PRUDENTIAL PLC
Form 20-F
March 30, 2012

As filed with the Securities and Exchange Commission on 30 March 2012

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 31 December 2011

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)

12 Arthur Street,
London EC4R 9AQ, England
(Address of Principal Executive Offices)

David Martin
Head of Financial Accounting
Prudential plc
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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing 2 Ordinary Shares, 5 pence par value each	New York Stock Exchange

Ordinary Shares, 5 pence par value each	New York Stock Exchange*
6.75% Perpetual Subordinated Capital Securities Exchangeable at the Issuer's Option into Non-Cumulative Dollar Denominated Preference Shares	New York Stock Exchange
6.50% Perpetual Subordinated Capital Securities Exchangeable at the Issuer's Option into Non-Cumulative Dollar Denominated Preference Shares	New York Stock Exchange

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

None

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

None

The number of outstanding shares of each of the issuer's classes of capital or common stock as of 31 December 2011 was:

2,548,039,330 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 has submitted electronically and posted on its corporate Web sites, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ____ 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 the selected consolidated financial data for Prudential plc (the Company) together with its subsidiaries (collectively the Group or Prudential) for the periods indicated. Certain data is derived from Prudential's audited consolidated financial statements prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 31 December 2011, there were no unendorsed standards effective for the years presented below affecting the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, the selected consolidated financial data presented below that is derived from Prudential's audited consolidated financial statements is derived from audited consolidated financial statements prepared in accordance with IFRS as issued by the IASB. 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, statement of financial position and other data for and as at the years ended 31 December 2007 to 2011, as presented in accordance with IFRS, and has been derived from Prudential's consolidated financial statements, audited by KPMG Audit Plc:

Income statement data

Year Ended 31 December	**2011**	**2011**	**2010**	**2009**	**2008**	**2007**
	$m(1)	**£m(1)**	**£m**	**£m**	**£m**	**£m**
Gross premium earned	**39,939**	**25,706**	24,568	20,299	18,993	18,359
Outward reinsurance premiums	**(667)**	**(429)**	(357)	(323)	(204)	(171)
Earned premiums, net of reinsurance	**39,272**	**25,277**	24,211	19,976	18,789	18,188
Investment return	**14,543**	**9,360**	21,769	26,889	(30,202)	12,225
Other income	**2,904**	**1,869**	1,666	1,234	1,146	2,457
Total revenue, net of reinsurance	**56,719**	**36,506**	47,646	48,099	(10,267)	32,870
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(45,506)**	**(29,289)**	(40,518)	(41,195)	10,824	(26,785)
Acquisition costs and other expenditure	**(7,776)**	**(5,005)**	(4,799)	(4,572)	(2,459)	(4,859)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(444)**	**(286)**	(257)	(209)	(172)	(168)
Loss on sale of Taiwan agency business				(559)		
Total charges, net of reinsurance	**(53,726)**	**(34,580)**	(45,574)	(46,535)	8,193	(31,812)
Profit (loss) before tax (being tax attributable to shareholders' and policyholders' returns)(2)	**2,993**	**1,926**	2,072	1,564	(2,074)	1,058
Tax credit (charge) attributable to policyholders' returns	**26**	**17**	(611)	(818)	1,624	5
Profit (loss) before tax attributable to shareholders	**3,019**	**1,943**	1,461	746	(450)	1,063
Tax (charge) credit attributable to shareholders' returns	**(698)**	**(449)**	(25)	(55)	59	(354)

Profit (loss) from continuing operations after tax	**2,321**	**1,494**	1,436	691	(391)	709
Discontinued operations (net of tax)				(14)		241
Profit (loss) for the year	**2,321**	**1,494**	1,436	677	(391)	950

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As of and for the Year Ended 31 December	2011	2011	2010	2009	2008	2007
	(In $m, Except Share Information)(1)	(In £m, Except Share Information)(1)				
Statement of financial position data						
Total assets	**425,061**	**273,580**	260,806	227,754	215,542	219,382
Total policyholder liabilities and unallocated surplus of with-profits funds	**367,124**	**236,290**	224,980	196,417	182,391	190,317
Core structural borrowings of shareholder financed operations	**5,610**	**3,611**	3,676	3,394	2,958	2,492
Total liabilities	**410,829**	**264,420**	252,731	221,451	210,429	213,218
Total equity	**14,232**	**9,160**	8,075	6,303	5,113	6,164
Other data						
Based on profit (loss) for the year attributable to the equity holders of the Company:						
Basic earnings per share (in pence)	**91.4¢**	**58.8p**	56.7p	27.0p	(16.0)p	38.7p
Diluted earnings per share (in pence)	**91.2¢**	**58.7p**	56.6p	27.0p	(16.0)p	38.6p
Dividend per share declared and paid in reporting period (in pence)(5)	**39.14¢**	**25.19p**	20.17p	19.20p	18.29p	17.42p
Equivalent cents per share(6)		**40.39¢**	30.15¢	30.62¢	35.36¢	34.7¢
Market price per share at end of period(8)	**992.04¢**	**638.50p**	668p	640p	416.5p	712p
Weighted average number of shares (in millions)		**2,533**	2,524	2,501	2,472	2,445

New business:						
Single premium sales(4)(7)	**29,348**	**18,889**	18,177	14,438	15,071	14,696
New regular premium sales(3)(4)(7)	**2,784**	**1,792**	1,667	1,401	1,330	1,155
Gross investment product contributions(4)	**139,378**	**89,707**	106,969	96,057	63,147	53,759
Funds under management	**545,349**	**351,000**	340,000	290,000	249,000	267,000

(1) Amounts stated in US dollars have been translated from pounds sterling at the rate of $1.5537 per £1.00 (the noon buying rate in New York City on 31 December 2011).

(2) This measure is the formal profit (loss) before tax measure under IFRS but is not the result attributable to shareholders. See 'Presentation of results before tax' in note A3 to Prudential's consolidated financial statements in Item 18 for further explanation.

(3)

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

(4)

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 are not intended to be, reflective of premium income recorded in the IFRS income statement. 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.

(5)

Interim dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by shareholders. Parent company dividends relating to the reporting period were an interim dividend of 7.95p per share in 2011 (2010: 6.61p, 2009: 6.29p) and a final dividend of 17.24p per share in 2011 (2010: 17.24p, 2009: second interim dividend of 13.56p).

(6)

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

(7)

The new business premiums shown, for the 2007-2010 comparative figures, exclude the new business premiums from the Group's Japanese insurance subsidiary, which ceased selling new business with effect from 15 February 2010. Japan's new business premiums for the years ended 31 December 2010 and 2009 are shown in Item 4 'Asian Business'.

(8)

Market prices presented are the closing prices of the shares on the London Stock Exchange on the last day of trading for each indicated period.

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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, realised profits not previously distributed or capitalised less accumulated, realised 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 March/April and a payment date in the following May.

Year	Interim Dividend (pence)	Interim Dividend (US Dollars)	Final/Second Interim* Dividend (pence)	Final/Second Interim* Dividend (US Dollars)
2007	5.70	0.1153	12.30	0.2424
2008	5.99	0.1112	12.91	0.2052
2009	6.29	0.1011	13.56	0.1976
2010	6.61	0.1039	17.24	0.2818
2011	7.95	0.1221	17.24	

* The dividend of 13.56 pence for 2009 was paid as a second interim dividend. All other dividends shown in this column of the table are final dividends.

The final dividend for 2011 is 17.24 pence per share, subject to the shareholders' approval at the Annual General Meeting to be held on 17 May 2012. The interim dividend for 2011 was 7.95 pence per share. The total dividend for the year, including the interim dividend and the final dividend, amounts to 25.19 pence per share compared with 23.85 pence per share for 2010.

The Board will maintain its focus on delivering a growing dividend, which will continue to be determined after taking into account the Group's financial flexibility and its assessment of opportunities to generate attractive returns by investing in specific areas of the business. The Board believes that in the medium term a dividend cover of around two times is appropriate.

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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 single currency adopted by the participating members of the European Union. 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 31 December	Average rate
2007	2.01
2008	1.84
2009	1.62
2010	1.54
2011	1.61

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
September 2011	1.62	1.54
October 2011	1.61	1.54
November 2011	1.61	1.55
December 2011	1.57	1.54
January 2012	1.58	1.53
February 2012	1.60	1.57

On 23 March 2012, the latest practicable date prior to this filing, the noon buying rate was £1.00 = $1.59.

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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 document, is not updated, and any forward looking statements are made subject to the reservations specified below under 'Forward Looking Statements'.

Risks relating to Prudential's business

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. Uncertainty or negative trends in international economic and investment climates could adversely affect Prudential's business and profitability. Since 2008 Prudential has had to operate against a challenging background of periods of unprecedented volatility in global capital and equity markets, interest rates and liquidity, and widespread economic uncertainty. Government interest rates have also fallen to historic lows in the US and UK. These factors have, at times during this period, had a material adverse effect on Prudential's business and profitability.

In the future, the adverse effects of such factors would be felt principally through the following items:

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

- higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;

- Prudential in the normal course of business enters into a variety of transactions with counterparties, including derivative transactions. 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

- estimates of the value of financial instruments being difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised 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.

Global financial markets have experienced, and continue to experience, significant volatility brought on, in particular, by concerns over European and US sovereign debt, as well as concerns about a general slowing of global demand reflecting an increasing lack of confidence among consumers, companies and governments. Upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. For example, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and profitability. New challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked investment 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 match exactly

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those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated surrender values are set with reference to the interest rate environment prevailing at the 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. While this residual asset/liability mismatch risk can be managed, it cannot be 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 Prudential's reported profit.

In the US, fluctuations in prevailing interest rates can affect results from Jackson which has a significant spread-based business, with the majority of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. 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.

Declines in spread from these products or other spread businesses that Jackson conducts could have a material impact on its businesses or results of operations. Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. There could be 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 Prudential's results.

A significant part of the profit from Prudential's UK insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns.

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Prudential is subject to the risk of potential sovereign debt credit deterioration and default. During 2011 and 2012, this risk has heightened, particularly in relation to European and US sovereign debt. Investing in such instruments creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of states or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issues. If a sovereign were to default on its obligations, this could have a material adverse effect on Prudential's financial condition and results of operations.

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

Due to their geographical diversity, Prudential's businesses are subject to the risk of exchange rate fluctuations. Prudential's operations in the US 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 currently separately managed. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within other comprehensive income. Consequently, this could impact on Prudential's gearing ratios (defined as debt over debt plus shareholders' funds).

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 (including tax) 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. Also, regulators in jurisdictions in which Prudential operates may change the level of capital required to be held by individual businesses or could introduce 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.

On 7 March 2012, the Financial Services Authority (FSA) published a Policy Statement (PS 12/4) with further changes to rules and guidance in a number of areas concerning the operation of with-profits funds, including principally conflicts of interest with the potential to prejudice with-profits policyholders; the fair treatment of with-profits policyholders in mutually-owned funds; the terms on which new business may be written by with-profits insurers; communications and planning surrounding material reductions in new business; the application of market value reductions; the use of with-profits funds to make strategic investments; the removal of the ability of firms to reattribute excess surplus; rules surrounding reattribution of inherited estates; and changes to the rules surrounding corporate governance. The changes to rules and guidance contained in PS 12/4 give rise to uncertainties as to how such rules and guidance will be applied. Accordingly, Prudential is seeking clarification of the application of PS12/4 to its with-profits business in the UK.

Current EU directives, including the EU Insurance Groups Directive ('IGD') require 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. The EU is also developing a new solvency framework for insurance companies, referred to as 'Solvency II'. The new approach will be based on the concept of three pillars minimum capital requirements, supervisory review of firms' assessment of risk, and enhanced disclosure requirements 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 assessment of risks and capital

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requirements will be aligned more closely with economic capital methodologies, and may allow Prudential to make use of its internal economic capital models, if approved by the FSA or other relevant supervisory authority. The Solvency II Directive was formally approved by the Economic and Financial Affairs Council in November 2009. The European Parliament is currently discussing the Omnibus II Directive which, once approved, will amend the Solvency II Directive. In addition, the European Commission is continuing to develop the detailed rules that will complement the high-level principles of the Directive, referred to as 'implementing measures'. The Omnibus II Directive is expected to be finalised during 2012 with the implementing measures expected to be finalised later in 2012. There is significant uncertainty regarding the final outcome of this process. As a result there is a risk that the effect of the measures finally adopted could be adverse for Prudential, including potentially a significant increase in capital required to support its business and that Prudential may be placed 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 such 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, which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In July 2010, the IASB published an Exposure Draft for its Phase II on insurance accounting, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. The IASB continues its deliberation on the exposure draft principles but it remains uncertain whether the proposals in the Exposure Draft will become the final IASB standard and when changes might take effect.

Any changes or modification of IFRS accounting policies may require a change in the future results or a restatement of reported results.

European Embedded Value ('EEV') basis results are published as supplementary information by Prudential using principles issued by the European CFO (Chief Financial Officers) Forum. 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 Prudential's management for both internal and external reporting purposes.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results 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 UK and internationally. These actions could involve a review of business sold in the past under acceptable market practices at the time, such as the requirement in the UK 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 US and the UK 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 and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

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In the US, federal and state regulators have focused on, and continue to devote substantial attention to, the mutual fund, fixed index annuity and insurance product industries. This focus includes new regulations in respect of the suitability of 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 introduced that challenge current practices, or are retrospectively applied to sales made prior to their introduction.

Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition

Prudential is, and may be in the future, subject to legal actions, disputes and regulatory investigations in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations 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 (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided 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 operations or cash flows.

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

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and 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 and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned.

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

Within the UK, Prudential's principal competitors in the life 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 US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as AIG, AXA Financial Inc., Hartford Life Inc., Prudential Financial, Lincoln National, MetLife and TIAA-CREF.

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

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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. Downgrades in Prudential's ratings, as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns, could have an adverse effect on its ability to market products; retain current policyholders; and on the Group's financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its debt credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential's long-term senior debt is rated as A2 by Moody's, A+ by Standard & Poor's and A by Fitch. These ratings have a stable outlook.

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

The Prudential Assurance Company Limited's financial strength is rated Aa2 by Moody's, AA by Standard & Poor's and AA by Fitch. These ratings have a stable outlook.

Jackson's financial strength is rated AA by Standard & Poor's and Fitch, A1 by Moody's, and A+ by AM Best. These ratings have a stable outlook.

In addition, 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.

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 a significant part of its UK back office and customer-facing functions as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

Further, because of the long-term nature of much of the Group'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 2011, 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 setting reserves and for reporting its capital levels and 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 UK annuity business. In exchange for a premium equal to the capital value

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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's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data from the Continuous Mortality Investigations (CMI) 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 UK 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 lower than assumed (that is, policy termination rates are significantly higher than assumed), the Group's results of operations could be adversely affected.

Another example is the impact of epidemics and other effects that cause a large number of deaths. Significant influenza epidemics have occurred three times in the last century, but the likelihood, timing, or the severity of future epidemics cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

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 and impairments, 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

The Group'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 remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper. Certain of the subsidiaries are restricted by applicable insurance, foreign exchange and tax laws, rules and regulations that can limit the payment of dividends, which in some circumstances could limit the ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties (including in China and India), involving 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 (including in China and India). For the Group's joint venture operations, management control is exercised jointly with the venture participants. The level of control exercisable by the Group 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 adversely affect the results of operations of Prudential.

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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 by 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.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation, may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

FORWARD-LOOKING STATEMENTS

This document may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, future market conditions, fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives related to the financial crisis and the effect of the European Union's 'Solvency II' requirements on Prudential's capital maintenance requirements; 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 standards 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. These and other important factors may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk Factors' heading of this annual report, as well as under the 'Risk Factors' heading of any subsequent Prudential Half Year Financial Report furnished to the US Securities and Exchange Commission on Form 6-K.

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the US Securities and Exchange Commission, the UK Financial Services Authority or other regulatory authorities, as well as in its annual report and accounts to shareholders, proxy statements, offering circulars, registration statements, prospectuses and, prospectus supplements, press releases and other written materials and in oral statements made by directors, officers or employees of Prudential to third parties, including financial analysts. All such forward-looking statements are qualified in their entirety by reference to the factors discussed under the 'Risk Factors' heading of this annual report, as well as under the 'Risk Factors' heading of any subsequent Prudential Half Year Financial Report furnished to the US securities and Exchange Commission on Form 6-K. These factors are not exhaustive as Prudential operates in a continually changing business environment with new risks emerging from time to time that it may be unable to predict or that it currently does not expect to have a material adverse effect on its business. Prudential expressly disclaims any obligation to update the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

EEV BASIS AND NEW BUSINESS RESULTS

In addition to IFRS basis results, Prudential's filings with the UK Listing Authority, the Stock Exchange of Hong Kong, the Singapore Stock Exchange 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 free surplus) of Prudential's life insurance operations. Prudential publishes its EEV results semi-annually in the UK, Hong Kong and Singapore markets.

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. New business results are categorised as single premiums and annual regular premiums. New business results are also summarised by annual premium equivalents (APE) which are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. The amounts are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement. EEV basis new business profits and margins are also published quarterly.

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Item 4. Information on the Company

BUSINESS OF PRUDENTIAL

Overview

Prudential is an international financial services group, with significant operations in Asia, the United States and the United Kingdom. It has been in existence for over 160 years, serves over 26 million customers and has £351 billion in assets under management (as at 31 December 2011). Prudential is not affiliated with Prudential Financial, Inc. or its subsidiary, The Prudential Insurance Company of America.

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 Prudential strategy, cash and capital management, leadership development and succession, reputation management and other core group functions.

Prudential Corporation Asia's core business is life insurance, health and protection, either attached to a life policy or on a standalone basis, and mutual funds. It also provides selected personal lines property and casualty insurance, group insurance, institutional fund management and consumer finance (Vietnam only). The product range offered is tailored to suit the individual country markets. Insurance products are distributed mainly through an agency sales force together with selected banks, while the majority of mutual funds are sold through banks and brokers. Joint venture partners are mandatory in some markets: for example, the life insurance operation in China is a 50 per cent equity joint venture with CITIC; in India Prudential has a 26 per cent equity stake in a joint venture with ICICI and in Malaysia its Takaful business is a 70 per cent equity joint venture with Bank Simpanan Nasional. In the fund management business Prudential holds a 49 per cent equity stake in a joint venture with ICICI, in China it has a 49 per cent equity stake in a joint venture with CITIC and in Hong Kong it has a 36 per cent equity stake in a joint venture with Bank of China International.

As at 31 December 2011, Prudential Corporation Asia had:

- over 16 million customers with life and fund management operations in 12 markets;
- distribution relationships with over 75 institutions across Asia including Standard Chartered Bank (SCB), United Overseas Bank Limited (UOB), E-Sun Bank and joint venture partners ICICI in India and CITIC in China;
- one of the largest networks of tied agents, comprising over 365,000 agents; and
- consistently high brand recognition, outperforming many other financial services companies and had received multiple awards for its customer service. Prudential was in the top three for market share of new business in Hong Kong, India, Indonesia, Malaysia, Singapore, the Philippines and Vietnam.

In the United States, Prudential offers a range of products through Jackson, including fixed annuities (interest annuities, fixed index and immediate annuities), variable annuities, life insurance and institutional products (including guaranteed investment contracts and funding agreements). Jackson distributes these products through independent insurance agents; independent broker-dealers; regional broker-dealers; wirehouses; registered investment advisers; a small captive agency channel, consisting of approximately 100 life insurance agents; and banks, credit unions and other financial institutions.

Jackson also offers fee-based separately managed accounts and investment products through Curian Capital, LLC, which is Jackson's registered investment adviser.

As at 31 December 2011, in the United States, Jackson:

- was among the 20 largest life insurance companies in terms of General Account assets(1);

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was a top three player in US variable annuities[(2)];

was once again awarded the 'Highest Customer Satisfaction by Industry' award for the sixth successive year from Service Quality Measurement Group;

was once again rated as a 'World Class' service provider for the sixth successive year by Service Quality Measurement Group; and

completed another record sales year with total annual premium equivalent ('APE') sales of £1,275 million, 10% higher than the previous record set last year.

In the United Kingdom, Prudential is structured into Prudential UK insurance operations and M&G and 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 in the United Kingdom 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.

As at 31 December 2011, Prudential UK insurance operations in the United Kingdom:

was one of the market leaders in the individual annuity market and the with-profits market[(3)]; and

had total company assets of £151 billion on the balance sheet, comprising £86 billion within the with-profits sub fund, £54 billion within shareholder-backed business and £11 billion in the Scottish Amicable Insurance Fund.

As at 31 December 2011, M&G which is the UK and European fund manager of the Group:

had the responsibility for £201 billion of investment on behalf of both internal and external clients; and

held the award of the prestigious 2011 Old Broad Street Research Outstanding Investment House Award for the second year running. M&G's institutional business held the award of Fixed Income Manager of the Year 2011 at the Financial News Awards for Excellence in Institutional Asset Management.

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(1) Source: SNL Financial

(2) Source: Morningstar Annuity Research Center (MARC)

(3) Source: Association of British Insurers (ABI)

Summary of Strategy, Performance, Capital and Risk Management

Group Strategy Overview

The heart of Prudential's strategy remains Asia, where its positive momentum has been maintained in 2011. Asia is generating both growth and cash and Prudential's focus on the fast-growing markets of South-East Asia continues to pay off. Prudential's medium and long-term growth opportunities in Asia are driven by the rapidly expanding middle class across the region, with its strong appetite for savings and protection products. Although the global economic environment has been more challenging in recent times, Prudential continues to believe that its prospects in the region are exciting, as indicated by its commitment to double its key metrics of IFRS operating profit and new business profit between 2009 and 2013.

In the United States, the transition of the 'baby boomer' generation from employment to retirement which became visible around 2005-2006 is now firmly underway. Over the next 20 years, more than 10,000 people a day will reach retirement age in the US and these individuals will look to the insurance industry among others to help them convert their accumulated wealth into a steady stream of retirement income. Jackson's strategy focuses on capturing this opportunity while balancing value, volume, capital efficiency, cash generation, balance sheet strength and strict pricing discipline. Its capital has primarily been directed towards higher-margin and more capital-efficient variable annuities. Its approach to pricing and hedging is conservative and enables it to mitigate the impact of macroeconomic challenges and ensure that it is able to meet its commitments to its customers.

Like Jackson in the US, Prudential UK is well positioned to help British 'baby-boomers' as they approach retirement. In the UK, like its other chosen markets, in terms of new business, Prudential focuses on the lines of business where it has a clear competitive advantage and can generate attractive returns on capital invested; and it manages its in-force book for value.

In asset management, Prudential's fund managers have a strong track record of outperforming their respective benchmarks and their performance track record has driven another good year for net inflows in what was a challenging environment for the industry. Regarding its asset management activities in Asia, Prudential announced in November 2011 that its Asian asset management business would be rebranded Eastspring Investments. It is already a market-leading onshore third party fund management business. This new branding will enable it to establish a more cohesive regional presence and to market its Asian expertise in Europe and North America.

In executing its strategy, Prudential is guided by three clearly defined Group-wide operating principles. The first of these is a balanced approach to performance management across the three key measures of IFRS, EEV and cash, with an increased emphasis on IFRS and cash. As a result, in 2011, Prudential is reporting results which show growth across all three key measures. This puts it in a position of strength to continue to capture the profitable growth opportunities available in its chosen markets.

Second, Prudential has focused on allocating capital to the highest return and shortest payback opportunities across the Group. This means that Prudential focuses its investment on writing new business in the areas of the market where its demanding return and payback criteria are met.

Third, Prudential takes a proactive approach to managing risk across the cycle. Prudential is continuously improving its risk management process and systems to ensure that its key risks are tracked and managed both locally and centrally.

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2013 'Growth and Cash' Financial Objectives

As with other aspects of this annual report the following discussion contains forward-looking statements that involve inherent risks and uncertainties. Prudential's actual future financial condition or performance or other indicated results may differ materially from those indicated in any such forward-looking statement due to a number of important factors (including those discussed under Item 3 'Risk factors' in this filing). See the discussion under the heading 'Forward-looking statements' in Item 3. The objectives assume current exchange rates and a normalised economic environment consistent with the economic assumptions made by Prudential in calculating the EEV basis supplementary information for the half-year ended 30 June 2010.They have been prepared using current solvency rules and do not pre-judge the outcome of Solvency II, which remains uncertain.

At its 2010 investor conference entitled 'Growth and Cash' Prudential announced new financial objectives demonstrating its confidence in continued rapid growth in Asia, and increasing levels of cash remittances from all of its businesses. These objectives were defined as follows:

(i) Asia growth and profitability objectives:

To double the 2009 value of IFRS life and asset management pre-tax operating profit in 2013 (2009: £465 million); and

To double the 2009 value of EEV new business profits in 2013 (2009: £713 million).

(ii) Business unit cash remittance objectives:

Asia to deliver £300 million of net cash remittance to the Group in 2013 (2009: £40 million);

Jackson to deliver £200 million of net cash remittance to the Group in 2013 (2009: £39 million); and

UK to deliver £350 million of net cash remittance to the Group in 2013 (2009: £284 million[(1)]).

(iii) Cumulative net cash remittances:
All business units in aggregate to deliver cumulative net cash remittances of at least £3.8 billion over the period 2010 to end-2013. These net remittances are to be underpinned by a targeted level of cumulative underlying free surplus[(2)] generation of £6.5 billion over the same period.

Prudential believes it remains on-track to achieve these objectives.

Outlook

Prudential continues to believe its long-term success rests on its substantial presence in fast-growing economies across Asia. Prudential's chosen markets benefit from solid economic growth, increasing wealth, favourable demographics particularly a rapidly expanding middle class with significant and increasing health and protection demands.

Prudential expects Jackson to continue to benefit from the opportunity created by the transition of the 'baby boomers' into retirement and to make significant remittances to the Group. Prudential's UK life operations should continue in 2012 to deliver significant remittances to the Group and maintain their balance sheet strength. Prudential's asset management businesses, M&G and Eastspring Investments should continue to support its strategy, providing both profitable growth and cash.

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(1)

Representing the underlying remittances excluding the £150 million impact of proactive financing techniques used to bring forward cash emergence of the in-force book during the financial crisis.

(2)

Free surplus for the insurance business represents the excess of the net worth over the required capital included in the EEV results, and IFRS net assets for the asset management businesses excluding goodwill.

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The Group's results are a clear sign of the success of its strategy of focusing its energies and capital on the most attractive opportunities and Prudential is in a strong position to continue to deliver relative outperformance in the medium-term. Prudential has made a positive start to 2012 and over the course of the year Prudential expects to continue to make progress towards its 2013 'Growth and Cash' objectives.

Summary of Performance

Prudential reported a strong performance in 2011. As described above, Prudential announced in December 2010 clear 'Growth and Cash' objectives for 2013. 2011 has marked another year of progress towards achieving these objectives.

Prudential's life insurance business in Asia (excluding Eastspring Investments, development costs and Asia regional head office expenses) is now the biggest contributor to Group IFRS operating profit based on longer-term investment returns (if long-term business is considered separately from asset management and UK general insurance commission), making it the Group's largest business on both IFRS and EEV profitability measures. Since 2008, Prudential has made considerable progress in translating the promise of its Asian life insurance franchise into a solid business delivering significant growth in sales but also IFRS operating profit based on longer-term investment returns and cash. Asia offers some of the most attractive opportunities within the global insurance market and the potential for long-term profitable growth for Prudential in the region is clear. Prudential's focus on Asia is simply a consequence of its approach to shareholder value and capital allocation that prioritises its investment towards the markets, products and channels that offer the most profitable returns and the most attractive payback periods.

Across Asia, Prudential continues to innovate both in products and technology, where its investment drives improvements in operational efficiency, helps manage persistency and ensures that Prudential can continue to meet profitably the evolving demands of its customers. Prudential's business is aided by a positive regulatory environment as governments in the region seek to increase insurance penetration, recognising the social role and economic benefits of life insurance as a key provider of long-term capital.

In South-East Asia, Prudential's 'sweet spot', its growth has been largely led by the rising market of Indonesia as well as the more developed economies of Hong Kong, Singapore and Malaysia. These operations are generating sustainable growth and value, supporting Prudential's investments in more emerging markets such as the Philippines, Vietnam and Thailand.

Prudential Indonesia is now the Group's largest business in Asia across virtually all metrics and is the clear market leader in a country where the opportunities for continued growth are significant. It is a market that has low insurance penetration, of just 1 per cent. It is the world's fourth most populous country and a member of the G20. Indonesia has the largest Muslim population in the world; in Syariah products, which are compliant with Islamic law, we have a 54 per cent market share. With 142,000 licensed agents, Prudential has the largest agency network in the country. Prudential believes that the opportunities to further enhance its distribution scale there are significant.

In the more emerging markets, Prudential continues to make good operational progress, and over time expects to see a steadily increasing contribution to growth and profits from its businesses in these territories. The Philippines provides a good illustration of these trends. Prudential's business had excellent sales growth, helping it leapfrog from third place to become this rapidly developing country's largest life insurance provider in terms of new business, a very creditable achievement in this highly competitive market.

As previously indicated, the market in India has been challenging since the fourth quarter of 2010 due to significant regulatory reforms across the industry in that year. Prudential is now coming out of this difficult period, a year after the reform, and its joint venture with ICICI continues to be the leading private sector player. In the fourth quarter of 2011, Prudential's sales increased notably, demonstrating that its business in India is gathering some momentum. Prudential remains confident about the long-term prospects of that market as Prudential trains its extensive agency force to sell a new product suite.

Prudential Corporation Asia's delivery of both profitable growth and cash has validated the central element of the Group's strategy, to focus on the region as a means to deliver sustainable shareholder value.

In the US, policyholder behaviour across Prudential's book of in-force policies continues to trend in line with its assumptions. Customers and distributors are attracted by Jackson's track record of financial discipline and strong credit rating. Prudential implemented a number of changes in 2010 and 2011 to proactively manage its sales levels, to comply with revised regulations, enhance risk management flexibility and increase profitability. Prudential's monthly variable annuity sales declined from September 2011 onwards from the peak levels seen in the early summer as a result of, first, a number of proactive changes Prudential made to manage the balance between growth, capital and profitability and second, the performance of US equity markets in the period. Prudential has continued to write its business at attractive internal rates of return (IRRs) throughout the year. Prudential's approach will continue to focus on profitability ahead of sales.

In the UK, Prudential's performance in 2011 shows it continues to be a market leader both in individual annuities and in with-profits products. In individual annuities, Prudential registered a decrease in its sales as it continued to proactively control capital consumption. The strength and performance track record of Prudential UK's With-Profits Fund is widely recognised. Despite the market volatility in 2011, with-profits customers' policy values were augmented by a total of £2.1 billion. Prudential's customers continue to benefit from solid returns and the security offered by the large inherited estate. Prudential's results in 2010 benefited from a large bulk annuity contract. There were no similar opportunities of comparable size which met its strict value criteria so its level of activity in that segment was materially reduced.

Prudential's asset management businesses have continued to perform well in 2011. Over the last four years, M&G has risen from being the fifth largest player in the UK retail market in terms of funds under management to now being the second largest, and its UK retail assets have almost trebled over this period to over £35 billion. The newly rebranded Eastspring Investments, had a good year, in spite of a challenging environment characterised by weak stock market performance and the impact of the natural disaster in Japan.

Summary of Capital and Risk Management

Proactive and disciplined management and allocation of capital are the foundations of a robust balance sheet and remain critical in the current economic and financial environment. Using the regulatory measure of the Insurance Groups Directive (IGD), before allowing for the final dividend, the Group capital surplus at 31 December 2011 was estimated at £4.0 billion (2010: £4.3 billion). The Group's required capital is covered 2.75 times.

Solvency II, which is currently anticipated to be implemented from 1 January 2014, represents a major overhaul of the capital adequacy regime for European insurers. Prudential is supportive in principle of the development of a more risk-based approach to capital but Prudential has concerns about the potential consequences of some aspects of the Solvency II regime under consideration. With the continued delays to policy development, the final outcome of Solvency II remains uncertain. Prudential is continuing to engage directly with its peers, policymakers and regulators so that the industry ultimately operates under a fair, effective and reasonable capital adequacy regime. Lack of certainty over the policy content and timetable continues to impede the industry's ability to prepare fully for the new regime.

Therefore, in parallel to continuing its preparation for eventually implementing the Solvency II rules, Prudential also evaluates actions to mitigate the possible negative effects. Prudential regularly reviews the range of options available to it to maximise the strategic flexibility of the Group. Among these options is consideration of optimising the Group's domicile, including as a possible response to an adverse outcome on Solvency II.

Company Address and Agent

Prudential plc is a public limited company incorporated on 1 November 1978, and organised under the laws of England and Wales. Refer to Item 10, 'Additional information Memorandum and Articles of Association' for further information on the constitution of the Company.

Prudential's registered office is Laurence Pountney Hill, London EC4R 0HH, England (telephone: +44 20 7220 7588) and its principal executive offices are at 12 Arthur Street, London EC4R 9AQ, England (telephone: +44 20 7220 7588). Prudential's agent in the United States for purposes of Item 4 of this annual report on Form 20-F 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	Main activity	Percentage Owned(1)	Country of incorporation
The Prudential Assurance Company Limited	Insurance	100%	England and Wales
Prudential Annuities Limited*	Insurance	100%	England and Wales
Prudential Retirement Income Limited (PRIL)(2)	Insurance	100%	Scotland
M&G Investment Management Limited(2)	Asset management	100%	England and Wales
Jackson National Life Insurance Company(2)	Insurance	100%	US
Prudential Assurance Company Singapore (Pte) Limited(2)	Insurance	100%	Singapore

(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.

Asian Business

Life Insurance

Introduction

Prudential has had operations in Asia since the 1920s, but began expanding its Asian business in 1994 as the Asian economic revolution was getting underway. Today Prudential is a leading international insurer in Asia with six of its 11 operations being market leaders in terms of new business scale. Prudential has established a high performance platform with multichannel distribution, a product portfolio based on regular premium savings policies with attached riders that provide additional protections and a well respected brand that is becoming increasingly well known as a champion of CSR initiatives including financial literacy.

Prudential's strategy is focused on building high quality tied agency and complementary third party distribution channels, providing products that demonstrably meet customers' savings and protection needs and strengthening and deepening customer relationships. It continues to be driven in a highly focused and disciplined way. While market outperformance in terms of new business growth is an indicator of success, Prudential prioritises quality of service, profitability, returns on capital and capital efficiency ahead of top-line growth.

Protecting the value of the in-force book is also a core priority for Prudential. Technology, such as iPad based customer and agent services, drives operational efficiencies. Persistency drivers are actively monitored and achieving persistency targets forms part of compensation calculations for staff and agents. Prudential has a robust claims platform with technical expertise and a disciplined approach to monitoring claims and re-pricing as necessary.

PCA Life Japan ceased writing new business with effect from 15 February 2010. This decision will be reviewed on an ongoing basis in the light of changes to the business environment. Prudential reinforced its commitment to honoring all existing policyholder contracts and providing policyholders with an appropriate level of customer service. Measures have been taken to ensure there is adequate staff and supporting infrastructure for customer servicing, taking into account that the company closed its proprietary distribution channel in 2006 and since then has been working with third party distributors only.

Distribution

At the country level the execution of the agency distribution strategy varies depending on local conditions and objectives in each market. For example Prudential's agency management competencies drive effective selection discipline and training designed to 'fast start' new agents and improve the skills and productivity of the more experienced ones in all markets. However, agency priorities are differentiated with the emphasis more on increasing scale in some markets, such as Indonesia and Vietnam and productivity improvements in more established markets such as Hong Kong and Singapore.

Agency (excluding India) continues to be the largest distribution channel. Prudential ended the year with 228,000 agents (365,000 including India). However, although agency scale is important, management focus is on further improving agent activity and productivity and Prudential delivered a year on year increase in average active agents of 8 per cent, coupled with a 5 per cent increase in productivity.

Prudential has a diverse range of successful bank distribution partnerships across the region that includes regional relationships with international banks such as Standard Chartered and local ones such as E.Sun in Taiwan. Prudential is also successful in working with multiple partners in one market. Key drivers of this success are a long-term commitment to creating value for both partners, expertise in developing, training and motivating bank sales teams and committed marketing support.

Products

The life insurance products offered by Prudential include with-profits (participating) and non-participating term, whole life and endowment and unit-linked policies often combined with protection riders and typically with regular premium payments. Prudential also offers health, disablement, critical illness and accident cover to supplement its core life products. Prudential's product mix is orientated around a core of regular premium policies with protection riders. The portfolio is regularly refreshed with new features and benefits that keep pace with evolving customer needs and also drive sales force activities.

The new business mix for 2011 reflects Prudential's ongoing focus on regular premium savings with protection. The high proportion of health and protection, standalone and riders, supports the new business profitability and reflects the higher proportion of risk based products in its book than some competitors who focus on single premium investment orientated policies.

Unit-linked products combine savings with protection, with the cash value of the policy depending on the value of the underlying unitised funds. Participating products provide savings with protection

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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 cover. These products are commonly offered as supplements to main life policies, but can also be sold separately.

Policyholder and insurer share the profits from participating policies (typically in a 90:10 ratio) in the same way as with-profits business in the UK. With unit-linked products, shareholders receive the profits arising from managing the policy, its investments and the insurance risk. Policyholders within the underlying unitised fund receive investment gains. The profits from accident and health and non-participating products come from any surplus remaining after paying policy benefits.

Unit-linked products tend to have higher profits on the EEV basis of reporting than traditional non-linked products, as expenses and charges are better matched and solvency capital requirements are lower. At the end of 2011, Prudential is offering unit-linked products in all markets except Thailand.

Prudential has implemented a structured and disciplined approach to expanding its health and protection portfolio with the local businesses supported by a regional team with sales management, product development, underwriting, claims, operations and business development expertise. Underwriting processes have been re-engineered to improve customer service and claims turnaround has been enhanced while quotation systems have been upgraded to inform agents of the availability of appropriate health riders eg augmenting a core life policy with critical illness cover.

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 sales force. For example, health products have been incorporated into agency incentive programs and a standalone healthcare product was launched into the SCB channel with simplified underwriting and compelling media campaigns to capture direct business and provide leads for other channels.

In Malaysia and Indonesia, Prudential also offers life insurance policies that are constructed to comply with Islamic principles otherwise known as Takaful. The main principles are policyholders co-operate amongst themselves for the common good, uncertainty is eliminated in respect of subscription and compensation and there is no investment in prohibited areas such as gambling or alcohol.

In September 2011 Prudential launched a major new CSR initiative in collaboration with Turner Broadcasting in the form of a fictional band called Cha-Ching who through episodes running on the Cartoon Network across Asia and with a fully interactive website, teach children about the basics of financial planning. Currently Cha-Ching is seen daily in over 4 million homes in seven markets (Hong Kong, the Philippines, Singapore, Indonesia, Vietnam, Thailand, and Malaysia). Cha-Ching.com has had over 18 million pages viewed in its first four months with an average duration of over nine minutes. The programme is being actively supported by regulators and local schools.

Prudential's focus on customer service and delivery is reflected through the number of awards received by its operations, that include in China, 'The Brand with Greatest Potential in the Insurance Industry', in India 'Insurance Company of the Year', in Indonesia, 'Best Life Insurance Company', 'Best Islamic Insurance Company', 'Best Life Insurer in Achieving Total Customer Satisfaction', and in Vietnam, a Labour Medal from the President's Office, a first for a foreign company.

New Business Premiums

In 2011, total sales of insurance products, excluding Japan, were £2,970 million, up 18 per cent from 2010 (£2,495 million). Of this amount, regular premium insurance sales increased 9 per cent to £1,514 million and single premium insurance sales increased 32 per cent to £1,456 million.

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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.

	Year Ended 31 December		
	2011	**2010**	**2009**
		(£ million)	
Single premiums			
Singapore	**371**	318	297
Hong Kong	**180**	107	94
Malaysia	**79**	58	63
Taiwan (excluding Taiwan agency)	**217**	146	104
Korea	**71**	66	38
China (Prudential's 50% interest in joint venture with CITIC)	**46**	103	72
Indonesia	**250**	141	41
India (Prudential's 26% interest in joint venture with ICICI)	**135**	85	47
Other countries	**107**	80	29
Total excluding Japan	**1,456**	1,104	785
Japan		13	57
Total including Japan	**1,456**	1,117	842
Regular premiums			
Singapore	**198**	143	98
Hong Kong	**313**	276	232
Malaysia	**215**	198	140
Taiwan (excluding Taiwan agency)	**126**	105	97
Korea	**94**	89	118
China (Prudential's 50% interest in joint venture with CITIC)	**54**	48	38
Indonesia	**338**	269	186
India (Prudential's 26% interest in joint venture with ICICI)	**88**	180	163
Other countries	**88**	83	59
Total excluding Japan	**1,514**	1,391	1,131
Japan		6	46
Total including Japan	**1,514**	1,397	1,177
Total			
Total excluding Japan	**2,970**	2,495	1,916
Japan		19	103
Total including Japan	**2,970**	2,514	2,019

Eastspring Investments

In November 2011, Prudential announced that its Asian Fund Management operations would be rebranded Eastspring Investments. The new brand, which was officially launched in February 2012, will enable the business to establish a cohesive regional presence thereby penetrating the offshore segment more effectively. It also supports distribution to new markets beyond Asia.

Eastspring Investments manages investments for Asian third-party retail and institutional clients in addition to investments of Prudential's Asian, UK and US life companies.

Markets remained challenging in 2011, with overall net outflows seen in the Asia (excluding Japan) onshore funds market. Equity markets struggled to gain traction driven by poor investor sentiment in

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the face of weak macroeconomic signals. Japan was also impacted by the natural disaster which occurred earlier in the year.

Total funds under management of £50.3 billion were down 3 per cent on last year. The effect of positive net flows from the Asian Life Business and third party retail and institutional clients, was offset by the combined effect of outflows in the low margin money market funds (MMF) and the negative market movements particularly in the second half of the year.

The mutual fund industry continues to diversify its investments, with expectations for a significant increase in net flows over the coming years. Bank distribution continues to be important in most markets in Asia, with Prudential having established strong relationships with both regional and local banks and placing significant emphasis on providing good service. Prudential's Asian asset management business is also growing its third party institutional and pension fund management business.

Distribution

In order to capitalise on the exciting and sizeable opportunities in Asia's retail financial services market, Eastspring Investments maintained its focus on building a strong third-party customer retail franchise. The customer proposition is driven by Eastspring Investments' 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. Eastspring Investments has become one of the largest and most successful domestic asset management companies in the region, as demonstrated by the fact that Eastspring Investments occupies a number of top ten market share positions in the markets in which it operates and the fact that a significant proportion of its funds are either in the top-two quartiles or outperformed their benchmarks over a three year period ended 31 December 2011.

Products

Eastspring Investments offers mutual fund investment products in India, Taiwan, Japan, Singapore, Malaysia, Hong Kong, Korea, Vietnam and China, thus enabling customers to participate in debt, equity and money market investments.

Net inflows from third parties (excluding MMF) were £633 million compared to net inflows of £1,837 million during 2010. This is attributed to lower bond fund returns and to Japan, where significant inflows from the launch of the Asia Oceania equity fund in 2010 were not repeated in 2011. Clearly the environment in Japan was not conducive to product launches in the first half of 2011. This situation was partially mitigated by net inflows from corporate and institutional clients in Korea, together with new institutional mandates.

Eastspring Investments levies transaction charges (initial and surrender depending on the type of fund and the length of the investment) and also 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.

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., INVEST Financial Corporation and Investment Centers of America, Inc.). As at 31 December 2011, Prudential's US operations had more than 2.9 million policies and contracts in effect and PPM America managed approximately £55 billion of assets. In 2011, new business premiums totalled a record £12,581 million.

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Jackson National Life Insurance Company (Jackson)

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 offers products with specialised 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 an almost sixteen-fold increase in variable annuity sales over the past decade. Over the same period, Jackson increased its total annuity market share from 2.3 per cent in 2001 to 8.2 per cent in 2011 and moved from 17th in total annuity sales to 3rd[(1)].

In 2011, Jackson achieved record retail sales, along with modest institutional sales. Retail annuity net flows continued to benefit from increased sales and low levels of surrender activity. Jackson's strategy continues to focus on balancing value, volume and capital consumption for its various annuity products. Jackson's product diversity allows the company to quickly adapt to changing market conditions and sustain appropriate sales levels in all phases of the business cycle. During the second half of 2011, sales slowed relative to the first half run rate due to proactive changes Jackson made to its product offerings and shifts in the competitive environment. During the third quarter, Jackson implemented various product initiatives to enhance the product diversity and margins and further optimise the balance between growth, capital and profitability.

Jackson continues to innovate its product offerings, implementing various changes in 2011 to manage profitability, to comply with revised regulations and enhance risk management flexibility. Jackson continues to actively monitor its product offerings to ensure the company retains the appropriate pricing levels in current market conditions.

Jackson continues to invest in its back office staffing and systems to provide world class customer service in an efficient and cost effective manner. In 2011, for the sixth consecutive year, Jackson was rated 'World Class' service provider by Service Quality Measurement Group's. Jackson was able to provide this level of service in 2011 while processing record retail sales, and decreasing its ratio of statutory general expenses to average assets (one measure of efficiency) to 42 basis points, compared to the 2010 level of 44 basis points.

National Planning Holdings ('NPH') is Jackson's affiliated independent broker-dealer network. The business is comprised of four broker-dealer firms, including INVEST Financial Corporation, Investment Centers of America, Inc, National Planning Corporation and SII Investments, Inc. NPH continues to grow its business and revenue per representative. By utilising high-quality, state-of-the-art technology, NPH provides advisers the tools they need to operate their practices more efficiently. At the same time, 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, LLC ('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 while also complementing Jackson's core annuity product lines with Curian's retail asset management products.

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(1) Source: Life Insurance and Market Research Association.

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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 Jackson's deposits for investment contracts with limited or no life contingencies.

	Year Ended 31 December		
	2011	**2010**	**2009**
		(£ million)	
By Product			
Annuities			
Fixed annuities			
Interest-sensitive	**441**	755	915
Fixed index	**934**	1,089	1,433
Immediate	**31**	81	138
Variable annuities	**10,909**	9,481	6,389
Total	**12,315**	11,406	8,875
Life insurance	**29**	33	34
Institutional products			
GICs, funding agreements and Federal Home Loan Bank of Indianapolis (FHLBI) advances	**237**		
Total	**12,581**	11,439	8,909
By Distribution Channel			
Independent agents	**643**	846	1,229
Bank	**2,135**	2,285	1,566
Independent broker-dealer	**7,471**	6,503	5,062
Regional broker-dealer	**2,075**	1,789	1,037
Captive agents	**20**	16	15
Institutional products department	**237**		
Total	**12,581**	11,439	8,909

Of the total new business premiums of £12,581 million in 2011 (2010: £11,439 million; 2009: £8,909 million), £12,325 million (2010: £11,417 million; 2009: £8,885 million) were single premiums, £19 million (2010: £22 million; 2009: £24 million) were regular premiums and £237 million (2010 and 2009: nil) were institutional product premiums.

Annuities

Fixed Annuities

Interest-sensitive Annuities

In 2011, interest-sensitive fixed annuities accounted for four per cent of total new business premiums and 16 per cent of policyholder liabilities of the US operations. 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. On more than 90 per cent (2010: 88 per cent) of in-force business, 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

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payments to the contract holder in the form of an immediate annuity product. This latter product is similar to a UK annuity in payment.

Policyholder behaviour is relevant when looking at profits for fixed annuity contracts. The relevant factors are the potential for surrenders when interest rates rise and, in a low interest environment, the influence of the minimum guarantees required by state law. 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. 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, less expenses. 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.

Fixed Index Annuities

Fixed index annuities accounted for seven per cent of total new business premiums in 2011 and nine per cent of policyholder liabilities of the US operations. Fixed index annuities are similar to interest-sensitive 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 hedging the equity component of 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.

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 2011, immediate annuities accounted for less than one per cent of total new business premiums and one 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 2011, variable annuities accounted for 87 per cent of total new business premiums and 63 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.

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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 nine 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 and also 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 benefits ('GMDB'), which guarantee that, upon death of the owner, the 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 annuitisation. Variations of the GMWBs are offered whereby the guaranteed base can be increased, either through step-ups to a more recent market value of the account, or through bonuses offered if withdrawals are delayed for a particular number of years. Additional charges are assessed for these features. GMABs generally provide a guarantee for a return of a certain amount of principal after a specified period. This benefit was eliminated from Jackson's product offerings in 2011. GMIBs provide for a minimum level of benefits upon annuitisation regardless of the value of the investments underlying the contract at the time of annuitisation. Jackson no longer offers GMIBs, with existing coverage being 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 hedging and eventual payment of benefits guarantees. In addition to being a profitable book of business in its own right, the variable annuity book also provides an opportunity to utilise the offsetting equity risk among various lines of business to effectively manage Jackson's equity exposure. Jackson believes that the internal management of equity risk coupled with the utilisation 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 on both sales and allocations to the variable accounts and the effects of the economic hedging programme. While risk is hedged 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.

