertakings which would be eliminated on consolidation

4 Guarantees provided by the parent company

In certain instances the parent company has guaranteed that its subsidiaries will meet their obligations when they fall due for payment.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

PRUDENTIAL PLC

May 18, 2009

By: /s/ MARK TUCKER

Name: Mark Tucker
Title: Group Chief Executive

Item 19. Exhibits

Documents filed as exhibits to this Form 20-F:

Exhibit Number	Description
1.	Memorandum and Articles of Association of Prudential (effective from October 1, 2009). Memorandum and Articles of Association of Prudential (effective until September 30, 2009)[6].
2.1	Form of Deposit Agreement among Prudential, Morgan Guaranty Trust Company of New York, as depositary, and holders and beneficial owners from time to time of ADRs issued there under, including the form of ADR.[1]
2.2	The total amount of long-term debt securities of Prudential plc authorized under any instrument does not exceed 10 per cent of the total assets of the Company on a consolidated basis. Prudential plc hereby agrees to furnish to the Securities and Exchange Commission, upon its request, a copy of any instrument defining the rights of holders of long-term debt of Prudential plc or of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.
4.1	Restricted Share Plan[6], Group Performance Share Plan[5], Business Unit Performance Plan[5] and M&G Executive Long-Term Incentive Plan[6]
4.2	Executive Directors' Service Contracts: Mark Tucker[3] Clark Manning[2] Michael McLintock[2] Nick Prettejohn[4] Barry Stowe[5] Tidjane Thiam[6][7]
4.3	Other benefits between the Prudential Group and Executive Directors: Mark Tucker[6] Clark Manning[6] Michael McLintock[6] Nick Prettejohn[6] Barry Stowe[6] Tidjane Thiam[6]
4.4	Chairman's Letter of Appointment
4.5	Other benefits between Prudential and the Chairman
4.6	Non-executive Directors' Letters of Appointment Sir Winfried Bischoff[6] Keki Dadiseth[3] Michael Garrett[3] Ann Godbehere[6] Bridget Macaskill[3] Kathleen O'Donovan[3] James Ross[3] Lord Turnbull[4]

Exhibit Number	Description
4.7	Other benefits between Prudential and the non-executive Directors Sir Winfried Bischoff[6] Keki Dadiseth[6] Michael Garrett[6] Ann Godbehere[6] Bridget Macaskill[6] Kathleen O'Donovan[6] James Ross[6] Lord Turnbull[6]
6.	Statement re computation of per share earnings (set forth in Note B1 to the consolidated financial statements included in this Form 20-F).
8.	Subsidiaries of Prudential (set forth in Note I6 to the consolidated financial statements included in this Form 20-F).
12.1	Certification of Prudential plc's Group Chief Executive pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
12.2	Certification of Prudential plc's Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
13.1	Annual certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
14.1	Consent of KPMG Audit Plc.
15.1	Prudential's Code of Business Conduct.[5]

(1) As previously filed with the Securities and Exchange Commission on June 22, 2000 as an exhibit to Prudential's Form F-6.

(2) As previously filed with the Securities and Exchange Commission on June 24, 2003 as an exhibit to Prudential's Form 20-F.

(3) As previously filed with the Securities and Exchange Commission on June 24, 2005 as an exhibit to Prudential's Form 20-F.

(4) As previously filed with the Securities and Exchange Commission on June 28, 2006 as an exhibit to Prudential's Form 20-F.

(5) As previously filed with the Securities and Exchange Commission on June 28, 2007 as an exhibit to Prudential's Form 20-F.

(6) As previously filed with the Securities and Exchange Commission on May 15, 2008 as an exhibit to Prudential's Form 20-F.

(7) Additional filing as an exhibit to this Prudential's Form 20-F.

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