Life Insurance

Reflecting the competitive life insurance market and the overall trend towards asset accumulation products, Jackson's life insurance products accounted for less than one per cent of the total new business premiums and seven per cent of policyholder liabilities of the US operations in 2011. Jackson sells several types of life insurance, including term life, universal life and variable universal life. Term life provides protection for a defined period 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 type of life insurance policy that combines death benefit protection with the ability for the policyholder account to be invested in separate account funds. Jackson's life insurance book has delivered consistent profitability, driven primarily by positive mortality and persistency experience.

Institutional Products

Institutional products consist of traditional guaranteed investment contracts ('GICs'), funding agreements, including agreements issued in connection with participation in the Federal Home Loan Bank of Indianapolis ('FHLBI') mortgage collateralised loan advance program, and medium term note funding agreements. In 2011, institutional products accounted for two per cent of total new business premiums and four per cent of policyholder liabilities of the US operations. Institutional products are distributed directly to investors, through investment banks, or through funding agreement brokers. The US operations sold no institutional products during 2010 and 2009, as available capital was directed to support higher margin variable annuity sales. In 2011, Jackson re-entered the institutional market on a limited and selective basis, taking advantage of high returns available at particular times during the year. 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 programme.

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 investments 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 seven to 90 days notice, and thus qualify as cash equivalents for the clients' purposes. In 2011 and 2010 there were no funding agreements terminable by the policyholder with less than 90 days notice.

Jackson is a member of the FHLBI. Membership allows Jackson access to advances from FHLBI that are collateralised by mortgage related assets in Jackson's investment portfolio. These advances are in the form of funding agreements issued to FHLBI.

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. Although Jackson has these programs in-force there have been no new sales since 2008.

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 markets its retail products primarily through advice based distribution channels, including independent agents, independent broker-dealer firms, regional broker-dealers, and wirehouses, banks and registered investment advisors. Jackson also markets life insurance and fixed annuity products through its captive insurance agency, which is concentrated in the south eastern United States.

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 organisation for annuities and life insurance products. The insurance and fixed annuity products are distributed through independent agents located throughout the United States. These approximately 20,000 appointed insurance agents or brokers at 31 December 2011, who also may represent other companies, are supported with marketing materials and multi media presentations to help advisers choose the right solutions for their clients' individual financial situations. JNLD generally deals directly with writing agents and brokers thereby eliminating intermediaries, such as general agents. This distribution channel has enabled Jackson to generate significant volumes of business on a low, variable cost basis.

JNLD's wholesalers meet directly with independent broker-dealers and financial planners and are supported by an extensive internal sales staff. At 31 December 2011, Jackson had active selling agreements with independent broker-dealer organisations throughout the United States providing access to more than 55,000 appointed agents. Jackson provides training for its broker-dealers and also provides them with product information and sales materials.

Regional Broker-Dealers

JNLD's Regional Broker-Dealer ('RBD') team provides dedicated service and support to regional brokerage firms and wirehouses. Regional broker-dealers are a hybrid between independent broker-dealers and wirehouses. Like representatives who work for wirehouses, financial representatives at regional broker-dealers are employees of the regional broker-dealers. However, unlike wirehouses, RBD firms have limited institutional investment banking services. The RBD team develops relationships with regional firms throughout the US and provides customised materials and support to meet their specialised advisory needs.

Jackson's RBD team also provides support for the wirehouse channel, which produced £1.7 billion of premium in 2011. Jackson first entered the wirehouse market in late 2006.

Jackson's RBD team supports more than 30,000 representatives in regional broker-dealers and wirehouses.

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 organisations that serve these institutions. Jackson is a leading provider of annuities offered through banks and credit unions and at 31 December 2011 had access to more than 33,600 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 described in more detail above. NPH had 3,636 registered representatives at the end of 2011, up from 3,461 at year end 2010.

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 31 December 2011, was formed to help retain the Life of Georgia book of business and to create a new distribution channel for Jackson's life insurance.

Registered Investment Adviser

As described above Curian Capital, LLC is Jackson's registered investment adviser channel.

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 personalised investment advice, high-quality money management, good returns and reasonable costs to a broader range of clients.

Curian's sales, not included in Jackson's premiums and deposits, totalled £1,684 million and £1,361 million in 2011 and 2010, respectively.

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 match closely with the duration of the assets in its investment portfolio 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: life and fixed annuities without market value adjustment, fixed annuities with market value adjustment, fixed index annuities and institutional liabilities. The portfolios backing life and 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 31 December 2011, six 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. As of 31 December 2011, the majority 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 connection with the sales of variable annuity contracts expose Jackson to equity risk as the benefits generally become payable when equity markets decline and contract values fall below the guaranteed amount. As discussed previously, 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 the economic crisis, subsequent rebound and recent volatility in the equity markets, Jackson's hedges have effectively operated as designed.

Reserves

Except for certain non-insurance deposit-type accounts and as allowed under IFRS, Jackson uses reserves established on a grandfathered 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 1983 Individual Annuitant Mortality Table and the Annuity 2000 Mortality Table for newer issues. Interest rate assumptions currently range from one per cent to five and a half per cent.

The IFRS accounting for guarantees on Jackson's variable annuity contracts has a mixed measurement approach. GMWB 'not for life' contract features are fair valued under IAS 39 and current US GAAP, with a capping feature to prevent early anticipation of expected fees for guarantees. However, the GMDB and GMWB 'for life' blocks of business are accounted for under grandfathered US GAAP which does not, and is not intended to, fair value the liabilities.

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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 three and one-half per cent to six 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 reserves ceded to any one reinsurer is not material to Jackson's overall financial position. 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 US$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 equaled more than one per cent of total policy reserves.

Jackson typically cedes 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.

Jackson ceded 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 (PPMA) is Prudential's US fund management operation, with offices in Chicago and New York. PPMA manages assets for Prudential's US, UK and Asian affiliates. PPMA also provides other affiliated and unaffiliated institutional clients with investment services including collateralised debt obligations (CDOs), private equity funds, institutional accounts, and mutual funds. PPMA's strategy is focused on managing existing assets effectively, maximising the benefits derived from synergies with its international asset management affiliates, and leveraging investment management capabilities across the Group. PPMA also pursues third-party mandates on an opportunistic basis.

UK Business

Introduction

As at 31 December 2011, Prudential's UK business was structured into two business units, each focusing on its respective target customer markets. The Prudential's UK business units are Prudential UK (being the insurance operations) and M&G.

In 2011, Prudential's UK business generated new business insurance premiums of £5,130 million and gross investment inflows of £25,981 million. As at 31 December 2011, M&G had £201 billion of funds under management.

Prudential UK business overview

The UK Life & Pensions market, which is mature and the third largest in the world, is characterised by a concentration of wealth in the 45 to 74 age group and an ageing population, as the 'baby-boomers' move into retirement. In many instances, these consumers are insufficiently prepared financially for the prospect of spending a longer period of time in retirement. As a result, many are considering extended working lives while adopting a more flexible approach towards retirement. Prudential UK is well positioned to help the baby-boomers and subsequent generations meet their financial needs as they approach retirement and afterwards through its range of market leading with-profits and annuity products.

In 2011 Prudential UK continued to pursue a value over volume strategy, actively choosing to compete selectively in the retirement savings and income markets, and balancing the writing of new business with sustainable cash generation and capital preservation.

Prudential UK has a strong individual annuity business, built on a robust pipeline of internal vestings from maturing individual and corporate pension policies. The internal vestings pipeline is supplemented by sales through intermediaries and strategic partnerships with third parties where Prudential is the recommended annuity provider for customers vesting their pensions at retirement.

The strength and performance track record of Prudential UK's With-Profits Fund is widely recognised. Despite extreme market volatility in 2011 the Fund continues to provide customers with solid returns over medium to long-term time horizons. Over ten years the Fund has delivered investment returns of 92.7 per cent, which compares favourably with other with-profits funds and the FTSE All-Share Index (total return) of 59.5 per cent over the same period. This strong medium to long-term performance has shown that with-profits, when invested in an actively managed, and financially strong fund like Prudential's, continues to be a very attractive medium to long-term investment, offering strong annualised returns compared with other investment options. Prudential's with-profits customers benefit from the security offered by Prudential's large inherited estate, with the free assets of the with-profits fund valued at approximately £6.1 billion at the year end, valued on a regulatory realistic basis.

Prudential UK's focus on delivering improved levels of customer service was recognised again at the 2011 Financial Adviser Service Awards, where it achieved two 5-Star ratings for excellent service in the Life & Pensions and Investment categories.

In 2010 Prudential UK met its cost savings target of £195 million per annum and announced further cost saving initiatives to reduce costs by £75 million per annum on a consistent basis by the end of 2013. The business has made good progress towards this objective in 2011 and remains on track to deliver these savings by the end of 2013.

UK products and profitability

In common with other UK long-term insurance companies, Prudential UK's products are structured as either with-profits (or participating) products, or non-participating products including annuities in

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payment and unit-linked products. Depending on 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, Onshore Bonds or Flexible Investment Bonds) or regular premium (for example, certain pension products). Prudential UK's primary with-profits sub-fund is part of The Prudential Assurance Company Limited (PAC)'s 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. This 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, while shareholders receive 10 per cent as a statutory transfer.

The Defined Charge Participating Sub-Fund (DCPSF) forms part of the PAC long-term fund. It is comprised of the accumulated investment content of premiums paid in respect of the defined charge participating with-profits business issued in France and the defined charge participating with-profits business reassured into PAC from Prudential International Assurance plc and Canada Life (Europe) Assurance Ltd. It also includes the portfolio of with-profits annuity policies acquired from Equitable Life in 2007. All profits in this fund accrue to policyholders in the DCPSF.

The profits from almost all of the 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 these 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 traditional life insurance product offered by UK life insurance companies is 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 UK 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 response to a growing realisation that state provided pensions are unlikely to provide sufficient retirement income. An ageing population is focusing on annuities 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.

Further information on the UK products is provided below under "UK Business Units-Long term products".

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. Independent Financial Advisers dominate the intermediary marketplace and offer products from a range of insurance companies selected from the whole of the market. Tied agents are either 'single tied'

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exclusive agents who represent only one insurer or 'multi-tied'; advising on the products of a limited range of providers. Tied agents must offer customers the products most suitable to their needs, but only from the range of products offered by the insurers to which they are tied. Direct and e-commerce distribution methods are generally non-advised and therefore lower-cost than other methods. Accordingly, products distributed directly are generally more straightforward and have lower charges.

The FSA's review of the retail distribution marketplace called the Retail Distribution Review ('RDR') culminated in a policy statement on 26 March 2010. The changes contained in the review are 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 removal of commission payments, the introduction of adviser charging and the new professional standards and believes that these provide an opportunity to put in place a framework that will better align the interests of consumers, advisers and providers. The new rules reflecting these changes have been confirmed and will come into force on 31 December 2012.

The changes to be implemented improve the clarity with which firms describe their services to customers and the role of advisers, particularly with regards to remuneration. The advice market will be split between independent and restricted advice. This will be supported by the need for specific disclosure of status both in writing and orally at point of sale. Commissions traditionally paid by product providers to advisers will be replaced by 'Adviser Charging' with prescriptive rules aimed at ensuring consumers have total clarity on the cost of advice services. The changes will in particular significantly increase the requirements for firms to be able to describe themselves as independent. As a result it is widely expected that the popularity of restricted advice models will grow.

The new rules apply to all retail investment advice and the group pensions marketplace, although advisers will continue to be able to be remunerated by commission for pure protection business.

A significant feature of the UK retail marketplace over the past five years has been the emergence of investment platforms. From an initial concept of providing easy access by consumers and advisers to unwrapped investments from a range of fund managers, many models have been developed into distribution-led propositions with the objective of capturing total business flows from adviser firms.

As a result, in parallel to the overall RDR, the FSA has been paying specific attention to the role of platforms in the marketplace and in August 2011 published a policy statement confirming their proposals for the integration of platforms into the overall RDR. In previous consultations, the FSA did not propose an outright ban on investment rebates paid by fund managers and product providers to platforms but it has now stated that it has concluded that such rebates should eventually be banned, and that it will be undertaking further research on the market impacts prior to issuing a further consultation. In the meantime, the FSA has allowed such payments to continue, except for payments made directly to consumer cash accounts (which will be banned) and subject to disclosure requirements.

The full impact of the RDR remains uncertain. Some IFAs are likely to choose to exit the market, whilst others are expected to seek partnership arrangements with product providers through restricted advice models. Prudential is well placed to participate in such arrangements with partnerships already in place with a number of third party distributors. A large proportion of Prudential UK's annuity sales are made direct on a non-advised basis and will be unaffected by the changes proposed by the RDR.

Prudential UK is continuing to work with the regulator, industry bodies and distributors on ways to help advisers make the transition to the new environment as it believes that a strong adviser sector is beneficial for the market, and for Prudential.

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In 2009-2011, Prudential UK's new business premiums by channels are as follows:

	Year Ended 31 December		
	2011	**2010**	**2009**
		(£ million)	
Individual Annuities:			
Direct & Partnerships	**328**	593	590
Intermediated	**241**	221	242
Internal Vesting*	**1,223**	1,235	1,357
Total Individual Annuities	**1,792**	2,049	2,189
Other Products:			
Direct & Partnerships	**654**	588	536
Intermediated	**2,244**	2,215	2,100
Wholesale	**336**	945	62
Total Other Products	**5,026**	5,797	4,887
Department of Work and Pensions rebate business	**104**	113	127
Total New Business Premiums	**5,130**	5,910	5,014

* Internal vesting business is classified as new business where the contacts include an open market option.

Direct and Partnerships

The direct distribution channel is primarily charged with increasing revenue from existing Prudential UK customers and with seeking new customers. Direct distribution channels include the telephone, mail and internet, and focus on annuities, investments, protection and health products. In December 2011 Prudential UK launched a direct advice service, Prudential Financial Planning, to offer financial advice to existing customers who originally came to Prudential through its direct sales force. Starting with 25 advisers, the expectation is that this channel will grow further in 2012 to meet customer demand.

Partnerships focus on developing strong relationships with banks, retail brands and other distributors. Partnerships also seek to help Prudential UK's distribution partners in their distribution and product development strategies. Prudential UK now has a range of distribution partners including Royal London, Santander, St James's Place and Openwork.

Intermediaries

In 2011 Prudential UK has consolidated its position with major intermediaries and has maintained sales through this channel in a challenging market. Prudential UK has worked closely with its distribution partners in the development of their business models for the post-RDR environment.

Wholesale

In the Wholesale market, Prudential UK's aim is to continue to participate selectively in bulk and back-book buyouts using its financial strength, superior investment track record and annuitant mortality risk assessment and servicing capabilities. In line with this approach, during 2011 Prudential UK signed two bulk annuity buy-in insurance agreements totalling £330 million of new business premiums. Prudential UK will continue to maintain a strict focus on value and only participate in capital-efficient transactions that meet its return on capital requirements.

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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 the Prudential UK's 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. Prudential UK also distributes life insurance products, primarily investment bonds, in other European countries. The volume of the other European business is relatively small and is included in the table below of Prudential UK's new business premium.

	Year Ended 31 December		
	2011	**2010**	**2009**
		(£ million)	
Pension annuities	**1,792**	2,049	2,189
Corporate pensions	**399**	426	383
Onshore bonds	**1,779**	1,660	1,444
Other products	**824**	830	936
Wholesale	**336**	945	62
Total new business premiums	**5,130**	5,910	5,014

Of the total new business premiums of £5,130 million (2010: £5,910 million; 2009: £5,014 million), £4,871 million (2010: £5,656 million; 2009: £4,768 million) were single premiums and £259 million (2010: £254 million; 2009: £246 million) were regular premiums.

Pension Annuities

Prudential UK 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.

A total of £1,792 million of individual annuities were sold in 2011. Of this total, £1,223 million were sold to existing Prudential UK customers with maturing pension policies. The other £569 million were sold to new customers, typically individuals with a pension maturing with another provider who chose Prudential UK to provide their annuity. Prudential UK'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 UK from immediate annuity products, therefore, are mortality improvements and credit risk.

Conventional Annuities

Prudential UK's conventional annuities include level (non-increasing), fixed increase and RPI annuities. Prudential UK'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 2011, sales of RPI annuities were £285 million (including £274 million of bulk annuities). In 2011, sales of level and fixed increase conventional annuities amounted to £1,385 million (including £56 million of bulk annuities).

With-profits Annuities

Prudential UK'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. In 2009, Prudential UK launched the Income Choice Annuity, which allows customers to choose an income between a defined maximum and minimum level, with the option of re-setting this every two years. It also provides an opportunity for pension income to grow based on the returns of the with-profits fund. Through this product, Prudential UK brings its product development strengths to bear while also capitalising 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 which are active in the with-profits annuities market and has been operating in this market since 1991. In 2011, Prudential UK's premiums for this business were £452 million. Prudential UK has new business market share of 72 per cent in the first nine months of 2011[(2)].

Pension Products

Prudential UK provides both corporate and individual pension products. Corporate pension products are discussed below whilst individual pension products are discussed under 'Other Products'. Pension products are tax-advantaged long-term savings products that comply with rules established by the HM Revenue and Customs ('HMRC') and are designed to supplement state-provided pensions. These products provide policyholders with a number of options at retirement. Policyholders may elect to use part or all of their maturity benefits to purchase a pension annuity, they may choose to draw down funds without purchasing an annuity (subject to a number of rules and restrictions on the amount able to be drawn down each year), they may delay taking any benefits, or take a combination of these options. They are also permitted a portion to be taken as a tax-free lump sum. For draw down products, the investment risk remains with the policyholder, payments are not guaranteed, and tend to cost more to administer. This means that the option to enter draw down will tend to apply mainly to more sophisticated policyholders and to larger retirement funds. This, combined with the individual's own need for a secured income in retirement, means that in practice most policyholders are likely to purchase an annuity.

Prior to retirement, these products typically have minimal mortality risk to Prudential UK and are primarily considered investment products. An exception is where a guaranteed annuity option ('GAO')has been offered on the product, with an element of risk to Prudential UK both in underlying mortality and investment assumptions. Prudential UK ceased marketing 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 one per cent of the with-profits sub-fund as at 31 December 2011.

Many of the pension products Prudential UK 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 UK may apply a market value adjustment to the amount paid out. The remaining pension products are non-participating products, which include unit-linked products.

Corporate Pensions

There are two categories of corporate pension products: defined benefit and defined contribution. Prudential UK has an established defined benefit plan client base covering the small to medium-sized employer market. Prudential UK'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 UK offers the Additional Voluntary Contribution ('AVC') 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. Prudential UK administers corporate pensions for over 600,000 scheme members sponsored by some of the UK's

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(2) Source: ABI

largest employers and has also built a very strong position in the provision of with-profits AVC arrangements. Prudential UK provides AVCs to 67 of the 99 Local Government Authorities in England & Wales.

Defined benefit plans and products have previously dominated 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 defined benefit plans to new members or to convert existing schemes from defined benefit to defined contribution in order to stabilise or reduce potential pension liabilities.

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

In addition Prudential UK 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 (ceasing to exist or being replaced by a new type of scheme). Prudential UK also has the facility to accept enhanced transfers from deferred members of a corporate's defined benefit pensions scheme into Prudential UK Personal Pension plan where the member has received advice from an independent financial adviser (often called an enhanced transfer value exercise).

Onshore Bonds

Prudential UK offers customers a range of investment funds to meet different risk and reward objectives. Prudential UK's main onshore bond product wrappers are the Flexible Investment Plan ('FIP') and the Prudential Investment Plan ('PIP'. Through these plans, which are single premium with no fixed term, customers have the option to invest in the With-Profits fund or in a range of unit-linked investment funds.

In 2010, Prudential UK launched Dynamic Portfolios, which offer advisers a choice of portfolio options to match a client's risk/reward profile as an alternative to building an individual portfolio. 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 2011, sales of the unit-linked option of FIP and PIP were £165 million.

Prudential UK offers a unitised and smoothed with-profits investment bond entitled PruFund, which is designed to provide increased transparency and smoothed investment returns to the customer with a choice of Cautious or Growth funds. PruFund also offers clients an optional guarantee on the initial investment with a term from six to ten years depending on the client's requirements. PruFund is available across Prudential UK's range of tax wrappers including individual pensions, income drawdown and onshore and offshore bonds. In 2011, total new business premiums attributable to PruFund, including new business through FIP and PIP, was £1,178 million.

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 computed on a daily basis from investment returns achieved within PAC's long-term with-profits fund, offset 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 PAC's long-term with-profits fund are either fully or partially withdrawn, PAC may apply a market value adjustment to the amount paid out.

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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.

Other Products

Other products comprise individual pensions, income drawdown, offshore bonds, healthcare, life insurance and equity release mortgages.

Individual Pensions

Prudential UK's individual pension range offers unit-linked and unitised with-profits products, including 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 UK designs, administers and 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 UK 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.

As of 2012, individuals who are not already in a pension scheme, who are over 21 and below retirement age and whose earnings are over a minimum amount have had to be automatically enrolled in a pension scheme by their employer, who will be required to make contributions. These requirements will apply first to larger employers and will be rolled out gradually to medium-sized and smaller employers.

Prudential UK 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 UK. 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. The option to contract out will be removed from April 2012 and no further contributions will be received, although Prudential will continue to administer in-force policies.

Income Drawdown

Given the UK's historic requirement for compulsory annuitisation by a maximum age (removed completely in April 2011), 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. These products help customers manage their pensions through the various stages of retirement, and also offer flexibility while providing potential for capital growth. In 2011, Prudential UK sold £87 million of income drawdown products.

Offshore Bonds

Prudential UK's offshore bond products are the International Prudence Bond, International Prudential Portfolio Bond and International Portfolio Account, offering clients access to a wide range of quoted UK investments. Prudential UK's offshore bond sales grew by 4 per cent to £265 million in 2011.

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Healthcare

PruHealth was launched in 2004 as a private medical insurance provider and is backed by Prudential and Discovery of South Africa. PruHealth uses the Prudential brand and Discovery's expertise to build branded distribution and innovative product offerings in the private healthcare and protection markets. In August 2010, PruHealth acquired Standard Life Healthcare and as part of the transaction, Prudential UK reduced its shareholding in the combined PruHealth and PruProtect businesses from its previous level of 50 per cent to 25 per cent of the enlarged business.

During 2011, PruHealth successfully combined the two healthcare businesses.

Life Insurance Products

Prudential's UK life insurance products are predominantly pure protection (term) products, and include the PruProtect product sold through the joint venture with Discovery. PruProtect's product is focused around a core philosophy of helping people become healthier while protecting and improving the quality of their lives.

Equity Release Mortgage

In November 2009, Prudential UK announced the decision to close its equity release operation to new business. Existing customers may, however, still draw down additional funds, subject to their overall borrowing limits.

Wholesale

Wholesale business comprises bulk annuities (£330 million) and a small amount of run-off credit life insurance business through UK retail banks (£6 million). Prudential UK offers bulk annuities selectively, whereby it manages the assets and accepts the liabilities of a company pension scheme. The volume of Prudential UK's bulk annuity sales is unpredictable as the business maintains a very strict focus on value and only participates in capital-efficient transactions that meet its return on capital requirements.

Reinsurance

In view of the size and spread of PAC's long-term insurance fund, there is little need for reinsurance to protect this business. Some limited reinsurance is maintained and treaties relating to annuities, healthcare, 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 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 UK'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.

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Prudential UK 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 EU insurance companies. See 'Financial Strength of PAC's Long-term Fund' for further information on solvency and 'Realistic Financial Strength Reporting' for further information on realistic reporting.

Financial strength of PAC's with-profits fund

PAC's with-profits fund is one of the largest and financially strongest in the UK, and continues to cover all of its regulatory solvency requirements. The fund is supported by a large inherited estate, with the free assets of the with-profits fund valued at approximately £6.1 billion as at 31 December 2011, valued on a regulatory realistic basis. This provides the working capital required to support the fund for the long-term benefit of current and future policyholders.

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

	2011	2010	2009
	%	%	%
UK equities	**24**	26	25
International equities	**10**	13	12
Property	**13**	12	12
Fixed Interest	**44**	42	40
Cash and other asset classes	**9**	7	11
Total	**100**	100	100

Despite a low interest rate environment and four consecutive years of market uncertainty, the with-profits sub-fund earned a positive return in 2011. The with-profits sub-fund has delivered investment returns of 92.7 per cent over ten years for policyholder asset shares in the fund, compared with the FTSE All-share index (total return) of 59.5 per cent over the same period (figures are to 31 December 2011, before tax and charges). These returns clearly demonstrate the value for policyholders of investing in PAC's financially strong, well-managed With-Profits Fund and the benefits that this style of more cautious investing can provide over the medium to long-term.

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 strong with the inherited estate (free assets) measured on a realistic basis, valued at approximately £6.1 billion at the end of 2011 before deduction for the risk capital margin.

In line with FSA requirements, PAC produces an Individual Capital Assessment ('Pillar II') which is an assessment of the economic capital required to ensure that there is a high likelihood that the company can meet its liabilities as they fall due.

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

In common with other UK long-term insurance companies, Prudential UK'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. 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. Final bonuses can represent a substantial portion of the ultimate return to policyholders.

With-profits policies are supported by a with-profits fund. Prudential UK's primary with-profits fund is part of PAC'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 UK writes is an amount equal to up to one-ninth of the value of the bonuses Prudential UK credits or declares to policyholders in that year. Prudential UK 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, PAC 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 PAC notionally attributes to the policy. In calculating asset shares, PAC 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 UK 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.

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Prudential UK 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 2011, PAC declared a total surplus of £2,293 million (2010: £2,367 million) from PAC's primary with-profits sub-fund, of which £2,064 million (2010: £2,131 million) was added to with-profits policies and £229 million (2010: £236million) was distributed to shareholders. These amounts included annual bonus rates of 3.0 per cent for Prudence Bond and 3.0 per cent for personal pensions.

The closed Scottish Amicable Insurance Fund ('SAIF') declared total bonuses in 2011 of £611 million compared to £471 million in 2010. 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 sub-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 sub-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 sub-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.

Depletion of Surplus Assets and Shareholders' Contingencies

As a proprietary insurance company, PAC 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 PAC'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 1998, Prudential UK stated that deducting personal pensions mis-selling costs from the inherited estate of the with-profits sub-fund would not impact Prudential UK's 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

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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 30 June 2002 and the assurance has not applied to new business issued since 1 January 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.

During 2009, the FSA issued a policy statement confirming that certain payments of compensation and redress for events occurring after 31 July 2009 may only be paid from assets attributable to shareholders. As the pensions mis-selling review was concluded prior to this date, the requirements of the policy statement do not impact the provisions outlined above.

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 UK subsidiary, Scottish Amicable Life plc, which operated for the benefit of shareholders.

SAIF with-profits policies include certain guaranteed annuity products, referred to below. Other than these policies, 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 UK'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 UK. Since mid-2004, Prudential UK 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.

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Guaranteed Annuities

Prudential used to sell guaranteed annuity products in the United Kingdom and held a technical provision of £90 million as at 31 December 2011, within the main with-profits fund to honour guarantees on these products. PAC's main exposure to guaranteed annuities in the United Kingdom is through SAIF and a provision of £370 million was held in SAIF as at 31 December 2011, to honour the guarantees. As SAIF is a separate sub-fund of PAC's long-term business fund, wholly attributable to the policyholders of the fund, the movement in this provision has no impact on shareholders.

M&G

M&G is the UK and European fund manager of the Prudential Group with responsibility for investments on behalf of both internal and external clients. M&G is an investment-led business whose aim is to generate superior long-term returns for its third-party investors and the internal funds of the Prudential Group. This is achieved by creating an environment that is attractive to investment talent.

Fund management

In the retail market, M&G's aim is to operate a single fund range and to diversify the distribution base by accessing a wide variety of channels and geographies. In recent years, this has resulted in significantly increased sales of UK-based funds in European and other international markets.

In the institutional marketplace, M&G's approach centres on leveraging capabilities developed primarily for the Prudential internal funds to create higher margin external business opportunities. This has allowed M&G to offer third-party clients, such as pension funds, an innovative range of specialist fixed income and related strategies, including private debt opportunities in leveraged finance, and infrastructure investment.

Performance overview

M&G's investment performance has been robust in the face of on-going macroeconomic instability. Over the three years to 31 December 2011, 25 retail funds representing approximately 76 per cent of retail funds under management ('FUM'), delivered first and second quartile investment performance. The performance of M&G's actively managed external institutional fixed income mandates also remains very strong with all of the mandates meeting or outperforming their benchmarks over the three years to 31 December 2011.

Market context

Following considerable uncertainty over sovereign debts on both sides of the Atlantic and concerns over the lack of global economic growth, the third quarter of 2011 saw the FTSE 100 suffer its worst quarter for nine years, falling 14 per cent. Markets rebounded over the fourth quarter with the index rising by 9 per cent. M&G's FUM has proved resilient in the face of the market volatility experienced over the second half of the year. From a FUM level of £194.4 billion at the end of 30 September 2011, M&G's FUM increased to £201.3 billion by 31 December 2011. This included external funds under management, representing 46 per cent of total FUM, of £91.9 billion (quarter to 30 September 2011: £87.3 billion).

In 2011, M&G attracted gross inflows of £26.0 billion and net inflows of £4.4 billion, with retail funds contributing the lion's share of the net position with £3.9 billion. After two successive years of extremely high net sales, it was M&G's expectation that net fund flows would revert to somewhat lower levels in 2011 especially in light of the economic headwinds experienced over the year. However, while net sales are indeed lower, they remain strong. M&G's ability to maintain this sales performance over the year again demonstrates its strength and depth across all the main asset classes and distribution channels.

Gross new business wins for the fourth quarter to 31 December 2011 totalled £6.2 billion, compared to £6.4 billion for the previous quarter. Outflows totalled £4.4 billion (quarter to 30 September 2011: £6.7 billion), resulting in net inflows for the quarter of £1.8 billion. This was a positive turnaround on the total net outflow of £288 million experienced in the quarter to 30 September 2011.

Retail

Volatile market conditions and reduced investor confidence led to a considerable worsening of the sales environment in the overall market during the second half of 2011, in both Europe and the UK, and particularly for equity products.

The European funds industry suffered net outflows of €69.3 billion in 2011 only the second time in the past decade (net outflows were €298 billion in 2008)[3]. This result masks a significant divide between the first half of the year, which saw net inflows of €96 billion, and the second half with net outflows of around €165 billion. It also masks a divide between markets where investors have been the greatest net buyers (notably the UK) and where they have been in significant net outflow (Continental Europe) as 21 out of 33 markets suffered full year outflows.

Despite this challenging flow environment, M&G's Retail business generated positive net sales in the final quarter. In its core UK market, gross inflows of £2.7 billion were generated over the quarter with corresponding net inflows of over £1.1 billion. Over the full year to 31 December 2011, M&G's UK Retail business has received gross inflows of £11.2 billion, representing an increase of 10 per cent on 2010 levels. At the net level, the UK Retail business recorded inflows of £4.3 billion, a modest fall of only 3 per cent on 2010 results.

M&G's UK Retail business has been number one for gross and net retail sales over 13 consecutive quarters based on data to 31 December 2011[4]. The strength of its UK distribution channels has helped to offset the difficult conditions encountered in mainland Europe, where risk-averse investors have been withdrawing money from funds. M&G's European Retail distribution business did make up lost ground over the fourth quarter with positive net inflows being received. M&G continued to expand its distribution capabilities, registering its OEIC fund range in Finland, Norway and Denmark in the fourth quarter. By retail net sales, M&G ranked ninth out of 48 cross-border groups in 2011[5]. M&G-managed retail FUM sourced outside of the UK now stand at £8.2 billion, the equivalent of almost one-fifth of the total retail external funds managed by M&G.

In product terms, retail fund flows across the industry, affected by the eurozone crisis, have seen muted demand for equity products in aggregate as bond products continue to remain the default choice for risk-averse investors. However, flows into some of M&G's flagship equity products have remained robust in spite of stock market conditions, with investor appetite for M&G's global equity and emerging market products continuing. M&G's Property Portfolio Fund has also benefited from a consistent level of net sales over the full year. It is a core pillar of M&G's business performance that it is able to benefit from changing investor preferences as a result of its diversified product offering. No fewer than 14 of M&G's retail funds, representing all of the main asset classes, achieved net sales in excess of £50 million over the full year.

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(3) Source: Lipper FMI (February 2012, data as at December 2011). *FundFlash*. Thomson Reuters

(4) Source: Fundscape. (Q4 issue, February 2012). *The Pridham Report*. Fundscape LLP

(5) Source: Lipper FMI. (February 2012, data as at December 2011). *SalesWatch*. Thomson Reuters

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Institutional

M&G's Institutional business had a strong fourth quarter pushing the business into positive territory for the full year with net inflows of £490 million. The outflows experienced over the year included, as expected, a number of segregated clients withdrawing money from public debt funds due to asset allocation decisions. Additionally, outflows also reflected the contractual return of £696 million in capital to investors in mature closed-ended debt structures.

M&G's Institutional business continues to benefit from its innovative approach to investment. The Alternative Credit team has raised £200 million of capital for a UK social housing fund, the first fund of its kind to capitalise on the income-generating nature of the sector. This is the second instance of M&G creating a fund to assist organisations starved of bank loans since the onset of the credit crisis. The M&G UK Companies Financing Fund ('UKCFF'), M&G's loan facility for UK quoted companies, has now made total commitments of £710 million across eight loans, five of which were extended over 2011. Total commitments of £1.4 billion have been raised since its launch in 2009.

The M&G Secured Property Income Fund combines the expertise of both M&G's Fixed Income Team, with its extensive credit research capability, and PRUPIM, the real estate fund management arm of the M&G Group and its core capability in real estate investment analysis. The Fund, which offers pension fund investors an alternative means of managing their inflation liabilities, passed through a net asset value ('NAV') of £1 billion during the final quarter. £350 million in total was added to the NAV in 2011. Fund performance is strong, investor interest remains high and M&G continues to work hard at maintaining a suitable pipeline of acquisition opportunities.

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

	At 31 December		
	2011	**2010**	**2009**
	£bn	**£bn**	**£bn**
Retail fund management	**44**	42	31
Institutional fund management	**48**	47	39
Internal fund management	**109**	109	104
Total	**201**	198	174

Prudential Capital

Prudential Capital manages the Group's balance sheet for profit by leveraging Prudential's market position. This business has three strategic objectives: to provide professional treasury services to the Prudential Group; to operate a first-class wholesale and capital markets interface; and to realise profitable opportunities within a tightly controlled risk framework. Prudential Capital generates revenue by providing bridging finance, managing investments and operating a securities lending and cash management business for the Prudential Group and its clients.

The business has consolidated its position in a period of difficult and volatile markets, focusing on liquidity across the Prudential Group, management of the existing asset portfolio and conservative levels of new investment. Development of new product and infrastructure has continued, helping to maintain the dynamism and flexibility necessary to identify and realise opportunities for profit within acceptable risk parameters. Prudential Capital is committed to working closely with other business units across the Prudential Group to exploit opportunities and increase value creation for Prudential as a whole.

Group Risk Framework

Risk Management

Introduction

As a provider of financial services, including insurance, the management of risk lies at the heart of Prudential's business. As a result, effective risk management capabilities represent a key source of competitive advantage for the Group.

The Group's risk framework includes the Group's appetite for risk exposures as well as its approach to risk management. Under this approach, Prudential continuously assesses the Group's top risks and monitors its risk profile against approved 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 programmes.

Risk Oversight

Group risk appetite

Prudential defines and monitors aggregate risk limits based on financial and non-financial stresses for its earnings volatility, liquidity and capital requirements.

Earnings volatility: the objectives of the limits are to ensure that:

a. the volatility of earnings is consistent with the expectations of stakeholders;

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 funding strategies.

The two measures used to monitor the volatility of earnings are European Embedded Value (EEV) operating profit and International Financial Reporting Standards (IFRS) operating profit, although EEV and IFRS total profits are also considered.

Liquidity: the objective is to ensure that the Group is able to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and stressed scenarios.

Capital requirements: the limits aim to ensure that:

a. the Group meets its internal economic capital requirements;

b. the Group achieves its desired target rating to meet its business objectives; and

c. supervisory intervention is avoided.

The two measures used are the EU Insurance Groups Directive (IGD) capital requirements and internal economic capital requirements. In addition, capital requirements are monitored on a local statutory basis.

Prudential's risk appetite framework forms an integral part of its annual business planning cycle. The Group Risk Committee is responsible for reviewing the risks inherent in the Group's business plan and for providing the Board with input on the risk/reward trade offs implicit therein. This review is supported by its Group Risk function, which uses submissions by business units to calculate the Group's aggregated position (allowing for diversification effects between business units) relative to the limits contained within the risk appetite statements.

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Risk exposures

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

Category	Risk type	Definition
Financial risks	Market risk	The risk of loss for the Group's business, or of adverse change in the financial situation, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.
	Credit risk	The risk of loss for the Group's business or of adverse change in the financial position, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (eg downgrade or spread widening).
	Insurance risk	The risk of loss for the Group's business or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of a number of insurance risk drivers. This includes adverse mortality, longevity, morbidity, persistency and expense experience.
	Liquidity risk	The risk of the Group being unable to generate sufficient cash resources or raise finance to meet financial obligations as they fall due in business as usual and stress scenarios.
Non-financial risks	Operational risk	The risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.
	Business environment risk	Exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall 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.

Financial risks

(a) Market risk

(i) Equity risk

In the UK business, most of Prudential's equity exposure is incurred in the with-profits fund, which includes a large inherited estate estimated at £6.1 billion as at 31 December 2011 (2010: £6.8 billion), which can absorb market fluctuations and protect the fund's solvency. The inherited estate itself is partially protected against falls in equity markets through an active hedging policy.

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In Asia Prudential's shareholder exposure to equities is minimal and is mainly attributed to revenue from unit-linked products. From a capital perspective, Prudential has a small exposure to falling equity markets from the with-profits businesses.

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 guaranteed minimum death benefits (GMDB) on substantially all policies in this class, guaranteed minimum withdrawal benefits (GMWB) on a significant proportion of the book, and guaranteed minimum income benefits (GMIB) on only 5 per cent. To protect the shareholders against the volatility introduced by these embedded options, Jackson uses both a comprehensive hedging programme and reinsurance. The GMIB is no longer offered, with existing coverage being reinsured.

The Jackson IFRS shareholders' equity and US statutory capital are sensitive to the effects of policyholder behaviour on the valuation of GMWB guarantees, but to manageable levels. For example, at 31 December 2011, on two severe stress test scenarios:

- A halving in lapses of significantly 'in the money' policies would have given rise to indicative reductions of £200 million in IFRS shareholders' equity and £235 million on US statutory capital, or;

- A 10 per cent increase in utilisation by all policyholders would have given rise to indicative reductions of £100 million on IFRS shareholders' equity and £240 million on US statutory capital.

In its variable annuity sales activities, Jackson 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 generally select conservative investment options. Jackson is able to meet the needs of these customers because of the strength of its operational platform.

It is Jackson's philosophy not to compete on price; rather, Jackson seeks to sell at a price sufficient to fund the cost it incurs to hedge or reinsure its risks and to achieve an acceptable return for shareholders.

Jackson uses a macro approach to hedging that covers the risks inherent across the US business. Within this macro approach Jackson makes use of the natural offsets that exist between the variable annuity guarantees and the fixed index annuity book, and then use a combination of OTC options and exchange traded derivatives to hedge the remaining risk, considering significant market shocks and limiting the amount of capital Jackson is putting at risk. Internal positions are generally netted before any external hedge positions are considered. The hedging programme also covers the fees on variable annuity guarantees.

Jackson hedges the economics of its products rather than the accounting result. This focus means that Jackson accepts a degree of variability in its accounting results in order to ensure it achieves the appropriate economic result. Accordingly, while Jackson's hedges are effective on an economic basis, due to different accounting treatment for the hedges and some of the underlying hedged items on an IFRS basis, the reported income effect is more variable.

(ii) 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.

In the US, there is interest rate risk across the portfolio. The majority of Jackson's fixed annuity and life liabilities allow for an annual reset of the crediting rate, which provides for a greater level of discretion in determining the amount of interest rate risk to assume. The primary concerns with these liabilities relate to potential surrenders when rates increase and, in a low interest environment, the

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minimum guarantees required by state law. For variable annuities, interest rate changes will influence the level of reserves held for certain guaranteed benefits. With its large fixed annuity and fixed index annuity books, Jackson has natural offsets for its variable annuity interest-rate related risks. Jackson manages interest rate exposure through a combination of interest rate swaps and interest rate options.

In the UK, the investment policy for the shareholder-backed annuity business is to match the annuity payments with the cash flows from investments. As a result, assets and liabilities are closely matched by duration. The impact on profit of any residual cash flow mismatching can be adversely affected by changes in interest rates; therefore the mismatching position is regularly monitored. The guarantees written in the with profits business also give rise to some interest rate discounting risk (ie falling rates result in an increase in the cost of guarantees) albeit these impacts are in the first instance absorbed by the with-profits fund and not IFRS shareholders' equity.

The exposure to interest rate risk arising from guarantees in Asia is at modest levels: for some non-unit-linked investment products it may not be possible to hold assets which will provide cash flows to match exactly those relating to policyholder liabilities. 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. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated.

(iii) Foreign exchange risk

Prudential principally operates in the UK, the US, and in 13 countries and territories in Asia and the Middle East. The geographical diversity of its businesses means that Prudential is inevitably 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 Prudential's consolidated financial statements when results are expressed in pounds sterling.

Prudential does 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 surplus arising in an overseas operation supports Group capital or shareholders' interest, this exposure is hedged if it is economically optimal to do so. Currency borrowings, swaps and other derivatives are used to manage exposures.

(b) Credit risk

In addition to business unit and Group-wide operational limits on credit risk, Prudential monitors closely its counterparty exposures at Group level, highlighting those that are large or of concern. Where appropriate, Prudential will reduce its exposure, purchase credit protection or make use of collateral arrangements to control its levels of credit risk.

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The Group held the following total investments at 31 December 2011.

	2011				2010
	Participating funds	Unit-linked and variable annuities	Shareholder-backed	Total Group	Total Group
	£bn	£bn	£bn	£bn	£bn
Debt securities	**57.2**	**8.9**	**58.4**	**124.5**	116.4
Equity	**26.0**	**59.9**	**1.4**	**87.3**	86.6
Property investments	**8.5**	**0.7**	**1.6**	**10.8**	11.2
Mortgage loans	**1.0**		**4.7**	**5.7**	5.0
Other loans	**1.7**		**2.3**	**4.0**	4.3
Deposits	**7.2**	**1.5**	**2.0**	**10.7**	10.0
Other investments	**4.5**	**0.1**	**3.0**	**7.6**	5.8
Total	**106.1**	**71.1**	**73.4**	**250.6**	239.3

The table below presents the balances of investments related to shareholder-backed operations.

	Asia life	UK life	US life	Other	Total
			£bn		
Total shareholder-backed investments	**7.1**	**28.5**	**34.0**	**3.8**	**73.4**

Shareholders are not directly exposed to value movements on assets backing participating or unit-linked operations, with sensitivity mainly related to shareholder-backed operations.

(i) Debt portfolio

The investments held by the shareholder-backed operations are predominantly debt securities, of which 95 per cent are rated, either externally or internally, as investment grade compared to 95 per cent at 31 December 2010.

The table below presents the balances of debt securities at 31 December 2011.

	2011	2010
	£m	£m
Insurance operations		
UK	**77,953**	74,304
US	**27,022**	26,366
Asia	**17,681**	14,108
Asset management operations	**1,842**	1,574
Total	**124,498**	116,352

UK

The UK's debt portfolio on an IFRS basis is £78.0 billion as at 31 December 2011, including £47.6 billion within the UK with-profits fund. Shareholders' risk exposure to the with-profits fund is limited as the solvency is protected by the large inherited estate. Outside the with-profits fund there is £6.2 billion in unit-linked funds where the shareholders' risk is limited, with the remaining £24.2 billion backing the shareholders' annuity business and other non-linked business (of which 78 per cent is rated AAA to A, 20 per cent BBB and 2 per cent non-investment grade). The UK shareholder-backed portfolio did not experience any default losses in 2011.

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US

The most significant area of exposure to credit risk for the shareholders is Jackson in the US. At 31 December 2011 Jackson's fixed income debt securities portfolio consisted of:

Summary	2011	2010
	£m	£m
Corporate and government security and commercial loans:		
Government	**2,163**	2,440
Publicly traded and SEC Rule 144A securities	**16,281**	14,747
Non-SEC Rule 144A securities	**3,198**	3,044
Total	**21,642**	20,231
Residential mortgage-backed securities (RMBS)	**2,591**	2,784
Commercial mortgage-backed securities (CMBS)	**2,169**	2,375
Other debt securities	**620**	976
Total US debt securities	**27,022**	26,366

Of the £19.5 billion of corporate debt 95 per cent is investment grade. Concentration risk within the corporate debt portfolio is low, with the top ten holdings accounting for approximately 4 per cent of the portfolio. Jackson's largest sector exposures in the investment grade corporate debt portfolio are Utilities and Energy each at 15 per cent. Jackson actively manages the portfolio and will sell exposures as events dictate.

Within the RMBS portfolio of £2.6 billion, the portion guaranteed by US government sponsored agencies is 60 per cent. Another 18 per cent of the portfolio is non-agency prime and Alt-A 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 £343 million of which £337 million is invested in the senior part of the capital structure. The actual exposure to non-senior 2006/2007 Prime and Alt-A RMBS is only £6 million. The total RMBS portfolio has an average fair value price of 92 cents on the dollar.

The CMBS portfolio of £2.2 billion is performing strongly, with 35 per cent of the portfolio rated AAA and only 2 per cent rated below investment grade. The entire portfolio has an average credit enhancement level of 30 per cent. This level provides significant protection, since it means the underlying collateral has to incur a 30 per cent loss, net of recoveries, before Jackson's holding is at risk.

Jackson's debt securities experienced total credit-related losses in 2011 of £52 million (2010: £213 million). This includes net recoveries on sales of previously impaired bonds of £10 million (2010: loss of £89 million) and IFRS write-downs of £62 million (2010: £124 million). Of this amount of write-downs, £21 million (2010: £71 million) was in respect of RMBS securities. In addition to the amounts for debt securities, there were £28 million (2010: £12 million) of write-downs on Jackson's commercial mortgage loan portfolio. In 2011 and 2010 Jackson did not have any defaults in its debt securities portfolio.

The impairment process reflects a rigorous review of every bond and security in Jackson's portfolio. The Group's accounting policy requires Jackson to book full mark to market losses on impaired securities through its balance sheet. However, Jackson would expect only a proportion of these losses eventually to turn into defaults, and some of the impaired securities to recover in price over time.

Jackson's net unrealised gains from debt securities was positive £2,057 million at 31 December 2011, compared to positive £1,210 million at 31 December 2010. The gross unrealised loss position was £246 million at 31 December 2011 (31 December 2010: £370 million). Gross unrealised losses on

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securities priced at less than 80 per cent of face value totalled £158 million at 31 December 2011 compared to £224 million at 31 December 2010.

Asia

Asia's debt portfolio totalled £17.7 billion at 31 December 2011. Of this, approximately 70 per cent was in unit-linked and with-profits funds with minimal shareholders' risk. The remaining 30 per cent is shareholder exposure and is invested predominantly (73 per cent) in investment grade bonds. For Asia, the portfolio has performed very well, and did not experience any default losses in 2011.

Asset management

The debt portfolio of the Group's asset management operations of £1.8 billion as at 31 December 2011 is principally related to Prudential Capital operations. Of this amount £1.5 billion were rated AAA to A- by S&P or Aaa by Moody's.

(ii) Group shareholder sovereign debt exposure

Sovereign debt represented 16 per cent or £9.2 billion of the debt portfolio backing shareholder business at 31 December 2011. 43 per cent of this was rated AAA and 94 per cent investment grade. Of the Group's holdings in Continental Europe of £690 million, 87 per cent was AAA rated. Shareholder exposure to the eurozone sovereigns of Portugal, Italy, Ireland, Greece and Spain (PIIGS) is £44 million. The Group does not have any sovereign debt exposure to Greece, Portugal, Ireland or France.

The exposure of the Group's shareholder and with-profits funds to sovereign debt (including credit default swaps that are referenced to sovereign debt) at 31 December 2011 is as follows.

	Shareholder sovereign debt	With-profits sovereign debt
	£m	£m
Continental Europe		
Italy	43	52
Spain	1	33
	44	85
Germany	598	602
Other Europe (principally Isle of Man and Belgium)	48	62
	690	749
United Kingdom	3,254	2,801
United States	2,448	2,615
Other, predominantly Asia	2,850	332
Total	9,242	6,497

(iii) Exposure to bank debt securities

Prudential expects that any second order sovereign credit exposures would most likely be concentrated in the banking sector. The Group's bank exposure is a function of its core investment business, as well as of the hedging and other activity undertaken to manage its various financial risks. Prudential relies on public information, such as the results of the July 2011 European Banking Authority (EBA) stress tests to identify banks with large concentrations of indirect exposure.

Prudential has a range of controls and processes to manage credit exposure. In addition to the control frameworks that cover shareholder and policyholder credit risk within each Business Unit, the

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Group Credit Risk Committee oversees shareholder credit risk across the Group. The Committee receives comprehensive management information, including details of counterparty and invested credit exposure (including structured credit and loans), secured and unsecured cash balances, top 30 credit exposures, and an analysis of shareholder exposure by industry/country and rating. The Group Risk function also continually monitors the portfolio for emerging credit risks through various tools and processes.

Prudential actively mitigates the level of Group wide credit risk (invested credit and counterparty) through a comprehensive system of hard limits, collateralisation agreements and centrally managed 'watch lists'.

Of the £58.4 billion of debt securities backing shareholder business (excluding holdings attributable to external holders of consolidated unit trusts), 4 per cent or £2.1 billion was in Tier 1 and Tier 2 hybrid bank debt. A further £2.2 billion was in the form of senior debt.

In terms of shareholder exposures to the bank debt of PIIGS, Prudential held £328 million at 31 December 2011. This comprised £107 million of covered bonds, £59 million senior debt, £16 million Tier 1 debt and £146 million Tier 2 debt. There was no direct exposure to Greek banks.

The Group held the following direct exposures to banks' debt securities of shareholder-backed business at 31 December 2011.

	Bank debt securities shareholder-backed business						
	Senior debt			**Subordinated debt**			
	Covered	**Senior**	**Total senior debt**	**Tier 2**	**Tier 1**	**Total subordinated debt**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Portugal		**24**	**24**				**24**
Ireland		**13**	**13**				**13**
Italy		**11**	**11**	**56**	**14**	**70**	**81**
Greece							
Spain	**107**	**11**	**118**	**90**	**2**	**92**	**210**
	107	**59**	**166**	**146**	**16**	**162**	**328**
Austria				**9**		**9**	**9**
Belgium							
France	**2**	**34**	**36**	**78**	**35**	**113**	**149**
Germany		**28**	**28**	**1**		**1**	**29**
Luxembourg							
Netherlands		**7**	**7**	**81**	**64**	**145**	**152**
United Kingdom	**228**	**145**	**373**	**615**	**95**	**710**	**1,083**
Total Europe	**337**	**273**	**610**	**930**	**210**	**1,140**	**1,750**
United States		**1,362**	**1,362**	**352**	**2**	**354**	**1,716**
Other, predominantly Asia		**246**	**246**	**562**	**33**	**595**	**841**
Total	**337**	**1,881**	**2,218**	**1,844**	**245**	**2,089**	**4,307**

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In addition to the exposures held by the shareholder-backed business, the Group held the following banks' securities at 31 December 2011 within its with-profits funds.

	Bank debt securities participating funds						
	Senior debt			Subordinated debt			
	Covered	Senior	Total senior debt	Tier 2	Tier 1	Total subordinated debt	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Portugal		**7**	**7**				**7**
Ireland							
Italy		**45**	**45**	**49**	**2**	**51**	
Greece	**5**		**5**				
Spain	**137**		**137**	**1**		**1**	**138**
	142	**52**	**194**	**50**	**2**	**52**	**246**
Austria							
Belgium							
France		**80**	**80**	**47**	**17**	**64**	**144**
Germany		**7**	**7**				**7**
Luxembourg		**7**	**7**				**7**
Netherlands		**80**	**80**	**14**	**28**	**42**	**122**
United Kingdom	**319**	**385**	**704**	**772**	**74**	**846**	**1,550**
Total Europe	**461**	**611**	**1,072**	**883**	**121**	**1,004**	**2,076**
United States		**1,378**	**1,378**	**396**	**278**	**674**	**2,052**
Other, predominantly Asia	**1**	**384**	**385**	**341**	**20**	**361**	**746**
Total	**462**	**2,373**	**2,835**	**1,620**	**419**	**2,039**	**4,874**

(iv) Other possible impacts of a eurozone crisis

Other knock on impacts of a eurozone crisis may represent some risk to the Group, both in terms of financial market impact and potential operational issues. These third order exposures are intrinsically more difficult to quantify. However, as well as the monitoring routines noted above, Prudential has also developed tools to identify the Group's exposure to counterparties at risk (including contingent credit exposures), and has in place Group-wide processes to facilitate the management of such risks should they materialise.

In respect of operational risks, Prudential has strong investment operations, counterparty risk and change management capabilities and Prudential is confident in its ability to manage the transition to a new eurozone regime if events require it to do so.

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(v) Loans

Of the total Group loans of £9.7 billion at 31 December 2011, the following are held by shareholder-backed operations.

	2011			2010		
	Mortgage loans	Other loans	Total	Mortgage loans	Other loans	Total
	£bn	£bn	£bn	£bn	£bn	£bn
Asia insurance operations[(i)]		**0.4**	**0.4**		0.5	0.5
US insurance operations[(ii)]	**3.6**	**0.6**	**4.2**	3.6	0.6	4.2
UK insurance operations[(iii)]	**1.1**		**1.1**	1.0		1.0
Asset management operations[(iv)]		**1.3**	**1.3**		1.4	1.4
Total loans held by shareholder-backed operations	**4.7**	**2.3**	**7.0**	4.6	2.5	7.1

(i) The majority of Asia insurance operations loans are commercial loans held by the Malaysian operation that are rated investment grade by two local rating agencies.

(ii) All commercial mortgage loans held by US insurance operations are collateralised by properties. The US commercial mortgage loan portfolio does not include any single-family residential mortgage loans and therefore is not exposed to the risk of defaults associated with residential sub-prime mortgage loans. Jackson incurred impairments of £28 million on its commercial mortgage book (2010: £12 million). Other loans represents policy loans.

(iii) The majority of mortgage loans held by UK insurance operations are mortgage loans collateralised by properties.

(iv) Relates to bridging loan finance managed by Prudential Capital.

(vi) Counterparty credit risk

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, with the exception of some Asian transactions, are conducted under standardised 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 Group's exposure to derivative counterparty credit risk is subject to the same framework of Group-wide operational limits and monitoring as its invested credit risk. Where appropriate, Prudential will reduce its exposure, purchase credit protection or make use of additional collateral arrangements to control its levels of counterparty credit risk.

(c) Insurance risk

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

Prudential continues to conduct rigorous research into longevity risk using data from its substantial annuity portfolio. The assumptions that Prudential makes about future expected levels of mortality are particularly relevant in its UK annuity business. The attractiveness of reinsurance is regularly evaluated. It is used as a risk management tool where it is appropriate and attractive to do so.

Prudential's persistency assumptions reflect recent experience for each relevant line of business, and any expectations of future persistency. Persistency risk is mitigated by appropriate training and sales processes and managed proactively post sale. 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.

(d) Liquidity risk

The parent company has significant internal sources of liquidity which are sufficient to meet all of its expected 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, expiring between 2013 and 2017. In addition, the Group has access to liquidity via the debt capital markets. For example, Prudential plc issued US$550 million perpetual subordinated Tier 1 securities in January 2011. Prudential also has in place an unlimited commercial paper programme and has maintained a consistent presence as an issuer in this market for the last decade. Liquidity uses and sources have been assessed at the Group and at a business unit level under base case and stressed assumptions. The liquidity resources available and the subsequent Liquidity Coverage Ratio (LCR) have been assessed to be sufficient under both sets of assumptions.

Non-financial risk

Prudential is exposed to operational, business environment and strategic risk in the course of running its businesses.

With regard to operational risk, the Group is dependent on processing a large number of complex transactions across numerous diverse products, and is subject to a number of different legal and regulatory, including tax, 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. This results in reliance upon the operational performance of these outsourcing partners.

Prudential's systems and processes incorporate controls that are designed to manage and mitigate the operational risks associated with its activities. The Prudential Group Governance Manual was developed to make a key contribution to the sound system of internal control that the Group is expected to maintain under the UK Corporate Governance Code and the Hong Kong Code on Corporate Governance Practices. Group Head Office and business units confirm that they have implemented the necessary controls to evidence compliance with the Manual.

The Group has an operational risk management framework in place that facilitates both the qualitative and quantitative analysis of operational risk exposures. The output of this framework, in particular management information on key operational risk and control assessments, scenario analysis, internal incidents and external incidents, is reported by the business units and presented to the Group Operational Risk Committee. This information also supports business decision-making and lessons-learned activities; the ongoing improvement of the control environment; and determination of the adequacy of Prudential's corporate insurance programme.

With regard to business environment risk, the Group has a wide-ranging programme of active and constructive engagement with governments, policymakers and regulators in its key markets and with relevant international institutions. Such engagement is undertaken both directly and indirectly via trade associations. The Group has procedures in place to monitor and track political and regulatory developments. Where appropriate, the Group provides submissions and technical input to officials and others, either via submissions to formal consultations or through interactions with officials.

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With regard to strategic risk, both business units and the Group Head Office are required to adopt a forward-looking approach to risk management by performing risk assessments as part of the annual strategic planning process. This supports the identification of potential threats and the initiatives needed to address them, as well as competitive opportunities. The impact on the underlying businesses and/or Group-wide risk profile is also considered to ensure that strategic initiatives are within the Group's risk appetite.

Solvency II represents a regulatory risk due to the uncertainty of what the rules will be when finalised, their potential impacts, and the timing of their introduction. The risks are that the Group may not be able to respond sufficiently quickly to the strategic implication of the change given levels of uncertainty around the content and timing; operational risk in terms of the scale and complexity of the delivery and uncertainty over timelines; and the additional capital that the Group may be required to hold. Solvency II is covered in more detail in the Capital Management section below.

Capital management

Regulatory capital (IGD)

Prudential is subject to the capital adequacy requirements of the European Union (EU) Insurance Groups Directive (IGD) as implemented by the Financial Services Authority (FSA) in the UK. The IGD capital adequacy requirements involve aggregating surplus capital held in Prudential's 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 permitted under this approach.

Prudential's capital position remains strong. Prudential has continued to place emphasis on maintaining the Group's financial strength through optimising the balance between writing profitable new business, conserving capital and generating cash. Prudential estimates that its IGD capital surplus is £4.0 billion at 31 December 2011 (before taking into account the 2011 final dividend), with available capital covering its capital requirements 2.75 times. This compares to a capital surplus of £4.3 billion at the end of 2010 (before taking into account the 2010 final dividend).

The movements during 2011 mainly comprise:

- Net capital generation mainly through operating earnings (in-force releases less investment in new business, net of tax) of £1.5 billion;

Offset by:

- Investment market related impacts of £0.6 billion;
- Final 2010 dividend of £0.4 billion and interim 2011 dividend of £0.2 billion;
- External financing costs and other central costs, net of tax, of £0.5 billion; and
- Net impact of £0.1 billion arising from issuance of the $550 million perpetual subordinated Tier 1 securities in January 2011 and repayment of the €500 million subordinated notes in December 2011.

Prudential continues to have further options available to it to manage available and required capital. These could take the form of increasing available capital (for example, through financial reinsurance) or reducing required capital (for example, through the mix and level of new business) and the use of other risk mitigation measures such as hedging and reinsurance.

In addition to its strong capital position, on a statutory (Pillar 1) basis, the total credit reserve for the UK shareholder annuity funds also protects its capital position in excess of the IGD surplus. This credit reserve as at 31 December 2011 was £2.0 billion. This credit risk allowance represents 33 per cent of the bond portfolio spread over swap rates, compared to 43 per cent as at 31 December 2010.

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Stress testing

As at 31 December 2011, stress testing of Prudential's IGD capital position to various events has the following results:

- An instantaneous 20 per cent fall in equity markets from 31 December 2011 levels would reduce the IGD surplus by £350 million;
- A 40 per cent fall in equity markets (comprising an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period) would reduce the IGD surplus by £900 million;
- A 100 bps reduction (subject to a floor of zero) in interest rates would reduce the IGD surplus by £650 million; and
- Credit defaults of ten times the expected level would reduce IGD surplus by £500 million.

Prudential believes that the results of these stress tests, together with the Group's strong underlying earnings capacity, its established hedging programmes and its additional areas of financial flexibility, demonstrate that it is in a position to withstand significant deterioration in market conditions.

Prudential also uses an economic capital assessment to monitor its capital requirements across the Group, allowing for realistic diversification benefits and continue to maintain a strong position. This assessment provides valuable insights into its risk profile.

Solvency II

The European Union (EU) is developing a new solvency framework for insurance companies, referred to as 'Solvency II'. The Solvency II Directive, which sets out the new framework, was formally approved by the Economic and Financial Affairs Council in November 2009 and is anticipated to be transposed into local regulations and take effect for supervisors from 2013, with implementation currently anticipated from 2014. The new approach is based on the concept of three pillars minimum capital requirements, supervisory review of firms' assessments of risk, and enhanced disclosure requirements.

Specifically, Pillar 1 covers the quantitative requirements around own funds, valuation rules for assets and liabilities and capital requirements. Pillar 2 provides the qualitative requirements for risk management, governance and controls, including the requirement for insurers to submit an Own Risk and Solvency Assessment (ORSA) which will be used by the regulator as part of the supervisory review process. Pillar 3 deals with the enhanced requirements for supervisory reporting and public disclosure.

A key aspect of Solvency II is that the assessment of risks and capital requirements are intended to be aligned more closely with economic capital methodologies. Companies may be allowed to make use of internal economic capital models if approved by the local regulator.

The European Parliament is currently discussing the Omnibus II Directive which, once approved, will amend certain aspects of the Solvency II Directive, including the anticipated implementation date as described above. The Omnibus II Directive is expected to be finalised during 2012.

In addition the European Commission is continuing to develop, in consultation with stakeholders including industry, detailed rules that complement the high-level principles in the Solvency II Directive, referred to as 'implementing measures'. These are not expected to be finalised until later in 2012. Further guidance and technical standards are also currently being developed by the European Insurance and Occupational Pensions Authority (EIOPA). These are expected to be subject to a formal consultation and are unlikely to be finalised before early 2013.

There remains significant uncertainty regarding the outcome from this process. In particular, the Solvency II rules relating to the determination of the liability discount rate and to the treatment of US business remain unclear and Prudential's capital position is sensitive to these outcomes. With reference to the liability discount rate, solutions to remove artificial volatility from the balance sheet have been suggested by policymakers as the regulations continue to evolve. These solutions, along with transitional arrangements for the treatment of the US business, are continuing to be considered by the European Parliament as part of the process to reach agreement on the Omnibus II Directive. There is a risk that the effect of the final measures could be adverse for Prudential, including potentially that a significant increase in capital may be required to support its business and that Prudential may be placed at a competitive disadvantage to other European and non-European financial services groups. Prudential is actively participating in shaping the outcome through its involvement in industry bodies and trade associations, including the Chief Risk Officer and Chief Financial Officer Forums, together with the Association of British Insurers (ABI) and Insurance Europe (formerly known as the Comité Européen des Assurances).

Having assessed the requirements of Solvency II, an implementation programme was initiated with dedicated teams to manage the required work across the Group. The activity of the local Solvency II teams is being coordinated centrally to achieve consistency in the understanding and application of the requirements. Prudential is continuing its preparations to adopt the regime when it eventually arrives and are undertaking in parallel an evaluation of the possible actions to mitigate its effects. Prudential regularly reviews its range of options to maximise the strategic flexibility of the Group. This includes consideration of optimising the Group's domicile, including as a possible response to an adverse outcome on Solvency II.

Over the coming months Prudential will be progressing its implementation and remaining in regular contact with the FSA as it continues to engage in the 'pre-application' stage of the approval process for the internal model.

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 optimises capital allocation across the Group by using a consistent set of capital performance metrics across all business units to ensure meaningful comparison. Capital utilisation, return on capital and new business value creation are measured at a product level. The use of these capital performance metrics is embedded into the Group's 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.

Risk mitigation and hedging

Prudential manages its actual risk profile against its tolerance of risk. To do this, Prudential maintains risk registers that include details of the risks Prudential 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 review 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

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programmes to manage insurance risk; implementing corporate insurance programmes to limit the impact of operational risks; and revising business plans where appropriate.

Risk Governance

Organisation

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 defence' (LoD): risk management, risk oversight and independent assurance.

The primary responsibility for strategy, performance management and risk control lies with the Board, which has established the Risk Committee to assist in providing leadership, direction and oversight, and with the Group Chief Executive and the chief executives of each business unit.

Risk management (1st LoD):

Balance Sheet and Capital Management Committee:

Meets monthly to monitor the Group's liquidity and oversee the activities of Prudential Capital.

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Risk oversight (2nd LoD):

Risk exposures are monitored and reviewed by Group-level risk committees chaired by the Group Chief Risk Officer or the Chief Financial Officer.

Group Executive Risk Committee: Meets monthly to oversee the Group's risk exposures (market, credit, liquidity, insurance and operational risks) and to monitor capital.

Group Credit Risk Committee: Reports to the Group Executive Risk Committee and meets monthly to review the Group's investment and counterparty credit risk positions.

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

Solvency II Technical Oversight Committee: Will be created when the Solvency II programme is complete, to provide ongoing technical oversight and advice to the executive and the Board in carrying out their duties with regard to the Group's Internal Model.

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: Verify compliance with regulatory standards and inform the Group's management and the Board on key regulatory issues affecting the Group.

Group Risk: Establish and embed 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 (3rd LoD):

Group Audit Committee: The 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 and its philosophy towards risk-taking, that is:

- 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.

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The Group has five objectives for risk and capital management:

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.

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

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

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

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

Reporting

The Group's economic capital position and overall position against risk limits is reviewed regularly by the Group Executive Risk Committee. Key economic capital metrics, as well as risk-adjusted profitability information, are included in business plans, which are reviewed by the Group Executive Committee and approved by the Board.

The Group Risk Committee is provided with regular reports on the activities of the Group Risk function and where it affects the results of assurances under Turnbull, the Group Audit Committee receives appropriate reporting. Reports to the Group Risk Committee include information on the activities of the Group Executive Risk Committee, the Group Operational Risk Committee and Group Credit Risk Committee, as well as reports from Group-wide Internal Audit.

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 Head Office. Group Risk reviews and reports to Group Head Office on the impact of large transactions or divergences from the business plan.

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Investments

General

The overall financial strength of Prudential 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, net of derivative liabilities, at 31 December 2011. In addition, at 31 December 2011 Prudential had £99.8 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 in Item 18.

	At 31 December 2011								
	UK Insurance	US Insurance	Asia Insurance	Total Insurance	Asset Management(a)	Other	Total per consolidated statement of financial position	Less: assets to cover linked liabilities and external unit holders(b)	Group excluding assets to cover linked liabilities and external unit holders
	(£ million)								
Investment properties	10,712	35	10	10,757			10,757	(954)	9,803
Investments accounted for using the equity method	70			70			70		70
Financial investments:									
Loans	3,115	4,110	1,233	8,458	1,256		9,714		9,714
Equity securities	36,722	38,036	11,997	86,755	594		87,349	(53,088)	34,261
Debt securities	77,953	27,022	17,681	122,656	1,842		124,498	(15,908)	108,590
Other investments	4,568	2,376	470	7,414	78	17	7,509	(114)	7,395
Deposits	9,287	167	1,165	10,619	89		10,708	(1,544)	9,164
Total financial investments	131,645	71,711	32,546	235,902	3,859	17	239,778	(70,654)	169,124
Total investments	142,427	71,746	32,556	246,729	3,859	17	250,605	(71,608)	178,997
Derivative liabilities	(1,298)	(887)	(480)	(2,665)	(182)	(207)	(3,054)	103	(2,951)
Total investments	141,129	70,859	32,076	244,064	3,677	(190)	247,551	(71,505)	176,046

(a) Investments held by asset management operations are further split in note E2 to the consolidated financial statements in Item 18.

(b) Prudential's Group statement of financial position includes the line by line investments of unit-linked and the consolidated unit-trusts and similar funds. In the table above, these amounts have been deducted in deriving the underlying investments in the right-hand column.

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, in accordance with IFRS 7 'Financial Instruments: Disclosures'. The further analysis is included in notes D2, D3, D4, E2, G1 and G2 to Prudential's consolidated financial statements in Item 18.

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Prudential's Average Investment Return

The following table shows the income from the investments of Prudential's operations, net of derivative liabilities, 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. Average investment return has been calculated using the average of opening and closing balances for the appropriate asset.

	Year Ended 31 December					
	2011		2010		2009	
	Average investment return	Amount	Average investment return	Amount	Average investment return	Amount
		(£ million)		(£ million)		(£ million)
Investment properties						
Net investment income	**5.6%**	**557**	5.6%	564	6.6%	700
Net realised investment (losses) gains	**(1.0)%**	**(101)**	0%	4	(0.6)%	(63)
Net unrealised investment gains (losses)	**3.5%**	**354**	5.2%	527	(0.7)%	(76)
Ending assets		**9,803**		10,260		10,021
Investments accounted for using the equity method						
Net realised investment gains	**0%**		78.5%	30	0%	
Ending assets		**70**		71		6
Loans						
Net investment income	**4.7%**	**442**	5.2%	469	4.8%	461
Net realised investment gains (losses)	**0%**	**1**	(0.3)%	(26)	(1.1)%	(105)
Net unrealised investment gains (losses)	**0.5%**	**46**	(0.1)%	(10)	0%	
Ending assets		**9,714**		9,261		8,727
Equity securities						
Net investment income	**2.8%**	**995**	2.6%	948	3.9%	1,373
Net realised investment gains	**4.2%**	**1,505**	4.2%	1,500	5.5%	1,905
Net unrealised investment (losses) gains	**(11.0)%**	**(3,959)**	6.6%	2,368	14.8%	5,165
Ending assets		**34,261**		37,800		33,837
Debt securities						
Net investment income	**4.9%**	**5,168**	5.1%	4,823	6.9%	5,939
Net realised investment gains (losses)	**1.9%**	**2,038**	1.5%	1,422	(0.7)%	(572)
Net unrealised investment gains	**2.6%**	**2,776**	2.3%	2,209	3.9%	3,380

Ending assets		**108,590**		101,398		88,387
Other investments (including derivative liabilities)						
Net investment income	**9.7%**	**394**	0.3%	13	1.2%	32
Net realised investment gains (losses)	**0.6%**	**23**	(11.0)%	(403)	(20.0)%	(541)
Net unrealised investment gains (losses)	**8.5%**	**347**	8.2%	299	(0.8)%	(23)
Ending assets, net of derivative liabilities		**4,444**		3,693		3,604
Deposits						
Net investment income	**0.8%**	**78**	0.5%	56	0.7%	64
Ending assets		**9,164**		9,202		11,891
Total						
Net investment income	**4.4%**	**7,634**	4.2%	6,874	5.5%	8,569
Net realised investment gains	**2.0%**	**3,466**	1.5%	2,526	0.4%	624
Net unrealised investment (losses) gains	**(0.3)%**	**(436)**	3.3%	5,394	5.4%	8,446
Ending assets, net of derivative liabilities		**176,046**		171,685		156,473

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.

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Internal funds under management

Prudential manages 80 per cent of its group funds principally through its fund management businesses, M&G in the United Kingdom, PPM America in the United States and Eastspring Investments in Asia. The remaining 20 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 analyses 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 maximise returns while maintaining investment quality and asset security and adhering to the appropriate government regulations.

Consistent with the product nature, in particular regarding guarantees, the with-profits fund's investment strategy emphasises 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 maximise 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 maximise investment returns subject to following an investment policy consistent with the representations Prudential has made to its unit-linked product policyholders.

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Investments

The following table summarises the total investments, net of derivative liabilities, of the UK insurance business at 31 December 2011.

	At 31 December 2011					
	SAIF	PAC	Other	Total	Less: assets to cover linked liabilities and external unit holders Less:(a)	Total excluding assets to cover linked liabilities and external unit holders
	(£ million)					
Investment properties	571	7,890	2,251	10,712	(954)	9,758
Investment accounted for using the equity method			70	70		70
Financial investments:						
Loans	143	1,830	1,142	3,115		3,115
Equity securities	2,448	20,855	13,419	36,722	(13,017)	23,705
Debt securities	4,349	43,329	30,275	77,953	(6,433)	71,520
Other investments	281	3,856	431	4,568	(88)	4,480
Deposits	693	6,391	2,203	9,287	(966)	8,321
Total financial investments	7,914	76,261	47,470	131,645	(20,504)	111,141
Total investments	8,485	84,151	49,791	142,427	(21,458)	120,969
Derivative liabilities	(72)	(939)	(287)	(1,298)	98	(1,200)
Total investment, net of derivative liabilities	8,413	83,212	49,504	141,129	(21,360)	119,769

(a)
Please refer to the notes in the total Group investments table.

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 31 December 2011. The 'Other' column includes

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investments relating to solvency capital of unit-linked funds and investments relating to non-life long-term business.

	At 31 December 2011					
	With-Profits	PRIL	SAIF	Other	Total	Total %
	(£ million)					
Investment properties	7,799	1,133	571	255	9,758	8.1
Investments accounted for using the equity method				70	70	0.1
Financial investments:						
Loans:						
Mortgage loans	1,006	36	30	1,101	2,173	
Policy loans	11		9		20	
Other loans	813	5	104		922	
Total loans and receivables	1,830	41	143	1,101	3,115	2.6
Equity securities:						
United Kingdom:						
Listed	12,681	2	1,546	98	14,327	
Unlisted	450		45	1	496	
Total United Kingdom	13,131	2	1,591	99	14,823	12.4
International:						
United States	1,810		170		1,980	
Europe (excluding the United Kingdom)	3,310	2	311		3,623	
Japan	810		105		915	
Pacific (excluding Japan)	916		129	5	1,050	
Other	1,171	1	142		1,314	
Total international	8,017	3	857	5	8,882	7.4
Total equity securities	21,150	5	2,448	104	23,705	19.8
Debt securities:						
UK government	2,599	2,122	204	615	5,540	
US government	69		182		251	
Other	40,348	18,984	3,963	2,434	65,729	
Total debt securities	43,016	21,106	4,349	3,049	71,520	59.7
Other investments:						
Other financial investments	2,754		281	5	3,040	
Derivative assets	1,039	334	63	4	1,440	
Total other investments	3,793	334	344	9	4,480	3.7
Deposits	6,391	872	693	365	8,321	6.9
Total investments	83,977	23,491	8,548	4,953	120,969	101.0
Derivative liabilities	(905)	(222)	(72)	(1)	(1,200)	(1.0)

Total investment, net of derivative liabilities	**83,073**	**23,269**	**8,476**	**4,952**	**119,769**	**100.0**

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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 £23,705 million invested in equities at 31 December 2011. 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 in Item 18.

	At 31 December 2011 Market Value	
	(£ million)	(%)
United Kingdom	**14,823**	**62.5**
United States	**1,980**	**8.4**
Europe (excluding United Kingdom)	**3,623**	**15.3**
Japan	**915**	**3.9**
Pacific (excluding Japan)	**1,050**	**4.4**
Other	**1,314**	**5.5**
Total	**23,705**	**100.0**

The UK equity holdings are well diversified. Prudential held equities in 390 UK companies at 31 December 2011. The ten largest holdings in UK equities at 31 December 2011 amounted to £5,961 million, accounting for 25.1 per cent of the total UK equity holdings of £23,705 million supporting the UK insurance operations. The following table shows the market value of the ten largest holdings in UK equities at 31 December 2011.

	At 31 December 2011 Market Value	
	(£ million)	(%)
BP	**876**	**3.7**
Vodafone Group	**833**	**3.5**
GlaxoSmithKline	**732**	**3.1**
British American Tobacco	**691**	**2.9**
Royal Dutch Shell	**690**	**2.9**
HSBC Holdings	**572**	**2.4**
Rio Tinto	**558**	**2.4**
B G Group	**356**	**1.5**
Astrazeneca	**341**	**1.4**
Tesco	**312**	**1.3**
Total	**5,961**	**25.1**

A wide variety of industry sectors are represented in Prudential's equity portfolio. At 31 December 2011, within the £14,823 million in UK equities supporting the UK insurance operations, Prudential had £12,000 million, or 80.1 per cent of the holdings, invested in ten industries. The following table shows

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the primary industry concentrations based on market value of the portfolio of UK equities relating to the UK insurance business at 31 December 2011.

	At 31 December 2011 Market Value	
	(£ million)	(%)
Oil & gas producers	**2,574**	**10.9**
Banks	**1,709**	**7.2**
Pharmaceuticals & biotechnology	**1,589**	**6.7**
Mining	**1,493**	**6.3**
Mobile telecommunications	**1,042**	**4.4**
Tobacco	**1,032**	**4.4**
Travel & leisure	**717**	**3.0**
Gas, water & multi utilities	**623**	**2.6**
Aerospace & defence	**615**	**2.6**
Support services	**606**	**2.6**
Total	**12,000**	**50.7**

Debt Securities

At 31 December 2011, 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, 91.9 per cent were issued by corporations and overseas governments other than the US, 7.7 per cent were issued or guaranteed by the UK government and 0.4 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 31 December 2011, in accordance with the policies described in note A4 to the consolidated financial statements in Item 18.

	At 31 December 2011 Market Value	
	(£ million)	(%)
Securities maturing:		
Within one year	**1,089**	**1.5**
Over one year and up to five years	**8,405**	**11.7**
Over five years and up to ten years	**16,860**	**23.6**
Over ten years and up to fifteen years	**10,141**	**14.2**
Over fifteen years	**35,025**	**49.0**
Total debt securities	**71,520**	**100.0**

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The following table shows debt securities by rating:

	At 31 December 2011 Market Value	
	(£ million)	(%)
S&P AAA	9,226	12.8
S&P AA+ to AA-	7,835	11.0
S&P A+ to A-	19,933	27.9
S&P BBB+ to BBB-	14,741	20.6
S&P Other	2,985	4.2
	54,720	76.5
Moody's Aaa	6,525	9.1
Moody's Aa1 to Aa3	563	0.8
Moody's A1 to A3	957	1.3
Moody's Baa1 to Baa3	956	1.3
Moody's Other	205	0.3
	9,206	12.8
Fitch	466	0.7
Other	7,128	10.0
Total debt securities	71,520	100.0

Where no external ratings are available, internal ratings produced buy the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. Further information is provided in note D2(d) to the consolidated financial statements in Item 18.

Real Estate

At 31 December 2011, 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 £9,758 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 in Item 18.

	At 31 December 2011 Market Value	
	(£ million)	(%)
Office buildings	3,946	40.4
Shopping centers/commercial	4,018	41.2
Retail warehouses/industrial	1,274	13.1
Development	383	3.9
Other	137	1.4
Total	9,758	100

Approximately 40.8 per cent of the UK held real estate investment is located in London and Southeast England with 41.7 per cent located throughout the rest of the UK and the remaining 17.5 per cent located overseas.

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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, net of derivative liabilities, relating to the US insurance operations at 31 December 2011.

	31 December 2011		
	Variable annuity separate account assets	Fixed annuity, GIC and other business	Total
		(£ million)	
Investment properties		35	35
Financial investments:			
Loans		4,110	4,110
Equity securities	37,833	203	38,036
Debt securities		27,022	27,022
Other investments		2,376	2,376
Deposits		167	167
Total financial investments	37,833	33,878	71,711
Total investments	37,833	33,913	71,746
Derivative liabilities		(887)	(887)
Total investment, net of derivative liabilities	37,833	33,026	70,859

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The following table further analyses the investments, net of derivative liabilities of the US insurance operations, excluding the separate account investments supporting the variable annuity business, at 31 December 2011.

	31 December 2011	
	(£ million)	**(%)**
Non-institutional		
Investment properties	**35**	**0.1**
Loans	**3,824**	**11.6**
Equity securities	**145**	**0.4**
Corporate securities	**17,720**	**53.7**
Government securities	**2,149**	**6.5**
Residential mortgage-backed securities	**2,447**	**7.4**
Commercial mortgage-backed securities	**1,925**	**5.8**
Other debt securities	**511**	**1.5**
Total debt securities	**24,752**	**87.0**
Other investments	**2,149**	**6.5**
Deposits	**167**	**0.5**
Derivative liabilities	**(528)**	**(1.6)**
Total non-institutional	**30,544**	**92.5**
Institutional		
Investment properties		
Loans	**286**	**0.9**
Equity securities	**58**	**0.2**
Corporate securities	**1,759**	**5.3**
Government securities	**14**	
Residential mortgage-backed securities	**144**	**0.4**
Commercial mortgage-backed securities	**244**	**0.7**
Other debt securities	**109**	**0.3**
Total debt securities	**2,270**	**7.8**
Other investments	**227**	**0.7**
Deposits		
Derivative liabilities	**(359)**	**(1.1)**
Total institutional	**2,482**	**7.5**
Total		
Investment properties	**35**	**0.1**
Loans	**4,110**	**12.4**
Equity securities	**203**	**0.6**
Corporate securities	**19,479**	**59**
Government securities	**2,163**	**6.5**
Residential mortgage-backed securities	**2,591**	**7.8**
Commercial mortgage-backed securities	**2,169**	**6.6**
Other debt securities	**620**	**1.9**
Total debt securities	**27,022**	**94.9**
Other investments	**2,376**	**7.2**

Deposits	**167**	**0.5**
Derivative liabilities	**(887)**	**(2.7)**
Total	**33,026**	**100.0**

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Under IFRS, debt securities are shown at fair value and loans are at amortised 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

At 31 December 2011, the US insurance operations had £19,479 million of corporate securities representing 59.0 per cent of US insurance operations total investments excluding separate account investments. Of the £19,479 million, £16,281 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 £3,198 million consisted of investments in non-Rule 144A privately placed fixed income securities.

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 recognised statistical ratings organisations 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 the publicly traded and SEC Rule 144A debt securities by NAIC classifications:

	2011 Carrying value		**2010 Carrying value**	
	£m	**% of total**	**£m**	**% of total**
NAIC designation:				
1	**6,338**	**39**	5,338	36
2	**9,002**	**55**	8,550	58
3	**723**	**5**	644	5
4	**204**	**1**	201	1
5	**10**		11	
6	**4**		3	
	16,281	**100**	14,747	100

The following table shows the quality of the non-SEC Rule 144A private placement portfolio by NAIC classifications:

	2011 Carrying value		**2010 Carrying value**	
	£m	**% of total**	**£m**	**% of total**
NAIC designation:				
1	**1,262**	**39**	1,125	37
2	**1,835**	**58**	1,772	58
3	**81**	**3**	114	4
4	**8**		18	1
5	**12**		13	
6			2	
	3,198	**100**	3,044	100

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Residential Mortgage-Backed Securities

At 31 December 2011, the US insurance operations had £2,591 million of residential mortgage-backed securities, representing 7.8 per cent of US insurance operations total investments, excluding separate account investments. At 31 December 2011, of the £2,591 million, 7.3 per cent of this total were rated AAA. (Standard & Poor's ratings have been used where available and for securities where Standard & Poor's ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative).

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 slower or quicker 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 quicker 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 slower 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 31 December 2011, the US insurance operations had £2,169 million of commercial mortgage-backed securities, representing per 6.6 per cent of US insurance operations total investments, excluding separate account investments. 35.4 per cent of this total were rated AAA (Standard & Poor's ratings have been used where available and for securities where S&P ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative). 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 31 December 2011, the US insurance operations had £2,376 million of other debt securities, representing 7.2 per cent of US insurance operations total investments, excluding separate account investments.

Loans

At 31 December 2011, loans totaled £4,110 million, representing 12.4 per cent of US insurance operations total investments, excluding separate account investments. Of the total, £3,559 million related to commercial mortgage loans and £551 million to policy loans.

Commercial Mortgage Loans

At 31 December 2011, commercial mortgage loans represented 10.8 per cent of US insurance operations total investments excluding separate account investments. The average loan size is £6.6 million, collaterised by properties located in the United States.

Jackson has addressed the risk of these investments by building a portfolio that is diverse both in geographic distribution and property type.

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The property types are mainly industrial, multi-family residential, suburban office, retail and hotel. The breakdown of the market value by property type is as follows:

	31 December 2011
	(%)
Industrial mortgage loans	**27.6**
Multi-family residential mortgage loans	**22.6**
Retail mortgage loans	**19.4**
Suburban office mortgage loans	**18.5**
Hotel mortgage loans	**11.5**
Other loans	**0.4**
Total	**100.0**

The following table shows the geographic split of the collateral for these loans:

	31 December 2011
	(%)
California	**12.7**
Florida	**6.5**
Illinois	**7.5**
Texas	**10.4**
Other (sum of all states < 5% each)	**62.9**
Total	**100.0**

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 1.7 per cent of US insurance operations total investments, excluding separate account investments at 31 December 2011. 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 £203 million at 31 December 2011.

Other

Other financial investments of £2,376 million, representing 7.2 per cent of US insurance operations total investments, excluding separate account investments at 31 December 2011 were made up of £721 million of limited partnership interests and derivative assets of £1,677 million.

The largest investment in the limited partnerships category is a £110 million interest in the PPM America Private Equity Fund. The remainder of this category consists of diversified investments in 166 other partnerships managed by independent money managers that generally invest in various equity and fixed income loans and securities.

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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, and Japan operations.

The following table shows Asia's investments, net of derivative liabilities, at 31 December 2011. In this table, investments are valued in accordance with the policies described in note A4 to the consolidated financial statements in Item 18.

	31 December 2011						
	With-profits business	Unit-linked assets	Other	Total	Less: assets to cover linked liabilities and external unit holders(a)	Total excluding assets to cover linked liabilities and external unit holders	
	(£ million)						(%)
Investment properties			10	10		10	0.1
Financial investments:							
Loans	774		459	1,233		1,233	6.2
Equity securities	2,744	8,663	590	11,997	(2,239)	9,758	49.4
Debt securities	9,554	2,746	5,381	17,681	(9,477)	8,204	41.5
Other investments	286	26	158	470	(26)	444	2.2
Deposits	123	578	464	1,165	(578)	587	3.0
Total financial investments	13,481	12,013	7,052	32,546	(12,320)	20,226	102.3
Total investments	13,481	12,013	7,062	32,556	(12,320)	20,236	102.4
Derivative liabilities	(330)	(5)	(145)	(480)	5	(475)	(2.4)
Total investment, net of derivative liabilities	13,151	12,008	6,917	32,076	(12,315)	19,761	100.0

(a) Please refer to notes in the total Group investments table.

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.

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Debt Securities

The following table shows rating categorisation 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 31 December 2011.

	31 December 2011 Market Value	
	(£ million)	(%)
S&P AAA	849	10.3
S&P AA+ to AA-	3,214	39.2
S&P A+ to A-	1,009	12.3
S&P BBB+ to BBB-	371	4.5
S&P Other	644	7.9
	6,087	74.2
Moody's Aaa	251	3.1
Moody's Aa1 to Aa3	64	0.8
Moody's A1 to A3	182	2.2
Moody's Baa1 to Baa3	20	0.2
Moody's Other	18	0.2
	535	6.5
Fitch	80	1.0
Other*	1,502	18.3
Total debt securities	8,204	100.0

* Further information is provided in note D4(d) to the consolidated financial statements in item 18.

Equity Securities

The following table shows a geographic analysis of equity security investments of 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 31 December 2011.

	31 December 2011 Market Value	
	(£ million)	(%)
Singapore	4,711	48.3
Hong Kong	4,345	44.5
Taiwan	271	2.8
Malaysia	268	2.7
Other	163	1.7

Total	**9,758**	**100.0**

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Description of Property Corporate Property

As at 31 December 2011, Prudential's UK headquartered businesses occupied approximately 43 properties in the United Kingdom, Europe, India, South Africa and Namibia. These properties are primarily offices with some ancillary storage and 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 PAC's long-term fund. The rest of the properties occupied by Prudential's UK based businesses, in the UK, India, South Africa and Namibia, are held leasehold. In Europe, seven of the properties are occupied leasehold and the rest (three) are short term serviced offices. The leasehold properties range in size from 500 to 125,000 sq. ft. Overall, the UK, Europe, Mumbai, South Africa and Namibia occupied property portfolio totals approximately 610,000 sq. ft.

Prudential also holds one surplus owned property and approximately 59 other leasehold properties in the United Kingdom, spread geographically throughout the country. There are also three in Dublin, Ireland. This surplus accommodation (i.e. not occupied by the Group) totals approximately 580,000 sq. ft. There is also one surplus land holding in the United Kingdom, of 43 acres.

In the United States, Prudential owns Jackson National Life's executive and principal administrative office located in Michigan. Prudential owns a total of seven facilities in Lansing, Michigan, which total 595,272 sq. ft. Prudential also leases premises in Michigan, Colorado, Tennessee, 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 27 operating leases with respect to office space, throughout the United States. The leasehold properties range in size from 500 180,000 sq. ft. In the United States, Prudential owns and leases a total of approximately 1,123,364 sq. ft. of property. In addition to the owned and leased properties, Prudential also owns a total of 238 acres of surplus land. This property is all located in Lansing, Michigan.

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

Within these countries, Prudential owns 44 property assets, ranging from office space to land holdings. The breakdown 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: four owned assets two office locations totaling 9,530 sq. ft, and two car parking lots, totaling 3,368 sq.ft.

Prudential has (excluding India), a total of 426 operating leases, (expense and intercompany leases), totaling approximately 4.18 million square feet of property in Asia.

In India, Prudential holds a minority stake in a joint venture with ICICI who hold the property interests. The property is occupied by the ICICIPru Life and ICICIPru AMC businesses. The holding comprises approximately 2,450 properties, totaling approximately 3.4 million sq. ft. There is one owned and occupied asset comprising approximately 30,000 sq. ft in Mumbai.

Prudential Corporation Asia's real estate strategy moving forward involves consolidation of its existing property portfolio to support its local business strategies throughout the region, to take

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advantage of opportunities in the regional markets in securing long-term cost savings for the business while maintaining competitive advantage.

There have been no property transactions subsequent to 31 December 2011 which would have a material impact on the financial position of Prudential.

Prudential believes that its facilities are adequate for its present needs in all material respects. Prudential confirms that Prudential's owner occupied properties and leased properties are individually and collectively not crucial and material to its operations, and that Prudential's operating leases have no material commercial value.

As set out above, Prudential owns 19 properties which Prudential also occupies, which are accounted for as owner occupied property. These properties are comprised of 11 in Asia, one in the UK and seven in the US. The total value of Prudential's owner occupied properties at 31 December 2011 was £233 million. This represents less than 0.1 per cent of Prudential's total assets.

Prudential is the lessee under 487 operating leases used as office accommodation, comprising 426 leases held by the Asian business, 27 leases held by the US business and 34 leases held by the UK businesses. For the UK based businesses, Prudential holds three short-term serviced offices and a further 62 leases that are not occupied and represent surplus accommodation.

Prudential also holds interests in properties within its investment portfolios accounted for as investment property. At 31 December 2011, the total value of investment properties was £10,757 million and comprised 504 properties held by the UK, 6 held by the US and 22 held by the Asia business. In total they comprised 3.9 per cent of Prudential's total assets. The UK business' holdings account for over 99 per cent by value of the total investment properties.

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 blurred traditional financial service industry lines and opened the market to new competitors and increased competition. In some of the 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' contract enhancement and bonus interest levels.

An important competitive factor is the ratings Prudential receives in some of its target markets, most notably in the United States, from recognised rating organisations. The intermediaries with whom the 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 offers different products in its different markets in Asia, the United Kingdom and the United States 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

The competitive landscape across the Asia Pacific region differs widely by geographical market, reflecting differing levels of market maturity and regulation. Prudential's competitors include both the subsidiaries of global life insurers and local domestic (including state-owned) entities. Subsidiaries of global life insurance groups that operate in the Asia Pacific region tend to operate in multiple markets in the region, and some currently have top five market shares in a small number of markets. The majority of local domestic life insurers in the Asia Pacific region remain focused on their core home markets. The developed and liberalised markets of Hong Kong and Singapore are dominated by subsidiaries and branches of global life insurance groups. The developing markets in South East Asia such as Indonesia, Vietnam and the Philippines also see a high level of participation by global life insurance groups. The large and relatively mature markets of Korea and Taiwan are dominated by local domestic insurers. In certain countries with continued foreign ownership restrictions (such as China and India), the life insurance markets are dominated by local domestic insurers or by joint venture entities between global insurance groups and local companies.

The global life insurers that are Prudential's competitors in the Asia Pacific region include AIA, Allianz, Aviva, AXA, ING and Manulife. Other competitors relevant in one or two of Prudential's key markets include HSBC Life in Hong Kong, Korea Life, Kyobo Life and Samsung Life in Korea, Thai Life in Thailand, Great Eastern in Singapore and Malaysia, and China Life, China Pacific and Ping An in China. Prudential's principal competitors in respect of its fund management operations across the region largely comprise multinational asset managers including Fidelity Fund Management, Deutsche Asset Management, Blackrock, UBS Global Asset Management, JP Morgan Asset Management and BNP Paribas IP.

United States

Prudential's insurance operations in the United States operate under the Jackson brand. Prudential is not affiliated with Prudential Financial, Inc. or its subsidiary, The Prudential Insurance Company of America.

Jackson's competitors in the United States include major stock and mutual insurance companies, mutual fund organisations, 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 Prudential Financial, MetLife, Lincoln National, AXA Financial Inc. and Allianz.

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 retail financial services and fund management companies operating in the United Kingdom. These companies include Aviva, Legal & General, Standard Life, Resolution, Lloyds Banking Group, Aegon, AXA, Just Retirement, Zurich Financial Services, Fidelity, Invesco Perpetual, Jupiter, Threadneedle, Schroders and BlackRock. Prudential competes with other providers of financial products to be included on financial advisors' panels of preferred providers.

Intellectual Property

Prudential conducts business under the 'Prudential', 'Jackson', 'M&G' and Eastspring Investments brand names and logos. It is also the registered owner of over 100 domain names, including 'www.prudential.co.uk', 'www.prudentialcorporation-asia.com', 'www.jackson.com', 'www.mandg.co.uk', 'www.eastspringinvestments.com' and 'www.pru.co.uk'.

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

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 and other litigation substantially similar to class action and other litigation pending against many life insurance companies including a modal premium case and allegation of 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 15 March 2012 Jackson had recorded an accrual of $20 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 Annuity Specs, Asosiasi Asuransi Jiwa Indonesia, Asset management Association of Korea, Association of British Insurers, Association of Mutual Funds in India, Association of Vietnamese Insurers, Association of Unit Trusts and Investment Funds, Insurance Regulatory and Development Authority of India, Investment Management Association, Investment Trust Association of Japan, Neilsen Net Ratings, Moody's, Propriety Research, Standard & Poor's, Fitch, UBS, Morningstar Life Insurance Marketing and Research Association (LIMRA), Lipper Inc., Townsend and Schupp, The Advantage Group, the Life Insurance Association of Singapore, the Hong Kong Federation of Insurers, Hong Kong Office of the Commissioner of Insurance, Life Insurance Association of Malaysia, Life Insurance Association of Taiwan and the Taiwanese Securities Investment Trust Consulting Association, SNL Financial and Service Quality Management Group and Wind Information Co. Ltd (China).

SUPERVISION AND REGULATION

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

As Prudential's "lead supervisor" for the purposes of the EU's Insurance Groups Directive (the "IGD"), the UK Financial Services Authority (the "FSA") plays a principal role in assessing and ensuring the adequacy of Prudential's solvency and financial stability on a Group-wide basis. This role in Group-level supervision will be enhanced under the new EU solvency framework, Solvency II, which is discussed further below. As well as co-ordinating EU-level local regulators in the context of the IGD, as both Prudential's parent company and a significant proportion of its global insurance operations are in the UK, the FSA also plays an important co-ordinating role in regulatory initiatives at a global level. This role is less formal than within the EU and the FSA depends principally on the various memoranda of understanding it has signed with non-EU regulators, including in the United States and Asia. In consequence, although the FSA's role as a lead supervisor does not restrict the role of individual local regulators or over-ride the local insurance and other financial services regimes described in the following sections, the FSA's rules and its regulatory agenda do impact Prudential's operations globally.

Moreover, because the FSA's regulatory framework is considerable, shaped and influenced by directives emanating from the EU, the significant Group-wide impact of FSA rules may at times result in legal and regulatory developments in the EU (including the evolving Solvency II framework discussed below) in turn having a significant impact on the business and operations of the group as a whole.

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 ("FSMA 2000"). 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 and various Pension Acts) 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 FSMA 2000 pursuant to which each regulated firm's risk is assessed by the FSA (pending the structural changes, discussed below) 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 threats to the FSA's statutory objectives under the FSMA 2000. These objectives relate to maintaining market confidence, the protection and enhancement of the stability of the UK financial system, securing 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 materialising.

Prudential is regarded by the FSA as a high impact firm in view of the nature and complexity of its business and as such generally receives ARROW assessments at least once in every two year regulatory period. 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 is mitigating these. This "close and continuous" supervision is supported by focused (relating to a firm or group) and themed (relating to the industry or market as a whole) visits where appropriate. In advance of discussions, the FSA requests relevant mandatory management information at prescribed intervals, which helps to frame the agenda for these meetings.

The last ARROW assessment across the Group (including Prudential UK) was conducted in July 2011 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 Prudential in December 2011.

Overview of FSMA 2000 regulatory regime

Single regulator

The FSA is currently the single regulator for all authorised persons with respect to regulated activities in the financial services sector. In this regard, the FSA is empowered 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.

New regulatory regime

The UK government is reforming the current "tripartite" system of financial regulation involving the FSA, The Bank of England and HM Treasury.

The proposals envisage the FSA ceasing to exist in its current form and the establishment of three new regulators. The Financial Policy Committee (which will sit within the Bank of England) will be given responsibility for macro-prudential regulation and micro-prudential regulation will be overseen by the Prudential Regulation Authority (which will be a subsidiary of the Bank of England). The Financial Conduct Authority will also be established, separate from the Bank of England, and will have responsibility for conduct of business regulation in relation to all authorised firms, the prudential regulation of firms not regulated by the Prudential Regulation Authority and it will also inherit the majority of the FSA's market regulatory functions. The FSA is currently preparing for transition to the new regulatory regime and has introduced a shadow internal structure.

Following the publication of the draft Finance Bill in June 2011, HM Treasury published the Financial Services Bill in January 2012 and following a second reading in the House of Commons on 6 February 2012, has now passed the committee stage of the House of Commons. This Bill is intended to complete its legislative process and to receive Royal Assent by the end of 2012. The transfer to the new regulatory structure is expected to happen in early 2013.

Permission to carry on "Regulated Activities"

Under the FSMA 2000, 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 authorised person or is an exempt person. A firm which is authorised by the FSA to carry on regulated activities becomes an authorised person for the purposes of the FSMA 2000. "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 authorising a firm, the FSA will limit the permissions it grants to the regulated activities in which the firm is intending to engage.

Ongoing Requirements: Principles for Businesses

An authorised firm will be subject to a range of ongoing regulatory requirements from the FSA, including meeting at all times specified threshold conditions, including possession of adequate resources for the carrying on of its business and being fit and proper. 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 the firm's relationship with the FSA and the need to act with integrity as well as to treat customers fairly.

In the wake of the recent financial crisis, the FSA has announced, and has followed, a new strategy of "intensive supervision" and a move to what it has described as "outcomes-focused regulation". This has been coupled with a publicly announced strategy of "credible deterrence", involving an increased focus on its enforcement activities.

Main features of regulation applicable to the Prudential's insurance and investment businesses

Supervision of management and change of control of authorised firms

The FSA closely supervises the management of authorised firms through the "approved persons" regime, under which any appointment of persons who perform a "controlled function", including functions that enable the exercise of significant influence over an authorised firm, must be pre-approved by the FSA.

The FSA also regulates the acquisition and increase of control over UK authorised firms. Under the FSMA 2000, any person proposing to acquire control of or increase control over a UK authorised firm must first obtain the prior approval of the FSA. The assessment process and assessment criteria for this process are set out in the FSMA 2000 and associated rules. In considering whether to grant or withhold its approval to the acquisition of control, the FSA must consider, among other things, the suitability of the person seeking consent and seek to ensure the sound and prudent management of the UK authorised firm.

"Control" for these purposes includes a holding of 10 per cent or more in the share capital or voting power of an authorised firm or its parent undertaking or a holding of shares or voting power of an authorised firm or its parent undertaking as a result of which a person is able to exercise significant influence over the management of the authorised firm. When determining a person's level of control, that person's holding of shares or entitlement to exercise voting power will be aggregated with the holding or entitlements of any person with whom he is "acting in concert".

A person will be treated as increasing his control over an authorised firm, and therefore requiring further approval from the FSA, if the level of his shareholding or entitlement to voting power in the authorised firm or, as the case may be, its parent undertaking, increases by any threshold step. The threshold steps occur on the acquisition of 10 per cent, 20 per cent, 30 per cent and 50 per cent of the shares or voting power in an authorised firm or its parent undertaking.

The Acquisitions Directive was introduced across the EU on 21 March 2009, establishing EU wide procedural and evaluation criteria for the prudential assessment of acquisitions and increases of holdings in the financial sector. The Financial Services and Markets Act 2000 (Controllers) Regulations 2009 gave effect to the Acquisitions Directive in the UK by making various changes to the FSMA 2000.

Intervention and enforcement

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

The FSA's enforcement powers, which may be exercised against both authorised 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 the removal of an approved person's approved status. In addition, the FSA may vary or revoke an authorised 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 (or is likely to fail) to meet the threshold conditions for authorisation. The FSA has further powers to obtain injunctions against authorised persons and to impose or seek restitution orders where persons have suffered loss, to prosecute criminal offences arising under FSMA 2000, prohibitions on insider dealing and breaches of money laundering regulations. Breaches of certain FSA rules by an authorised firm may also give a private person who suffers loss as a result of the breach a right of action against the authorised firm for damages. The FSA, although not a creditor, may seek administration orders under the Insolvency Act 1986 (as amended), present a petition for winding-up of an authorised firm, or have standing to be heard in a voluntary winding-up of an authorised firm.

FSA Conduct of Business Rules

The FSA's Conduct of Business Rules apply to every authorised firm carrying on regulated activities and regulate the day-to-day conduct of business standards to be observed by authorised persons in carrying on regulated activities. The Conduct of Business Rules incorporate the requirements of the EU's 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 authorised firm under the Conduct of Business Rules vary according to the scope of its business and the range of its clients. Generally speaking, however, the obligations imposed on an authorised firm by the Conduct of Business Rules will include the need to categorise its clients according to their level of sophistication, provide them with information about the firm, meet certain standards of product disclosure, ensure that promotional materials which it produces are 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 authorised firms in the areas of product development, complaints handling, financial promotions and systems and controls. TCF assessments of firms are incorporated into the ARROW assessment process.

Prudential supervision

As set out above, in order to maintain authorised status under the FSMA 2000, 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 authorised 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 authorised firms. The FSA's capital rules for insurers and investment firms are discussed separately below.

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The Financial Ombudsman Service

Authorised firms must have appropriate complaints handling procedures and the principles of complaints handling are defined in the FSA Handbook. 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 authorised 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 the Ombudsman determines to be just and appropriate in order 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 other groups of "eligible claimants", including certain trustees for claims against an authorised firm where the authorised 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 "classes": of deposits, investments, insurance mediation, insurance business (life and general) and home finance, reflecting the different kinds of business undertaken by authorised firms. The scheme is funded by contributions from industry participants referable to the particular class and sub-classes within each class, so as to minimise cross-subsidy between authorised persons whose businesses are not similar.

Defaults by investment advisers have resulted in additional levies on the sub-classes to which Prudential is exposed by virtue of M&G. Furthermore, defaults by a number of deposit-takers in 2007 and 2008 led to large payouts by the FSCS, which have been funded mainly by obtaining loans from the Bank of England which were later refinanced by HM Treasury. The outstanding principal on HM Treasury loan is due to be repaid from 2012. A repayment schedule will be agreed between the FSCS and HM Treasury based on market conditions closer to the time and although repayments may be funded by the "general pool" (which is in part funded by levies on the Insurance class in which Prudential sits) current indications are that recoveries from the various defaulting firms will, in large part, be sufficient to repay the outstanding loan. This reduces the possibility that repayments will be funded by the "general pool".

The FSA has recently recommenced its comprehensive review of the FSCS funding model and expects to consult on proposals in the first half of 2012.

Regulation of insurance business

Effecting and carrying out contracts of insurance as principal are regulated activities for the purposes of the FSMA 2000, and the carrying on of such regulated activities is referred to as insurance business. Some of Prudential's subsidiaries, including PAC, Prudential Annuities Limited, Prudential Retirement Income Limited, Prudential Pensions Limited and Prudential Holborn Life Limited carry on insurance business in the United Kingdom with the permission of the FSA and are regulated by the FSA under the FSMA 2000.

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. Authorised firms which advise and sell to retail 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.

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The FSA launched the Retail Distribution Review (the "RDR") in 2006 with the specific aim of addressing shortcomings in the retail investment market around the way advisers present their service, how they are remunerated and their professional standards and qualifications. In March 2010, the FSA published a policy statement which detailed final rules around:

- How advisers present and describe the adviser services that they offer;
- The banning of commission when a personal recommendation is made; and
- Changes to requirements if an adviser is holding itself out as independent.

Later in 2010, the FSA issued further rules on qualification requirements, continuing professional development and professional standards. Where a personal recommendation is given to a retail customer, commission will be replaced by "adviser charging" whereby a firm must set and clearly disclose its tariff of charges and where these are to be facilitated by a product provider, the amount must not be determined by the provider and there must be clear distinction from any product charges . Advisers, in addition to needing to achieve a higher qualification level, will also need to demonstrate ongoing competence by structured continuing professional development (CPD), and maintenance of professional standards. Additionally, firms will have increased reporting requirements in respect of their advisers.

The changes introduced by the RDR will have broad-ranging impact on Prudential, including requiring significant system changes, affecting decisions as to which products Prudential offers and the pricing of those products as well as expanding UK regulatory reporting requirements. The new rules come into effect on 31 December 2012.

Capital requirements for insurers

The FSA's rules which govern the prudential regulation of insurers are found in the FSA's General Prudential Sourcebook ("GENPRU"), Prudential Sourcebook For Insurers ("INSPRU") and the Interim Prudential Sourcebook for Insurers ("IPRU (INS)"). Solvency II, described further below, is the European Commission's project to reform prudential regulation of European Union insurers.

The FSA's rules 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. If the FSA disagrees with a firm's capital requirement assessment, it will issue individual capital guidance ("ICG") which it can impose as a requirement.

Insurance companies must maintain assets sufficient to meet the relevant capital requirement at all times in respect of both long-term insurance and general insurance business undertaken by the company. The calculation of such capital requirements is dependent on the type and amount of insurance business a company writes. Under the rules in GENPRU, 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 previously required minimum margin under the IPRU (INS) and satisfies the current minimum EU standards.

The ECR is determined as the higher of two separate measurements of the firm's financial resources requirements, reflecting capital as determined by reference to two bases for calculating liabilities (regulatory and realistic),which the FSA refers to as the "twin peaks" approach. The regulatory basis reflects strict contractual liabilities whereas the realistic basis includes more discretionary but expected benefits, including those required to treat customers fairly.

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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 INSPRU. 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 INSPRU 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.

The FSA requires banks, building societies, insurers and investment firms to undertake reverse stress testing. Reverse stress testing requires firms to work backwards from an assumed point of business model failure, to identify the stress scenarios that could result in such adverse outcomes. Each firm must then consider whether the likelihood of these scenarios, taking into account likely management actions, is consistent with its risk appetite and, if not, must initiate actions to address any inconsistencies.

Actuarial functions

The FSA's rules 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, the "with-profits actuary function" in respect of all classes of that with-profits business (if any).

The actuary performing the "actuarial function" must prepare at least annually, a report for the company's directors determining the company's long-term liabilities attributable to the insurance company's long-term insurance business in excess of 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, amongst other responsibilities advise the firm's management on key aspects of the discretion to be exercised affecting these classes of the with-profits business of the firm, and, 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 above has been given) of the discretion exercised in respect of the period covered by his report All firms that carry on with-profits business are required to publish the PPFM that are applied in the management of their with-profits funds.

Distribution of profits and with-profits business

Under IPRU (INS), 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 a defined "relevant minimum" of the surplus has been allocated to policyholders or a statutory notification procedure has been followed.

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. The FSA confirmed in July 2009 that proprietary life insurance companies will not be able to meet future compensation and redress payments from their with-profits funds, and the FSA confirmed a rule change, meaning that liabilities arising from operational failures (including mis-selling) after the rule came into effect from July 31, 2009 should be met by shareholder funds rather than policyholder funds.

Treating Customers Fairly and with-profits business

The with-profits business has been an area of focus for the FSA's TCF initiative, including specifically, 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.

On 7 March 2012, the FSA published a Policy Statement (PS 12/4) with further changes to rules and guidance in a number of areas concerning the operation of with-profits funds, including principally conflicts of interest with the potential to prejudice with-profits policyholders; the fair treatment of with-profits policyholders in mutually-owned funds; the terms on which new business may be written by with-profits insurers; communications and planning surrounding material reductions in new business; the application of market value reductions; the use of with-profits funds to make strategic investments; the removal of the ability of firms to reattribute excess surplus; rules surrounding reattribution of inherited estates; and changes to the rules surrounding corporate governance. The changes to rules and guidance contained in PS 12/4 give rise to uncertainties as to how such rules and guidance will be applied. Accordingly, Prudential is seeking clarification of the application of PS12/4 to its with-profits business in the UK.

Gender discrimination in contracts of insurance

In a 2011 decision, the European Court of Justice ("the ECJ") ruled that gender-related factors could not be used in determining premiums and benefits under insurance policies. The ECJ granted a transition period of relief for implementation until 21 December 2012. The full effects of the ruling and how it will be transposed into law by EU member states is uncertain for the insurance industry as a whole. In particular, it is unclear how insurance contracts that are entered into prior to the ruling but which continue in force after 21 December 2012, will be treated. The UK Government's intention is to amend the Equality Act 2012 during 2012 to give effect to the judgment.

Reporting requirements

Under IPRU (INS), 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.

EU Directives on groups

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

As lead supervisor of Prudential under the IGD, the FSA supervises Prudential on a group basis in addition to supervising the UK insurance companies within Prudential individually. This is referred to in the IGD as supplementary supervision and encompasses such matters as general supervision over intragroup transactions (including, inter alia, loans, guarantees and off-balance sheet transactions, investments, reinsurance, retrocession and cost sharing agreements), group risk management processes and internal control mechanisms, and reporting and accounting procedures. In accordance with the IGD, the FSA requires the calculation of group capital resources on a consolidated basis and requires that such group capital resources are equal to or in excess of Prudential's group capital resources requirement (each as calculated in accordance with INSPRU). As lead supervisor of Prudential under the IGD, the FSA also plays a coordinating role amongst EU regulators under the IGD. Due to the geographically diverse nature of Prudential's operations, the application of these requirements to Prudential is complex. In particular, for the purposes of calculating the group capital requirement and actual group capital resources under INSPRU, for many of the 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, "Solvency II", which will repeal and replace the existing Life, Non-life, Re-insurance and IGD 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.

Solvency II adopts a three-pillar approach to prudential regulation, which is similar to the "Basel II" approach that has already been adopted in the banking sector in Europe:

- Pillar 1 relates to minimum capital requirements, covering technical provisions, the Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR"), the rules on market consistent valuation, investment of assets and the use of internal models to calculate the SCR;
- Pillar 2 covers risk management, governance requirements, the Own Risk and Solvency Assessment ("ORSA") and supervisory review;
- Pillar 3 covers public and supervisory reporting and disclosure.

Although the Solvency II Directive has similarities to the current UK regime set out in GENPRU and INSPRU in terms of its risk-based approach to the calculation of capital requirements and use of capital tiering, there are also many differences both in terms of substance and terminology. For example, while both regimes share the principle of a market consistent valuation of assets and liabilities, there are differences in the detailed valuation methodologies.

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 economic capital models to calculate capital requirements, subject to approval by the FSA. In addition, Solvency II requires firms to develop and embed an effective risk management system as a fundamental part of running the firm.

The new regime will require firms to disclose a considerably greater level of qualitative and quantitative information than under current rules, both to their own supervisor through Regular Supervisory Reporting ("RSR") and to the market through the publication of a Solvency and Financial Condition Report ("SFCR"). This is intended to increase transparency, allowing easier comparison across the industry and enabling supervisors to identify sooner if firms are heading for financial difficulty. In turn, increased transparency is intended to drive market discipline, arising from the reaction of ratings agencies and the capital markets to firms' performance.

The Solvency II "Level 1" Directive was formally approved by the European Council in November 2009, setting out a framework which will be supplemented by further and more detailed technical implementing measures drafted by the European Commission.

In January 2011 the European Commission published the draft Omnibus II Directive. This draft Directive proposes a number of amendments to the existing Solvency II framework, inter alia to take account of the Lisbon Treaty and the new supervisory architecture which has been implemented within the EU. The latter has included the establishment of the European Insurance and Occupational Pensions Authority (EIOPA) as the successor to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). Omnibus II will define the scope of EIOPA's powers in the context of the Solvency II regime, including its powers to resolve disagreements between national supervisors and to act as a coordinator in "emergency situations". The proposed amendments also define the areas in which draft technical standards may be developed by EIOPA and then be made binding by the European Commission and an expanded role for EIOPA in monitoring compliance by Member States.

The opportunity has also been taken in the draft Omnibus II Directive and subsequent Presidency Compromise texts to develop Solvency II in a number of areas unrelated to EIOPA or the Lisbon Treaty, in order to ease the change to the new regime. These include extending the date of Solvency II's implementation and authorising the European Commission to implement transitional measures in certain areas (subject to specified maximum periods). The areas in which transitional measures can be adopted include a framework within which third country insurance and reinsurance prudential and supervisory regimes that do not meet the criteria for "equivalence" on the implementation of Solvency II may still be treated as equivalent for a limited period thereafter.

In its November 2011 Consultation Paper on the transposition of Solvency II (CP11/22), the FSA's planning assumption was that the implementation of Solvency II will be bifurcated, with transposition of the Solvency II Directive completed and the responsibilities of EIOPA and supervisors in force from 1 January 2013, and Solvency II requirements for firms in force from 1 January 2014. The final proposal, along with transitional measures, will be confirmed when the Omnibus II Directive is agreed (currently expected during 2012). The implementing measures are expected to be finalised later in 2012. There remains significant uncertainty regarding the outcome of this process.

Regulation of investment business

Certain of Prudential's subsidiaries are authorised 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 FSMA 2000.

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 organisational 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, organisational requirements, outsourcing, client categorisation, conflicts of interest, best execution, client order handling and suitability and appropriateness, and investment research and financial analysis, pre- and post-trade transparency obligations and transaction reporting and make substantial changes to the responsibility for the supervision of cross-border investment services provided by firms in exercise of their single market passport rights.

On 27 October 2011, the European Commission published its final proposals for amendments to MiFID. As well as a number of specific requirements relating to electronic trading, transaction reporting and investor protection, the proposals expand the scope of MiFID, both in terms of the types of firms and instruments (eg structured deposits) its requirements encompass. The proposals would also introduce authorisation and registration regimes for additional firms, such as data reporting providers and third country firms and current exemptions would be narrowed to bring more commodities firms into the scope of MiFID. The result would be increased regulatory scrutiny and more extensive compliance obligations for firms which are not currently captured by MiFID.

The amendments to MiFID are currently under negotiation in the European Parliament and Council. Agreement is not expected until the end of 2012. Implementation timelines are still being negotiated.

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 GENPRU and the Prudential Sourcebook for Banks, Building Societies and Investment Fims ("BIPRU"). 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) ("CRD") CRD has been amended a number of times. On July 20, 2011, the European Commission proposed a legislative package known as "CRD IV" which will replace CRD in order, amongst other ends, to implement the rules proposed by the Basel Committee on Banking Supervision, known as "Basel III".

Alternative Investment Fund Managers Directive (AIFMD)

The European Parliament agreed the AIFMD, a directive designed to regulate private equity and hedge funds, in November 2010. Implementation of the directive by national regulators is expected to be completed by mid-2013. The European Securities and Markets Authority (ESMA) provided advice to the European Commission on the detailed rules at Level 2, which implement the Directive, on 16 November 2011. The Commission is due to send its draft implementing legislation to the Council and European Parliament for political agreement, which is expected in July 2012.

Many of Prudential's early concerns regarding the impact of the directive have been allayed with the agreement of its final text. However the way in which the regime established under the AIFMD operates in practice will in large part be determined by the Level 2 (legislation) and Level 3 (guidance) measures to be adopted by the European Commission and ESMA before the AIFMD comes into force.

European Market Infrastructure Regulation ("EMIR")

On 15 September 2010, the European Commission published its final proposal for a regulation of OTC derivative transactions, central counterparties (CCPs) and trade repositories, widely known as European Market Infrastructure Regulation, or "EMIR". EMIR contains proposals intended to increase stability within the OTC derivative markets by introducing *(with limited exemptions, including from certain aspects of the proposed regime in the case of intragroup transactions): (i) a reporting obligation for OTC derivatives; (ii) a clearing obligation for eligible OTC derivatives; (iii) measures to reduce counterparty credit risk and operational risk for bilaterally cleared OTC derivatives, including through collateral requirements; (iv) common rules for CCPs and for trade repositories; and (v) rules on the establishment of interoperability between CCPs.

On 9 February 2012, the European Parliament and Council agreed on the legislation in negotiations with the Commission. A number of changes were agreed to the Commission's draft, including a phase-in exemption from central clearing for pension schemes. The European Parliament and Council must now formally approve the text before it is published and enters into force. ESMA is due to submit draft technical standards to implement the detail of legislation by end-September 2012. Central clearing is expected to begin in 2013.

US Supervision of M&G Investment Management

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

Asian Supervision and Regulation

1. Regulation of insurance business

The laws and regulations applicable to Prudential's businesses in Asia vary from country to country, but the regulators typically grant (or revoke) licenses and therefore control the ability to operate a business.

Industry regulations are usually widely drawn and 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, conditions for outsourcing non core functions, policyholder and investor protection and regulation of product features, as well as anti-money laundering and "know your client" requirements and data protection requirements. 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.

Regulatory standards are generally being raised with, for example, greater emphasis on ensuring that products are fit for purpose and that customers fully appreciate the features of their policies. Also whereas compliance with the relevant regulations was always implicit in the way insurers ran their businesses, there is a trend towards a more explicit demonstration of this through documentation, audits and more formal management structures.

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).

Prudential Corporation Asia's ("PCA's") business units will be required to adhere to Prudential's group-wide policy designed to comply with the EU Solvency II requirements but will not each be required to be compliant on a solo entity basis. Asian regulators are monitoring closely how Solvency II is developed and implemented but are not currently requiring regulated insurance entities to comply.

Certain additional details of the regulatory regimes to which PCA's insurance operations are subject are discussed below:

Hong Kong The Prudential Assurance Company Limited

Overview

The Hong Kong branch of PAC is authorised to carry on both long-term business and general business in Hong Kong under a composite license.

The Office of the Commissioner of Insurance ("OCI") is the regulatory body that administers the Insurance Companies Ordinance ("ICO"). The Office is headed by the Commissioner of Insurance who has been appointed as the Insurance Authority ("IA") for administering the ICO. The principal functions of the IA are to ensure that the interests of policyholders or potential policyholders are protected and to promote the general stability of the insurance industry, including by authorising insurers to carry on insurance business in Hong Kong, regulating insurers' conduct primarily through the examination of the annual audited financial statements and business returns insurers submit,, and development of legislation and guidelines on insurance supervision. A key supervisory responsibility relates to solvency margin requirements contemplated by the ICO, as further discussed below.

The branch is also subject to the codes and guidance developed by a self-regulatory body the Hong Kong Federation of Insurers ("HKFI"). HKFI actively promotes its self-regulatory regime with respect to areas like conduct of insurers and insurance intermediaries, cooling off initiatives, policy

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replacement and initiative on needs analysis, etc. The Insurance Agents Registration Board of the HKFI is responsible for administering the registration and approval of insurance intermediaries of insurance agents, their responsible officers and technical representatives; and handling complaints against them and providing enquiry services to and handling complaints from the public relating to insurance agents. The OCI is also exploring with the HKFI the possibility of setting up a policyholder protection fund in the event of an insurer's insolvency.

In addition, the sale of mandatory pension products by agents is regulated by the Mandatory Provident Fund Authority (the "MPFA"), which licenses and supervises the conduct of MPF intermediaries and the supervision of the conduct of MPF intermediaries.

The branch is also regulated by the Hong Kong Securities and Futures Commission (the "SFC") for its offering of Investment Linked products.

A more robust anti-money laundering framework (including with respect to customer due diligence and record-keeping) will also come into effect in 2012, and new requirements in respect of data protection have recently been proposed.

Capital requirements

Under the ICO, an insurer is required to maintain at all times an excess of assets over liabilities of not less than a required solvency margin. The objective is to provide a reasonable safeguard against the risk that the insurer's assets may be inadequate to meet its liabilities arising from unpredictable events, such as adverse fluctuations in its operating results or the value of its assets and liabilities.

For general business insurers, the ICO stipulates an absolute minimum solvency margin of HK$10 million, or HK$20 million in the case of insurers carrying on Statutory Business. Above these minimum levels, solvency margins are calculated on the basis of the greater of an insurer's relevant premium income or relevant outstanding claims.

For long-term business insurers, the ICO stipulates an absolute minimum solvency margin of HK$2 million. Above this minimum level, solvency margins are determined in accordance with the Insurance Companies (Margin of Solvency) Regulation (Chapter 41 F of the Laws of Hong Kong), which sets out a series of calculations to be used depending on the particular class of long-term business involved.

For composite insurers, the ICO stipulates a minimum solvency margin based on the aggregate of the solvency margin required in respect of an insurer's general business and its long-term business, both calculated as described above.

Taiwan PCA Life Assurance Company Limited

PCA Life Assurance Company Limited is licensed for conducting life insurance business in Taiwan.

The Financial Supervisory Commission ("FSC") is responsible for regulating the entire financial services industry, including the banking, securities and insurance sectors. The FSC's responsibilities include supervision, examination and investigation. The Insurance Bureau ("IB") under the FSC is responsible for the insurance sector. The Financial Examination Bureau (the "FEB") under the FSC acts as the executive supervisory authority for the FSC and principally carries out examinations and on-site visits of insurance companies, generally every two years. The Investigation Bureau under the Ministry of Justice is responsible for supervision of anti-money laundering and counter-terrorism financing efforts.

Under legislation due to take effect in 2012, data protection requirements in Taiwan will soon change significantly, including with respect to collection, processing and use.

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Capital Requirements

The Insurance Act requires all insurance companies to maintain an RBC ratio of not less than 200%. The ratio is determined as the adjusted net capital compared against the risk-based capital. This measurement takes into consideration asset, insurance, interest and other relevant risks as required in calculating the capital on a risk adjusted basis. Any company failing the threshold may be subjected to measures ranging from restrictions in business operations to the withdrawal of business license.

Korea PCA Life Insurance Company Limited

Overview

PCA Life Insurance Company Limited is authorised to carry on life insurance business in Korea including but not limited to casualty insurance, illness insurance, nursing insurance and incidental business and services related thereto.

Korea's financial supervision structure is composed of the Financial Services Commission (the "FSC") and the Financial Supervisory Service (the "FSS"). As Korea's principal supervisory authority, the FSC is given a broad statutory mandate to carry out three key functions: financial policy formulation, financial institution and market oversight, and anti-money laundering. It also issues 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.

In respect of anti-money laundering, the Korea Financial Intelligence Unit ("KoFIU"), a part of the FSC leads the government's anti-money laundering and counter terrorism financing efforts.

Korean laws permit an insurer to operate only one license (life or non-life) at any one time. In the past, the FSC has been highly interventionist in setting and enforcing rules on the insurance industry. In recent years the FSC has moved away from its interventionist approach, in response to the evolving and liberalised landscape. The most prominent change has been a deregulation in asset management and product design activities. However, in connection with deregulation, the FSC has also sought to strengthen supervision. Recent additions and amendments to Korean law and regulation aimed at protecting consumers have, amongst other things, resulted in expansion of the scope of concurrent/ancillary businesses which can be conducted by insurance companies, new reporting requirements for foreign insurer's Korean offices, new regulations governing asset management by insurance companies, updated processes for development of insurance products, prohibitions on corporate insurance agents and corporate insurance brokers from engaging in other business, new additions to the list of acts prohibited when entering into insurance contracts or soliciting consumers and additional and more specific requirements in respect of data protection.

Capital requirements

A risk-based supervision framework applies to insurers, encompassing the risk-based capital solvency requirement, the risk assessment and application system (RAAS), which assesses insurers' various risks and relevant internal controls, and risk disclosure.

Under RBC solvency, the ratio of an insurer's available capital to required capital is calculated, and the analysis of equity capital used to determine capital adequacy must take into account market, credit, operational, insurance and interest rate risks, which is not taken into consideration under the solvency margin requirement.

In the event an insurer fails to satisfy the applicable capital adequacy requirement and this poses a threat to the financial soundness of that insurer in Korea, the FSC may take corrective action, ranging from issuing a recommendation to an insurer to increase its capital reserves or to restrict its investments

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in high-risk securities and other assets to issuing an order to an insurer to suspend its business or transfer it to a third party.

Singapore Prudential Assurance Company Singapore (Pte.) Limited

Overview

Prudential Assurance Company Singapore (Pte.) Limited is registered by the Monetary Authority of Singapore (the "MAS") to design and sell both life and general insurance business pursuant to the Singapore Insurance Act.

Under the Singapore Insurance Act, the MAS is responsible for insurance regulation and supervision of insurance companies. 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.

Another relevant regulatory authority for the business is the Central Provident Fund (the "CPF") Board, which acts as a trustee of social security savings schemes jointly supported by employees, employers and the government. The CPF Board regulates 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 and CPF Board have very detailed regulatory frameworks to govern insurance companies and the distribution of insurance products in Singapore.

MAS also regulates market conduct standards for life insurers, including the appointment and training of representatives, maximum tier structure, loans and advances, disciplinary action, product disclosure, sales processes and replacement (switching) of life policies. In addition, financial institutions are required to notify MAS when they intend to appoint a representative to provide financial advisory or capital markets services, with only those representatives whose names appear on the Public Register of Representatives allowed to conduct the same.

The MAS introduced some key changes to its regulatory framework in 2011 in response to market conditions:

- further guidance on the management by financial institutions of their representatives' fitness and propriety.

- a risk-based levy structure under the Policy Owners' Protection Fund (PPF) Scheme, to which all PPF scheme members that issue insured policies contribute.

- enhanced consumer protection requirements, including requirements that financial advisers assess whether a customer has the relevant knowledge or experience to understand the risks and features of unlisted investment products and carry out a due diligence exercise to ascertain whether the new product is suitable for the targeted client.

- Mandatory requirements and non-mandatory standards in relation to disclosure, investment guidelines, borrowing limits and operational practices for investment-linked life insurance policies.

The Ministry of Information, Communication and the Arts (MICA) also undertook consultations in 2011 in respect of data protection, which have now closed. Further developments are awaited.

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Capital requirements

Registered insurers in Singapore are subject to a risk based capital ("RBC") framework. The framework sets out the valuation methodology for assets and liabilities, rules relating to the operations of life insurance funds, capital requirement rules, the role of actuaries, and a 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.

A registered insurer is required at all times to maintain a minimum level of paid-up ordinary share capital and to ensure that its financial resources are not less than the greater of the sum of the aggregate of the total risk requirement of all insurance funds established and maintained by the insurer under the Singapore Insurance Act; and where the insurer is incorporated in Singapore, the total risk requirement arising from the assets and liabilities of the insurer that do not belong to any insurance fund established and maintained under the Singapore Insurance Act (including assets and liabilities of any of the insurer's branches located outside Singapore); or a minimum amount of 5 million Singapore Dollars.

The MAS also has the authority to direct that the insurer satisfy capital adequacy requirements other than those that the insurer is required to maintain under the Singapore Insurance Act if the MAS considers it appropriate.

Malaysia Prudential Assurance Malaysia Berhad

Overview

Prudential Assurance Malaysia Berhad has composite licenses to carry on both life and general insurance business in Malaysia pursuant to the Insurance Act 1996.

In Malaysia, Bank Negara Malaysia ("BNM") is the regulatory body responsible for supervising and regulating the conduct of insurance business.

BNM places considerable emphasis on fair market conduct by the insurance industry and protection of consumers' interests. BNM has issued guidelines on the minimum disclosure requirements to be observed by insurers and their intermediaries. The guidelines specify the timing and minimum information that must be disclosed to a prospective policy owner at the pre-contract stage and at the point of entering into a contract to enable them to make informed decisions and during the term of the contract. Minimum information includes, for example, details of types of cover offered, product features, benefits, restrictions, premium payments and exclusions of the policy as well as any significant conditions and obligations on the policy holder and addition product specific disclosure requirements. There are additional product specific disclosure requirements to be met. The Board of Directors or a committee of the Board of Directors is expected to ensure that proper systems and processes are in place to implement the guidelines.

In addition, the Prudential Assurance Malaysia Berhad is a member of the Life Insurance Association of Malaysia and the General Insurance Association of Malaysia. The Life Insurance Association of Malaysia and the General Insurance Association of Malaysia are self-regulated bodies. Resolutions and circulars issued by these associations are binding on the member insurance companies.

Guidelines to enhance the protection of customers' interests were introduced by the Life Insurance Association of Malaysia on 2 January 2012. In addition to the implementation of customer welcome calls, the requirements for fact-find forms and benefits illustrations have been revised.

Capital requirements

BNM has introduced an RBC framework aimed at improving the risk management practices of insurers. Under the RBC framework, insurers are required to maintain a capital adequacy level that is commensurate with their risk profiles. Each insurer is required to determine the adequacy of the capital available in its insurance and shareholders' fund to support the total capital it requires. This serves as a key indicator of the insurer's financial resilience which is used by BNM to determine the need for supervisory interventions.

Under the RBC framework guidelines, the Board of Directors and senior management of an insurer are also expected to identify, monitor and control risks which are not adequately addressed under the framework. An insurer is also expected to manage actively its capital adequacy by taking into account the potential impact of its business strategies on its risk profile and overall financial resilience.

Malaysia (Takaful business) Prudential BSN Takaful Berhad

Overview

Prudential BSN Takaful Berhad ("Prudential Takaful") (a Prudential joint venture with Bank Simpanan Nasional) was the first overseas insurer to be granted a domestic Takaful License in Malaysia.

The Takaful business in Malaysia, like the insurance business discussed above, is also regulated by BNM. In addition, Prudential Takaful is required to be a member of the Malaysian Takaful Association ("MTA"), an association for Takaful operators that seeks to improve industry self-regulation through uniformity in market practice and to promote a higher level of co-operation. Resolutions and circulars issued by the MTA are binding on its members.

Takaful in Malaysia is considered to be part of mainstream mercantile law, and is subject to the civil court structure. It is not regulated by Shariah law in Shariah courts. However, the operations of a Takaful operator must conform to the rules and requirements of Shariah as regulated in the Takaful Act 1984, which elevates the BNM's Shariah Advisory Council to the position of sole authority on Shariah matters. A Takaful operator is required to establish a Shariah advisory body approved by BNM to which BNM's Shariah Advisory Council will give guidance and advice on the operations and business activities. Guidelines were issued in 2004 to streamline the functions and duties of Shariah advisory bodies of Takaful operators and strengthen their independence. BNM issued a new Shariah governance framework in 2010 to provide a more comprehensive guidance on the roles and responsibilities of the Shariah advisory bodies and the board management of Islamic financial institutions.

To further promote the orderly growth of Takaful business, additional guidelines which came into force in January 2012 outline parameters to govern operational processes, focusing on uniformity with Shariah principles, prudent management of Takaful funds, transparency, good governance and risk management.

Capital requirements

BNM issued the Takaful Operational Framework which came into force on 2 January 2012. The regulations further strengthen the operational and valuation requirements of Shariah law.

China CITIC-Prudential Life Insurance Company Limited

Overview

CITIC-Prudential Life Insurance Company Limited (Prudential's joint venture with CITIC) is authorised to conduct life insurance business in China. To date, CITIC-Prudential Life had business across China including the key markets of Guangdong, Beijing, Shanghai, Hubei, Shandong, Shejiang, Jiangsu, Tianjin, Guangxi, Fujian and Hebei.

The body responsible for regulation of the insurance sector is the Chinese Insurance Regulatory Commission ("CIRC"). CIRC reports directly to the State Council.

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CIRC is authorised to conduct the 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. Amongst other things, it examines and approves the establishment of insurance companies and their branches and supervises market conduct. A special department, the Inspection Bureau, was established by CIRC to strengthen the function of investigating significant non-compliance issues and the conduct of insurance companies and the handling of complaints. CIRC also has local offices in all the provinces and selected direct administrative cities and regions across the country which set and administer implementation rules and guidelines in the application of the 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, with five identified 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 response to the global financial crisis, more importance has been attached to the supervision of internal control systems, corporate governance, and market conduct and information disclosure by insurance companies. A classification system has also been developed by the regulator to monitor risks in the industry. Under the system, insurance companies are 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, may be imposed on different groups.

In an effort to further strengthen regulation over the bancassurance channel, CIRC issued a new guideline in 2011 to disallow insurance company staff from stationing in bank branches or assisting in the selling process.

The People's Bank of China ("PBOC") is entrusted with responsibility and authority of regulating all anti-money laundering activities in China and has actively been developing rules and guidance, requiring insurance companies to abide by the PRC's main AML law and regulations in connection with capital investment, transfers and set-up of new branches, and specify senior management's responsibilities on AML.

Capital requirements

The minimum registered paid-up capital of a foreign invested insurance company is RMB200 million. A similar requirement is imposed on a Chinese branch of a foreign insurance company. Both foreign invested insurance companies and Chinese branches of foreign insurance companies are required to maintain a solvency ratio that is not lower than 100 per cent. Under relevant PRC regulations, the solvency ratio is the ratio of actual capital to the minimum capital requirement applicable to the insurer pursuant to relevant regulations. The actual capital is the difference between the admitted assets and admitted liabilities. The CIRC requires solvency reports to be submitted quarterly, annually or *ad hoc* as required by the CIRC. Where an insurer is not able to meet its solvency requirement, it is required to report immediately to the CIRC.

Thailand Prudential Life Assurance (Thailand) Public Company Limited

Overview

Prudential Life Assurance (Thailand) Public Company Limited (PLT) holds a life insurance license and is authorised to offer life and general insurance products. This also includes an authorisation to offer products with an investment linked feature.

PLT is regulated and supervised by the Office of Insurance Commission ("OIC"),the independent regulatory organisation handling day-to-day insurance business affairs and reporting to the Ministry of Finance.

The OIC has the power to manage and supervise insurance companies, protect insured persons and the general public, implement policies with respect to insurance funds, and regulate the professional conduct, qualifications and licensing of insurance brokers, agents and actuaries.

In respect of AML, all life insurance businesses are also regulated by the Anti-Money Laundering Office ("AMLO"). All suspicious reporting is to be made to Thailand's Financial Intelligence Unit ("FIU").

In the private sector, the Thai Life Assurance Association and the General Insurance Association play an active development role for their membership and support the insurance business as its representative bodies.

The OIC has initiated a five-year insurance development plan 2010-2014 with the objective of strengthening the Thai insurance system, developing the quality of the system to meet international standards and preparing for free trade in the future.

Capital requirements

Life insurers are required by law to maintain capital funds at the greater of two per cent of their insurance reserve or 50 million Thai Baht, but the OIC requires insurers to maintain capital funds of at least 150 per cent of this amount. An insurer that fails to maintain capital funds in line with OIC guidelines and does not take corrective action to address the deficiency will be subject to sanctions through restrictions on its investment and other business activities.

The 2008 amendments to the Life Insurance Act required the implementation of risk-based capital adequacy tests by 2011. Relating to this the OIC has issued guidelines in 2011 requiring audited quarterly RBC returns to be filed with them.

Philippines Pru Life Insurance Corporation of UK

Pru Life Insurance Corporation of UK is licensed as a life insurance company that also offers health, accident and disability insurance.

The Insurance Code of the Philippines, as amended, ("Insurance Code") gives the power to supervise and regulate the operations and business of insurance companies to the Insurance Commission ("IC"). The IC is a government agency under the Department of Finance, and is headed by the Insurance Commissioner.

IC regulation and supervision seeks, amongst other things, 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 insured public are met promptly and equitably, and to safeguard the rights and interests of the insured.

The IC issues licenses to insurance companies and other insurance market participants and also has the authority to suspend or revoke such licenses in certain circumstances.

The Insurance Code empowers the IC to adjudicate in the first instance insurance claims and complaints involving loss, damage or liability, up to specified amounts, to accept informal and administrative complaints from policyholders and to assist in settling their disputes with insurance companies.

Any life insurance company existing, operating, or otherwise doing business in the Philippines with at least sixty per cent (60%) foreign equity must meet a minimum capital requirement and also adopt an RBC Framework.

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India ICICI Prudential Life Insurance Company Limited

ICICI Prudential Life Insurance Company Limited (Prudential's joint venture with ICICI) is authorised to carry on long-term insurance business in India.

Insurance is subject to federal regulation in India. The Insurance Regulatory & Development Authority (the "IRDA") is the key regulator for ICICI Prudential Life Insurance operations. The IRDA's duties include issuing certificates of registration to insurance companies, protecting the interests of policyholders, and regulating, promoting and ensuring the orderly growth of the insurance industry. Regulatory direction is currently focused on corporate governance and disclosures to stakeholders. The IRDA's regulations also encourage the sale of insurance to customers in rural parts of India.

In addition, a high-level body, the Financial Stability and Development Council was set up in December 2010, to institutionalise and strengthen mechanisms for maintaining financial stability without prejudice to the autonomy of regulators. Among other things this council deals with issues relating to financial sector development, macro prudential supervision of the economy, including the functioning of large financial conglomerates, and address inter-regulatory coordination issues. In late 2011, the Finance Ministry formed four committees to prepare a roadmap for the insurance industry, tasked to look into issues relating to insurance penetration, product development and the regulatory framework, these committees will engage with industry bodies, ratings agencies and the Finance Ministry.

There has been a significant volume of regulatory developments in India since 2010 designed to shift the emphasis of the industry away from products which are mostly investment oriented and encourage more traditional savings and protection. The most significant changes relate to product regulation of investment-linked policies known as unit-linked insurance policies (ULIPS) with initiatives to rationalise ULIP product features.

The IRDA has since continued issuing guidance and clarification to its 2010 product regulations particularly in respect of pensions, ULIPs and variable life products. Key regulations in 2011 include the introduction of a single pricing methodology to calculate NAV; and maintaining separate bank accounts for segregated linked funds.

In 2011 the IRDA also began to focus on conduct of business rules. Agents will now be required to source a minimum amount of business and maintain a prescribed persistency level, for the period 2011-2014. Enforcement actions for agents failing to meet the persistency levels are targeted to be implemented from 2014 onwards. The IRDA has also published an exposure draft proposing the introduction of a product matrix to supervise the sales of life insurance products as well as the introduction of an analysis form during the sales process. Consultations closed in February 2012 and further action from IRDA is awaited.

Outsourcing guidelines have also been issued which define core/non-core activities and require insurers to put in place a comprehensive outsourcing risk management program, and to report certain key outsourcing arrangements to the IRDA. Boards must approve an insurer's outsourcing policy as well as review annually the performance of third party providers.

In its attempts to grow the insurance industry the IRDA facilitated a Bancassurance Committee and a consultation paper was released in July 2011. Draft regulations were issued in November 2011. Further iterations by the ORDA are expected following industry feedback.

Another significant regulatory development in 2011 was the publication of IRDA draft guidelines allowing insurers who have been in operation for over 10 years to raise funds through IPOs. The IRDA will decide the decide the size of the issue, including limitations on the dilution of stakes by promoters and subscriptions to be allotted to foreign investors.

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Indonesia PT. Prudential Life Assurance

PT. Prudential Life Assurance is authorised to carry on long-term (for an indefinite period) insurance business in Indonesia. Prudential's operations in Indonesia are authorised to distribute life insurance products based on either conventional or Shariah principles, through Agency and Bancassurance (including direct marketing) channels. While the regulations for life products based on conventional principles are fully developed (in accordance with current market conditions), the government has promulgated new regulations in relation to life products with Shariah principles.

The insurance industry is regulated by the Insurance Bureau under the Capital Market and Financial Institution Supervisory Board ("Bapepam LK") of the Ministry of Finance ("MoF"). The Indonesian parliament has approved a bill that will create a new regulator, the Financial Services Supervisory Authority ("OJK"). The OJK will take over supervision of banks, brokerages and insurance companies from 2013.

The MoF issues decrees on, among other things, licensing of insurance companies, business conduct, auditing, solvency, fit and proper test for directors and commissioners of insurance companies, Shariah insurance and KYC principles. These decrees are usually supplemented by implementing regulations issued by the Bapepam LK.

The 2011 regulations issued by the MoF focused on Shariah governance and business conduct rules. The MoF also issued audit guidelines raising its scrutiny of insurers through regular inspections.

The local Life Insurance Association ("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. Insurance sales forces are licensed by the AAJI.

The implementation of anti-money laundering controls in the insurance industry is monitored by the Indonesian Financial Transaction Reports and Analysis Center (the "PPATK").

In January 2012, the MoF issued draft regulations governing product development and distribution. Insurers would be required to develop and implement strategic product plans, including relevant risks to be integrated in the organisational risk management framework. The draft regulations also detail disclosure requirements relating to product sales and marketing materials.

Japan PCA Life Insurance Company Limited ("PCA Life Japan")

The Financial Services Agency of Japan (the "JFSA") regulates insurance companies and other financial institutions. In particular, the Insurance Business Division of the JFSA specifically undertakes the supervision of insurance companies. PCA Life Japan is licensed by the Prime Minister of Japan (who delegates most of the supervisory functions to the JFSA) as a life insurance company. PCA Life Japan ceased underwriting new policyholder contracts from February 15, 2010.

The JFSA has recently revised and enhanced its inspection criteria regarding reinsurers' financial strength and its integrated risk management schemes.

As of the 2012 financial year end, the standard for calculating solvency margin ratios, one of the key indicators for JFSA supervision of insurance companies will be revised to reflect stricter capital and risk measurement requirements that were introduced as a response to the recent financial crisis.

As of October 1, 2010, all life insurers have been required to enter into contracts with the Life Insurance Association of Japan (LIAJ) that designate the Arbitration Council within the LIAJ as the designated dispute settlement institution for disputes with policyholders.

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Vietnam Prudential Vietnam Assurance Private Limited

Prudential Vietnam Assurance Private Limited is licensed and regulated by the Ministry of Finance of Vietnam (the "MoF") as a life insurance company. An insurance company is not permitted to operate both life and non-life insurance at the same time, except in the case of a life insurance company that offers personal health and protection care insurance as a supplement to life insurance.

The Insurance Division of the MoF specifically undertakes the supervision of insurance companies. The fundamental principles of the operation of insurance companies are set out in the Insurance Business Law.

Generally, the Insurance Business Law and its guiding regulations focus on administrative supervision of insurance operations. In practice, the Insurance Business Law reserves most of its items for insurance contracts (that is, for the terms and conditions of policies) in order to protect policyholders' interests. Furthermore, the MoF has issued the new regulation on bankruptcy procedures for insurers, securities and financial institutions in late 2008 to allow it to take timely intervention to control the solvency of insurance companies.

The updated Insurance Law 61/2010/QH came into effect on 1 July 2011. Under the new law the State Administration of Insurance Business will conduct supervision of insurance business taking the necessary measures to ensure that insurers satisfy their financial requirements for fulfilling their obligations to policyholders.

Anti-money laundering controls in the insurance industry are monitored by the Anti-Money Laundering Department under the Banking Inspection, State Bank of Vietnam.

To further protect policyholders, the MoF issued Decree no.123/2011/ND-CP at the end of December 2011, requiring insurers to pay into a Policy Owner Protection Fund.

2. Regulation of investment and funds businesses and other regulated operations

Prudential conducts investment and fund businesses through subsidiaries or joint ventures in the following countries in Asia: Hong, Kong, Japan, Korea, The People's Republic of China, India, Singapore, Malaysia, Dubai and Vietnam. All operations are authorised and licensed by the relevant authorities, or exempted from licensing under the relevant regulations.

Hong Kong

Products and services offered by Prudential in Hong Kong are regulated under separate statutory regimes by different regulatory bodies, including the Hong Kong Securities and Futures Commission ("HKSFC"), the Hong Kong Monetary Authority and the Mandatory Provident Fund Schemes Authority ("MPFA").

THE MPFA regulates the compulsory Mandatory Provident Fund ("MPF"). In addition, the selling of MPF products by agents is regulated by the MPFA. The MPFA is responsible for the licensing and supervision of trustees who wish to administer MPF schemes and MPF intermediaries.

The Securities and Futures Ordinance ("SFO") and other subsidiary legislation govern the key regulatory requirements in Hong Kong relating to licensing requirements for persons carrying out regulated activities, including dealing in securities, advising on securities, fund management, market conduct, disclosure of interests, offering document requirements for securities and products including mutual funds and unit trusts, as well as investment-linked assurance products. The HKSFC is the statutory body responsible for the administration of the SFO and the related subsidiary legislations and rules.

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The Hong Kong branch of PAC is regulated by the HKSFC for its operations relating to investment linked products. It is also registered with the MPFA as a MPF corporate intermediary.

Eastspring Investments (Hong Kong) Limited, incorporated in Hong Kong, is a wholly owned subsidiary of Prudential Plc. It is licensed with the HKSFC and authorised to deal in and advise on securities and undertake asset management activities in Hong Kong. It also holds a QFII (Qualified Foreign Institutional Investors) license issued by the China Securities Regulatory Commission ("CSRC") and a certificate of Investment Registration issued by the Korea Financial Supervisory Service ("KFFS"). The company is also registered with the KFFS as an offshore investment advisor for investment advisory business and investment discretionary management business. The funds registered in Hong Kong by Eastspring Investments (Hong Kong) are also registered in Macau with the Monetary Authority of Macau.

BOCI Prudential Asset Management Limited ("BOCIP"), incorporated in Hong Kong, is a joint venture between Prudential Corporation Holdings Limited (36 per cent) and BOC Asset Management Limited (64 per cent).BOCIP is licensed by the HKSFC and is authorised to deal in and advise on securities, advise on corporate finance, advise on futures contracts and undertake asset management activities. It is also registered with the MPFA as an MPF corporate intermediary.

BOCI-Prudential Trustee Limited is a joint venture between Prudential Corporation Holdings Limited (36 per cent) and BOC Group Trustee Company Limited (64 per cent). The company is incorporated in Hong Kong and is an approved trustee under the MPFSO and an associated entity to the BOCIP under the SFO.

Key regulatory developments in 2011 applicable to Eastspring, BOCIP, BOCI-Prudential Trustee Limited include the following:

Eastspring Investments (Hong Kong) Limited

There has been a growing trend towards greater protection of retail investors. New measures brought into force in 2011 include;

- evidentiary requirements for proving professional status, licensing of credit rating agencies and analysis;
- prohibitions on the sale of unauthorised structured products to retail investors;
- requirements for key fact documents and disclosure requirements in respect of existing unit trust and mutual fund schemes; and
- requirements that an investor's knowledge of derivatives be assessed to determine product suitability.

In October 2011, HKMA and SFC issued a joint consultation paper on the proposals to regulate the OTC derivatives market in Hong Kong largely in response to global efforts and G20 reforms. The proposals include:

- mandatory reporting, clearing and trading obligations in line with the G20 commitments and the establishment of infrastructure for such, and
- regulation of key players in the OTC derivatives market. "OTC derivatives transactions" will be defined broadly. The regulators propose a new regulated activity for dealers, advisers and clearing agents in the OTC derivatives markets who are not authorised institutions. The regulators target to roll out this new regime by the end of 2012.

The SFC has announced new guidelines on anti-money laundering and counter-terrorist financing which will come into effect in April 2012.

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In November 2011 the SFC issued a consultation paper on proposed amendments to the Code of Conduct of Persons licensed or registered with the SFC, in relation to the establishment of a Financial Dispute Resolution Centre.

BOCI-Prudential Asset Management

On 29 August 2011, the HKSFC announced new measures to improve collateral and transparency of domestic synthetic Exchange Traded Funds (ETFs). Synthetic ETF managers must ensure that:

- the collateral level for domestic synthetic ETFs is increased to a minimum 100 per cent collateralisation so that there is no uncollateralised counterparty risk exposure resulting from the use of financial derivatives to replicate index performance;

- they implement a prudent haircut policy particularly where the collateral taken is in the form of equity securities (the market value of such equity collateral must be equivalent to at least 120 per cent of the related gross counterparty risk exposure);

- full collateralisation is accomplished prior to 31 October 2011; and

- the increase of collateral levels commences within two weeks of the manager making the related announcement.

BOCI-Prudential Trustee Limited

The minimum level of relevant income will be increased from HK$5,000 to HK$6,500 (monthly) and HK$160 to HK$250 (daily) for contribution purpose with effect from 1 November 2011.

Japan

Eastspring Investment Limited (known until February 2012 as PCA Asset Management Limited) is registered with the Kanto Local Finance Bureau under the Financial Services Agency ("JFSA") to engage in (a) second financial instruments business, (b) investment management business, (c) investment advisory & agency business and (d) ancillary business under the Financial Instruments and Exchange Act ("FIEA").

The company is also a member of the Investment Trusts Association, Japan and the Japan Securities Investment Advisers Association. Both associations are self-regulatory bodies under FIEA. Eastspring Investment Limited is required to comply with the policies and regulations issued by these associations, which are authorised to conduct on and off-site inspection in addition to the inspection conducted by the Securities and Exchange Surveillance Commission which is part of JFSA.

Under its registration in respect of the second financial instruments business, the company is permitted to explain products being sold but cannot effect actual sales of Prudential's funds directly to investors. It does not therefore set up or maintain customer accounts for purposes of investment in Prudential's funds or their settlement, which may only be opened at relevant distributors such as registered financial institutions and type one financial instruments business operators like securities companies. In 2010, Eastspring Investment Limited (while it was PCA Asset Management Limited) started an investment agency business to provide Group companies with intermediary services to conduct investment advisory or discretionary agreements with a domestic asset management company.

Korea

Prudential conducts a fund business in Korea through an indirect, wholly-owned subsidiary, Eastspring Asset Management Korea Co. Ltd. The bodies responsible for the regulation of asset management companies, investment advisers and discretionary management companies are the Financial Services Commission ("FSC") and its executive arm, the Financial Supervisory Service ("FSS").

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Traditionally, the FSC in Korea has operated in a prescriptive manner with a significant amount of detailed regulation that asset management companies must comply with. In recent years, the style of regulation of the indirect investment industry has been changing in line with a more general trend towards liberalisation of financial services. In particular, the FSC has focused on deregulation in asset management and product design activities and shifted increasingly towards a principles-based regulatory regime.

In November 2011, the draft Financial Investment Services and Capital Markets Act passed the State Council. It proposes a change in the definition of collective investment management vehicles which may have an impact on Eastspring Asset Management Korea Co. Ltd. If the draft is passed by the National Congress, it will come into force in January 2015.

Taiwan

The body responsible for regulation of securities investment trust enterprises ("SITE"), securities investment consulting enterprises ("SICE") and discretionary investment businesses is the Securities and Futures Bureau ("SFB") under the Financial Supervisory Commission ("FSC"). The SFB is responsible for promulgating laws, regulations and policies in relation to these business areas.

Eastspring Investment Trust Co. Ltd is registered as a SITE with the FSC. It is compulsory that all SITEs are members of the Securities Investment Trust and Consulting Association ("SITCA"), a self-regulatory organisation ("SRO"). SITCA supports the regulatory and administrative operations entrusted to the SFB by adopting self-regulatory rules and overseeing self-regulation by its members, establishing a membership disciplinary framework and carrying out matters that the SFB has authorised it to handle, such as previewing product filing documents before submission for the SFB's final review. SITCA also acts as liaison between the SFB and its members for matters of business development.

Key regulatory developments in 2011 include:

- Heightened disclosure requirements to end investors for institutions selling either onshore or offshore funds

- Requirements for SITEs to formalise their internal control requirements when appointing sales representatives and soliciting business in areas where no branches are registered.

- Implementation of the Financial consumer Protection Act, which provides a legal basis for investors to take action against financial institutions on suitability and disclosure grounds, and the establishment of a Financial Ombudsman Service to hear customer complaints.

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 articulate 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 investors and other relevant parties, and thereby to promote the healthy development of securities investment funds and securities markets.The CSRC has slowly started a process of deregulation. One major deregulation measure in 2010 was to lift the control over product approvals, which enables FMCs to launch more fund products.

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The National People's Congress ("NPC"), China's top legislator, has begun the process of revising the Fund Law. The key proposed changes include registration of hedge funds, individual ownership of fund management companies, lifting of personal trading and investment restrictions. In August 2011, the CSRC also issued revised guidelines on Fair Trade Rules for Fund Management companies, which include requirements to standardise transactions in the reverse direction between different portfolios and further specifying requirements for controls around the spread of transactions in the same direction between different portfolios.

A number of other initiatives took effectin 2011, including permitting fund sales institutions to collect value-added service fees from investors for certain services and revisions to existing rules relating to discretionary asset management (DAM) business by fund management companies by, amongst other things, removing minimum asset under management and capital requirements for conduct of DAM business and liberalising certain investment restrictions into DAM business and by DAM businesses.

India

ICICI Prudential Asset Management Company Limited ("the AMC"), a joint venture between Prudential and ICICI Bank Ltd., is approved by the Securities and Exchange Board of India ("SEBI") to act as Investment Manager of ICICI Prudential Mutual Fund (the "Fund"). The Fund was set up as a Trust sponsored by Prudential (through its wholly owned subsidiary Prudential Corporation Holdings Ltd) and ICICI Bank Ltd. ICICI Prudential Trust Limited (the "Trust Company"), is the Trustee to the Fund.

Mutual funds in India are comprehensively regulated by the guidelines and statutes promulgated under the SEBI (Mutual Funds) Regulations, 1996, the Indian Trusts Act, 1882, relevant provisions of the Companies Act 1956 and other applicable laws. Any change of control of the AMC by virtue of 10 per cent or more of voting rights in the AMC or the right to appoint a majority of directors entitled to exercise control of the AMC will require the prior approval of the SEBI and the grant of an option to unit holders to exit the scheme at the prevailing net asset value without any exit load.

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 the SEBI. The AMC has obtained registration from the SEBI to act as a Portfolio Manager under SEBI (Portfolio Managers) Regulations 1993.

In 2005, SEBI confirmed it had no objection to the AMC undertaking Advisory Services to Offshore Funds. The AMC has commenced the provision of Advisory Services and has also applied to set up a venture capital fund ("VCF") in India.

Key regulatory developments in 2011 include the following:

- The introduction of full transferability for units of all Mutual Fund schemes held in demat form with investors of open as well as close ended schemes given option to hold the units in the demat form;

- To enhance corporate governance, improved minimum voting rights requirements for investment in group companies and in those companies which have invested in Mutual Fund schemes;

- Flexibility for foreign investors to invest in mutual funds through permitted routes;

- Permission for Asset Management Companies to deduct transaction charges from the subscription amount and pay the same to the distributors of the Mutual Fund products. Additionally process has been prescribed to conduct due diligence for empanelment of the distributors or brokers of the mutual fund; and

- SEBI provided the guidelines on outsourcing of associated service activities by intermediaries including mutual funds. SEBI also introduced amendments to regulations that have the effect of

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increasing the range of business activities that can be carried out by AMCs, including changes that will permit it to launch infrastructure funds.

The Ministry of Finance has amended the service tax regulations so as to permit the Company to avail input tax credit only up to 50% of service tax paid as against 100% of service tax input credit permitted earlier. This change will likely result in escalation of operating costs.

Singapore

Eastspring Investments (Singapore) Limited, an indirect wholly owned subsidiary of Prudential plc, has been issued a Capital Markets Services ("CMS") license, to conduct the regulated activities of fund management and dealing in securities by the MAS. In addition, Eastspring Investments (Singapore) Limited is admitted by the Central Provident Board ("CPF") as a Fund Management Company ("FMC") under the CPF Investment Scheme ("CPFIS") and may manage unit trusts included under the CPFIS. It is also registered with the US Securities and Exchange Commission ("SEC"), under the Investment Advisers Act of 1940; the Financial Services Commission of South Korea, as a Cross border Investment Advisor under the Capital Market Consolidation Act; and SEBI, under the SEBI (Foreign Institutional Investors) Regulations, 1995. The company is also registered as a Qualified Institutional Investor with Japan's Financial Supervisory Authority. Further, Eastspring Investments (Singapore) Limited, is relying on the Class Order Exemption CO 03/1102 from the Australian Securities and Investments Commission for exemption from the need to hold an Australian financial services license for provision of services to wholesale clients in Australia.

Prudential Property Investment Management (Singapore) Pte. Ltd. ("Prupim SGP") is an indirect wholly-owned subsidiary of Prudential plc. It is a real estate fund management company, and operates in Singapore as an exempt fund manager and exempt financial adviser under the Securities and Futures Act and the Financial Advisers Act respectively. As an exempt fund manager and exempt financial adviser, Prupim SGP provides services to not more than 30 qualified investors (for fund management services) and accredited investors (for financial advisory services).

Key regulatory developments in 2011 include the following:

- MAS issued the revised Code on Collective Investment Schemes ("Code") on 8 April 2011 which took effect from 1 October 2011. Key changes to the core requirements under the Code included the introduction of a list of permissible investments for funds, strengthening safeguards on the use of financial derivatives, securities borrowing and lending requirements and enhancing requirements for funds investing in structured instruments with more stringent requirements on market risk and credit risk monitoring for such instruments. Arising from the revisions to the Code, the Central Provident Fund Board issued a consultation paper in September 2011 on the proposed revisions to the CPF Investment Guidelines (CPFIG) which set the investment limits and guidelines for funds included under the CPFIS. In addition, the MAS also issued a revised MAS 307 Investment Linked Life Insurance Policies on 23 September 2011, which has an impact on the investment linked funds managed by Eastspring Investments (Singapore) Limited.

- In 2011 MAS focused on improving regulations relating to consumer protection. Specifically, it introduced requirements in respect of product suitability, due diligence and assessment of customer knowledge and understanding of risks associated with Specified Investment Products (SIPs).

- As a follow-up from the MAS consultation paper on the proposed changes to the regulatory regime for FMCs and Exempt Financial Intermediaries in April 2010, MAS issued a further consultation paper in September 2011 on the draft legislative amendments to give effect to the revised regulatory regime for fund management companies ("FMCs"), as well as additional proposals to further enhance the business conduct requirements for FMCs. MAS is also proposing

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additional requirements to enhance the business conduct requirements (including client order priority) for FMCs and to require FMCs to put in place a risk management framework over their fund management operations to identify, address and monitor the risks associated with the assets that they manage. The MAS also proposes FMCs which operate under the notification regime to undergo independent annual audits.

MAS issued guidelines on IT Outsourcing in July 2011. MAS now requires that prior to entering into a contract with any outsourcing service providers, financial institutions should perform a thorough risk assessment of the proposed outsourcing arrangements against all relevant MAS regulations, guidelines and other requirements.

Malaysia

Eastspring Investments Berhad ("EIB") was incorporated in November 2000 and is a wholly owned subsidiary of a Malaysian incorporated company, Nova Sepadu Sdn Bhd, which is in turn a subsidiary of Prudential.

Eastspring Al Wara' Investments Berhad (Al-Wara) was incorporated in June 2009 and is a wholly owned subsidiary of Prudential Corporation Holdings Ltd. Al-Wara is an Islamic Shariah compliance asset management company.

EIB and Al-Wara' are both regulated by the Securities Commission ("the SC"), a statutory body formed under the Securities Commission Act 1993 (SCA) and Capital Markets Services Act 2007 (CMSA), which reports to the Minister of Finance.

The SC has the power to investigate and enforce the areas within its jurisdiction. It regulates all matters relating to unit trust schemes and Islamic asset management and supervises licensed persons dealing in assets and fund management activities and products. Underpinning all its functions is the SC's ultimate responsibility of protecting the investor. Apart from discharging its regulatory functions, the SC is also obliged by statute to encourage and promote the development of the securities and futures markets in Malaysia.

All Capital Market Services License holders carrying on one or more of regulated activities of Dealing in Securities Trading in Futures Contracts & Fund Management must be members of the Securities Industry Dispute Resolution Center (SIDREC) or an alternative dispute resolution body approved by the SC. The duties of SIDREC are to settle any dispute or claim between a client and a member; to act as a dispute resolution body by receiving references in relation to disputes or claims andresolving such disputes or claims in an accessible, efficient & effective manner, based on the principles of fairness and reasonableness. EIB & AL-Wara' became a member of SIDREC on 14 January 2011.

The SC also revised key guidelines in 2011 to enhance client asset protection and further safeguard the interests of investors in a number of areas. Fund management companies must make their clients aware of the risks inherent in the investments, including liquidity and attribution of ownership. They must provide quarterly updates on the performance of each client's portfolio against appropriate benchmarks and any subsequent changes in risk. Fund management companies are also now prohibited from recommending or investing clients fund in, products which they themselves do not fully understand in terms of structure, pricing mechanism and nature of underlying assets.

The SC in 2011 also enabled intermediaries to focus on their core strengths of intermediation by permitting them to outsource their back office functions to both foreign and domestic service providers.

In December 2011, SC issued application guidelines for fund management companies interested in becoming providers to private retirement schemes.

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Dubai

Eastspring Investments Limited ("EIL") was incorporated in the Dubai International Financial Centre ("DIFC") in September 2006. PAMD is an ultimately wholly-owned subsidiary of Prudential Plc.

PAMD is regulated by the Dubai Financial Services Authority ("DFSA"), which is the independent regulator for DIFC. PAMD holds a license for arranging credit or deals in investments, advising on financial products or credit and has a retail endorsement on its license.

The supervisory approach of DFSA is, to a large extent, risk-based.

In 2011 the Central Bank circulated a consultation paper on the possibility of a new Funds regime in the UAE that would shift regulatory authority over funds from the Central Bank to the Emirates Securities and Commodities Authority. The impact of this change to EIL and DFSA regulated firms is not yet known.

Vietnam

Eastspring Investments Fund Management Limited Liability Company ("EIFM") was established and operates under a business registration for securities investment fund management and securities portfolio management.

Prudential Vietnam Assurance Private Limited is the sole owner of EIFM.

EIFM is regulated by the State Securities Commission of Vietnam ("SSC"), which is overseen by the Ministry of Finance ("MoF"). In keeping with its mandate to establish and develop the securities markets, the SSC supervises the organisation, and operation of securities investment funds and fund management companies.

The Ministry of Finance passed legislation in December 2011, effective from 1 March 2012, to allow the introduction and regulation of open-ended funds.

US Supervision and Regulation

Overview

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 a US insurance company's state of domicile (Michigan in the case of Jackson) 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 a triennial examination of Jackson National Life of New York in 2010 for the examination period of 1 January 2006 through 31 December 2008. Michigan insurance authorities completed an examination of Jackson in 2010 for the period 1 January 2005

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through 31 December 2008. There were no material findings in the final examination reports issued by the Michigan and New York authorities.

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 31 December, of the immediately preceding year, or the net gain from operations of the insurer, not including realised capital gains, for the prior year. In 2009, 2010 and 2011, Jackson paid shareholder dividends of US$250.0 million, US$275.0 million, and US$530.0 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 acquirer must file an application with the New York Superintendent of Insurance or the Michigan Insurance Commissioner, as appropriate. This application requires the proposed acquirer 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. The Michigan Insurance Commissioner can grant an exemption from filing an application if an acquisition does not have the effect of changing or influencing control.

Guaranty associations and similar arrangements

Each of the 50 states of the United States, the District of Columbia and the Commonwealth of Puerto Rico has 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 Group estimated its reserve for future guarantee fund assessments for Jackson to be US$24.9 million at 31 December 2010. Prudential estimated its reserve for future guarantee fund assessments for Jackson to be US$23.4million at 31 December 2011. Prudential believes this reserve to be adequate for all anticipated payments for known insolvencies.

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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, derivative instruments and other invested assets. The reserve is designed to provide for a normalised 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 reduction in 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 realised capital gains and losses, net of taxes, on fixed income investments (primarily bonds, derivative instruments and mortgage loans) which are amortised 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 realised capital gains and losses on fixed maturity investments, derivatives and mortgage loans 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 12 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 2011, Jackson had three ratios fall outside the usual range for which there were no regulatory consequences.

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 2010 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 US$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 a permitted accounting practice. This permitted practice allows Jackson to carry certain 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. The permitted practice is effective 31 December 2011 and expires with the period ending September 30, 2012 unless extended by the Michigan Insurance Commissioner. The effects of this permitted practice may not be considered by the company when determining the surplus available for dividends, nor the nature of dividends as ordinary or extraordinary.

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 risk-based capital formula standard that they calculate by applying factors to various asset, premium and reserve items and separate model based calculations of risk associated primarily with variable annuity products. The risk-based capital formula takes into account the risk characteristics of a company, including asset risk, insurance risk, interest rate risk, market risk and business risk. The National Association of Insurance Commissioners designed the formula as an early warning tool to identify potentially inadequately capitalised companies for purposes of initiating regulatory action.

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

At 31 December 2011 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.

Implementation of US Foreign Account Tax Compliance ("FATCA") provisions

Although the insurance business is regulated on a State level, US federal tax legislation and rules, including those relating to the insurance industry or insurance products, can have a significant impact on Prudential's business. Tax legislation and rules, and their interpretation, may change, possibly with retrospective effect, and proposals that would affect such changes are debated periodically by the US Congress.

Legislation incorporating provisions referred to as FATCA was passed in the US on 18 March 2010. The legislation and subsequent guidance released in February 2012, requires Foreign Financial Institutions (FFIs) (such as Prudential) to enter into an FFI agreement, which requires the FFI to undertake due diligence procedures to identify and provide information on accounts held by US persons and US-owned foreign entities, or otherwise face a 30% withholding tax on certain payments made to the FFI. In addition, FFIs that have entered into an FFI agreement may be required to withhold on certain payments made to FFIs that have not entered into an FFI Agreement, account holders who fail to provide sufficient information to classify an account as a US or non-US account, and US account holders who do not agree to the FFI reporting certain account related information to the IRS. Final regulations are expected in late 2012, and are expected to apply to all FFIs globally. Complying with the required identification, withholding and reporting obligations is expected to require significant investment in an FFI's compliance and reporting framework. Prudential is following developments regarding FATCA closely, and are coordinating with all relevant authorities.

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, have 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 and (in the case of broker-dealers) to impose capital and related requirements. 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 is organised as a separate account that is a unit investment trust.

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"), subject to its supervisory and regulatory requirements.

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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, subject to its supervisory and regulatory requirements.

National Planning Holdings, Inc. ("NPH") owns four retail broker-dealers, being IFC Holdings, Inc. (doing business as INVEST Financial Corporation), ("IFC"), Investment Centers of America, Inc ("ICA"), National Planning Corporation ("NPC") and SII Investments, Inc. ("SII"). 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 on licensure with the SEC and state securities and insurance authorities, and membership with FINRA and the Municipal Securities Rulemaking Board. NPC, SII, and ICA are also members of the National Futures Association ("NFA"). 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., which is registered with the SEC as an investment adviser under the Investment Advisers Act. PPM America serves as the investment adviser to Jackson and as the primary institutional investment adviser for certain Prudential subsidiaries, including The Prudential Assurance Company Limited. PPM America also acts as sub-adviser to certain US and foreign advisers affiliated with Prudential with respect to certain US portfolios of accounts or products sponsored or managed by such affiliates, including US mutual funds, UK-based pooled investment vehicles, a Luxembourg-based SICAV, Japanese investment trusts, and other similar vehicles. PPM America also serves as an investment adviser to other affiliated and unaffiliated institutional clients such as CDOs or similar structured vehicles and private investment funds (in which PPM America affiliates such as Prudential UK entities and Jackson are generally investors), and a limited number of other unaffiliated accounts. The US mutual funds for which PPM America serves as sub-adviser are subject to regulation under the Securities Act and the Investment Company Act, and other similar vehicles organised outside of the US may also be subject to regulation under applicable local law.

PPM America 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, PPM America may also be subject to regulation under applicable foreign laws.

To the extent that PPM America or the NPH broker-dealers maintain accounts with assets of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 ("ERISA"), or the Internal Revenue Code, they may be subject to certain restrictions imposed by ERISA or the Internal Revenue Code. Such restrictions are summarised in "Employee Benefit Plan Compliance" in the 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,

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- 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

In the US, the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 ("the Dodd Frank Act") which represents a comprehensive overhaul of the financial services industry within the United States, was enacted in July 2010. The full impact of the Dodd Frank Act on Prudential's businesses is not currently clear, however, as many of its provisions have a delayed effectiveness and/or require rulemaking by various US regulators over the coming years.

The Dodd Frank Act vests a newly created Financial Stability Oversight Council ("the Council") with the power to designate systemically important institutions which will be subject to special regulatory supervision and other provisions intended to prevent or mitigate the impact of future disruptions in the US financial system. If Prudential is designated as a systemically important institution, its US operations may be subject to heightened prudential standards to be promulgated and ad ministers by the US Federal Reserve Board, including, amongst other things, heightened capital, leverage and liquidity standards, risk management requirements, concentration limits, resolution plans and stress tests, and potential discretionary requirements relating to contingent capital, enhanced public disclosure and short term debt limits. This same analysis may also be applied to Jackson.

Proposed rules and guidance outlining the manner in which the Council intends to determine which companies should be so designated were released in October 2011. The proposals set forth a three-stage process of increasingly in-depth evaluation and analysis, drawing on both qualitative and quantitative information (but preserving significant Council discretion). The proposals do not, however, permit a definitive view as to whether Prudential (or Jackson) would or would not be designated as systemically important even in the event that the proposals were to be adopted by the Council in the form proposed.

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Other changes in the Dodd Frank Act include: the creation of a new "Federal Insurance Office" within the Treasury Department that will, amongst other things, monitor (but not regulate) the insurance industry and, conduct a study of how to improve insurance regulation in the United States; discretionary authority for the SEC to impose a harmonised standard of care for investment advisers and broker-dealers which provide personalised advice about securities to retail customers; and requirements that certain derivatives be traded on registered exchanges and cleared through registered central counterparties.

The timing and the ultimate impact on the management and operations of Prudential and the regulations promulgated, or to be promulgated, pursuant to these statutory provisions, cannot yet be definitively determined.

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, its subsidiaries, or other Prudential subsidiaries doing business in the US, 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.

A coalition of national insurance and banking organisations 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. Prudential cannot predict whether any 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.

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 anti-competitive practices among insurance brokers and mutual funds, there have been numerous regulatory inquiries and proposals for legislative and regulatory actions that could affect the operations and management of market participants. It is difficult to predict at this time whether changes resulting from industry investigations and/or new laws and regulations will affect the Group's insurance or investment management businesses, and, if so, to what degree.

Item 4A Unresolved Staff comments

None

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Item 5. 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 in this document.

A summary of the critical accounting policies which have been applied to these statements is set forth in the section below entitled '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 ' Principal Factors Affecting Results of Operations' and 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 serves more than 26 million customers and has £351 billion of assets under management. Prudential is listed on stock exchanges in London, Hong Kong, Singapore and New York. Prudential is structured around four main business units: Prudential Corporation Asia, Jackson, Prudential UK and M&G.

Prudential is a leading life insurer in Asia operating in 12 markets. Prudential has built a high performing platform with effective, multi-channel distribution, a product portfolio centred on regular savings and protection, award winning customer services and a well respected brand. Prudential's Asian based asset management division, Eastspring Investments, is one of the region's leading fund managers and the largest onshore provider of mutual funds.

Jackson is one of the largest life insurance companies in the US, providing retirement savings and income solutions to more than 2.9 million policies and contracts in force. Jackson is also one of the top three providers of variable annuities in the US. Founded 50 years ago, Jackson has a long and successful record of providing advisers with the products, tools and support to design effective retirement solutions for their clients.

Prudential UK is a leading life and pensions provider to approximately seven million customers in the United Kingdom. Prudential believes that its expertise in areas such as longevity, risk management and multi-asset investment, together with its financial strength and highly respected brand, means that the business is strongly positioned to continue pursuing a value-driven strategy built around its core strengths in with-profits and annuities.

M&G is Prudential's UK and European fund management business with total company and external assets under management of £201 billion (at 31 December 2011). M&G has been investing money for individual and institutional clients for 80 years. It is one of Europe's largest active investment managers.

Principal factors affecting Prudential's 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.

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Please refer to Item 3. "Key Information Risk Factors" and Item 4. "Information on the Company Business of Prudential" for additional discussion of factors that may impact Prudential's results of operations.

General economic and market conditions

2011 was a productive year for Prudential during which Prudential delivered strong performance across all of its key metrics and made clear progress towards its 2013 'Growth and Cash' financial objectives. These results were delivered during a particularly challenging macroeconomic environment and are testament to the quality of Prudential's franchises across Asia, the US and the UK.

Particular features for the Prudential's geographic areas of operations are shown below:

Asia

The European debt crisis is driving significant uncertainty in the global economy, however, Asia looks set to remain a world economic powerhouse as although lower external demand is impacting growth, regional and domestic demand remains robust. The Asian Development Bank(1) expects the Asian economies(2) to grow by around 7 per cent in 2012, down from about 7.5 per cent in 2011 and 9 per cent in 2010, but still significantly higher than the rest of the world. Prudential is well placed to participate in this growth as one of the region's leading providers of long-term savings and protection products.

Over the last decade Asia's sustained economic growth has resulted in the rapid growth of the Asian middle class and now this is one of the fastest growing population groupings in the world. Although Asia currently has less than 25 per cent of the world's middle class population, the Organisation for Economic Co-operation and Development (OECD) sees this figure doubling in the next 15 years. This middle class now have increasing disposable income, assets and lifestyles they want to protect and the recognition of a need to plan their own financial futures, independent of any state provisions.

Asia is also seeing a significant rise in the incidence of non-communicable diseases such as cancer, heart disease and diabetes as until comparatively recently people used to die from infectious diseases and malnutrition before 'middle age' ailments could arise. However, now 'rich country diseases' have very quickly become an issue in Asia. The World Health Organisation expects the number of deaths in South-East Asia attributable to non-communicable diseases or critical illnesses to increase by 20 per cent over the next 10 years and the number of diabetics in China is expected to double by 2025. These critical illnesses not only have the potential to decimate individual families' finances, they also impose a huge burden on the economy due to lost working time through sick leave and acquired skills exiting the work force. Raising awareness of lifestyle and related health issues together with the promotion of regular check ups, for example in relation to underwriting insurance policies, is becoming increasingly important as economies continue to develop.

Aligning to these developments, Asia is seeing a significant expansion of its savings and protection industry supported by governments and regulators. For example, regulators in China, Singapore and Malaysia have all recently stressed the importance of continuing to increase the rates of insurance penetration in their markets. Regulatory standards are also being raised with, for example, greater emphasis on ensuring that products are fit for purpose and that customers fully appreciate the features of their policies. Whereas compliance with the relevant regulations was always implicit in the way insurers ran their businesses, there is a trend towards a more explicit demonstration of this through documentation, audits and more formal management structures.

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(1) Source: Published in Asia Economic Monitor December 2011

(2) Excluding Australia and New Zealand

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Despite the attractiveness of these markets, the competitive environment in Asia has remained fairly constant over the past few years as barriers to entry remain high due to the material capital requirements combined with a shortage of the strategic and executional expertise needed for securing licences, establishing brands, building quality distribution and launching and administering products. Distribution in the region remains dominated by traditional tied agency forces, but banks are becoming increasingly significant distributors. The industry's growth has typically been constrained by the pace at which the insurers can build out distribution and assemble the infrastructures needed to administer and manage the increasing volumes of premiums generated by the business.

The size and significance of Asian insurers has increased in recent years. A consequence of this has been their increased presence in the capital markets. Today there is far more disclosure and analysis of the financial performance of the businesses than was the case a few years ago, but there is still some way to go before the industry has common reporting standards and accounting practices. Market leadership is still typically gauged by simple sales metrics although this is changing as metrics that emphasise value generated using a risk-based assessment of returns to policyholders and shareholders are becoming more prevalent. Regulators are now taking a broader view of market leadership too; leaders are expected to behave in an exemplary manner at all times, to drive improvements in all aspects of the business and to champion a variety of social initiatives.

United States

The United States is the world's largest retirement savings market. Each year, many of the 78 million 'baby boomers'[3] reach retirement age, which will trigger a shift from savings accumulation to retirement income generation for more than US$10 trillion of accumulated wealth over the next decade[4].

During 2011, the US equity markets continued to be challenging for the financial services industry, with higher volatility returning during the second half of the year, along with a decline of interest rates to historically low levels. Despite a very volatile year, the S&P 500 index recovered from the large falls in the third quarter to finish flat for the year. Implied volatility ended the year higher than that at year end 2010. Overall, rates on 10-year treasuries reached new historical lows during the second half of 2011, finishing the year below 2 per cent, while AA corporate spreads widened from year end 2010 levels.

In such an environment, Jackson's asset and liability management continues to incorporate equity and interest rate exposure on an aggregate basis in order to ensure that total economic risk is hedged effectively within Prudential's established policy limits. Jackson continues to adapt its hedging programme to market conditions in order to ensure continued strong risk management. Despite historically low interest rates, volatile equity markets and the fluctuations in equity volatility experienced in 2011, Jackson's hedging programme continued to perform well, mitigating the impact of the macroeconomic challenges and supporting Prudential's robust capital position. Jackson's approach to pricing and hedging has always been to adopt a conservative stance and Prudential believes that this positions Jackson well to outperform its peers during periods of market dislocation. Policyholder behaviour in 2011 continued to trend in line with both Prudential's pricing and reserving expectations.

The uncertain environment continues to provide an advantage to companies with good financial strength ratings and a track record of financial discipline. Companies that were hardest hit by the market disruptions over the last few years still have to work to regain market share as customers and distributors seek product providers that offer consistency, stability and financial strength. Jackson continues to benefit significantly from this flight to quality and heightened risk aversion.

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(3) Source: US Census Bureau

(4) Source: McKinsey

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Thanks to Prudential's financial stability and innovative products, Prudential continues to enhance its reputation as a high-quality and reliable business partner, with sales increasing as more advisers have recognised the benefits of working with Jackson. A significant part of Jackson's growth continues to come from an increase in its distribution penetration with sales through distributors who either did not previously sell Jackson's products or simply did not sell variable annuities. In the second half of 2011, Jackson entered into another wirehouse distribution agreement further extending Jackson's ability to reach all major wirehouse firms in the US on attractive terms.

Jackson's strategy focuses on balancing value, volume, capital efficiency, balance sheet strength and strict pricing discipline for both variable and fixed annuities. Fixed annuity sales have slowed as a result of the current interest rate environment.

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. Jackson 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 (i) raise its crediting rates to stem withdrawals, decreasing its spread; (ii) sell assets which may have depressed values in a high interest rate environment, creating realised investment losses; or (iii) 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 utilise 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 utilisation 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.

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Jackson continues to believe that, on a long-term economic basis, its equity exposure remains well managed.

United Kingdom

The UK life & pensions market, which is mature and the third largest in the world, is characterised by a concentration of wealth in the 45 to 74 age group and an ageing population, as the 'baby boomers' get older and progressively move into retirement. Many of these individuals are insufficiently prepared financially for the prospect of spending longer in retirement and as a result, are considering extending their working lives while adopting a more flexible approach towards retirement. Prudential UK is well positioned to help the 'baby-boomers and subsequent generations meet their financial needs both as they approach and during retirement through its range of market leading with-profits and annuity products.

In 2011 Prudential UK continued to pursue a value over volume strategy, actively choosing to compete selectively in the retirement savings and income markets, and balancing the writing of new business with sustainable cash generation and capital preservation.

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. Further information on with-profits products is provided in Item 5 'Basis of Profits', ' With-Profits Products' and ' Bonus Rates' below. In addition, 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 in Item 18.

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 Asia, the United Kingdom and the United States, 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.

In the United States, Jackson has been the subject of class action litigation which is discussed in more detail in Item 4 'Information on the Company Business of Prudential Legal Proceedings'. Whilst the outcome of such matters cannot be predicted with certainty, Prudential believes that the ultimate outcome of such litigation and regulatory issues will not have a material adverse effect on Prudential's financial condition, results of operations, or cash flows. Changes in pension, financial services and tax regulation could have an impact on Prudential's results.

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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 Asia, the United States 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 information 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 (IASB) and as endorsed by the European Union (EU). EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 31 December 2011, there were no unendorsed standards effective for the three years ended 31 December 2011 affecting the consolidated financial information of Prudential, and there were no differences between IFRS endorsed by the EU and IFRS issued by the IASB in terms of their application to Prudential. Accordingly, Prudential's financial information for the three years ended 31 December 2011 is prepared in accordance with IFRS as issued by the IASB. Prudential adopts mandatory requirements of new or altered EU-adopted IFRS standards where required, and may consider earlier adoption where permitted and appropriate in the circumstances.

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 Prudential's results insofar as they relate to Prudential's shareholder-financed business. In particular, this applies for Jackson, which is the largest shareholder-backed business in Prudential. The policies are not critical in respect of Prudential's with-profits business. This distinction reflects the basis of recognition of profit and accounting treatment of unallocated surplus of with-profits funds as a liability.

Additional explanation is provided below and in cross-referenced notes within the consolidated financial statements in Item 18, as to why the distinction between with-profits business and shareholder-backed business is relevant.

The items discussed below and in cross-referenced notes within the consolidated financial statements in Item 18 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 statement of financial position date so as to provide analysis that recognises the different accounting effects on profit and loss or equity. In order to provide relevant analysis that is appropriate to the circumstances applicable to Prudential'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 Prudential's with-profits funds.

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 can 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 eg market illiquidity. When the markets are not active, there is generally no or limited observable market data to account for financial investments at fair value. 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 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 financial investments.

The financial investments measured at fair value are classified into the following three level hierarchy on the basis of the lowest level of inputs that is significant to the fair value measurement of the financial investment concerned:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable either directly or indirectly (i.e. derived from prices).

Level 3: Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2011, £4,565 million (2010: £4,573 million) of the financial investments (net of derivative liabilities) valued at fair value were classified as level 3. Of these £800 million (2010: £866 million) are held to back shareholder non-linked business and so changes to these valuations will directly impact shareholders' equity. Further details of the classification of financial instruments are given in note G1 to the consolidated financial statements in Item 18.

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 of the financial investment's fair value is substantial.

A substantial decline in fair value might be indicative of a credit loss event that would lead to a measurable decrease in the estimated future cash flows.

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The impact of the duration of the security on the calculation of the revised estimated cash flows.

The duration of a security to maturity helps to inform whether assessments of estimated future cash flows that are higher than market value are reasonable.

The duration and extent to which the amortised cost exceeds fair value.

This factor provides an indication of how the contractual cash flows and effective interest rate of a financial asset compares with the implicit market estimate of cash flows and the risk attaching to a 'fair value' measurement. The length of time for which that level of difference has been in place may also provide further evidence as to whether the market assessment implies an impairment loss has arisen.

The financial condition and prospects of the issuer or other observable conditions that indicate the investment may be impaired.

If a loss event that will have a detrimental effect on cash flows is identified an impairment loss in the income statement is recognised. The loss recognised is determined as the difference between the book cost and the fair value of the relevant impaired securities. This loss comprises the effect of the expected loss of contractual cash flows and any additional market-price-driven temporary reductions in values.

For Jackson's residential mortgage-backed and other asset-backed securities, all of which are classified as available-for-sale, the model used to analyse 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, or is anticipated to suffer, contractual principal or interest payment shortfall. If a shortfall applies an impairment charge is recorded. The difference between the fair value and book cost for unimpaired securities designated as available-for-sale, is accounted for as unrealised gains or losses, with the movements in the accounting period being included in other comprehensive income.

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, unrealised losses currently in equity may be recognised 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 to the consolidated financial statements in Item 18.

Impairment losses recognised on available-for-sale securities amounted to £62 million (2010: £124 million; 2009: £630 million). Of this amount, 34 per cent (2010: 90 per cent; 2009: 86 per cent) has been recorded on structured asset-backed securities, primarily due to reduced cash flow expectations on such securities that are collateralised 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 75 per cent (2010: 32 per cent; 2009: 11 per cent), reflecting a deteriorating business outlook of the companies concerned. The impairment losses have been recorded in 'investment return' in the income statement.

In 2011, the Group realised gross losses on sales of available-for-sale securities of £43 million (2010: £160 million; 2009: £134 million) with 64 per cent (2010: 45 per cent; 2009: 60 per cent) of

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these losses related to the disposal of fixed maturity securities of 10 (2010: 15; 2009: five) individual issuers, which were disposed of as part of risk reduction programmes intended to limit future credit loss exposure. Of the £43 million (2010: £ 160 million; 2009: £134 million), £32 million (2010: £99 million; 2009: £6 million) relates to losses on sales of impaired and deteriorating securities.

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 unrealised 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 unrealised loss position and by reference to the maturity date of the securities concerned.

In 2011 there was a movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised gain of £1,210 million to a net unrealised gain of £2,057 million. The gross unrealised gain in the statement of financial position increased from £1,580 million at 31 December 2010 to £2,303 million at 31 December 2011 (31 December 2009: £966 million), while the gross unrealised loss decreased from £370 million at 31 December 2010 to £246 million at 31 December 2011 (31 December 2009: £970 million).

(a) Fair value of available-for-sale securities as a percentage of book value

The following table shows the fair value of the debt securities in a gross unrealised loss position for various percentages of book value at 31 December:

	2011		2010	
	Fair value	Unrealised loss	Fair value	Unrealised loss
	£m	£m	£m	£m
Between 90% and 100%	**1,829**	**(60)**	3,390	(102)
Between 80% and 90%	**172**	**(28)**	273	(44)
Below 80%	**208**	**(158)**	339	(224)
Total	**2,209**	**(246)**	4,002	(370)

Included within the table above are amounts relating to sub-prime and Alt-A securities of:

	2011		2010	
	Fair value	Unrealised loss	Fair value	Unrealised loss
	£m	£m	£m	£m
Between 90% and 100%	**149**	**(7)**	98	(6)
Between 80% and 90%	**69**	**(11)**	55	(9)
Below 80% note (d)	**104**	**(35)**	56	(25)
Total	**322**	**(53)**	209	(40)

(b) Unrealised losses by maturity of available-for-sale securities

	2011	2010
	£m	£m
Less than 1 year		
1 year to 5 years	**(7)**	(6)
5 years to 10 years	**(28)**	(47)
More than 10 years	**(28)**	(49)
Mortgage-backed and other debt securities	**(183)**	(268)

Total*	**(246)**	(370)

* These relate to assets with a fair market value and book value of £2,209 million (2010: £4,002 million) and £2,455 million (2010: £4,372 million) respectively.

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(c) Age analysis of unrealised losses for the years indicated for available-for-sale securities

The following table shows the age analysis of all the unrealised losses in the portfolio by reference to the length of time the securities have been in an unrealised loss position:

	2011			2010		
	Non investment grade	Investment grade	Total	Non investment grade	Investment grade	Total
	£m	£m	£m	£m	£m	£m
Less than 6 months	**(11)**	**(31)**	**(42)**	(3)	(67)	(70)
6 months to 1 year	**(7)**	**(8)**	**(15)**	(2)		(2)
1 year to 2 years	**(5)**	**(1)**	**(6)**	(13)	(20)	(33)
2 years to 3 years	**(7)**	**(10)**	**(17)**	(27)	(55)	(82)
More than 3 years	**(61)**	**(105)**	**(166)**	(58)	(125)	(183)
Total	**(91)**	**(155)**	**(246)**	(103)	(267)	(370)

At 31 December 2011, the gross unrealised losses in the statement of financial position for the sub-prime and Alt-A securities in an unrealised loss position were £53 million (2010: £40 million). Of these losses £10 million (2010: £1 million) relate to securities that have been in an unrealised loss position for less than one year and £43 million (2010: £39 million) to securities that have been in an unrealised loss position for more than one year.

(d) Securities whose fair value were below 80 per cent of the book value

As shown in the table (a) above, £158 million of the £246 million of gross unrealised losses at 31 December 2011 (2010: £224 million of the £370 million of gross unrealised losses) related to securities whose fair value was below 80 per cent of the book value. The analysis of the £158 million (2010: £224 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, is as follows:

	2011		2010	
Category analysis	Fair value	Unrealised loss	Fair value	Unrealised loss
	£m	£m	£m	£m
Residential mortgage-backed securities				
Prime (including agency)	**38**	**(16)**	88	(39)
Alt A	**12**	**(3)**	15	(4)
Sub-prime	**58**	**(32)**	41	(20)
	108	**(51)**	144	(63)
Commercial mortgage-backed securities.	**6**	**(29)**	8	(29)
Other asset-backed securities	**65**	**(58)**	123	(105)
Total structured securities	**179**	**(138)**	275	(197)
Corporates	**29**	**(20)**	64	(27)
Total	**208**	**(158)**	339	(224)

Age analysis of fair value being below 80 per cent for the period indicated:

Category analysis	2011 Fair value	2011 Unrealised loss	2010 Fair value	2010 Unrealised loss
	£m	**£m**	**£m**	**£m**
Less than 3 months	**15**	**(5)**		(1)
3 months to 6 months	**45**	**(15)**		
More than 6 months	**148**	**(138)**	339	(223)
	208	**(158)**	339	(224)

Assets held at amortised cost

Financial assets classified as loans and receivables under IAS 39 are carried at amortised cost using the effective interest rate method. Certain mortgage loans of the UK insurance operations have been designated at fair value through profit and loss as this loan portfolio is managed and evaluated on a fair value basis and these are included within loans in the balance sheet. The loans and receivables include loans collateralised 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.

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 a pre-existing 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, this basis has been applied by the Group.

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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 with-profits funds write with-profits and other protection type policies classified as insurance contracts and investment contracts with discretionary participating features. 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) to the consolidated financial statements in Item 18.

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 fund, 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 in the consolidated financial statements in Item 18.

(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 in the consolidated financial statements in Item 18. From the perspective of shareholder results the key sensitivity relates to the assumption for allowance for credit risk for UK annuity business, as described in note D2(g)(iii) in the consolidated financial statements in Item 18.

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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. 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 contracts 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 investment return from the separate accounts, which for all years included was 8.4 per cent per annum (after deduction of external fund management fees) determined using a mean reversion methodology. 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(g) in the consolidated financial statements in Item 18.

These returns affect the level of future expected profits through their effects on the fee income with consequential impact on the amortisation 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 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. This reflects the principally spread and fee-based nature of Jackson's business.

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.

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The remaining non-participating business in Asia has some limited sensitivity to interest rates. Further details are provided in D4(j) in the consolidated financial statements in Item 18.

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 regimes as described in note A4 as described in the consolidated financial statement in Item 18, these costs are accounted for in a way that is consistent with the principles of the ABI SORP with deferral and amortisation against margins in future revenues on the related insurance policies. In general, this deferral is presentationally shown by an explicit carrying value for deferred acquisition costs (DAC) in the balance sheet. However, in some Asian operations the deferral is implicit through the reserving methodology. The recoverability of the explicitly and implicitly deferred acquisition costs is measured and are deemed impaired if the projected margins are less than the carrying value. To the extent that the future margins differ from those anticipated, then an adjustment to the carrying value will be necessary.

The deferral and amortisation 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 business is individual and group annuity business where the incidence of acquisition costs is negligible.

Jackson

For term business, acquisition costs are deferred and amortised in line with expected premiums. For annuity business, acquisition costs are deferred and amortised 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 Jackson's actual 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 statement of financial position is also sensitive to unrealised valuation movements on debt securities held to back the liabilities and solvency capital. Further details are explained in notes D3(g) and H1 to the consolidated financial statements in Item 18.

Asian operations

For those territories applying US GAAP to insurance assets and liabilities, as permitted by the ABI SORP, principles similar to those set out in the Jackson paragraph above are applied to the deferral and amortisation of acquisition costs. For other Asian territories, the general principles of the ABI SORP are applied with, as described above, deferral of acquisition costs being either explicit or implicit through the reserving basis.

Adoption of altered US GAAP requirements for Group IFRS reporting in 2012

In October 2010, the Emerging Issues Task Force of the US Financial Accounting Standards Board issued Update No 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts'. The update was issued to address perceived diversity by companies preparing financial statements in accordance with US GAAP as regards the types of acquisition costs being deferred. Under

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US GAAP, costs that can be deferred and amortised are those that 'vary with and are primarily related to the acquisition of insurance contracts'. The Update requires insurers to capitalise only those incremental costs directly related to acquiring a contract for financial statements for reporting periods starting after 15 December 2011. All other indirect acquisition expenses are required to be charged to the income statement as incurred expenses. Accordingly, the main impact of the Update is to disallow insurers from deferring costs that are not directly related to successful sales.

Under the Group's IFRS reporting, Prudential has the option to either continue with its current basis of measurement or improve its accounting policy under IFRS 4 to acknowledge the issuance of the Update. Prudential has chosen to continue with its current basis of measurement for reporting of its 2011 results and improve its policy in 2012 to apply the US GAAP update on the retrospective basis to the results of its US insurance operation Jackson National Life. The reason and timing for the change is to achieve consistency with the basis expected to be applied by peer competitor companies in the US market in their US GAAP financial statements. To ensure consistency it is also intended to make the change on the retrospective basis in 2012 for the Asian operations that historically have effectively applied US GAAP for measuring insurance assets and liabilities.

The effect of the change is as follows:

	Year ended 31 December 2011			**Year ended 31 December 2010**		
	As reported under current policy	**Effect of change**	**Under new policy from 1 Jan 2012**	**As reported under current policy**	**Effect of change**	**Under new policy from 1 Jan 2012**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Profit after tax and non controlling interests	**1,490**	**(75)**	**1,415**	1,431	(125)	1,306
Shareholders' equity	**9,117**	**(553)**	**8,564**	8,031	(510)	7,521

Further details are provided in note (c) under "Other results based information" of this section.

Pensions

The Group applies the requirements of IAS 19, 'Employee benefits' and associated interpretations including IFRIC 14 'IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', to its defined benefit pension schemes. The principal defined benefit pension scheme is the Prudential Staff Pension Scheme (PSPS). For PSPS the terms of the trust deed restrict shareholders' access to any underlying surplus. Accordingly, applying the interpretation of IFRIC 14, any underlying IAS 19 basis surplus is not recognised for IFRS reporting. The financial position for PSPS recorded in the IFRS financial statements reflects the higher of any underlying IAS 19 deficit and any obligation for deficit funding.

The economic participation in the surplus or deficits attaching to the 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 financial position for PSPS between the WPSF and shareholders' funds in 2011 reflect the $^{70}/_{30}$ ratio applied to the base deficit position as at 31 December 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 approximately 50/50 between the WPSF and shareholders' funds.

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Due to the inclusion of actuarial gains and losses in the income statement rather than being recognised in other comprehensive income, 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, changes in mortality assumptions and changes in inflation assumptions.

The total underlying Group pension scheme liabilities of £5,620 million (2010: £5,692 million) comprise £4,844 million (2010: £4,866 million) for PSPS and £776 million (2010: £826 million) for the other schemes.

The table below shows the sensitivity of the underlying PSPS and the other scheme liabilities at 31 December 2011 to changes in discount rate, inflation rates and mortality rates.

		2011	
Assumption	**Change in assumption**	**Impact in scheme liabilities on IAS 19 basis**	
Discount rate	Decrease by 0.2% from 4.7% to 4.5%	Increase in scheme liabilities by:	
		PSPS	3.3%
		Other schemes	4.8%
Discount rate	Increase by 0.2% from 4.7% to 4.9%	Decrease in scheme liabilities by:	
		PSPS	3.1%
		Other schemes	4.5%
Rate of inflation	RPI: Decrease by 0.2% from 2.9% to 2.7%	Decrease in scheme liabilities by:	
	CPI: Decrease by 0.2% from 1.9% to 1.7% with	PSPS	0.6%
	consequent reduction in salary increases	Other schemes	4.1%
Mortality rate	Increase life expectancy by 1 year	Increase in scheme liabilities by:	
		PSPS	2.7%
		Other schemes	2.4%

The sensitivity of the underlying pension scheme liabilities to changes in discount, inflation and mortality rates as shown above does not directly equate to the impact on the profit or loss attributable to shareholders or shareholders' equity due to the effect of the application of IFRIC 14 on PSPS and the allocation of a share of the interest in financial position of the PSPS and Scottish Amicable schemes to the PAC with-profits fund as described above.

The sensitivity to the changes in the key variables as shown in the table above has no significant impact on the pension costs included in the Group's operating results. This is due to the pension costs charged in each of the periods presented being derived largely from market conditions at the beginning of the period. After applying IFRIC 14 and to the extent attributable to shareholders, any residual impact from the changes to these variables is reflected as actuarial gains and losses on defined benefit pension schemes within the supplementary analysis of profits. The relevance of this is described further below.

For PSPS, the underlying surplus of the scheme of £1,588 million (2010: £485 million) has not been recognised under IFRIC 14. Any change in the underlying scheme liabilities to the extent that it is not sufficient to alter PSPS into a liability in excess of the deficit funding provision will not have an impact on the Group's results and financial position. Based on the underlying financial position of PSPS as at 31 December 2011, none of the changes to the underlying scheme liabilities for the changes in the variables shown in the table above have had an impact on the Group's 2011 results and financial position.

In the event that a change in the PSPS scheme liabilities results in a deficit position for the scheme which is recognisable, the deficit recognised affects the Group's results and financial position only to the extent of the amounts attributable to shareholder operations. The amounts attributable to the PAC with-profits fund are absorbed by the liability for unallocated surplus and have no direct effect on the profit or loss attributable to shareholders or shareholders' equity.

The deficit of the Scottish Amicable pension scheme has been allocated approximately 50 per cent to the PAC with-profits fund and 50 per cent to the shareholders. Accordingly, half of the changes to its scheme liabilities, which at 31 December 2011 were £527 million (2010: £572 million), due to the changes in the variables shown in the table above would have had an impact on the Group's shareholder results and financial position.

Deferred tax

Deferred tax assets are recognised 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 taxation regimes applicable across the Group apply 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 to the consolidated financial statement in Item 18.

Goodwill

Goodwill impairment testing requires the exercise of judgement by management as to prospective future cash flows. Further information is disclosed in note H1 to the consolidated financial statement in Item 18.

Other features of IFRS accounting that are of particular significance to an understanding of Prudential's results

The other features that are of particular 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 in Item 18, the contracts issued by the Group's life assurance business are classified as insurance contracts and investment contracts with discretionary participating features. As permitted by IFRS 4, assets and liabilities of these contracts 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) has been applied.

In 2005 the Group elected 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 included in the financial statements for 2011, 2010 and 2009 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 elected 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 which permits the application of local GAAP in some circumstances, 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 India, Japan, Taiwan and Vietnam 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 realised investment gains and other surpluses that, where appropriate, 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 in Item 18. For other operations a market consistent basis is not applied under the accounting basis described in note A4 to the consolidated financial statements in Item 18. 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 in Item 18.

Valuation and accounting presentation of fair value movements of derivatives and debt securities of Jackson

Under IAS 39, 'Financial Instruments: Recognition and Measurement', derivatives are required to be carried at fair value. Unless net investment hedge accounting is applied, value movements on derivatives are recognised in the income statement.

For derivative instruments of Jackson, the Group has considered 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.

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.

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Under IAS 39, unless carried at amortised 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 other comprehensive income. Impairments are recorded in the income statement.

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 in Item 18. 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.

Segmental analysis of results and earnings attributable to shareholders

The Group uses operating profit based on longer-term investment returns as the segmental measure of its results. The basis of calculation is disclosed in this Item 5 'Results of Operations and Financial Condition' entitled 'Analysis of IFRS basis operating profit based on longer-term investment returns and IFRS total profit in note A4(d) to the consolidated financial statements in Item 18.

For shareholder-backed business, with the exception of debt securities held by Jackson and assets classified as loans and receivables, all financial investments and investment property are designated as assets at fair value through profit and loss. Short-term fluctuations in investment returns on such assets held by with-profits funds, do not affect directly reported shareholder results. This is because (i) the unallocated surplus of with-profits funds is accounted for as liabilities and (ii) excess or deficits of income and expenditure of the funds over the required surplus for distribution are transferred to or from unallocated surplus. However, for shareholder-backed businesses the short-term fluctuations affect the result for the year and the Group provides additional analysis of results before and after short-term fluctuations in investment returns.

Summary Consolidated Results and Basis of Preparation of Analysis

The following table shows Prudential's consolidated total profit for the years indicated.

	Year Ended 31 December 2011	2010	2009
	(£ million)		
Total revenue, net of reinsurance	**35,401**	47,646	48,099
Total charges, net of reinsurance	**(33,475)**	(45,574)	(46,535)
Profit before tax (being tax attributable to shareholders' and policyholders' returns)*	**1,926**	2,072	1,564
Tax attributable to policyholders' returns	**17**	(611)	(818)
Profit before tax attributable to shareholders	**1,943**	1,461	746
Tax charge	**(432)**	(636)	(873)
Less: tax attributable to policyholders' returns	**(17)**	611	818
Tax charge attributable to shareholders' returns	**(449)**	(25)	(55)
Profit from continuing operations after tax	**1,494**	1,436	691
Discontinued operations (net of tax)			(14)
Profit for the year	**1,494**	1,436	677

* This measure is the formal loss before tax measure under IFRS but it is not the result attributable to shareholders. See 'Presentation of results before tax' under IFRS Critical Accounting Policies section above for further explanation.

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. Firstly, this profit measure represents the aggregate of pre-tax results attributable to shareholders and a pre-tax amount attributable to policyholders. Secondly, 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. In explaining movements in profit for the year, reference is made to trends in profit before shareholder tax and the shareholder tax charge. The explanations of movement in profit before shareholder tax are shown below by reference to the profit analysis applied for segmental disclosure as shown in note B1 of the consolidated financial statements in Item 18. This basis is used by management and reported externally to Prudential's UK, Hong Kong and Singapore shareholders and to the UK, Hong Kong and Singapore financial markets. Separately, in this section, analysis of movements in profits before shareholder tax is provided by nature of revenue and charges.

Explanation of Movements in Profits After Tax and Profits Before Shareholder Tax by Reference to the Basis Applied for Segmental Disclosure

(a) Group overview

Profit for the year after tax for 2011 was £1,494 million compared to £1,436 million for 2010. The increase of £58 million reflects the movement in total profit before tax attributable to shareholders, which improved from a profit of £1,461 million in 2010 to £1,943 million in 2011, which was offset by an increase in tax charge attributable to shareholders from £25 million in 2010 to £449 million in 2011.

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The total profit before tax attributable to shareholders was £1,943 million in 2011, compared with £1,461 million in 2010. The improvement reflects the increase in operating profit based on longer-term investment returns, and the fact that in 2010 the profit was reduced by the terminated AIA transaction costs of £377 million.

The effective rate of tax at the total profit level was 23 per cent in 2011, compared to two per cent in 2010. In 2010 tax charge attributable to shareholders' profit includes a credit of £158 million which primarily relates to the impact of a settlement agreed with the UK authorities. Adjusting the rate in 2010 to exclude the exceptional tax credit of £158 million gives an underlying tax rate at the total profit level for 2010 of 13 per cent. In both 2011 and 2010, Prudential has benefited from a reduction in the main UK corporate tax rate from 28 per cent to 26.5 per cent offset by an increase in the Asia tax rate following the resolution of outstanding issues. Further details are provided in note F5 to the consolidated financial statements in Item 18.

Profit for the year after tax for 2010 was £1,436 million compared to £677 million for 2009. The increase of £759 million predominantly reflects movement in results from continuing operations after tax which has improved from £691 million in 2009 to £1,436 million in 2010 and a loss from discontinued operations in 2009 of £14 million.

The increase in profit from continuing operations after tax reflects an increase in profits before tax attributable to shareholders of £715 million, from profit of £746 million in 2009 to £1,461 million in 2010 and a decrease in tax charge attributable to shareholders of £30 million, from £55 million charge in 2009 to a £25 million charge in 2010. The effective tax rate for 2010 was two per cent, compared to an effective tax rate of seven per cent for 2009. Further details are provided in note F5 to the consolidated financial statements in Item 18.

The total profit before tax from continuing operations attributable to shareholders was £1,461 million in 2010, compared with £746 million in 2009. The improvement reflects the increase in operating profit based on longer-term investment returns and the impact of one-off items. The profit in 2010 was reduced by the terminated AIA transaction costs of £377 million, whereas 2009 was adversely impacted by the £621 million loss recorded as part of the disposal of the Taiwan Agency business and IGD hedge costs of £235 million.

(b) Summary by business segment and geographical region

The Group's operating segments as determined under IFRS 8 are insurance operations split by territories in which the Group conducts business, which are Asia, the United States and the United Kingdom, and asset management operations split into M&G, which is the Group's UK and European asset management business, Eastspring Investments, which is the Asian asset management business and the US broker-dealer and asset management business (including Curian).

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The following table shows Prudential's IFRS consolidated total profit/(loss) for the years indicated presented by summary 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.

	2011				
	Asia	US	UK	Unallocated corporate	Total
	(£ million)				
Insurance operations	**488**	**432**	**671**		**1,591**
Asset management*	**62**	**16**	**235**		**313**
Total profit attributable to the segments	**550**	**448**	**906**		**1,904**
Unallocated corporate				**(410)**	**(410)**
Total profit (loss) for the year	**550**	**448**	**906**	**(410)**	**1,494**

	2010				
	Asia	US	UK	Unallocated corporate	Total
	(£ million)				
Insurance operations	580	338	646		1,564
Asset management*	57	13	237		307
Total profit attributable to the segments	637	351	883		1,871
Unallocated corporate**				(435)	(435)
Total profit (loss) for the year	637	351	883	(435)	1,436

	2009				
	Asia	US	UK	Unallocated corporate	Total
	(£ million)				
Insurance operations	(218)***	588	489		859
Asset management*	42	3	219		264
Total (loss) profit attributable to the segments	(176)	591	708		1,123
Unallocated corporate**				(432)	(432)
Discontinued operations****				(14)	(14)
Total (loss) profit for the year	(176)	591	708	(446)	677

*

For the US, including the broker-dealer business and Curian.

**

The results for unallocated corporate for the year ended 31 December 2010 and 2009 include the impacts of the costs of the terminated AIA transaction and the IGD hedging respectively.

***

Included the loss on the sale of the Taiwan agency business of £559 million. Excluding this amount, the total profit for the period for Asian insurance operations would be £341 million.

****

Additional information on discontinued operations is set out in note I10 to the consolidated financial statements in Item 18.

Profit from insurance operations

Total profit from insurance operations in 2011 was £1,591 million compared to £1,564 million in 2010 and £859 million in 2009. All of the profits from insurance operations in 2011, 2010 and 2009 were from continuing operations. The 2009 figure included the loss on sale of £559 million for the

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Taiwan agency business, the disposal of which was completed in June 2009 but did not qualify as a discontinued operation under IFRS. The movement in profits for insurance operations can be summarised as follows:

	Year Ended 31 December		
	2011	**2010**	**2009**
	(£ million)		
Profit before shareholder tax	**2,111**	1,961	1,025
Shareholder tax	**(520)**	(397)	(166)
Profit after tax	**1,591**	1,564	859

The increase of £150 million in profit before tax attributable to shareholders in 2011 compared to 2010 reflects an increase in operating profits based on longer term investment returns combined with a reduction in the overall negative short-term fluctuations for the insurance operations.

The effective shareholder tax rate on profits from insurance operations increased from 20 per cent in 2010 to 25 per cent in 2011. The increase primarily relates to increased profits in the US and the recent fiscal developments in Indonesia affecting the life assurance industry offset by the reduction in the UK tax rate.

The increase of £936 million in profit before tax attributable to shareholders in 2010 compared to 2009 primarily reflects an increase in operating profits based on longer term investment returns and the results of 2009 being impacted by the loss on sale of the Taiwan agency business of £559 million. The increase over 2009 resulting from these factors was partially offset by a negative movement in short term fluctuations in investment returns.

The effective shareholder tax rate on profits from insurance operations increased from 16 per cent in 2009 to 20 per cent in 2010. This was due to a number of factors including:

- In the US, the 2009 rate was unusually low as it reflected the reversal of the valuation allowance set up in 2008 in respect of carried forward losses.

This was partly offset by:

- In Asia, the 2009 tax rate being adversely affected as there was no tax relief on the loss relating to the sale of the Taiwan agency business.

- In the UK, favorable routine revisions to prior period tax returns in 2010.

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 environments in which Prudential operates.

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, 'grandfathered' US GAAP is used as the most appropriate reporting basis. This basis is applied in India, Japan, Taiwan and

Vietnam. For with-profits

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business in Hong Kong, Singapore and Malaysia, the basis of profit recognition is bonus driven as described under 'United Kingdom Basis of Profits' section below.

Comparison of total profit (loss) arising from Asian insurance operations

The following table shows the movement in profit/(loss) arising from Asian insurance operations for 2011, 2010 and 2009:

	Year Ended 31 December		
	2011	**2010**	**2009**
		(£ million)	
Profit/(loss) before shareholder tax	**612**	646	(180)
Shareholder tax	**(124)**	(66)	(38)
Profit/(loss) after tax	**488**	580	(218)

The 2011 profit before tax attributable to shareholders of £612 million represented a decrease of £34 million as against the comparable 2010 figureof £646 million which primarily reflects an increase of £172 million in operating profit based on longer-term investment returns offset by an adverse change of £206 million in short-term fluctuations in investment returns for shareholder-backed business.

The effective shareholder tax rate changed from 10 per cent in 2010 to 20 per cent in 2011, with the movement principally due to the recent fiscal developments in Indonesia affecting the life assurance industry.

The 2010 profit before tax attributable to shareholders of £646 million represented an increase of £826 million over the loss incurred in 2009 of £180 million. The increase was primarily due to the one-off loss in 2009 of £559 million, arising on the sale of the Taiwan agency business completed in June 2009; an increase in operating profit based on longer-term investment returns of £122 million in 2010 over 2009 and a positive change in short term fluctuations in investment returns of £83 million. A one off credit of £63 million arose in 2009 as a result of replacing the methodology for valuing the liabilities of the Malaysia life business by a method based on the Malaysian authority's risk based capital framework on 1 January 2009.

The effective shareholder tax rate changed from negative 21 per cent in 2009 to 10 per cent in 2010 principally due to there being no tax relief on the loss relating to the sale of the Taiwan agency business in June 2009.

United States

Basis of profits

The underlying 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 annuity business with the insurance assets and liabilities of the business measured on a US GAAP basis. In addition, the results in any period include the incidence of gains and losses on assets classified as available-for-sale, and fair value movements on derivatives and securities classified as fair valued through profit and loss.

Comparison of total profit arising from US insurance operations

The following table shows the movement in profit arising from US insurance operations for 2011, 2010 and 2009:

	Year Ended 31 December		
	2011	**2010**	**2009**
		(£ million)	
Profit before shareholder tax	**599**	455	486
Shareholder tax	**(167)**	(117)	102
Profit after tax	**432**	338	588

The increase in profit before tax attributable to shareholders of £144 million in 2011 compared to 2010 was due to a decrease of £139 million in operating profit based on longer-term investment returns which was more than offset by a favourable change of £283 in short-term fluctuations in investment returns reflected in the income statement. The decrease in the operating profit based on longer-term investment returns was due to the accounting impact of accelerated amortization of deferred acquisition costs (DAC) of £232 million in the year. Excluding the impact of accelerated DAC amortization, the US insurance operations' earnings continued to grow during 2011. The favourable change of £283 million in the short-term fluctuations in investment returns was primarily due to lower negative fluctuations from the US operations' derivative hedging programmes in 2011 compared to 2010.

The effective tax rate on profit/(loss) from US operations changed from 26 per cent in 2010 to a 28 per cent in 2011.

The decrease in profit before tax attributable to shareholders of £31 million for 2010 compared to 2009 was due to a negative change of £246 million in the short-term fluctuations in investment returns reflected in the income statement, partially offset by an increase of £215 million in operating profit based on longer-term investment returns. The increase in operating profit based on longer-term investment returns was primarily due to higher separate account fee income and higher spread income in 2010 compared to 2009. The negative change of £246 million in the short-term fluctuations in investment returns was primarily due to the movements relating to the US operations' derivative and embedded derivative value movements which changed from a negative net equity hedge accounting effect of £74 million in 2009 to a negative £365 million in 2010.

The effective tax rate on profit/(loss) from US operations changed from a negative 21 per cent in 2009 to a 26 per cent in 2010. The change was due to the 2009 rate having reflected the reversal of the valuation allowance set up in 2008 in respect of carried forward losses and thus being negative.

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 regular and final bonuses.

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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 Board of directors of the subsidiary companies that have with-profits operations, using actuarial advice, determine the amount of regular and final bonuses to be declared each year on each group of contracts. The smoothing inherent in the bonus declarations provides for relatively stable annual shareholders' profit from this business.

Bonus rates

Bonus rates are applied to with-profits policies in the UK and similar products in Singapore, Hong Kong and Malaysia. The most significant with-profits fund is in the UK where, as at 31 December 2011, liabilities to with-profits policyholders were in aggregate of £67.1 billion. Liabilities to with-profits policyholders in Asia as at 31 December 2011 were £12.6 billion. The details that follow are in respect of the UK with-profits business. The method by which bonuses for Prudential's Asia with-profits business are determined is substantially similar to the method by which bonuses for Prudential's UK with-profits business are determined.

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. A high proportion of the assets backing the with-profits business are 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.

Further details on the determination of the two types of bonus ('regular' and 'final'), the application of significant judgment, key assumptions and the degree of smoothing of investment returns in determining the bonus rates are provided below.

Regular bonus rates

For regular bonuses, the bonus rates are determined for each type of policy primarily by targeting the bonus level at a prudent proportion of the long-term expected future investment return on 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 the date of payment of the premium or date of issue of the policy or 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 of directors (PAC Board) has regard to the overall strength of the long-term fund when determining the length of time over which it will seek to achieve the amended prudent target bonus level.

In normal investment conditions, PAC expects changes in regular bonus rates to be gradual over time, and these are not expected to exceed one per cent per annum over any year. However, the PAC Directors retain the discretion whether or not to declare a regular bonus each year, and there is no limit on the amount by which regular bonus rates can change.

Final bonus rates

A final bonus which is normally declared yearly, may be added when a claim is paid or when units of a unitised product are realised.

The rates of final bonus usually vary by type of policy and by reference to the period, usually a year, in which the policy commences or each premium is paid. These rates are determined by reference to the asset shares for the sample policies but subject to the smoothing approach, explained below.

In general, the same final bonus scale applies to maturity, death and surrender claims except that:

- The total surrender value may be impacted by the application of a Market Value Reduction (MVR) which is for accumulating with-profits policies and is affected by the surrender bases (for conventional with-profits business); and

- For the SAIF and Scottish Amicable Life (SAL), the final bonus rates applicable on surrender may be adjusted to reflect expected future bonus rates.

Application of significant judgement

The application of the above method for determining bonuses requires the PAC Board to apply significant judgement in many respects, including in particular the following:

- Determining what constitutes fair treatment of customers: Prudential is required by UK law and regulation to consider the fair treatment of its customers in setting bonus levels. The concept of determining what constitutes fair treatment, while established by statute, is not defined.

- Smoothing of investment returns: This is an important feature of with-profits products. Determining when particular circumstances, such as a significant rise or fall in market values, warrant variations in the standard bonus smoothing limits that apply in normal circumstances requires the PAC Board to exercise significant judgement.

- Determining at what level to set bonuses to ensure that they are competitive: The overall return to policyholders is an important competitive measure for attracting new business.

Key assumptions

As noted above, the overall rate of return on investments and the expectation of future investment returns are the most important influences in bonus rates, subject to the smoothing described below. Prudential determines the assumptions to apply in respect of these factors, including the effects of reasonably likely changes in key assumptions, in the context of the overarching discretionary and smoothing framework that applies to its with-profits business as described above. As such, it is not possible to specifically quantify the effects of each of these assumptions or of reasonably likely changes in these assumptions.

Prudential's approach, in applying significant judgement and discretion in relation to determining bonus rates, is consistent conceptually with the approach adopted by other firms that manage a with-profits business. It is also consistent with the requirements of UK law, which require all UK firms that carry out a with-profits business to define, and make publicly available, the Principles and Practices of Financial Management (PPFM) that are applied in the management of their with-profits funds.

Accordingly, Prudential's PPFM contains an explanation of how it determines regular and final bonus rates within the discretionary framework that applies to all with-profits policies, subject to the general legislative requirements applicable. The purpose of Prudential's PPFM is therefore to:

- explain the nature and extent of the discretion available;

- show how competing or conflicting interests or expectations of:

different groups and generations of policyholders; and

policyholders and shareholders are managed so that all policyholders and shareholders are treated fairly; and

provide a knowledgeable observer (eg a financial adviser) with an understanding of the material risks and rewards from starting and continuing to invest in a with-profits policy with Prudential.

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Furthermore, in accordance with industry-wide regulatory requirements, the PAC Board has appointed:

- an Actuarial Function Holder who provides the PAC Board with all actuarial advice;
- a With-Profits Actuary whose specific duty is to advise the PAC Board on the reasonableness and proportionality of the manner in which its discretion has been exercised in applying the PPFM and the manner in which any conflicting interests have been addressed; and
- a With-Profits Committee of independent individuals, which assesses the degree of compliance with the PPFM and the manner in which conflicting rights have been addressed.

Smoothing of investment return

In determining bonus rates for the UK with-profits policies, smoothing is applied to the allocation of the overall earnings of the UK with-profits fund of which the investment return is a significant element. The smoothing approach differs between accumulating and conventional with-profits policies to reflect the different contract features. In normal circumstances, Prudential does not expect most payout 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 payout values between different policies. Greater flexibility may be required in certain circumstances, for example following a significant rise or fall in market values, and in such situations the PAC Board may decide to vary the standard bonus smoothing limits in order to protect the overall interests of policyholders.

The degree of smoothing is illustrated numerically by comparing in the following table the relatively 'smoothed' level of policyholder bonuses declared as part of the surplus for distribution with the more volatile movement in investment return and other items of income and expenditure of the UK component of the PAC with-profits fund for each year presented.

	2011	**2010**	**2009**
	£m	**£m**	**£m**
Net income of the fund:			
Investment return	**4,094**	8,815	10,461
Claims incurred	**(6,411)**	(6,390)	(6,253)
Movement in policyholder liabilities	**(614)**	(4,301)	(3,692)
Add back policyholder bonuses for the year (as shown below)	**1,945**	2,019	1,827
Claims incurred and movement in policyholder liabilities (including charge for provision for asset shares and excluding policyholder bonuses)	**(5,080)**	(8,672)	(8,118)
Earned premiums, net of reinsurance	**3,404**	3,148	3,063
Other income	**17**	9	(2)
Acquisition costs and other expenditure	**(696)**	(600)	(842)
Tax charge	**(63)**	(528)	(640)
Net income of the fund before movement in unallocated surplus	**1,676**	2,172	3,922
Movement in unallocated surplus	**485**	70	(1,893)
Surplus for distribution	**2,161**	2,242	2,029
Surplus for distribution allocated as follows:			
90% policyholders bonus (as shown above)	**1,945**	2,019	1,827
10% shareholders' transfers	**216**	223	202

	2,161	2,242	2,029

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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 unrealised 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 information 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. 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), and asset valuation differences and admissibility deductions reflected in the regulatory returns. 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 Prudential's Asian with-profits business.

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 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 historical pensions 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). 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.

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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 recognised 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 the 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.

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.

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 a bonus policy, the investment returns of a with-profits fund in a particular year do not affect shareholder profits or with-profits funds.

UK shareholder-backed annuity business

The results for this type of business are prepared in accordance with the UK Modified Statutory Basis. The results reflect the inclusion of investment return including realised and unrealised gains. The charge for benefits reflects the valuation rate of interest applied to discount future anticipated payments to policyholders. This rate in turn reflects current market yields adjusted for factors including default risks on the assets backing the liabilities. The level of allowance for default risk is a key assumption. Details are included in note D2 of the consolidated financial statements in Item 18.

Comparison of total profit arising from UK insurance operations

The following table shows the movement in profit arising from UK insurance operations for 2011, 2010 and 2009:

	Year Ended 31 December		
	2011	**2010**	**2009**
		(£ million)	
Profit before shareholder tax	**900**	860	719
Shareholder tax	**(229)**	(214)	(230)
Profit after tax	**671**	646	489

Profit after tax from UK insurance operations increased by £25 million from £646 million in 2010 to £671 million in 2011.

The increase in profit before tax attributable to shareholders of £40 million from £860 million in 2010 to £900 million in 2011 reflected an increase of £4 million in operating profit based on longer-term investment returns, a favourable change of £43 million in the value of short-term fluctuations in investment returns of the shareholder-backed business and a favourable change of £23 million in the shareholders' share of actuarial gains/losses in defined benefit pension schemes. These increases was partially offset by a gain of £30 million recorded in 2010 upon the dilution of the UK insurance operations' holding in PruHealth, as described further below under section (c) "Explanation of Movements in Profits After Tax and Profits Before Shareholder Tax by Reference to the Basis Applied for Segmental Disclosure".

The effective shareholder tax rate on profits from UK insurance operations for 2011 of 25 per cent is consistent with an effective tax rate of 25 per cent in 2010. The rate in 2011 remained the same as 2010 primarily due to adverse routine reversions to prior period tax returns being offset by the reduction in the UK tax rate.

The increase in 2010 in profit before tax attributable to shareholders of £141 million primarily reflects the increase in operating profit based on longer-term investment returns of £62 million, a small positive change in short-term fluctuations in investment returns of £8 million and a decrease in shareholders' share of actuarial losses on defined benefit pension scheme of £41 million. In addition, a gain of £30 million was recorded in 2010 upon the dilution of the UK insurance operations' holding in PruHealth, as mentioned above. The improvement in the operating profit based on longer-term investment returns compared to 2009 reflects the benefit of cost saving initiatives, higher with-profits income and increased annuity profits.

The effective shareholder tax rate on profits from UK insurance operations for 2010 of 25 per cent compared with the effective tax rate of 32 per cent in 2009 was due to favourable routine revisions to prior period tax returns in 2010.

Profit from asset management

The following table shows the movement in profits from asset management for 2011, 2010 and 2009:

	Year Ended 31 December		
	2011	**2010**	**2009**
		(£ million)	
Profit before shareholder tax	**436**	420	353
Shareholder tax	**(123)**	(113)	(89)
Profit after tax	**313**	307	264

Profit before tax attributable to shareholders from asset management increased from £420 million in 2010 to £436 million in 2011. The £16 million increase in profit before tax attributable to shareholders from 2010 to 2011 reflects improvements experienced across M&G of £6 million, Eastspring Investments of £8 million and the US broker-dealer and asset management operations of £2 million.

The £6 million increase in profit before tax attributable to M&G reflected an increase of £73 million million in operating profit based on longer-term investment returns from £284 million in 2010 to £357 million in 2011, which was due to rising revenues and a fall in the cost-income ratio. Further, the increase also reflected a favourable change in actuarial gains/losses on defined benefit pension scheme of £9 million. These increases were partially offset by a negative year on year change in the short-term fluctuations of £76 million.

The effective tax rate on profits from asset management operations increased slightly from 27 per cent in 2010 to 28 per cent in 2011.

The £67 million increase from 2009 to 2010 in profit before tax attributable to shareholders resulted from an increase in profit generated by M&G, which increased from a profit before tax of

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£294 million in 2009 to a profit before tax of £326 million in 2010. The Group's profit before shareholder tax for the Asian asset management operations increased by £17 million and for the US broker-dealer operations decreased by £18 million from 2009 to 2010. The £32 million increase in profit before tax attributable to M&G reflects an increase of £46 million in operating profit based on longer-term investment returns, a decrease of £9 million in the actuarial loss on its defined benefit scheme, partially offset by a negative change in the short-term fluctuations in investment returns of £23 million. The increase in operating profit based on longer-term investment returns was primarily driven by favourable equity market levels and exceptionally strong net inflows particularly from the retail business over 2009 and 2010.

The effective tax rate on profits from asset management operations increased from 25 per cent in 2009 to 27 per cent in 2010. The increase in the effective tax rate was a result of less non taxable income in the UK compared to prior years.

Unallocated corporate result

Total net of charges for unallocated corporate activity decreased by £25 million from £435 million in 2010 to £410 million in 2011 and by £3 million from £432 million in 2009 to £435 million in 2010.

The following table shows the movement in the unallocated corporate result for 2011, 2010 and 2009.

	Year Ended 31 December		
	2011	**2010**	**2009**
		(£ million)	
Loss before shareholder tax	**(604)**	(920)	(632)
Shareholder tax	**194**	485	200
Loss after tax	**(410)**	(435)	(432)

The loss before shareholder tax in 2010 of £920 million included costs of £377 million incurred in relation to the terminated transaction to purchase AIA Group Limited. Further details of these costs are presented in note B1 of consolidated financial statements in Item 18 of this annual report. Excluding these termination costs, the loss before shareholder tax increased by £61 million from 2010 to 2011. The year-on-year movement resulted from a favourable movement of £9 million in other income and expenditure (including restructuring and Solvency II implementation costs) from £521 million in 2010 to £512 million in 2011 which was more than offset by a negative change in short-term fluctuations in investment returns of £69 million and small negative change of £1 million in the actuarial gains and losses of Prudential's defined benefit pension scheme.

The favourable movement of £9 million in net other expenditure includes a credit of £42 million resulting from Prudential's alteration of its inflation measure basis for future statutory increases to pension payments for certain tranches of Prudential's UK defined benefit schemes. This reflects the UK Government's decision to replace the Retail Prices Index (RPI) basis of indexation with the Consumer Prices Index (CPI).

The effective tax rate on unallocated corporate result decreased from 53 per cent in 2010 to 32 per cent in 2011. This was primarily due to 2010 containing both an exceptional UK tax credit primarily relating to the impact of the settlement agreed with the UK tax authorities and the ability to recognise a deferred tax credit on various tax losses which Prudential was previously unable to recognise.

In addition to the inclusion of the AIA costs of £377 million in the 2010 loss before shareholder tax, the year on year movement in loss before shareholder tax from 2009 to 2010 primarily also resulted from an adverse movement in other income and expenditure (including restructuring and Solvency II implementation costs) of £103 million, from £418 million in 2009 to £521 million in 2010, partially offset by a positive change of £178 million in short-term fluctuations in investment returns from a loss of £200 million in 2009 to a loss of £22 million in 2010 and a positive change of £14 million in actuarial gains and losses on Prudential's defined benefit pension scheme.

The increase of £103 million in net other expenditure primarily reflects an increase in interest payable on core structural borrowings and Solvency II implementation costs of £45 million incurred in 2010.

The positive change of £178 million in short-term fluctuations in investment returns was mainly due to a one-off £235 million cost arising from the hedge temporarily put in place during the first quarter of 2009 to protect the Group's IGD capital surplus in the light of exceptional market conditions at that time. During the severe equity market conditions experienced in the first quarter of 2009 coupled with historically high equity volatility, the Group entered into exceptional short-dated hedging contracts to protect against potential tail-events on the IGD capital position, in addition to the regular operational hedging programs. The hedge contracts expired in 2009 and were not renewed.

The effective tax rate on the unallocated corporate result increased from 32 per cent in 2009 to 53 per cent in 2010. This was due to an exceptional tax credit which primarily relates to the impact of the settlement agreed in 2010 with the UK tax authorities and the ability to recognise a deferred tax credit on various tax losses which Prudential was previously unable to recognise, partly offset by the inability to fully recognise a tax credit in respect of non deductable capital costs incurred in relation to the terminated AIA transaction.

(c) Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region

Prudential uses a performance measure of operating profit based on longer-term investment returns. 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.

Prudential determines and presents operating segments based on the information that is internally provided to the Group Executive Committee ("GEC"), which is Prudential's chief operating decision maker.

An operating segment is a component of Prudential that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Prudential's other components. An operating segment's operating results are reviewed regularly by the GEC to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The operating segments identified by Prudential reflect its organisational structure, which is by both geography (Asia, US and UK) and by product line (insurance operations and asset management).

The Group's operating segments determined in accordance with IFRS 8, are as follows:

Insurance operations

- Asia
- US (Jackson)
- UK

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Asset management operations

- M&G (including Prudential Capital)
- Eastspring investments (the new brand name for Asian asset management)
- US broker-dealer and asset management (including Curian)

The Group's operating segments are also its reportable segments with the exception of Prudential Capital which has been incorporated into the M&G operating segment for the purposes of segment reporting.

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns. This measure excludes the recurrent items of short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. In addition for 2010 this measure excluded costs associated with the terminated AIA transaction and gain arising upon the dilution of the Group's holding in PruHealth. For 2009 it excluded the non-recurrent cost of hedging the Group IGD capital surplus included within short-term fluctuations in investment returns and the loss on sale and the results of the Taiwan agency business during the period of ownership. Operating earnings per share is based on operating profit based on longer-term investment returns, after tax and non-controlling interests.Further details on the determination of the performance measure of operating profit based on longer-term investment returns is provided below in note A4 (d) to the consolidated financial statements in Item 18.

Segments results that are reported to the Group Executive Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mainly in relation to the Group Head Office and the Asian Regional Head Office.

Except in the case of the assets backing the UK annuity business, unit-linked and US variable annuity separate account liabilities, operating profit based on longer-term investment returns for shareholder-financed business is determined on the basis of expected longer-term investment returns. In the case of assets backing the UK annuity business, unit-linked and US variable annuity separate account liabilities, the basis of determining operating profit based on longer-term investment returns is as follows:

- Assets backing UK annuity business liabilities. 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 credit risk. Variations between actual and best estimate expected impairments are recorded as a component of short-term fluctuations in investment returns.

- Assets backing unit-linked and US variable annuity business separate account liabilities. For such business, the policyholder unit liabilities are directly reflective of the asset value movements.

  Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in unit liabilities and the backing assets.

In the case of other shareholder-financed business, the measurement of operating profit based on longer-term investment returns reflects the particular features of long-term insurance business where assets and liabilities are held for the long-term and for which the accounting basis for insurance liabilities under current IFRS is not generally conducive to demonstrating trends in underlying performance of life businesses exclusive of the effects of short-term fluctuations in market conditions. In determining the profit on this basis, the following key elements are applied to the results of the Group's shareholder-financed operations as reflected in the segment results.

(i) Debt and equity securities

Longer-term investment returns for both debt and equity-type securities comprise longer-term actual income receivable for the period (interest/dividend income) and longer-term capital returns.

In principle, for debt securities, the longer-term capital returns comprise two elements. The first element is a risk margin reserve (RMR) based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the RMR charge to the operating result is reflected in short-term fluctuations in investment returns. The second element is for the amortisation of interest-related realised 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 distinction between impairment losses and interest-related realised gains and losses is in practice relevant to a significant extent is Jackson. Jackson has used the ratings by Nationally Recognised Statistical Ratings Organisations (NRSRO) or ratings resulting from the regulatory ratings detail issued by the National Association of Insurance Commissioners (NAIC) developed by external third parties such as PIMCO or Black Rock Solutions to determine the average annual RMR. Further details of the RMR charge, as well as the amortisation of interest related realised gains and losses, for Jackson are shown in note B1(iv) to the consolidated financial statements in Item 18.

For debt securities backing non-linked shareholder-financed business of the UK insurance operations (other than the annuity business) and of the Asian insurance operations, the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit RMR charge.

At 31 December 2011 the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £462 million (31 December 2010: £373 million;31 December 2009: net gain of £225 million).

For equity-type securities, the longer-term rates of return are estimates of the long-term trend investment return for income and capital having regard to past performance, current trends and future expectations. Equity-type securities held for shareholder-financed operations other than the UK annuity business, unit-linked and US variable annuity are of significance for the US and Asian insurance operations. Different rates apply to different categories of equity-type securities.

As at 31 December 2011, the equity-type securities for US insurance non-separate account operations amounted to £902 million (31 December 2010: £852 million; 31 December 2009: £784 million). For these operations, the longer term rates of return for income and capital applied in 2011 ranged from 5.9 per cent to 7.5 per cent for equity-type securities such as common and preferred stock and portfolio holdings in mutual funds and from 7.9 per cent to 9.5 per cent for certain other equity-type securities such as investments in limited partnerships and private equity funds (2010: 6.5 per cent to 7.9 per cent and 8.5 per cent to 9.9 per cent, respectively; 2009: 6.7 per cent to 7.9 per cent and 8.7 per cent to 9.9 per cent, respectively).

For Asian insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £590 million as at 31 December 2011 (31 December 2010: £506 million; 31 December 2009: £267 million). Of this balance, £88 million (31 December 2010: £101 million; 31 December 2009: £63 million) related to the Group's 7.37 per cent (31 December 2010: 8.66 per cent) stake in China Life Insurance Company of Taiwan. This £88 million (31 December 2010: £

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101 million; 31 December 2009: £63 million) investment is in the nature of a trade investment for which the determination of longer-term investment returns is on the basis as described in note (iv)(c) below. For the investments representing the other equity securities which had year end balances of £502 million (31 December 2010: £405 million; 31 December 2009: £204 million), the rates of return applied in the years 2011 , 2010 and 2009 ranged from 1.7 per cent to 13.8 per cent with the rates applied varying by territory.

The longer-term rates of return discussed above for equity-type securities are determined after consideration by the Group's in-house economists of long-term expected real government bond returns, equity risk premium and long-term inflation. These rates are broadly stable from period to period but may be different between countries, reflecting, for example, differing expectations of inflation in each territory. The assumptions are for returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

(ii) US variable and fixed index annuity business

The following value movements for Jackson's variable and fixed index annuity business are excluded from operating profit based on longer-term investment returns:

- Fair value movements for equity-based derivatives;
- Fair value movements for embedded derivatives for Guaranteed Minimum Withdrawal Benefit (GMWB) 'not for life' and fixed index annuity business, and Guaranteed Minimum Income Benefit (GMIB) reinsurance (see note);
- Movements in accounts carrying value of GMDB and GMWB 'for life' liabilities, for which, under the 'grandfathered' US GAAP applied under IFRS, for Jackson insurance assets and liabilities the measurement basis gives rise to a muted impact of current period market movements;
- Fee assessments and claim payments, in respect of guarantee liabilities; and
- Related changes to amortisation of deferred acquisition costs for each of the above items.

Note: US operations Embedded derivatives for variable annuity guarantee features

The Guaranteed Minimum Income Benefit (GMIB) liability, which is fully reinsured, subject to a deductible and annual claim limits, is accounted for in accordance with FASB ASC Subtopic 944-80 Financial Services Insurance Separate Accounts (formerly SOP 03-1) under IFRS using 'grandfathered' US GAAP. As the corresponding reinsurance asset is net settled, it is considered to be a derivative under IAS 39 and the asset is therefore recognised at fair value. As the GMIB benefit is economically reinsured the mark to market element of the reinsurance asset is included as a component of short-term fluctuations in investment returns.

(iii) Other derivative value movements

Generally, derivative value movements are excluded from operating results based on longer-term investment returns (unless those derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in operating profit). The principal example of non-equity based derivatives (for example interest rate swaps and swaptions) whose value movements are excluded from operating profit arises in Jackson. Non-equity based derivatives are primarily held by Jackson as part of a broadly-based hedging programme for features of Jackson's bond portfolio (for which value movements are booked in the statement of comprehensive income rather than the income statement), product liabilities (for which US GAAP accounting as grandfathered under IFRS 4 does not fully reflect

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the economic features being hedged), and the interest rate exposure attaching to equity based embedded derivatives.

(iv) Other 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 is broadly equivalent in the income statement, and operating profit based on longer-term investments returns is not distorted. In these circumstances, there is no need for the movement in the liability to be bifurcated between the elements that relate to longer-term market conditions and short-term effects.

However, for some types of business movements in liabilities do require bifurcation to ensure that at the net level (i.e. after allocated investment return 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 policyholders' interest in investment appreciation and other surpluses primarily reflect the level of realised 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 realised investment gains (net of any recovery of prior deficits on the participating pool), less amortisation 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.

Guaranteed Minimum Death Benefit (GMDB) product featuresNon-participating business

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 FASB ASC subtopic 944-80, Financial Services Insurance Separate Accounts (formerly SOP 03-1), which partially reflects changes in market conditions. Under the company's segmental 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) 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.

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The exception is for the impact on credit risk provisioning of actual downgrades during the period. As this feature arises due to short-term market conditions, the effect of downgrades, if any, in a particular period, on the overall provisions for credit risk is included in the category of short-term fluctuations in investment returns.

The effects of other changes to credit risk provisioning are included in the operating result, as is the net effect of changes to the valuation rate of interest due to portfolio rebalancing to align more closely with the Group's internal benchmark.

(v) Fund management and other non-insurance businesses

For these businesses it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses (including impairments) in the operating result with unrealised gains and losses being included in short-term fluctuations. For this purpose impairments are calculated as the credit loss determined by comparing the projected cash flows discounted at the original effective interest rate to the carrying value. In some instances it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying economic substance of the arrangements.

Actuarial and other gains and losses on defined benefit pension schemes

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 Prudential's accounting policies these items are recorded within the income statement, rather than through other comprehensive income, solely due to the interaction of Prudential's approach to adoption of IFRS 4 for with-profits funds and the requirements of IAS 19.

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Reconciliation of total profit (loss) by business segment and geography to IFRS operating profit based on longer-term investment returns

Analysis of IFRS operating profit based on longer-term investment returns and IFRS total profit

A reconciliation of profit (loss) before tax (including tax attributable to policyholders' returns) to profit (loss) before tax attributable to shareholders and loss for the period is shown below.

	2011	2010	2009
		(£ million)	
Insurance business			
Long-term business(ii)			
Asia	**709**	536	416
US	**694**	833	618
UK	**683**	673	606
Development expenses	**(5)**	(4)	(6)
Long-term business operating profit	**2,081**	2,038	1,634
UK general insurance commission(iii)	**40**	46	51
Asset management business			
M&G	**357**	284	238
Eastspring Investments	**80**	72	55
US broker-dealer and asset management	**24**	22	4
	2,582	2,462	1,982
Other income and expenditure	**(483)**	(450)	(395)
RPI to CPI inflation measure change on defined benefit pension schemes(iv)	**42**		
Solvency II implementation costs	**(55)**	(45)	
Restructuring costs(v)	**(16)**	(26)	(23)
Total IFRS operating profit based on longer-term investment returns(i)	**2,070**	1,941	1,564
Short-term fluctuations in investment returns(vi)			
Insurance operations	**(28)**	(148)	7
IGD hedge costs			(235)
Other operations	**(120)**	25	105
Total short-term fluctuations in investment returns	**(148)**	(123)	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes(vii)	**21**	(10)	(74)
Costs of terminated AIA transaction(viii)		(377)	
Gain on dilution of Group's holdings		30	
Loss on sale and results of Taiwan agency business(ix)			(621)
Profit before tax from continuing operations attributable to shareholders	**1,943**	1,461	746
Tax charge attributable to shareholders' returns	**(449)**	(25)	(55)
Discontinued operations (net of tax)			(14)
Profit for the year	**1,494**	1,436	677
Non-controlling interests	**(4)**	(5)	(1)
Total profit for the year attributable to equity holders of Prudential	**1,490**	1,431	676

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Notes

(i)

Operating profit based on longer-term investment returns.

The Group provides supplementary analysis of IFRS profit before tax attributable to shareholders so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. Operating profit based on longer-term investment returns is the basis on which management regularly reviews the performance of Prudential's segments as defined by IFRS 8. Further discussion on the determination of operating profit based on longer-term investment returns is provided in note A4(d). section c "Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region" above.

(ii)

Effect of changes to assumptions, estimates and bases of determining life assurance liabilities.

The results of the Group's long-term business operations are affected by changes to assumptions, estimates and bases of preparation.

These are described in notes D2(i), D3(i) and D4(i) in consolidated financial statements in Item 18.

(iii)

UK operations transferred its general insurance business to Churchill in 2002, with general insurance commission representing the commission received net of expenses for Prudential-branded general insurance products as part of this arrangement.

(iv)

During 2011 the Group altered its inflation measure basis for future statutory increases to pension payments for certain tranches of its UK defined benefit pension schemes. This reflects the UK Government's decision to replace the basis of indexation from Retail Price Index (RPI) to the Consumer Prices Index (CPI). This resulted in a credit to operating profit before tax of £42 million.

(v)

Restructuring costs are incurred in the UK as part of EEV covered business and represent one-off expenses incurred in securing expense savings. 2011: £16 million (2110: £26 million).

(vi)

Short-term fluctuations in investment returns on shareholder-backed business comprise:

	2011	**2010**	**2009**
	£m	**£m**	**£m**
Insurance operations:			
Asia	**(92)**	114	31
US	**(95)**	(378)	(132)
UK	**159**	116	108
Other operations			
IGD hedge costs			(235)

Other	**(120)**	25	105
	(120)	25	(130)
Total	**(148)**	(123)	(123)

Further details on the short-term fluctuations in investment returns are provided below under 'Charge for short-term fluctuations in investment returns' and also in note B1 in the consolidated financial statements in Item 18.

(vii)

The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes reflects the aggregate of actual less expected returns on scheme assets, experience gains and losses on scheme liabilities, the effect of changes in assumptions and altered provisions for deficit funding, where relevant.

(viii)

The costs were incurred in the first six months of 2010 in relation to the proposed, and subsequently terminated transaction, to purchase AIA Group Limited and related rights issue. Further details are provided in note B1(x) to the Consolidated financial statements in Item 18.

(ix)

Sale of Taiwan agency business: In order to facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the Taiwan business for which the sale process was completed in June 2009 are included separately within the segmental analysis of profit for 2009.

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Reconciliation of IFRS operating profit based on longer-term investment returns to IFRS total profit

The following tables reconcile Prudential's operating profit based on longer-term investment returns to Prudential's total profit after tax for 2011, 2010 and 2009.

	Year ended 31 December 2011								
	Insurance operations			Asset management					
	UK	US	Asia	M&G	US	Eastspring Investments	Total segment	Unallocated corporate	Total
	(£ million)								
Operating profit based on longer-term investment returns	**723**	**694**	**704**	**357**	**24**	**80**	**2,582**	**(512)**	**2,070**
Short-term fluctuations in investment returns on shareholder-backed business	**159**	**(95)**	**(92)**	**(29)**			**(57)**	**(91)**	**(148)**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**18**			**4**			**22**	**(1)**	**21**
Profit (loss) from continuing operations before tax attributable to shareholders	**900**	**599**	**612**	**332**	**24**	**80**	**2,547**	**(604)**	**1,943**
Tax attributable to shareholders									**(449)**
Profit for the year									**1,494**

	Year ended 31 December 2010								
	Insurance operations			Asset management					
	UK	US	Asia	M&G	US	Eastspring Investments	Total segment	Unallocated corporate	Total
	(£ million)								
Operating profit based on longer-term investment returns	719	833	532	284	22	72	2,462	(521)	1,941
Short-term fluctuations in investment returns on shareholder-backed business	116	(378)	114	47			(101)	(22)	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(5)			(5)			(10)		(10)
Cost of terminated AIA transaction								(377)	(377)
Gain on dilution of holding in PruHealth	30						30		30
Profit (loss) from continuing operations before tax attributable to shareholders	860	455	646	326	22	72	2,381	(920)	1,461
Tax attributable to shareholders									(25)
Profit for the year									1,436

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	Year ended 31 December 2009								
	Insurance operations			Asset management					
	UK	US	Asia	M&G	US	Eastspring Investments	Total segment	Unallocated corporate	Total
	(£ million)								
Operating profit based on longer-term investment returns	657	618	410	238	4	55	1,982	(418)	1,564
Short-term fluctuations in investment returns on shareholder-backed business	108	(132)	31	70			77	(200)	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(46)			(14)			(60)	(14)	(74)
Loss on sale and results for Taiwan agency business(i)			(621)				(621)		(621)
Profit (loss) from continuing operations before tax attributable to shareholders	719	486	(180)	294	4	55	1,378	(632)	746
Tax attributable to shareholders									(55)
Profit (loss) from continuing operations after tax									691
Discontinued operations									(14)
Profit for the year									677

Notes

(i) This comprised loss on sale of Taiwan agency business in 2009 of £559 million and trading results before tax of £62 million as explained in note I2 of the consolidated financial statements in Item 18.

IFRS operating profit based on longer-term investment returns

In 2011, the Group's IFRS operating profit based on longer-term investment returns was £2,070 million, an increase of 7 per cent from 2010. The operating profit based on longer-term investment returns for 2009 was £1,564 million.

Insurance operations

2011 compared to 2010

In Asia, IFRS operating profit based on longer-term investment returns for long-term business increased by 32 per cent from £532 million in 2010 to £704 million in 2011. Profits from in-force business grew by 29 per cent between the two periods from £593 million to £763 million, reflecting the continued growth of the business in the region. New business strain of £54 million (2010: £56 million)[5] was lower despite higher sales due to favourable product and country mix.

Hong Kong, Indonesia, Singapore and Malaysia, Prudential's largest markets in Asia, continue to see profits grow strongly, with operating profits based on longer-term investment returns from long-term business[6] up 27 per cent from £434 million in 2010 to £552 million in 2011. The growth in Indonesia operating profit[6] based on longer-term investment returns has been particularly strong, up 35 per cent from £157 million to £212 million, reflecting the organic growth of that business over recent years.

(5)
Excludes Japan which ceased writing new business in 2010. New business strain was in 2010 £1 million.

(6)
Before non-recurring items.

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Hong Kong's operating profit[(6)] based on longer-term investment returns increased 35 per cent to £69 million (2010: £51 million), reflecting the continued growth of the portfolio. Singapore increased by 29 per cent to £167 million[(6)] (2010: £129 million) and Malaysia increased by 7 per cent from £97 million to £104 million[(6)]. Other territories contributed operating profits based on longer-term investment returns of £114 million before non-recurring items (2010: £79 million) an increase of 43 per cent and have all made positive contributions to this metric for the first time.

The US long-term business operating profit based on longer-term investment returns decreased by 17 per cent from £833 million in 2010 to £694 million in 2011 and was after charging £232 million (2010: £11 million) of accelerated DAC amortisation as anticipated. This charge, which is described further under "Explanation of Movements in Profits before Shareholder Tax by Nature of Revenue and Charges_Acquisition costs and other expenditure_United States" below, arises as a result of market movements and their interaction with the mean reversion methodology. It has the effect of masking an underlying improvement in the earnings of the US business, reflecting higher fees from variable annuity business following the growth of separate account balances in recent years. The benefit of higher fees is partially offset by administration expenses which have also increased broadly in line with the scale of business.

In Prudential's UK business, total IFRS operating profit based on longer-term investment returns was slightly higher than the prior year at £723 million (2010: £719 million), with long-term business generating £683 million (2010: £673 million). The year on year comparisons are distorted by the effect of bulk annuity transactions which are infrequent and vary in size between financial periods. Prudential's approach to these is very selective and Prudential will only write this business when it meets its strict profitability criteria. Two such transactions were completed in 2011 contributing £23 million to IFRS profits, compared to one transaction in 2010 with an IFRS profit contribution of £63 million.

Life business in the UK (excluding the impact of the bulk annuity transactions), contributed operating profits based on longer-term investment returns of £660 million in 2011, 8 per cent higher than the £610 million generated in 2010. The contribution from with-profits business was lower at £293 million (2010: £310 million). Operating profit based on longer-term investment returns from non-profit annuity and other life business was £67 million higher at £367 million, reflecting higher annuity profits. Profit from UK general insurance commission were lower at £40 million (2010: £46 million) following the expected decline of the in-force policy numbers as the business matures.

2010 compared to 2009

In Asia, operating profit based on longer-term investment returns for long-term business increased by 30 per cent from £410 million in 2009 to £532 million in 2010, with the £410 million in 2009 being inclusive of a £63 million one-off credit relating to changes to the Malaysia reserving basis. Profits from in-force business grew by 20 per cent from £494 million in 2009 to £593 million in 2010 reflecting the continued build-up of the business in the region and the positive impact of currency fluctuations. New business strain reduced from £72 million[(7)] in 2009 to £56 million[(1)] in 2010, reflecting a significant improvement taking into account the increased level of sales and demonstrated management's continued focus on capital efficient growth.

There was a continued strong performance across the Asian region. Hong Kong, Singapore, Malaysia and Indonesia accounted for 81 per cent or £434 million of operating profit based on longer-term investment returns (2009: £390 million, including the impact of the one-off credit recorded in Malaysia). Strong underlying improvements were reported in Indonesia with operating profits higher by 54 per cent to £157 million reflecting both the success of Prudential's product offering and the growing maturity of this business. Malaysia operating profit based on longer-term investment returns,

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(7) Excluding Japan which ceased writing new business in 2010. IFRS new business strain including Japan was £57 million (2009: £78 million).

excluding the one-off credit in 2009, were also higher by 49 per cent to £97 million reflecting the growing size of our book of business and the strong earnings profile of our health and protection business. The contribution to IFRS profits from the other Asian businesses is also improving. The closure of Japan to new business has substantially reduced the IFRS losses of this business and Taiwan saw an improvement in the year as it refocused on bancassurance business. Korea benefited from improved in-force profits in the period and Vietnam was up 43 per cent to £43 million. Changes to reserving bases in India and China contributed a £19 million one-off profit, with both countries showing improvement in their underlying results excluding this change.

The US long-term business operating profit based on longer-term investment return increased by 35 per cent from £618 million in 2009 to £833 million in 2010, reflecting strong growth in spread and fee income, up £195 million and £182 million respectively, as Jackson's policyholder liability balances grew. Jackson undertook various transactions in 2010 to more closely match the overall asset and liability duration. This contributed £108 million to operating profit based on longer-term investment return in the period. These positive contributions to profits have been partially offset by increased costs and DAC amortisation primarily reflecting Jackson's growth.

Jackson's operating profit based on longer-term investment return net of related DAC amortisation excluded the net equity hedge accounting effect of negative £367 million (2009: negative effect of £159 million) reflecting the treatment following a change in the presentation of operating profit based on longer-term investment returns in 2010 as previously described.

In the UK business, total IFRS operating profit based on longer-term investment returns grew by nine per cent to £719 million in 2010 reflecting higher retail profits and the bulk annuity transaction agreed in the last quarter of 2010. Profit from UK general insurance commission decreased by £5 million to £46 million in 2010 in line with the decline in the in-force policy numbers as the business matures.

Asset management business

Total operating profit based on longer-term investment returns for 2011 from M&G (including Prudential Capital) was £357 million, an increase of 26 per cent from £284 million in 2010. This performance is driven by improved revenues reflecting the strong net inflows received in recent periods, with funds under management of £201 billion at 31 December 2011, compared with £198 billion at 31 December 2010, together with a continued focus on cost discipline which saw a 3 percentage point reduction in the cost/income ratio.

Eastspring Investments reported operating profits based on longer-term investment returns of £80 million, an increase of 11 per cent from the £72 million recognised in 2010. This improvement is driven both by increased operating revenues from higher average funds under management during 2011 and continued cost discipline resulting in a 2 percentage point improvement in the cost/income ratio.

M&G's operating profit based on longer-term investment returns for 2010 was £284 million, an increase of 19 per cent from £238 million in 2009, primarily reflecting the continuation of exceptionally strong net inflows, including increased sales of higher margin equity products, and higher equity market levels. In 2010, M&G had net inflows of £9.1 billion, the second highest annual level of flows after 2009.

The Asian asset management operations reported operating profit based on longer-term investment returns for 2010 of £72 million, up by 31 per cent from £55 million in 2009, driven by increased operating revenues as a result of higher funds under management (FUM). Strong net inflows for retail and institutional business of £1.8 billion together with positive market and currency movements have contributed to a 22 per cent increase in FUM (including internal funds) to £52 billion at the end of 2010.

Unallocated corporate result

Operating loss based on longer term investment results for 2011 of £512 million comprised of a charge for other income and expenditure of £483 million, Solvency II implementation costs of £55 million, restructuring costs of £16 million and £42 million one-off credit explained below.

Operating loss based on longer term investment results for 2010 of £521 million comprised a charge for other income and expenditure of £450 million, Solvency II implementation costs of £45 million and restructuring costs of £26 million. Operating profit based on longer-term investment returns for 2009 of £418 million comprised a charge for other income and expenditure of £395 million and restructuring costs of £23 million.

Following the UK Government's decision to change the basis of indexation from RPI to CPI, the Group altered its assumptions for future statutory increases to pension payments for its UK defined benefit pension schemes. This resulted in a one-off credit to operating profit of £42 million in 2011 and will not recur going forward.

A total of £55 million of Solvency II implementation costs were incurred in 2011 (2010: £45 million) as Prudential moves closer to the implementation of the new regime.

The £33 million increase in the charge for other income and expenditure from £450 million in 2010 to £483 million in 2011 primarily reflects an increase in interest payable on core structural borrowings, following additional debt raised in January 2011 to repay debt in December 2011.

The £55 million increase in the charge for other income and expenditure from £395 million in 2009 to £450 million in 2010 primarily reflects an increase in interest payable on core structural borrowings.

Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver

This information classifies the Group's pre-tax operating earnings from long-term insurance operations into the underlying drivers of those profits, using the following categories:

(i) **Spread income** represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to policyholder accounts. It excludes the longer-term investment return on assets in excess of those covering shareholder-backed policyholder liabilities, which has been separately disclosed as **expected return on shareholder assets**.

(ii) **Fee income** represents profits driven by net investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses.

(iii) **With-profits** business represents the shareholders' transfer from the with-profits fund in the period.

(iv) **Insurance margin** primarily represents profits derived from the insurance risks of mortality, morbidity and persistency.

(v) **Margin on revenues** primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses.

(vi) **Acquisition costs and administration expenses** represent expenses incurred in the period attributable to shareholders. It excludes items such as restructuring costs and Solvency II costs which are not included in the segment profit for insurance as well as items that are more appropriately included in other source of earnings lines (eg investment expenses are netted off investment income as part of spread income or fee income as appropriate).

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(vii)

DAC adjustments comprises DAC amortisation for the period, excluding amounts related to short-term fluctuations, net of costs deferred in respect of new business.

Analysis of pre-tax IFRS operating profit by source

	2011				
	Asia	**US**	**UK**	**Unallocated**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Spread income	**88**	**730**	**247**		**1,065**
Fee income	**131**	**680**	**59**		**870**
With-profits	**38**		**293**		**331**
Insurance margin	**477**	**232**	**27**		**736**
Margin on revenues	**1,199**		**226**		**1,425**
Expenses					
Acquisition costs	**(766)**	**(890)**	**(127)**		**(1,783)**
Administration expenses	**(503)**	**(412)**	**(128)**		**(1,043)**
DAC adjustments	**14**	**271**	**(5)**		**280**
Expected return on shareholder assets	**26**	**83**	**91**		**200**
Long-term business operating profit	**704**	**694**	**683**		**2,081**
Asset management operating profit	**80**	**24**	**357**		**461**
GI commission			**40**		**40**
RPI to CPI inflation measure change on defined benefit pension schemes				**42**	**42**
Other income and expenditure*				**(554)**	**(554)**
Total operating profit based on longer-term investment returns	**784**	**718**	**1,080**	**(512)**	**2,070**

* Including restructuring and Solvency II implementation costs.

	2010**				
	Asia	**US**	**UK**	**Unallocated**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Spread income	70	692	251		1,013
Fee income	122	506	60		688
With-profits	32		310		342
Insurance margin	392	188	12		592
Margin on revenues	1,018		194		1,212
Expenses					
Acquisition costs	(656)	(851)	(138)		(1,645)
Administration expenses	(467)	(344)	(113)		(924)
DAC adjustments	2	517	(1)		518
Expected return on shareholder assets	19	125	98		242
Long-term business operating profit	532	833	673		2,038
Asset management operating profit	72	22	284		378
GI commission			46		46
Other income and expenditure*				(521)	(521)

Total operating profit based on longer-term investment returns	604	855	1,003	(521)	1,941

*
Including restructuring and Solvency II implementation costs.

**
Following the reduction in 2010 of the Group's interest in the PruHealth and PruProtect businesses from 50 per cent to 25 per cent, the profits of these businesses have been shown as a single line in the insurance margin line in 2011, consistent with associate accounting principles. 2010 and 2009 have been amended in light of this change.

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	2009**				
	Asia	US	UK	Unallocated	Total
	£m	£m	£m	£m	£m
Spread income	31	524	198		753
Fee income	80	324	54		458
With-profits	29		281		310
Insurance margin	253	154	41		448
Margin on revenues	766		252		1,018
Expenses					
Acquisition costs	(605)	(690)	(169)		(1,464)
Administration expenses	(382)	(259)	(173)		(814)
DAC adjustments	150	467	(3)		614
Expected return on shareholder assets	25	98	125		248
Non-recurrent release of reserves for Malaysia life operations	63				63
Long-term business operating profit	410	618	606		1,634
Asset management operating profit	55	4	238		297
GI commission			51		51
Other income and expenditure*				(418)	(418)
Total operating profit based on longer-term investment returns	465	622	895	(418)	1,564

* Including restructuring and Solvency II implementation costs.

** Following the reduction in 2010 of the Group's interest in the PruHealth and PruProtect businesses from 50 per cent to 25 per cent, the profits of these businesses have been shown as a single line in the insurance margin line in 2011, consistent with associate accounting principles. 2010 and 2009 have been amended in light of this change.

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Margin analysis of long-term insurance business

The following analysis expresses certain of the Group's sources of operating profit as a margin of policyholder liabilities or other suitable driver. Details of the Group's average policyholder liability balances are given in D2(c), D3(c) and D4(c) in the consolidated financial statements in Item 18.

	Total								
	2011			2010***			2009***		
Long-term business	**Profit**	**Average Liability***	**Margin**	**Profit**	**Average Liability***	**Margin**	**Profit**	**Average Liability***	**Margin**
	£m	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**1,065**	**57,417**	**185**	1,013	53,894	188	753	49,655	152
Fee income	**870**	**68,298**	**127**	688	56,822	121	458	41,754	110
With-profits	**331**	**93,056**	**36**	342	89,693	38	310	84,063	37
Insurance margin	**736**			592			448		
Margin on revenues	**1,425**			1,212			1,018		
Expenses									
Acquisition costs**	**(1,783)**	**3,681**	**(48)%**	(1,645)	3,492	(47)%	(1,464)	2,896	(51)%
Administration expenses	**(1,043)**	**125,715**	**(83)**	(924)	110,716	(83)	(814)	91,409	189
DAC adjustments	**280**			518			614		
Expected return on shareholder assets	**200**			242			248		
Non-recurrent release of reserve for Malaysia Life							63		
Operating profit based on longer-term returns	**2,081**			2,038			1,634		

* The average liability balance is generally calculated as the average of the opening and closing liability balances as this is seen as a good proxy for average balances throughout the year. Given the volatility in the year, the calculation of average liabilities has been refined for Jackson in two ways: (i) the average for both the general and the separate account balances is now derived from month-end balances throughout the year as opposed to opening and closing balances only, and (ii) liabilities held in the general account for variable annuity living and death guaranteed benefits have been excluded from the calculation of the average as no spread income is earned on these balances. The 2010 and 2009 balances for Jackson have been amended for consistency.

** The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales and Japan. Acquisition costs include only those relating to shareholders. APE is defined under the section "EEV Basis and New Business Results" in Item 3 of this annual report.

*** Following the reduction in 2010 of the Group's interest in the PruHealth and PruProtect businesses from 50 per cent to 25 per cent, the profits of these businesses have been shown as a single line in the insurance margin line consistent with associate accounting principles. The UK's 2010 and 2009 analyses have been amended in light of this change.

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Long-term business	Asia 2011 Profit	2011 Average Liability	2011 Margin	2010 Profit	2010 Average Liability	2010 Margin	2009 Profit	2009 Average Liability	2009 Margin
	£m	£m	bps	£m	£m	bps	£m	£m	bps
Spread income	**88**	**5,623**	**157**	70	4,393	159	31	3,152	98
Fee income	**131**	**12,370**	**106**	122	11,222	109	80	8,107	99
With-profits	**38**	**11,775**	**32**	32	10,135	32	29	8,371	35
Insurance margin	**477**			392			253		
Margin on revenues	**1,199**			1,018			766		
Expenses									
Acquisition costs*	**(766)**	**1,660**	**(46)%**	(656)	1,508	(44)%	(605)	1,261	(48)%
Administration expenses	**(503)**	**17,993**	**(280)**	(467)	15,615	(299)	(382)	11,259	(339)
DAC adjustments	**14**			2			150		
Expected return on shareholder assets	**26**			19			25		
Non-recurrent release of reserve for Malaysia Life							63		
Operating profit based on longer-term returns	**704**			532			410		

* The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales and Japan. Acquisition costs include only those relating to shareholders. APE is defined under the section "EEV Basis and New Business Results" in Item 3 of this annual report.

Analysis of Asian IFRS operating profit drivers

Spread income has increased by £18 million from £70 million in 2010 to £88 million in 2011, an increase of 26 per cent that predominantly reflects the growth of the Asian non-linked policyholder liabilities. The increase from £31 million in 2009 to £70 million in 2010 arose primarily as a result of improved investment return in Vietnam (where the return in 2009 was particularly low compared to 2010) and additional dividend income received in Japan.

Fee income has increased by £9 million from £122 million in 2010 to £131 million in 2011, broadly in line with the movement in unit-linked liabilities following continued positive net flows into unit-linked business. The increase by £42 million from £80 million in 2009 to £122 million in 2010 primarily related to higher average policyholder liabilities and a higher margin compared to 2009. This principally reflected a change in mix towards those countries with a higher asset management fee margin (eg Indonesia) from countries where fees charged are lower.

Insurance margin has increased by £85 million from £392 million in 2010 to £477 million in 2011 and by £139 million from £253 million recognised in 2009 to £392 million in 2010 predominantly reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products. 2011 includes £38 million (2010: £19 million) of non-recurring items reflecting assumption changes and other items that are not expected to reoccur in future periods.

Margin on revenues has increased by £181 million to £1,199 million in 2011 (2010: increased by £252 million) reflecting the on-going growth in the size of the portfolio. During 2011 the new business mix has moved towards those countries that levy higher premium charges (eg Indonesia).

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Acquisition costs have increased by 17 per cent from £656 million in 2010 to £766 million in 2011, ahead of the 10 per cent increase in sales. This trend is distorted by the changes in country mix, particularly by the reduction of sales in India. Excluding India, acquisition costs were 21 per cent higher compared to an 18 per cent increase in sales. The analysis above use shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominator the acquisition cost ratio would become 59 per cent (2010: 53 per cent). (Excluding India 2011: 61 per cent, 2010: 58 per cent). Acquisition costs in 2010 increased by £51 million to £656 million compared to the £605 million incurred in 2009. This principally reflects higher liabilities with the cost as a percentage of APE new business sales falling from 48 per cent in 2009 to 44 per cent in 2010. Excluding with-profit sales from the denominator, this ratio becomes 53 per cent in 2010 (2009: 56 per cent).

Administration expenses have increased from £467 million in 2010 to £503 million in 2011. The administration expense ratio has improved from 299 bps in 2010 to 280 bps in 2011 (and from 339 bps in 2009 to 229 bps in 2010) as Prudential continues to see the benefits of operational leverage.

	US								
	2011			2010			2009		
Long-term business	**Profit**	**Average Liability***	**Margin**	**Profit**	**Average Liability***	**Margin**	**Profit**	**Average Liability***	**Margin**
	£m	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**730**	**28,274**	**258**	692	28,532	243	524	29,248	179
Fee income	**680**	**34,452**	**197**	506	25,247	200	324	17,589	184
With-profits									
Insurance margin	**232**			188			154		
Margin on revenues									
Expenses									
Acquisition costs**	**(890)**	**1,275**	**(70)%**	(851)	1,164	(73)%	(690)	912	(76)%
Administration expenses	**(412)**	**62,726**	**(66)**	(344)	53,779	(64)	(259)	46,837	(55)
DAC adjustments	**271**			517			467		
Expected return on shareholder assets	**83**			125			98		
Operating profit	**694**			833			618		

* The average liability balance is generally calculated as the average of the opening and closing liability balances as this is seen as a good proxy for average balances throughout the year. Given the volatility in the year, the calculation of average liabilities has been refined for Jackson in two ways: (i) the average for both the general and the separate account balances is now derived from month-end balances throughout the year as opposed to opening and closing balances only, and (ii) liabilities held in the general account for variable annuity living and death guaranteed benefits have been excluded from the calculation of the average as no spread income is earned on these balances. The 2010 and 2009 balances have been amended for consistency.

** The ratio for acquisition costs is calculated as a percentage of total APE. APE is as defined under the section "EEV Basis and New Business Results" in Item 3 of this annual report.

Analysis of US IFRS operating profit drivers

Spread income benefited by £113 million in 2011 from the effect of transactions entered into in 2011 and 2010 to more closely match the overall asset and liability duration (2010: £108 million). Excluding this effect, the spread margin would have been 218 bps (2010: 205 bps). The reported spread margin increased from 188 bps in 2009 to 243 bps in 2010 to 258 bps in 2011. This is despite the downward pressure on yields caused by the low interest rate environment, the effect

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of which continues to be mitigated by reductions in crediting rates. The increase in 2010 over the 2009 margin of 179 bps is due in part to decreased crediting rates on fixed annuities.

Fee income has increased from £324 million in 2009 to £506 million in 2010 to £680 million in 2011, broadly in line with the growth in separate account balances. The growth in account balances between 2009 and 2011 reflected the strong net flows from variable annuity business and improving equity markets.

Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Positive net flows into variable annuity business with life contingent and other guarantee fees have primarily resulted in an improvement in the margin from £154 million in 2009 to £188 million in 2010 to £232 million in 2011.

Acquisition costs have increased in absolute terms over the period 2009 to 2011 due largely to the significant increase in sales volumes. However, acquisition costs as a percentage of total APE is slightly lower at 70 per cent in 2011 (as compared to 2010), with the decrease attributable to a reduced rate of marketing costs and lower average commissions.

Administration expenses increased to £412 million in 2011 compared to £344 million in 2010, primarily as a result of higher asset based commission paid on the larger 2011 separate account balance. These asset based commissions paid upon policy anniversary dates are treated as an administration expense in this analysis as opposed to a cost of acquisition and are offset by higher fees. The administration cost was marginally higher at 66 bps (2010: 64 bps). Excluding trail commission amounts, the resulting administration expense ratio would be 46 bps (2010: 48 bps).
Administration expenses margin increased from 59 bps in 2009 to 64 bps in 2010 as a result of higher asset based commission.

DAC adjustments decreased by £246 million to £271 million in 2011 compared to £517 million in 2010. This mainly reflects additional DAC amortisation of approximately £166 million related to the reversal of the benefit received in 2008 from the mean reversion formula as well as accelerated DAC amortisation of £66 million as separate account returns were lower than 2010.

	UK								
	2011			2010**			2009		
Long-term business	**Profit**	**Average Liability**	**Margin**	**Profit**	**Average Liability**	**Margin**	**Profit**	**Average Liability**	**Margin**
	£m	**£m**	**bps**	**£m**	**£m**	**bps**	**£m**	**£m**	**bps**
Spread income	**247**	**23,520**	**105**	251	20,969	120	198	18,600	106
Fee income	**59**	**21,476**	**27**	60	20,353	29	54	17,677	31
With-profits	**293**	**81,281**	**36**	310	79,558	39	281	75,692	37
Insurance margin	**27**			12			41		
Margin on revenues	**226**			194			275		
Expenses									
Acquisition costs*	**(127)**	**746**	**(17)%**	(138)	820	(17)%	(192)	723	(27)%
Administration expenses	**(128)**	**44,996**	**(28)**	(113)	41,322	(27)	(173)	36,277	(48)
DAC adjustments	**(5)**			(1)			(3)		
Expected return on shareholder assets	**91**			98			125		
Operating profit	**683**			673			606		

*

The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales. Acquisition costs include only those relating to shareholders. APE is as defined under the section "EEV Basis and New Business Results" in Item 3 of this annual report.

**

Following the reduction in 2010 of the Group's interest in the PruHealth and PruProtect businesses from 50 per cent to 25 per cent, the profits of these businesses have been shown as a single line in the insurance margin line in 2011, consistent with associate accounting principles. 2010 and 2009 have been amended in light of this change.

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Analysis of UK IFRS operating profit drivers

Spread income in 2011 remains broadly unchanged from 2010 at £247 million (2010: £251 million). The margin has fallen from 120 bps to 105 bps principally due to 2010 benefiting from higher bulk annuity sales, partly offset by the benefit of portfolio restructuring undertaken in the year and higher yields being achieved on new individual annuity business. 2011 margin is comparable to the 2009 margin of 106 bps.

Insurance margin has increased from £12 million in 2010 to £27 million in 2011, principally driven by an improvement in the profitability of PruHealth and PruProtect. 2009 insurance margin of £41 million included a one-off benefit of £34 million in respect of a longetivity swap on certain aspects of the UK's annuity back-book liabilities, which was not repeated in subsequent years.

Margin on revenues represents premiums charges for expenses and other sundry net income received by the UK. Higher amounts were recorded in 2011 (£226 million) and 2009 (£252 million) compared to 2010 (£194 million) primarily reflecting higher sundry income in 2011 and higher premiums from shareholder-backed retail business in 2011 and 2009 as compared to 2010.

Acquisition costs as a percentage of new business sales in 2011 has remained constant with 2010 at 17 per cent.

The fall in the acquisition cost ratio in 2010 (17 per cent) as compared to 2009 (23 per cent) is due in part to the impact of the bulk annuity deal in 2010, which has a relatively low level of acquisition costs, together with the closure of equity release to new business as well as ongoing cost saving initiatives.

The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. It is therefore impacted by the level of with-profit sales in the year. Acquisition costs as a percentage of shareholder-backed new business sales were 33 per cent in 2011 (30 per cent in 2010 and 43 per cent in 2009), due in part to the beneficial effect in 2010 of the higher level of bulk annuity transactions, which had a relatively modest level of acquisition costs.

Administration expenses have increased by £15 million to £128 million in 2011 primarily as a result of increased project expenditure, resulting in a marginally higher administration expense ratio of 28 bps in 2011 (2010: 27 bps). From 2009 to 2010, administration expenses fell by £60 million to £113 million and the ratio from 48 bps in 2009 to 27 bps in 2010. This was primarily the result of cost savings initiatives initiated by the UK insurance operations in line with the business' stated objectives.

Expected return on shareholder asset has fallen from £98 million in 2010 to £91 million in 2011 following a reduction in assumed longer-term yields on assets backing shareholder capital.

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Asian operations analysis of operating profit by territory

Operating profit based on longer-term investment returns for Asian operations are analysed as follows:

	2011	2010	2009
	£m	£m	£m
China	**11**	5	4
Hong Kong	**69**	51	48
India	**43**	24	12
Indonesia	**212**	157	102
Japan	**2**	(6)	(18)
Korea	**17**	12	6
Malaysia			
underlying results	**104**	97	65
exceptional credit note (iv)			63
Philippines	**5**	2	2
Singapore	**167**	129	112
Taiwan bancassurance business note (v)	**1**	(4)	(7)
Thailand	**4**	2	(1)
Vietnam	**35**	43	30
Other	**1**	5	(2)
Non-recurrent items note (iii)	**38**	19	
Total insurance operations note (i)	**709**	536	416
Development expenses	**(5)**	(4)	(6)
Total long-term business operating profit	**704**	532	410
Eastspring Investments	**80**	72	55
Total Asian operations	**784**	604	465

Notes

Notes

(i) Analysis of operating profit between new and in-force business

(ii) The result for insurance operations comprises amounts in respect of new business and business in force as follows:

	2011	2010	2009
	£m	£m	£m
New business strain (excluding Japan)	**(54)**	**(56)**	(72)
Japan		**(1)**	(6)
New business strain (including Japan)	**(54)**	**(57)**	(78)

Business in force	**763**	**593**	494
Total	**709**	**536**	416

(iii)

Non-recurrent items of £38 million (2010: £19 million) represents a small number of items that are not anticipated to reoccur in subsequent periods.

(iv)

For the Malaysia life business, under the basis applied prior to 2009, IFRS basis liabilities were determined on the local regulatory basis using prescribed interest rates such that a high degree of prudence resulted. As of 1 January 2009, the local regulatory basis was replaced by the Malaysian authority's risk-based capital (RBC) framework. In the light of this development; the Company re-measured the liabilities by reference to the method applied under the new RBC framework, which is more realistic than the previous approach, but with an overlay constraint to the method such that negative reserves derived at an individual policyholder level are not included. This change resulted in a one-off release from liabilities at 1 January 2009 of £63 million.

(v)

In order to facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the Taiwan agency business for which the sale process was completed in June 2009 were excluded from analysis of operating profit.

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The strain reflects the aggregate of the pre-tax regulatory basis strain to net worth after IFRS adjustments for deferral of acquisition costs and deferred income where appropriate.

Analysis of asset management operating profit based on longer-term investment returns

	2011				
	M&G(i)	Eastspring Investments(i)	PruCap	US	Total
	£m	£m	£m	£m	£m
Operating income before performance-related fees	**706**	**196**	**122**	**249**	**1,273**
Performance-related fees	**21**	**6**			**27**
Operating income*	**727**	**202**	**122**	**249**	**1,300**
Operating expense	**(426)**	**(122)**	**(66)**	**(225)**	**(839)**
Operating profit based on longer-term investment returns	**301**	**80**	**56**	**24**	**461**
Average funds under management (FUM)**	**199.8 bn**	**51.1 bn**			
Margin based on operating income**	**36 bps**	**40 bps**			
Cost/income ratio***	**60%**	**62%**			

	2010				
	M&G(i)	Eastspring Investments(i)	PruCap	US	Total
	£m	£m	£m	£m	£m
Operating income before performance-related fees	615	185	88	229	1,117
Performance-related fees	17	6			23
Operating income*	632	191	88	229	1,140
Operating expense	(386)	(119)	(50)	(207)	(762)
Operating profit based on longer-term investment returns	246	72	38	22	378
Average funds under management (FUM)**	186.5 bn	47.2 bn			
Margin based on operating income**	34 bps	40 bps			
Cost/income ratio***	63%	64%			

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	2009				
	M&G(i)	Eastspring Investments(i)	PruCap	US	Total
	£m	£m	£m	£m	£m
Operating income before performance-related fees	470	157	89	183	899
Performance-related fees	12	3			15
Operating income*	482	160	89	183	914
Operating expense	(305)	(105)	(28)	(179)	(617)
Operating profit based on longer-term investment returns	177	55	61	4	297
Average funds under management (FUM)**	157.5 bn	39.6 bn			
Margin based on operating income**	31 bps	40 bps			
Cost/income ratio***	65%	67%			

Notes

Notes

(i)

M&G and Eastspring Investments can be further analysed as follows:

	M&G Operating income*					
	Retail	Margin of FUM**	Institu-tional	Margin of FUM**	Total	Margin of FUM**
	£m	bps	£m	bps	£m	bps
2011	**416**	**96**	**311**	**20**	**727**	**36**
2010	345	93	287	19	632	34
2009	255	102	227	17	482	31

	Eastspring Investments Operating income*					
	Retail	Margin of FUM**	Institu-tional+	Margin of FUM**	Total	Margin of FUM**
	£m	bps	£m	bps	£m	bps
2011	**120**	**64**	**82**	**25**	**202**	**40**
2010	120	62	71	26	191	40
2009	98	60	62	27	160	40

*

Operating income is net of commissions and includes performance-related fees, and for M&G carried interest on private equity investments.

**

Margin represents operating income as a proportion of the related funds under management (FUM). Opening and closing internal and external funds managed by the respective entity have been used to derive the average. Any funds held by the Group's insurance operations which are managed by third parties outside of the Prudential Group are excluded from these amounts.

***

Cost/income ratio is calculated as cost as a percentage of income excluding performance-related fees.

Institutional includes internal funds.

As noted above, the margins on operating income are based on the average of the opening and closing FUM balances. For M&G, if a monthly average FUM had been used, the retail margins would have been 95 bps for 2011 and 2010.

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Charge for short-term fluctuations in investment returns

In calculating the operating profit based on longer-term investment returns, longer-term investment return assumptions are used rather than actual investment returns arising in the year. The difference between actual investment returns recorded in the income statement and longer-term returns is shown in the analysis of profits as short-term fluctuations in investment returns.

Short-term fluctuations in investment returns for the Group's insurance operations comprise negative £92 million for Asia, negative £95 million for US operations and positive £159 million in the UK.

The negative short-term fluctuations of £92 million for Prudential's Asian operations in part reflects equity market falls in Taiwan and a partial reversal of unrealised gains recognised in prior years on the Group's investment in China Life Insurance Company of Taiwan.

Negative fluctuations of £95 million arising in Prudential's US operation comprise negative £183 million from short-term fluctuations offset by positive £88 million relating to Jackson's debt securities portfolio. These gains arise as a result of a high level of realised investment gains in 2011, following management's credit risk reduction programme.

The positive short-term fluctuations of £159 million for Prudential's UK operations principally reflect net valuation gains arising in the period on fixed income assets backing the capital of the shareholder-backed annuity business.

Short-term fluctuations for other operations were negative £120 million representing unrealised losses on investments, principally on centrally held swaps to manage foreign exchange and certain macro-economic exposures of the Group.

In 2010, short-term fluctuations in investment returns of negative £123 million comprised positive £114 million for Asia, negative £378 million for US operations, positive £116 million in the UK and positive £25 million for other operations.

The positive short-term fluctuations of £114 million in 2010 for Prudential's Asian operations primarily reflected unrealised gains on the shareholder debt portfolio, as well as a £30 million unrealised gain on the Group's 8.66 per cent stake in China Life Insurance Company of Taiwan.

The negative short-term fluctuations of £378 million in 2010 for Prudential's US operations principally arose on derivative and embedded derivative value movements. They included the negative net equity hedge accounting effect (net of related DAC amortisation)[(14)] of £367 million. The strong rise in the S&P Index in the last quarter of 2010 resulted in fair value reductions in the free-standing derivatives backing the guarantees embedded in Jackson's variable and fixed index annuity products. As a substantial proportion of these guarantees are not fair valued for accounting purposes, there is insufficient accounting offset to these value movements. Other US short-term fluctuations were negative £11 million.

The positive short-term fluctuations of £116 million in 2010 for Prudential's UK operations reflect principally value movements on fixed income assets backing the capital of the shareholder-backed annuity business, brought about by the falls in yields during 2010.

Short-term fluctuations in investment returns for other operations in 2010 were positive £25 million and mainly represent unrealised appreciation on Prudential Capital's debt securities portfolio offset by unrealised value movements on centrally held derivatives.

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(14) Based on longer-term equity volatility and interest rate assumptions.

In 2009, short-term fluctuations of negative £123 million comprised a positive £7 million relating to insurance operations offset by a negative £130 million in respect of other operations and represented a significant increase over the negative short-term fluctuations of £1,650 million recognised in 2008.

Short-term fluctuations in investment returns for insurance operations of positive £1 million in 2009 comprised £31 million for Asia, negative £132 million for US operations and £108 million in the UK.

The positive short-term fluctuations of £31 million for Asian insurance operations in 2009 primarily reflected strong market performance in Taiwan and Japan partially offset by the impact of unrealised losses on the debt securities portfolio in Vietnam.

The short-term fluctuations of negative £132 million for US insurance operations in 2009 comprised negative £414 million in respect of debt securities, negative £159 million for the equity hedge accounting effect(15) positive £385 million for market value movements on the free-standing derivatives used to manage the fixed annuity and other general account business and positive £56 million of other items. The negative £414 million for debt securities reflected the levels of realised gains and losses (including write-downs) in excess of the allowance for longer-term defaults and amortisation of interest-related gains included in the operating result adjusted for associated deferred acquisition costs.

The positive short-term fluctuations of £108 million for UK insurance operations in 2009 reflected principally value movements on the assets backing the capital of the shareholder-backed annuity business.

For other operations, the principal component of short-term fluctuations in investment returns in 2009 of negative £130 million was a one-off £235 million cost arising from the hedge temporarily put in place during the first quarter, to protect Prudential IGD capital surplus in the light of exceptional market conditions. During the severe equity market conditions experienced in the first quarter of 2009, coupled with historically high equity volatility, Prudential entered into exceptional short-dated hedging contracts to protect against potential tail-events on the IGD capital position, in addition to its regular operational hedging programs. The residual short-term fluctuations in investment returns for other operations of positive £105 million included £66 million for unrealised appreciation on Prudential Capital's debt securities portfolio and £28 million on swaps held centrally to manage Prudential's assets and liabilities.

Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes

The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes of positive £21 million mainly reflects favourable experience in the year in respect of the Scottish Amicable scheme combined with the impact of assumption changes, primarily from lower inflation and lower expected salary increases, applied to the liabilities of both the Scottish Amicable and M&G schemes.

Costs of terminated AIA transaction

During 2010 Prudential incurred pre-tax costs in relation to the AIA transaction of £377 million. This comprises the termination break fee of £153 million, the costs associated with foreign exchange hedging of £100 million, underwriting fees of £58 million and adviser and other fees totaling £66 million. After expected tax relief, the post-tax cost is £284 million.

Gain on dilution of holding in PruHealth

On 1 August 2010, Discovery Holdings of South Africa, the Group's joint venture partner in its investment in PruHealth, completed the acquisition of the entire share capital of Standard Life

(15) Based on longer-term equity volatility and interest rate assumptions.

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Healthcare, a wholly-owned subsidiary of the Standard Life Group, for £138 million. Discovery funded the purchase of the Standard Life Healthcare transaction, and contributed Standard Life Healthcare to PruHealth as a capital investment on completion. As a result of the transaction, Discovery have increased their shareholding in PruHealth from the previous level of 50 per cent to 75 per cent, and Prudential's shareholding reduced from 50 per cent of the previous joint venture structure to 25 per cent of the new structure of the much enlarged business.

As a result of this dilution in holding and the consequential loss of control, PruHealth has been reclassified from a joint venture to an associate and the entity is no longer proportionally consolidated from the date of the transaction. In accordance with IAS 31 'Interests in joint ventures' a gain of £30 million arose in 2010 upon the dilution, representing the difference between the fair value of the enlarged 25 per cent investment still held and the IFRS book value of the original 50 per cent investment holding.

Sale of Taiwan agency business

On 20 February 2009 Prudential announced its agreement to transfer the assets and liabilities of the agency distribution business in Taiwan, including the capital consuming in-force book, to China Life Insurance Limited (Taiwan). The transaction completed on 19 June 2009 following regulatory approval being given on that day. The transfer resulted in a one-off negative pre-tax impact of £621 million in 2009. After allowing for tax, and other adjustments, the effect on shareholders' equity was negative £607 million. The overall size of loss reflected the carrying value of the IFRS equity of the business as applied in the calculation of the loss on sale and the application of 'grandfathered' US GAAP under IFRS 4 for insurance assets and liabilities. US GAAP does not and is not designed to include the costs of holding economic capital to support the legacy interest rate guaranteed products. The loss on sale reflected this element of the economic value. Separately, it is to be noted that under IFRS there was no recognition of the enhanced IGD capital surplus position arising on completion.

Effective tax rates

The effective rate of tax on operating profit based on longer-term investment returns was 22 per cent (2010: 11 per cent; 2009: 24 per cent). For 2010, adjusting the reported tax rate to exclude the exceptional tax credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities, the underlying tax rate operating profit was 19 per cent. The 2010 effective tax rate is lower than 2009 primarily due to 2010 benefiting from revisions to prior period tax returns in the UK and an increase in the proportion of income in Asia which attracts lower tax.

The effective rate of tax at the total IFRS profit level was 23 per cent (2010: 2 per cent). Adjusting the rate in 2010 to exclude the exceptional tax credit of £158 million gives an underlying tax rate at the total IFRS profit level of 13 per cent. In both 2011 and 2010, Prudential has benefited from a reduction in the main UK corporate tax rate from 28 per cent to 26.5 per cent. In 2010, and to a lesser extent in 2011, Prudential also benefited from utilising carried forward tax losses for which no deferred tax asset was previously established.

Earnings per share

	Earnings per share (EPS)			
	2011	**2010 Excluding exceptional tax credit(1)**	**2010 Including exceptional tax credit**	**2009**
	pence	**pence**	**pence**	**pence**
Basic EPS based on operating profit based on longer-term investment returns after tax and non-controlling interests	**63.9**	62.0	68.3	47.5
Basic EPS based on total profit after non-controlling interests	**58.8**		56.7	27.0

(i)

The exceptional tax credit in 2010 relates to a £158 million credit which primarily relates to the impact of a settlement agreed with the UK tax authorities.

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Explanation of Movements in Profits Before Shareholder Tax by Nature of Revenue and Charges

The following table shows Prudential's consolidated total revenue and consolidated total charges for the periods presented:

	2011	2010	2009
	£m	£m	£m
Gross premiums earned[(a)]	**25,706**	24,568	20,299
Outward reinsurance premiums	**(429)**	(357)	(323)
Earned premiums, net of reinsurance	**25,277**	24,211	19,976
Investment return[(b)]	**9,360**	21,769	26,889
Other income	**1,869**	1,666	1,234
Total revenue, net of reinsurance	**36,506**	47,646	48,099
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance[(c)]	**(29,289)**	(40,518)	(41,195)
Acquisition costs and other expenditure[(d)]	**(5,005)**	(4,799)	(4,572)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(286)**	(257)	(209)
Loss on sale of Taiwan agency business			(559)
Total charges, net of reinsurance	**(34,580)**	(45,574)	(46,535)
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)**	**1,926**	2,072	1,564
Tax credit (charge) attributable to policyholders' returns	**17**	(611)	(818)
Profit before tax attributable to shareholders	**1,943**	1,461	746
Tax charge	**(432)**	(636)	(873)
Less: tax attributable to policyholders' returns	**(17)**	611	818
Tax charge attributable to shareholders' returns**	**(449)**	(25)	(55)
Profit from continuing operations after tax	**1,494**	1,436	691
Discontinued operations (net of tax)***			(14)
Profit for the year	**1,494**	1,436	677

*
This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. The 2010 profit before tax is stated after £377 million of pre-tax costs of the terminated AIA transaction. See Note B1.

**
The 2010 tax charge attributable to shareholders' return included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

***

The 2009 charge of £14 million which was net of £nil tax, reflected completion adjustments for a previously disposed business.

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(a) Gross earned premiums

	Year Ended 31 December		
	2011	**2010**	**2009**
	(£ million)		
Asian Operations	**7,378**	6,380	5,345
US Operations	**12,650**	11,817	9,197
UK Operations	**5,678**	6,371	5,757
Total	**25,706**	24,568	20,299

Gross earned premiums for insurance operations totalled £25,706 million in 2011, up 5 per cent from £24,568 million in 2010. The increase of £1,138 million was driven by growth of £998 million in the Asian operations and £833 million in the US operations which were partially offset by a decrease of £693 million in the UK operations.

Gross earned premiums for insurance operations totaled £24,568 million in 2010, up 21 per cent from £20,299 million in 2009. The increase of £4,269 million was driven by growth of £2,620 million in the US operations; £1,035 million in the Asian operations and £614 million in the UK operations.

Asia

Gross earned premiums increased by 16 per cent from £6,380 million in 2010 to £7,378 million in 2011 and by 19 per cent from £5,345 million in 2009 to £6,380 million in 2010 . The premiums reflect the aggregate of single and recurrent premiums of new business sold in the year and premiums on annual business sold in previous years. The growth in earned premiums reflects increases for both factors.

Overall, Asia's life insurance industry saw a sharp recovery in new business volumes during 2010 as the markets moved beyond the 2008/2009 financial crisis. New business sales of the Group for the fourth quarter of 2010 was a new record representing an increase over the same period in 2009, which was already a record quarter. New business sales of the Group for 2011 was a record breaking high despite the more challenging external market conditions seen during the year.

Central to Prudential's success in Asia is distribution. Agency continues to be its largest distribution channel, consistent with our customers' preference for face-to-face contact when buying life, health and protection products. In addition, and in parallel, Prudential has a number of highly successful bancassurance partnerships across the region. Prudential's distribution through bank branches complements well its agency distribution and gives it a broader and more diversified footprint. These partnership agreements include regional relationships with international banks such as Standard Chartered, which this year was extended to an 11th country, the Philippines, and local banks such as E.Sun in Taiwan. 2011 has been the first full year in Prudential's relationship with UOB. Prudential has already extended its relationship beyond the three original markets of Singapore, Thailand and Indonesia to include Malaysia and China.

Prudential's product mix continues to reflect its ongoing focus on regular premium savings with protection.

United States

Gross earned premiums increased by 7 per cent from £11,817 million in 2010 to £12,650 million in 2011, driven principally by the increase in sales of new single variable annuity business and an addition of modest institutional sales partially offset by decreases in fixed annuity and fixed index annuity sales. For the variable annuity sales, Jackson continued to benefit from its customers' and distributors' flight to quality.

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Jackson's strategy continues to focus on balancing value, volume and capital consumption for its various annuity products. Jackson's product diversity allows the company to quickly adapt to changing market conditions and sustain appropriate sales levels in all phases of the business cycle. During the second half of 2011, sales slowed relative to the first half run rate due to proactive changes Jackson made to its product offerings and shifts in the competitive environment. During the third quarter, Jackson implemented various product initiatives to enhance product diversity and margins and further optimise the balance between growth, capital and profitability.

Gross earned premiums increased by 28 per cent from £9,197 million in 2009 to £11,817 million in 2010, driven principally by the increase in sales of new single variable annuity business. In 2010, Jackson continued to be innovative in its variable annuity product offerings, implementing various changes to increase sales, to comply with revised regulations or to enhance risk management flexibility and/or increase profitability.

While the equity markets rebounded in 2010, reaching two-year highs in December, and in light of continued volatility in US equity markets and historically low interest rates, customers continue to seek to mitigate equity risk while receiving an acceptable return through the purchase of variable annuities with guaranteed living benefits. Jackson is a beneficiary of this trend while being well placed to benefit from the huge wave of baby boomers starting to retire, as they increasingly use variable annuities to structure their retirement income. The significant increase in variable annuity sales in 2010 over 2009 was partially offset by decreases in the fixed annuity sales as customer demand for the products fell due to the continued low interest rate environment and the decrease in the fixed index annuity sales as Jackson focused its marketing efforts on the higher margin variable annuity products.

United Kingdom

Gross earned premiums for UK operations decreased from £6,371 million in 2010 to £5,678 million in 2011 primarily reflecting lower bulk annuities in 2011 with total new business premiums of £336 million compared to a total of £945 million in 2010, reductions in the sales of individual annuities as Prudential UK continues proactively to manage the flow of external conventional new business to control capital consumption and reductions in premiums for annual business sold in prior years. These decreases are partially offset by increase in sales of with-profits bonds. During 2011, Prudential UK reintroduced PruFund Protected Growth Fund, with a range of guarantees added to both the Growth and Cautious funds. The PruFund range comprised 74 per cent of with-profits bond sales.

Gross earned premiums increased by 11 per cent from £5,757 million in 2009 to £6,371 million in 2010 primarily reflecting a bulk annuity buy-in insurance agreement with total new business premiums of £885 million signed in the fourth quarter of 2010, increase in the sales of with-profits bonds partially offset by reductions in premiums for annual business sold in prior years.

The above performance is a reflection of Prudential UK's strategy to allocate capital to opportunities that play to the core strengths of the business rather than pursuing top-line sales growth.

(b) Investment return

	Year Ended 31 December		
	2011	**2010**	**2009**
	(£ million)		
Asian Operations	**285**	2,747	4,431
US Operations	**1,448**	4,577	5,138
UK Operations	**7,732**	14,560	17,786
Unallocated corporate and intragroup elimination	**(105)**	(115)	(466)
Total	**9,360**	21,769	26,889

Investment return principally comprises interest income, dividends, investment appreciation/depreciation (realised and unrealised gains and losses) on investments designated as fair value through profit and loss and realised gains and losses, including impairment losses, on Jackson's debt securities designated as available-for-sale. Movements in unrealised appreciation/depreciation of Jackson's debt securities designated as available-for-sale are not reflected in investment return but are recorded in other comprehensive income.

Allocation of investment return between policyholders and shareholders

Investment return is attributable to policyholders and shareholders. A key feature of the accounting policies under IFRS is that the investment return included in the income statement relates to all investment assets of the Group, irrespective of whether the return is attributable to shareholders, or to policyholders or the unallocated surplus of with-profits funds, the latter two of which have no net impact on shareholders' profit. The table below provides a breakdown of the investment return for each regional operation attributable to each type of business.

	Year Ended 31 December		
	2011	2010	2009
	(£ million)		
Asian operations			
Policyholder returns			
Assets backing unit-linked liabilities	**(812)**	1,279	2,539
With-profits business	**756**	1,039	1,519
	(56)	2,318	4,058
Shareholder returns	**341**	429	373
Total	**285**	2,747	4,431
US operations			
Policyholder returns			
Assets held to back (separate account) unit-linked liabilities	**(869)**	3,520	3,760
Shareholder returns			
Realised gains and losses (including impairment losses on available-for-sale bonds)	**(238)**	21	(529)
Value movements on derivative hedging programme for general account business	**841**	20	340
Interest/dividend income and value movements on other financial instruments for which fair value movements are booked in the income statement	**1,714**	1,016	1,567
	2,317	1,057	1,378
Total	**1,448**	4,577	5,138
UK operations			
Policyholder returns			
Scottish Amicable Insurance Fund (SAIF)	**321**	1,075	1,438
Assets held to back unit-linked liabilities	**208**	2,119	2,947
With-profits fund (excluding SAIF)	**4,094**	8,815	10,461
	4,623	12,009	14,846
Shareholder returns			
Prudential Retirement Income Limited (PRIL)	**2,153**	1,717	1,827
Other business	**956**	834	1,113
	3,109	2,551	2,940
Total	**7,732**	14,560	17,786
Unallocated corporate			
Shareholder returns	**(105)**	(115)	(466)
Group Total			
Policyholder returns	**3,698**	17,847	22,664
Shareholder returns	**5,662**	3,922	4,225

Total	**9,360**	21,769	26,889

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Policyholder returns

The returns as shown in the table above, are delineated between those returns allocated to policyholders and those allocated to shareholders. In making this distinction, returns allocated to policyholders are those from investments in which shareholders have no direct economic interest, namely:

- unit-linked business in the UK, Asia and SAIF in the UK, for which the investment return is wholly attributable to policyholders;

- separate account business of US operations, the investment return of which is also wholly attributable to policyholders; and

- with-profits business (excluding SAIF) in the UK and Asia (in which the shareholders' economic interest, and the basis of recognising IFRS basis profits, is restricted to a share of the actuarially determined surplus for distribution (in the UK 10 per cent)). Except for this surplus the investment return of the with-profit funds is attributable to policyholders (through the asset-share liabilities) or the unallocated surplus, which is accounted for as a liability under IFRS 4.

The investment return related to the types of business above does not impact shareholders' profits directly. However, there is an indirect impact, for example, investment-related fees or the effect of investment return on the shareholders' share of the cost of bonuses of with-profits funds.

Investment returns for unit-linked and similar products have 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 for with-profits funds there is a close correlation between increases or decreases in investment returns and the level of combined charge for policyholder benefits and movement on unallocated surplus that arises from such returns.

Shareholder returns

For shareholder-backed non-participating business of the UK (comprising PRIL and other non-linked non-participating business) and of the Asian operations, the investment return is not directly attributable to policyholders and therefore does impact shareholders' profit directly. However, it should be noted that for UK shareholder-backed annuity business, principally PRIL, where the durations of asset and liability cash flows are closely matched, the discount rate applied to measure liabilities to policyholders (under 'grandfathered' UK GAAP and under IFRS 4) reflects movements in asset yields (after allowances for the future defaults) of the backing portfolios. Therefore, the net impact on the shareholders' profits of the investment return of the assets backing liabilities of the UK shareholder-backed annuity business is after taking into account the consequential effect on the movement in policyholder liabilities.

Changes in shareholder investment returns for US operations reflect primarily movements in the investment income, movements in the value of derivative instruments and realised gains and losses. The derivatives are held to manage general account assets and liabilities, and variable annuity guarantees under a dynamic hedging programme. Separately reflecting Jackson's types of business an allocation is made to policyholders through the application of crediting rates.

The majority of the investments held to back the US general account business are debt securities for which the available-for-sale designation is applied for IFRS basis reporting. Under this designation the return included in the income statement reflects the aggregate of investment income and realised gains and losses (including impairment losses). However, movements in unrealised appreciation or depreciation are recognised in other comprehensive income. The return on these assets is attributable to shareholders.

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Reasons for year-on-year changes in investment returns

With two exceptions, all Prudential investments are carried at fair value in the statement of financial position with fair value movements, which are volatile from year to year, recorded in the income statement. The exceptions are for:

(i) debt securities of the US operations, which are accounted for on an IAS 39 available-for-sale basis, in respect of which realised gains and losses (including impairment losses) are recorded in the income statement, while movements in unrealised appreciation (depreciation) are booked as other comprehensive income. As a result, the changes in fair value of these debt securities are not reflected in Prudential's investment return in the income statement. The unrealised gains and losses in the income statement of US operations primarily arise on the assets of the US separate account business; and

(ii) loans and receivables, which are carried at amortised cost.

Subject to the effect of these two exceptions, the year-on-year changes in investment return primarily reflect the generality of overall market movements for equities, debt securities and, in the UK, for investment property. In addition, for Asian and US separate account business, foreign exchange rates affect the sterling value of the translated income. Consistent with the treatment applied for other items of income and expenditure, investment returns for overseas operations are translated at average exchange rates.

Asia

The table below provides an analysis of investment return attributable to Asian operations for the years presented:

	Year Ended 31 December		
	2011	**2010**	**2009**
	(£ million)		
Interest/dividend income (including foreign exchange gains and losses)	**502**	607	625
Investment appreciation (depreciation)	**(217)**	2,140	3,806
Total	**285**	2,747	4,431

In Prudential's Asian operations, debt securities accounted for 46 per cent, 46 per cent and 43 per cent of the total investment portfolio as at 31 December 2011, 2010 and 2009, respectively, with equities comprising 47 per cent; 47 per cent and 48 per cent respectively. The remaining seven per cent, seven per cent and nine per cent of the total investment portfolio, respectively, primarily comprised loans and deposits with credit institutions. In Asia, investment return decreased from £2,747 million in 2010 to £285 million in 2011. This decrease was due to a decrease of £105million in in interest and dividend income (including foreign exchange gains and losses) and a decrease of £2,357 million in investment appreciation. The decrease of £2,357 million in investment appreciation was driven primarily by adverse movements in the Asian equity markets in 2011.

Investment return decreased by £1,684 million from £4,431 million 2009 to £2,747 million in 2010. The decrease was primarily due to a lower investment appreciation in 2010 at £2,140 million compared to £3,806 million in 2009, reflecting a strong Asian financial market performance in 2010, which, though strong was to a lesser extent than the significant improvements in 2009.

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United States

The table below provides an analysis of investment return attributable to US operations for the periods presented:

	Year Ended 31 December		
	2011	**2010**	**2009**
		(£ million)	
Realised gains (losses) (including impairment losses on available-for-sale bonds)	**(238)**	21	(529)
Investment return of investments backing US separate account liabilities	**(869)**	3,520	3,760
Other investment return	**2,555**	1,036	1,907
Total	**1,448**	4,577	5,138

In the US, investment return decreased from £4,577 million in 2010 to £1,448 million in 2011. This £3,129 million adverse change was due to a £259 million decrease in realised gains including gains on debt securities classified as available-for-sale, as well as a decrease in investment return of the investments backing the US variable separate account liabilities of £4,389 million offset by an increase of £1,519 million in other investment return. Realised losses were £238 million in 2011 compared with realised gains of £21 million in 2010. The primary driver for the decrease in US investment return was a decrease in the returns on investments backing the US variable annuity separate account liabilities as a result of adverse movements in the US equity markets in 2011 as compared to the favourable movements in 2010. The investment return of investment assets backing US separate account liabilities decreased from a gain of £3,520 million in 2010 to a loss of £869 million in 2011. The increase of £1,519 million in other investment return was mainly accounted for by the movements in the fair value of derivatives held to manage the general account business and of the equity-related derivatives.

In Prudential's US operations, investment return decreased by £561 million in 2010 from £5,138 million in 2009 to £4,577 million in 2010. The £561 million adverse change was due to a £550 million increase in realised gains (including gains on debt securities classified as available-for-sale) which was more than offset by a decrease in investment return of investments backing US separate account liabilities of £240 million and a decrease in other investment return of £871 million. Realised losses in 2009, which included mainly write downs of bonds and losses on the sale of bonds, was £529 million compared to a realised gain of £21 million in 2010 reflecting primarily the improvement in the bond markets in 2010 and active management of the investment portfolio by Jackson to reduce certain investment risks. The investment return of investments backing US separate account liabilities of a positive £3,520 million in 2010 reflected the overall favorable movements in the US equity markets in the year but to a lesser extent than the movements in 2009. The decrease of £871 million in other investment return was mainly accounted for by the movements in the fair value of derivatives held to manage the general account business and of the equity related derivatives.

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United Kingdom

The table below provides an analysis of investment return attributable to UK operations for the periods presented:

	Year Ended 31 December		
	2011	2010	2009
	(£ million)		
Interest/dividend income	**6,135**	6,149	6,628
Foreign exchange gains and losses(i)	**67**	(48)	921
Investment appreciation (depreciation)(ii)	**1,530**	8,459	10,237
Total	**7,732**	14,560	17,786

Notes

(i)

Foreign exchange gains and losses on retranslation of non-sterling based assets, including foreign currency forwards, principally of the UK with-profits fund.

(ii)

Investment appreciation (depreciation) comprises realised and unrealised gains and losses on the investments.

In Prudential's UK operations, equities accounted for 28 per cent, 28 per cent and 28 per cent of the total investment portfolio as at 31 December 2011, 2010 and 2009, respectively. Debt securities comprised 52 per cent, 52 per cent and 51 per cent, respectively, with investment properties accounting for 8 per cent, 8 per cent and 8 per cent of the total investment portfolio in each respective year. The remaining 12 per cent, 12 per cent and 13 per cent of the total investment portfolio as at 31 December 2011, 2010 and 2009, respectively, related to loans, deposits with credit institutions, investment in partnerships in investment pools and derivative assets. Within debt securities of £76 billion (2010: £76 billion) as at 31 December 2011, 74 per cent (2010: 82 per cent) was comprised of corporate debt securities. In the UK, the investment return declined by £6,828 million, from £14,560 million in 2010 to £7,732 million in 2011. This decline was primarily driven by a decrease of £6,929 million in investment appreciation, partly offset by favourable movements in foreign exchange gains and losses of £115 million, from a negative of £48 million in 2010 to a positive £67 million in 2011. The foreign exchange movement in 2011 related mainly to gains in foreign currency forwards of the UK with-profits fund. Interest and dividend income of £6,135 million in 2011 was in line with the £6,149 million in 2010.

In the UK, investment return decreased by £3,226 million in 2010, from £17,786 million in 2009 to £14,560 million in 2010. This change comprised a decrease in interest and dividend income of £479 million, a decrease in foreign exchange gains of £969 million from a gain of £921 million in 2009 to a loss of £48 million in 2010 and a decrease in investment appreciation of £1,778 million. The reduction in interest and dividend income of £479 million in 2010 primarily reflected the continued combined effects of lower interest rates and portfolio changes. The foreign exchange losses of £48 million in 2010 related mainly to losses from foreign currency forwards of the UK with-profits fund as sterling depreciated slightly below those levels in 2009. The investment appreciation of £8,459 million in 2010 primarily reflected the overall improvements in the UK financial markets during the year but to a lesser extent than the significant recovery seen in 2009. The investment appreciation mainly reflected movement on equities and debt securities.

Unallocated corporate and intragroup elimination

Investment return for unallocated corporate and intragroup elimination in 2011 of negative £105 million was in line with the negative £115 million in 2010.

Investment return for unallocated corporate and intragroup elimination increased by £351 million to a negative £115 million in 2010 compared to a negative £466 million in 2009. The changes from 2009 to 2010 were mainly due to a one-off £235 million IGD hedge cost incurred in 2009.

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(c) Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance

	Year Ended 31 December 2011	2010	2009
	(£ million)		
Asian Operations	**(5,365)**	(6,734)	(7,710)
US Operations	**(12,651)**	(15,423)	(13,285)
UK Operations	**(11,273)**	(18,361)	(20,200)
Total	**(29,289)**	(40,518)	(41,195)

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). Benefits and claims are amounts attributable to policyholders. The 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.

The underlying reasons for the year-on-year changes in benefits and claims and movement in unallocated surplus in each of Prudential's regional operations are changes in the incidence of claims incurred, increases or decreases in policyholders' liabilities, and movements in unallocated surplus of with-profits funds.

Total benefit and claims and movements in unallocated surplus of with-profits funds decreased by £11,229 million in 2011 to a charge of £29,289 million compared to a charge of £40,518 million in 2010 and a charge of £41,195 in 2009. The amounts of this year on year charge attributable to each of the underlying reasons as stated above are shown below.

Benefits and claims and movements in unallocated surplus of with-profits funds net of reinsurance can be further analysed as follows.

	Year Ended 31 December 2011	2010	2009
	(£ million)		
Claims incurred	**(17,736)**	(16,884)	(15,781)
(Increase)/decrease in policyholder liabilities	**(12,578)**	(23,389)	(23,855)
Movement in unallocated surplus of with-profits funds	**1,025**	(245)	(1,559)
Benefits and claims and movement in unallocated surplus	**(29,289)**	(40,518)	(41,195)

The benefits and claims and movements in unallocated surplus, net of reinsurance charge of £29,289 million in 2011 (2010: £40,518 million; 2009: £41,195 million) shown in the table above includes the effect of accounting for investment contracts without discretionary participation features (as defined by IFRS 4) in accordance with IAS 39 to reflect the deposit nature of the arrangement.

Additionally the movement in policyholder liabilities and unallocated surplus of with-profits funds represents the amount recognised in the income statement and therefore excludes the effect of foreign exchange translation differences on the policyholder liabilities of foreign subsidiaries and the movement in liabilities arising on acquisition and disposals of subsidiaries in the year.

The principal driver for variations in amounts allocated to policyholders is changes to investment return reflected in the statement of financial position measurement of liabilities for Prudential's with-profits, SAIF and unit-linked policies (including US separate account business). In addition, for those

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liabilities under IFRS, in particular, liabilities relating to the UK annuity business (principally PRIL), where the measurement reflects the yields on assets backing the liabilities, the year to year changes in investment yields also contribute significantly to variations in the measurement of policyholder liabilities. The principal driver for variations in the change in unallocated surplus of with-profits funds is the value movements on the investment assets of the with-profits funds to the extent not reflected in policyholder liabilities.

The principal variations are for the increases or decreases in policyholder liabilities and movements in unallocated surplus of with-profits funds for each regional operation are discussed below.

Asia

In 2011, benefits and claims and movements in unallocated surplus of with-profits funds totalled £5,365 million, representing a decrease of £1,369 million compared to the charge of £6,734 million in 2010. In 2010, benefits and claims and movements in unallocated surplus of with-profits funds totalled £6,734 million, representing an increase of £978 million compared to the charge of £7,710 million in 2010.

The amounts of the year-on-year change attributable to each of the underlying reasons are shown below:

	Year Ended 31 December		
	2011	**2010**	**2009**
		(£ million)	
Claims incurred	**(2,955)**	(2,595)	(1,814)
Increase in policyholder liabilities	**(2,950)**	(3,824)	(6,230)
Movement in unallocated surplus of with-profits funds	**540**	(315)	334
Benefits and claims and movement in unallocated surplus	**(5,365)**	(6,734)	(7,710)

The growth in the policyholder liabilities in Asia over the three-year period partially reflected the increase due to the strong growth in new business in the region. The variations in the increases or decreases in policyholder liabilities in individual years were, however, primarily due to movement in investment returns. This was as a result of asset value movements that are reflected in the unit value of the unit-linked policies, which represent a significant proportion of the Asian operations' business. In addition, the policyholder liabilities of the Asian operations' with-profits policies also fluctuated with the investment performance of the funds.

Accordingly, due to the fall in market returns in 2011, there was a related decrease in the charge for benefits and claims. Conversely, due to positive market returns in 2010, there was a related increase in the charge for benefits and claims in the year, though to a lesser extent than the increase in 2009 where a more significant improvement in the market returns occurred.

United States

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 the US operations' 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.

In 2011, the accounting charge for benefits and claims decreased by £2,772 million to £12,651 million compared to £15,423 million in 2010. In 2010, the accounting charge for benefits and claims increased by £2,138 million to £15,423 million compared to £13,285 million in 2009.

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The amounts of the year-on-year change attributable to each of the underlying reasons are shown below:

	Year Ended 31 December		
	2011	**2010**	**2009**
		(£ million)	
Claims incurred	**(4,678)**	(4,348)	(4,092)
Increase in policyholder liabilities	**(7,973)**	(11,075)	(9,193)
Benefits and claims	**(12,651)**	(15,423)	(13,285)

The movements year-on-year in the claims incurred for the US operations as shown in the table above also included the effects of translating the US dollar results into pounds sterling at the average exchange rates for the relevant years.

The charges in each year comprise amounts in respect of variable annuity and other business. For variable annuity business, there are two principal factors that contribute to the variations in the charge, and for which the fluctuations in the years presented broadly offset each other. First, the investment return on the assets backing the variable annuity separate account liabilities changed to a £869 million charge in 2011 from a £3,520 million credit in 2010 and a £3,760 million credit in 2009 as shown in the section 'Investment return (b) United States' above. The second principal effect is the growth of the variable annuity business in force. This can be illustrated by the net cash flows of the US insurance operations' variable annuity separate account liabilities in note D3 (c) 'Reconciliation of movement in policyholder liabilities' to the consolidated financial statements in Item 18 of this annual report. The net flows of the variable annuity separate account liabilities shown in that note for 2011 were £6,978 million as compared with £5,758 million for 2010. In addition, the net flows of the variable annuity separate account liabilities for 2009 were £3,586 million.

United Kingdom

Overall, benefits and claims and the movement in unallocated surplus recorded in the income statement was a £11,273 million charge in 2011 compared to a £18,361 million charge in 2010 and a £20,200 million credit in 2009. The year-on-year changes attributable to each of the underlying reasons are shown below, together with a further analysis of the amounts included in respect of the movements in policyholder liabilities by type of business:

	Year Ended 31 December		
	2011	**2010**	**2009**
		(£ million)	
Claims incurred	**(10,103)**	(9,941)	(9,875)
Decrease/(increase) in policyholder liabilities			
SAIF	**1,198**	212	37
PRIL	**(1,788)**	(2,142)	(1,746)
Unit-linked and other non-participating business	**(451)**	(2,258)	(3,031)
With-profits (excluding SAIF)	**(614)**	(4,301)	(3,692)
	(1,655)	(8,490)	(8,432)
Movement in unallocated surplus of with-profits funds	**485**	70	(1,893)
Benefits and claims and movement in unallocated surplus	**(11,273)**	(18,361)	(20,200)

Claims incurred in the UK operations in 2011 were £10,103 million, compared to £9,941 million in 2010 and £9,875 million in 2009.

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As has been explained above, the principal driver for variations in amounts allocated to the policyholders is changes to investment returns.

In aggregate, as a result of the less positive market returns in 2011 compared to 2010 and 2009 there has been a corresponding impact on benefits and claims and movements in unallocated surplus of with-profits funds in the year, moving from a net charge of £20,200 million and £18,361 million in 2009 and 2010, respectively to a net charge of £11,273 million in 2011.

SAIF is a ring-fenced fund with no new business written. The decrease in policyholder liabilities in SAIF reflects the underlying decreasing policyholder liabilities as the liabilities run off. The variations from year to year are, however, affected by the market valuation movement of the investments held by SAIF, which are wholly attributable to policyholders.

For PRIL, the increases and decreases in policyholder liabilities reflect the effect of altered investment yield reflected in the discount rate applied in the measurement of the liabilities, together with other factors such as changes in premium income for new business and altered assumptions.

For unit-linked business, the variations in the increases and decreases in the policyholder liabilities relating to the unit-linked business were primarily due to the movement in the market value of the unit-linked assets as reflected in the unit value of the unit-linked policies.

The part of Prudential where variations in amounts attributed to policyholder liabilities and unallocated surplus are most significant is the UK with-profits business (excluding SAIF). As explained in note D2 to the consolidated financial statements in Item 18, the liabilities for UK with-profits policyholders are determined on an asset-share basis that incorporates the accumulation of investment returns and all other items of income and outgo that are relevant to each policy type. Accordingly, the movement in policyholder liabilities in the income statement will fluctuate with the investment return of the fund. Separately, the excess of assets over liabilities of the fund represents the unallocated surplus. This surplus will also fluctuate on a similar basis to the market value movement on the investment assets of the fund with the movement reflected in the income statement. In addition, other items of income and expenditure affect the level of movement in policyholder liabilities (to the extent reflected in assets shares) and unallocated surplus.

The correlation between total net income (loss) before benefits and claims and movement in unallocated surplus, on the one hand, and the (charge) credit for benefits and claims and movement in unallocated surplus, on the other, for the UK component of the PAC with-profits fund (excluding SAIF) is illustrated numerically by the table below for each of the years presented. In summary, the correlation principally arises due to the following factors:

(a) Investment return is included in full in the income statement and is attributable either to contracts or unallocated surplus.

(b) Investment return, to the extent attributable to contracts, directly affects asset-share liabilities, which are reflected in the income statement through changes in policyholder liabilities.

(c) Investment return, to the extent attributable to unallocated surplus, forms the majority part of the movement in such surplus in the income statement.

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	Year Ended 31 December		
	2011	**2010**	**2009**
		(£ million)	
Earned premiums, net of reinsurance(i)	**3,404**	3,148	3,063
Investment return	**4,094**	8,815	10,461
Other income	**17**	9	(2)
Acquisition costs and other expenditure	**(696)**	(600)	(842)
Tax (charge)	**(63)**	(528)	(640)
Total net income before benefit and claims and movement in unallocated surplus, net of reinsurance	**6,756**	10,844	12,040
Charges of:			
Claims incurred	**(6,411)**	(6,390)	(6,253)
(Increase)/decrease in policyholder liabilities(i)	**(614)**	(4,301)	(3,692)
Movement in unallocated surplus of with-profits funds	**485**	70	(1,893)
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	**(6,540)**	(10,621)	(11,838)
Shareholders' profit after tax	**216**	223	202

Note

(i)

For the purposes of presentation in Prudential's consolidated financial information, references to the UK with-profits fund also include, for convenience, the amounts attaching to Prudential's UK Defined Charge Participating Sub-fund which includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 31 December 2007. Profits to shareholders emerge on a 'charges less expenses' basis and policyholders are entitled to 100 per cent of the investment earnings.

Separately, the cost of current year bonuses which is attributable to policyholders is booked within the movement in policyholder liabilities. One-ninth of the declared cost of policyholders' bonus is attributable to shareholders and represents the shareholders' profit. Both of these amounts, by comparison with the investment return, movement in other constituent elements of the change in policyholder liabilities and the change in unallocated surplus, are relatively stable from period to period.

In 2011, the income statement of the UK component of the PAC with-profits funds was credited with a transfer of £485 million from the unallocated surplus. This transfer, together with a corresponding transfer in the unallocated surplus of the Asia with-profits funds and the effect of exchange rate movements, resulted in an increase in Prudential's unallocated surplus from £10.3 billion in 2010 to £9.2 billion in 2011. This movement reflected the net effect of changes in the value of assets, liabilities (incorporating policyholder bonuses and other elements of asset shares attributable to policyholders), and the shareholders' share of the cost of bonuses for 2011.

The surplus for distribution in future years will reflect the aggregate of policyholder bonuses and the cost of bonuses attributable to shareholders, which is currently set at 10 per cent. The policyholder bonuses comprise the aggregate of regular and final bonuses. When determining policy payouts, including final bonuses, Prudential considers asset shares of specimen policies.

Prudential does not take into account the surplus assets of the long-term fund, or the 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.

In the unlikely circumstance that the depletion of excess assets within the long-term fund was such that Prudential'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.

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The factors that the PAC Board considers in setting bonus rates are described in more detail in the section headed 'With-profits products' in Item 4, in the section headed 'United Kingdom Basis of profits Bonus Rates' in Item 5 and are summarised in note D2 to the consolidated financial statements in Item 18.

(d) Acquisition costs and other expenditure

	Year Ended 31 December		
	2011	2010	2009
	(£ million)		
Asian Operations	**(1,774)**	(1,841)	(1,698)
US Operations	**(1,330)**	(971)	(879)
UK Operations	**(1,943)**	(1,721)	(2,013)
Unallocated corporate and intragroup elimination	**42**	(266)	18
Total	**(5,005)**	(4,799)	(4,572)

Total acquisition costs and other expenditure of £5,005 million in 2011 was four per cent higher than the £4,799 million incurred in 2010. Total acquisition costs and other expenditure of £4,799 million in 2010 was five per cent higher than the £4,572 million incurred in 2009.

Asia

Total acquisition costs and other expenditure for Asia in 2011 were £1,774 million, a decrease of £67 million or four per cent as against 2010. This decrease was primarily due to increased acquisition costs, net of change in deferred acquisition costs being more than offset by decreased other operating expenses and a decrease in the charge for investment gains attributable to external unit-holders relating to investment funds managed on behalf of third parties which are consolidated but have no recourse to Prudential.

Total acquisition costs and other expenditure for Asia in 2010 were £1,841 million, an increase of £143 million or eight per cent over 2009. This increase was primarily due to increased acquisition costs, net of change in deferred acquisition costs, and increased other operating expenses, partially offset by a decrease in the charge for investment gains attributable to external unit-holders relating to investment funds managed on behalf of third parties which are consolidated but have no recourse to Prudential.

United States

Total acquisition costs and other expenditure for the US increased by £359 million from £971 million in 2010 to £1,330 million in 2011. The increase related to increase in acquisition costs, net of change in deferred acquisition costs and also increase in other operating expenses. Acquisition costs have increased in absolute terms compared to 2010 due to the growth in sales volumes. The DAC amortisation charge for the US increased in 2011 to £619 million from £334 million in 2010. This comprises a core charge of £387 million (2010: £323 million) and an accelerated charge of £232 million (2010: £11 million). The higher core charge is in line with the increase in fee income and spread profits. The accelerated charge reflects the anticipated additional amortisation of £166 million relating to the reversal of the benefit received in 2008 from the mean reversion formula and a charge of £66 million caused by lower than assumed separate account returns. Other operating expenses increased primarily due to higher asset based commissions paid on the larger 2011 separate account balance.

Total acquisition costs and other expenditure for the US increased by £92 million from £879 million in 2009 to £971 million in 2010. The increase related to an increase in other operating expenses which was partly offset by a decrease in acquisition costs, net of change in deferred acquisition costs.

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United Kingdom

Total UK acquisition costs and other expenditure were £1,943 million compared to £1,721 million in 2010. This increase arises primarily from the increase in acquisition costs, net of change in deferred acquisition costs and underlying increases in expenditure of M&G.

Total UK acquisition costs and other expenditure in 2010 were £1,721 million compared to £2,013 million in 2009. This decrease was primarily due to a decrease in the charge for investment gains attributable to external unit-holders relating to investment funds managed on behalf of third parties that have been consolidated but have no recourse to Prudential. The decrease in the charge reflected the increase in the overall returns in 2010 in these consolidated investment funds but lower than those experienced in 2009.

Unallocated corporate and intragroup elimination

Other net expenditure of a credit of £42 million in 2011, a charge of £266 million in 2010 and a credit of £18 million in 2009 comprises both the other expenditure of the unallocated corporate and elimination of intragroup income and expenses. The principal reason for the year on year movement as shown above was that the amount in 2010 included the costs incurred in relation to the terminated AIA transaction. Of the £377 million total costs before tax of the terminated AIA transaction in 2010, £277 million was recorded as "Other expenditure" within "Acquisition costs and other expenditure" in the consolidated income statement. The remaining £100 million associated with foreign exchange hedging was recorded within "Investment return".

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IFRS Shareholders' Funds and Summary Balance Sheet

The following table sets forth a summary of the movement in Prudential's IFRS shareholders' funds for 2011, 2010 and 2009:

	2011	2010	2009
		(£ million)	
Operating profit based on longer-term investment returns	**2,070**	1,941	1,564
Items excluded from operating profit based on longer-term investment returns	**(127)**	(480)	(818)
Total profit before tax	**1,943**	1,461	746
Exceptional tax credit		158	
Tax, discontinued operations and non-controlling interests	**(453)**	(188)	(70)
Profit for the year	**1,490**	1,431	676
Exchange movements, net of related tax	**(100)**	251	(195)
Unrealised gains and losses on Jackson securities classified as available-for-sale, net of related changes to deferred acquisition costs and tax	**312**	478	1,043
Dividends	**(642)**	(511)	(481)
New share capital subscribed	**17**	75	141
Other	**9**	36	29
Net increase in shareholders' funds	**1,086**	1,760	1,213
Shareholders' funds at beginning of year	**8,031**	6,271	5,058
Shareholders' funds at the end of year	**9,117**	8,031	6,271

Statutory IFRS basis shareholders' funds at 31 December 2011 were £9.1 billion. This compares to £8.0 billion at 31 December 2010 and represents an increase of £1.1 billion, equivalent to 14 per cent.

The movement primarily reflects the profit for the period after tax and non-controlling interests of £1,490 million and the increase in the level of net unrealised gains on Jackson's debt securities of £312 million from the position at 31 December 2010, offset by the payment of dividends of £642 million and exchange translation losses of £100 million.

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Summary Balance Sheet

	2011	2010
	(£ million)	
Goodwill attributable to shareholders	**1,465**	1,466
Investments	**250,605**	239,297
Holding company cash and short-term investments	**1,200**	1,232
Other	**20,310**	18,811
Total assets	**273,580**	260,806
Less: Liabilities		
Policyholder liabilities	**227,075**	214,727
Unallocated surplus of with-profits funds	**9,215**	10,253
	236,290	224,980
Core structural borrowings of shareholders' financed operations	**3,611**	3,676
Other liabilities including non-controlling interests	**24,562**	24,119
Total liabilities and non-controlling interests	**264,463**	252,775
Net assets net of non-controlling interests	**9,117**	8,031
Share capital and premium	**2,000**	1,983
Shareholders' reserves	**7,117**	6,048
Shareholders' equity	**9,117**	8,031

Shareholders' Funds summary by business unit and net asset value per share

(i) Shareholders' fund summary

	2011	2010
	£m	**£m**
Asian operations		
Insurance operations		
Net assets of operation	**2,114**	1,913
Acquired goodwill	**235**	236
Total	**2,349**	2,149
Eastspring Investments		
Net assets of operation	**211**	197
Acquired goodwill	**61**	61
Total	**272**	258
Total	**2,621**	2,407
US operations		
Jackson (net of surplus note borrowings)	**4,271**	3,815
Broker-dealer and asset management operations:		
Net assets of operation	**113**	106
Acquired goodwill	**16**	16
Total	**129**	122
Total	**4,400**	3,937
UK operations		
Insurance operations		
Long-term business operations	**2,552**	2,115
Other	**29**	33
Total	**2,581**	2,148
M&G		
Net assets of operation	**229**	254
Acquired goodwill	**1,153**	1,153
Total	**1,382**	1,407
Total	**3,963**	3,555
Other operations		

Holding company net borrowings	**(2,001)**	(2,035)
Shareholders' share of provision for future deficit funding of the Prudential Staff Pension Scheme (net of tax)	**(5)**	(10)
Other net assets	**139**	177
Total	**(1,867)**	(1,868)
Total of all operations	**9,117**	8,031

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(ii) Net asset value per share

	2011	2010
	£m	£m
Closing equity shareholders' funds	**9,117**	8,031
Net asset value per share attributable to equity shareholders[(i)]	**358p**	315p

Note

(i) Based on the closing issued share capital as at 31 December 2011 of 2,548 million shares (2010: 2,546 million shares).

Policyholder liabilities and unallocated surplus of with-profits fund

				2011	2010
Shareholder backed business	**Asia**	**US**	**UK**	**Total**	**Total**
	£m	£m	£m	£m	£m
At 1 January	17,716	60,523	43,944	**122,183**	100,061
Premiums	3,807	12,914	3,575	**20,296**	19,584
Surrenders	(1,735)	(4,270)	(1,970)	**(7,975)**	(6,724)
Maturities/Deaths	(233)	(820)	(2,262)	**(3,315)**	(3,165)
Net cash flows	1,839	7,824	(657)	**9,006**	9,695
Investment related items and other movements	(909)	136	2,761	**1,988**	9,249
Acquisition of UOB Life Assurance Limited					464
Dilution of holding in PruHealth					(27)
Foreign exchange translation difference	(377)	706		**329**	2,741
At 31 December	18,269	69,189	46,048	**133,506**	122,183
With-profits funds					
Policyholder liabilities				**93,569**	92,544
Unallocated surplus				**9,215**	10,253
Total at 31 December				**102,784**	102,797
Total policyholder liabilities including unallocated surplus at 31 December				**236,290**	224,980

Policyholder liabilities related to shareholder-backed business grew by £11.3 billion from £122.2 billion at 31 December 2010 to £133.5 billion at 31 December 2011.

The increase reflects positive net flows (premiums less surrenders and maturities/deaths) of £9,006 million in 2011 (2010: £9,695 million), driven by strong inflows in the US (£7,824 million) and Asia (£1,839 million). Net flows in Asia have increased by 42 per cent to £1,839 million in 2011 (2010: £1,298 million). Additionally, the rate of surrenders in Asia (expressed as a percentage of opening liabilities) was 4.4 per cent in the second half of 2011, an improvement compared with 5.1 per cent in the first half of 2011 and 6.4 per cent in the second half of 2010. The overall rate of surrender in 2011 was 9.8 per cent compared with 13.8 per cent in 2010.

Other movements include positive foreign exchange movements of £329 million (2010: £2,741 million) together with investment related and other items of £1,988 million. Investment related and other items fell from £9,249 million in 2010 to £1,988 million in 2011 principally as a result of the weaker equity markets.

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During 2011, the unallocated surplus, which represents the excess of assets over policyholder liabilities for the Group's with-profits funds on an IFRS basis, reduced by 10 per cent from £10.3 billion at 31 December 2010 to £9.2 billion at 31 December 2011.

Other results based information

This section comprises disclosures on the following:

(a) Funds under Management

(b) Effect of foreign currency rate movement on results

(c) Adoption of altered US GAAP requirements to Group IFRS reporting in 2012

(a) Funds under Management

(i) Summary

	2011	2010
	£bn	£bn
Business area		
Asian operations	**32.6**	30.9
US operations	**71.9**	63.6
UK operations	**146.3**	145.2
Internal funds under management	**250.8**	239.7
External funds[note](i)	**99.8**	100.4
Total funds under management	**350.6**	340.1

Notes

(i) External funds shown above for 2011 of £99.8 billion (2010: £100.4 billion) comprise £111.2 billion (2011: £111.4 billion) in respect of investment products less £11.4 billion (2010: £11.0 billion) that are classified within internal funds.

(ii) Internal funds under management analysis by business area.

	Asian operations		US operations		UK operations		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	£bm	£bm	£bm	£bm	£bm	£bm	£bm	£bm
Investment properties[(i)]				0.1	**10.7**	11.5	**10.7**	11.6

Equity securities	**12.0**	14.5	**38.1**	31.5	**37.3**	40.7	**87.4**	86.7
Debt securities	**17.7**	14.1	**27.1**	26.4	**79.8**	75.9	**124.6**	116.4
Loans and receivables	**2.4**	1.3	**4.3**	4.2	**13.7**	3.8	**20.4**	9.3
Other investments	**0.5**	1.0	**2.4**	1.4	**4.8**	13.3	**7.7**	15.7
Total	**32.6**	30.9	**71.9**	63.6	**146.3**	145.2	**250.8**	239.7

Note

(i) As included in the investments section of the consolidated statement of financial position at 31 December 2011 except for £0.2 billion (2010: £0.4 billion) investment properties which are held-for-sale or occupied by the Group and, accordingly under IFRS, are included in other statement of financial position captions.

(b) Effect of foreign currency rate movement on results

(i) Rates of exchange

The profit and loss accounts of foreign subsidiaries are translated at average exchange rates for the year. Assets and liabilities of foreign subsidiaries are translated at closing exchange rates. Foreign currency borrowings that have been used to provide a hedge against Group equity investments in

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overseas subsidiaries are also translated at closing exchange rates. The impact of these translations is recorded as a component of the movement in shareholders' equity.

Local currency: £	Closing 2011	Average 2011	Closing 2010	Average 2010	Closing 2009	Average 2009
Hong Kong	**12.07**	**12.48**	12.17	12.01	12.52	12.14
Indonesia	**14,091.80**	**14,049.41**	14,106.51	14,033.41	15,171.52	16,173.28
Malaysia	**4.93**	**4.90**	4.83	4.97	5.53	5.51
Singapore	**2.02**	**2.02**	2.01	2.11	2.27	2.27
India	**82.53**	**74.80**	70.01	70.66	75.15	75.70
Vietnam	**32,688.16**	**33,139.22**	30,526.26	29,587.63	29,832.74	27,892.39
USA	**1.55**	**1.60**	1.57	1.55	1.61	1.57

Note

(i)

Effect of rate movement on results.

IFRS basis results	As published 2011 note (i)	Memorandum 2010 note (i)	Memorandum 2009 note (i)
	£m	**£m**	**£m**
Asian operations:			
Long-term operations	**709**	533	454
Development expenses	**(5)**	(4)	(6)
Total Asian insurance operations after development costs	**704**	529	448
Eastspring Investments	**80**	73	58
Total Asia operations	**784**	602	506
US operations			
Jackson	**694**	803	603
Broker-dealer, asset management and Curian operations	**24**	21	4
Total US operations	**718**	824	607
UK operations			
Long-term business	**683**	673	606
General insurance commission	**40**	46	51
Total UK insurance operations	**723**	719	657
M&G	**357**	284	238
Total UK operations	**1,080**	1,003	895
Total segment profit	**2,582**	2,429	2,008
Other income and expenditure	**(483)**	(449)	(396)

RPI to CPI inflation measure change on defined benefit pension schemes	**42**		
Solvency II implementation costs	**(55)**	(45)	
Restructuring costs	**(16)**	(26)	(23)
Operating profit based on longer-term investment returns	**2,070**	1,909	1,589
Shareholders' funds	**9,117**	8,007	6,461

Note

(i)

The 'as published' operating profit for 2011 and 'memorandum' operating profit for 2010 and 2009 have been calculated by applying average 2011 exchange rates (CER).

The 'as published' shareholders' funds for 2011 and memorandum' shareholders' funds for 2010 and 2009 have been calculated by applying closing period end 2011 exchange rates.

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(c) Adoption of altered US GAAP requirements to Group IFRS reporting in 2012

Background

Under the Group's accounting policies the measurement of insurance assets and liabilities reflects the application of UK GAAP under the Modified Statutory Basis (MSB). This has been applied from when the Company first adopted IFRS in 2005, subject to subsequent policy improvements under IFRS 4. The MSB in turn is based on the codification in the 2003 ABI Statement of Recommended Practise which, subject to various restrictions, permits the use of local bases for overseas operations. Accordingly, since 2005, the insurance assets and liabilities of the Group's US operations have been measured using US GAAP. This basis has also been explicitly applied to those Asian operations (namely India, Japan, Taiwan and Vietnam) where the local regulatory basis is not appropriate as a starting point for deriving MSB compliant results.

In October 2010, the Emerging Issues Task Force of the US Financial Accounting Standards Board issued Update No 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts'. The update was issued to address perceived diversity by companies preparing financial statements in accordance with US GAAP as regards the types of acquisition costs being deferred. Under US GAAP, costs that can be deferred and amortised are those that 'vary with and are primarily related to the acquisition of insurance contracts'. The Update requires insurers to capitalise only those incremental costs directly related to acquiring a contract for financial statements for reporting periods starting after 15 December 2011. All other indirect acquisition expenses are required to be charged to the income statement as incurred expenses. Accordingly, the main impact of the Update is to disallow insurers from deferring costs that are not directly related to successful sales.

Under the Update, US insurers preparing financial statements under US GAAP can choose to make a prospective or a retrospective application. Under the prospective basis the change is confined to the income statement from the date of adoption to incorporate the additional charge for non deferrable expenses for the activity of the reporting period. No changes are made to the results of comparative periods.

By contrast, under retrospective application, the deferred acquisition costs balances in the statement of financial position for comparative periods are reset so as to only defer those costs permitted by the Update. In the income statement the net effect of the Update reflects;

(i) as for the prospective basis, the additional charge for non deferrable expenses for the activity of the reporting period offset by

(ii) a reduced charge for DAC amortisation reflecting the lower level of expenses that could be deferred on prior period activity.

Under the Group's IFRS reporting, Prudential has the option to either continue with its current basis of measurement or improve its accounting policy under IFRS4 to acknowledge the issuance of the Update. Prudential has chosen to continue with its current basis of measurement for reporting of its 2011 results and improve its policy in 2012 to apply the US GAAP update on the retrospective basis to the results of its US insurance operation Jackson National Life. The reason and timing for the change is to achieve consistency with the basis expected to be applied by peer competitor companies in the US market in their US GAAP financial statements. To ensure consistency it is also intended to make the change on the retrospective basis in 2012 for the Asian operations that historically have effectively applied US GAAP for measuring insurance assets and liabilities.

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Effect of change of policy in 2012

The results impact of the policy improvement to adopt the Update in 2012 is summarised in the tables shown below.

Effect of policy improvement in 2012 on comparative results for 2011 and full year 2010

	Year ended 31 December 2011			**6 months ended 30 June 2011**			**Year ended 31 December 2010**		
Analysis of profit and earnings per share	**As reported under current policy**	**Effect of change**	**Under new policy from 1 Jan 2012**	**As reported under current policy**	**Effect of change**	**Under new policy from 1 Jan 2012**	**As reported under current policy**	**Effect of change**	**Under new policy from 1 Jan 2012**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Analysis of profit									
Operating profit based on longer-term investment returns									
Asian insurance operations (note (a))	704		704	324	(2)	322	532	(10)	522
US insurance operations note (b)	694	(43)	651	368	(28)	340	833	(105)	728
Other operations	672		672	366		366	576		576
Total	2,070	(43)	2,027	1,058	(30)	1,028	1,941	(115)	1,826
Short-term fluctuations in investment returns	(148)	(72)	(220)	113	(20)	93	(123)	(75)	(198)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	21		21	(7)		(7)	(10)		(10)
Costs of terminated AIA transaction							(377)		(377)
Gain on dilution of Group holdings							30		30
Profit before tax attributable to shareholders (including actual investment returns)	1,943	(115)	1,828	1,164	(50)	1,114	1,461	(190)	1,271
Tax attributable to shareholders operating profit									

Excluding, for 2010, exceptional tax credit									
Asian insurance operations	(122)		(122)	(39)	1	(38)	(58)	2	(56)
US insurance operations	(200)	15	(185)	(110)	10	(100)	(249)	37	(212)
Other operations	(126)		(126)	(91)		(91)	(64)		(64)
	(448)	15	(433)	(240)	11	(229)	(371)	39	(332)
Exceptional 2010 tax credit related primarily to the impact of settlement agreed with the UK tax authorities							158		158
Total	(448)	15	(433)	(240)	11	(229)	(213)	39	(174)
Tax attributable to shareholders non-operating profit	(1)	25	24	(61)	7	(54)	188	26	214
Non-controlling interests operating profit	(4)		(4)	(2)		(2)	(5)		(5)
Profit after tax and non-controlling interests	1,490	(75)	1,415	861	(32)	829	1,431	(125)	1,306

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	Year ended 31 December 2011			6 months ended 30 June 2011			Year ended 31 December 2010		
Analysis of profit and earnings per share	**As reported under current policy**	**Effect of change**	**Under new policy from 1 Jan 2012**	**As reported under current policy**	**Effect of change**	**Under new policy from 1 Jan 2012**	**As reported under current policy**	**Effect of change**	**Under new policy from 1 Jan 2012**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Operating profit after tax and non-controlling interests									
Excluding, for 2010, exceptional tax credit	1,618	(28)	1,590	816	(19)	797	1,565	(76)	1,489
Exceptional 2010 tax credit							158		158
Total	1,618	(28)	1,590	816	(19)	797	1,723	(76)	1,647
Earnings per Share (pence)									
Operating (basic) excluding, for 2010, exceptional tax credit (pence)	63.9p	(1.1)p	62.8p	32.2p	(0.8)p	31.4p	62.0p	(3.0)p	59.0p
Operating (diluted) excluding, for 2010, exceptional tax credit (pence)	63.8p	(1.1)p	62.7p	32.1p	(0.8)p	31.3p	61.9p	(3.0)p	58.9p
Total (diluted) (pence)	58.7p	(3.0)p	55.7p	33.9p	(1.3)p	32.6p	56.6p	(4.9)p	51.7p

Notes on effect of change on operating profit based on longer-term investment returns

a Asian insurance operations									
New business									
Acquisition costs on new contracts not able to be deferred		(16)			(10)			(20)	

Business in force at beginning of period			
Reduction in amortisation on reduced DAC balance	16	8	10
Total		(2)	(10)
Arising in the following insurance operations:			
India	4	2	1
Japan			
Taiwan	1	(1)	(3)
Vietnam	(5)	(3)	(8)
Total		(2)	(10)
b US insurance operations			
New business			
Acquisition costs on new contracts not able to be deferred	(156)	(80)	(159)
Business in force at beginning of period			
Reduction in amortisation on reduced DAC balance	113	52	54
Total	(43)	(28)	(105)

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Changes in equity and balance sheet	Year ended 31 December 2011 As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	6 months ended 30 June 2011 As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	Year ended 31 December 2010 As reported under current policy	Effect of change	Under new policy from 1 Jan 2012
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Changes in equity									
Profit for the year net of non-controlling interests	1,490	(75)	1,415	861	(32)	829	1,431	(125)	1,306
Exchange movements on foreign operations and net investment hedges, net of related tax	(32)	(5)	(37)	(75)	13	(62)	251	(14)	237
Available-for-sale securities									
US operations classified as available-for-sale	811		811	237		237	1,221		1,221
Related change in amortisation of deferred income and acquisition costs	(331)	56	(275)	(97)	26	(71)	(496)	86	(410)
Related tax	(168)	(19)	(187)	(49)	(8)	(57)	(247)	(31)	(278)
Total comprehensive income for the year net of non-controlling interests	1,770	(43)	1,727	877	(1)	876	2,160	(84)	2,076
Dividends	(642)		(642)	(439)		(439)	(511)		(511)
New share capital and other movements	(42)		(42)	32		32	111		111
	1,086	(43)	1,043	470	(1)	469	1,760	(84)	1,676

Net increase in equity									
At beginning of year	8,031	(510)	7,521	8,031	(510)	7,521	6,271	(426)	5,845
At end of year	9,117	(553)	8,564	8,501	(511)	7,990	8,031	(510)	7,521

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Changes in equity and balance sheet	Year ended 31 December 2011 As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	6 months ended 30 June 2011 As reported under current policy	Effect of change	Under new policy from 1 Jan 2012	Year ended 31 December 2010 As reported under current policy	Effect of change	Under new policy from 1 Jan 2012
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance sheet									
Assets									
Deferred acquisition costs attributable to shareholders:									
Insurance operations									
Asia	744	(50)	694	741	(52)	689	758	(52)	706
US	3,880	(785)	3,095	3,639	(717)	2,922	3,543	(714)	2,829
UK	111		111	115		115	116		116
Asset management	12		12	9		9	9		9
	4,747	(835)	3,912	4,504	(769)	3,735	4,426	(766)	3,660
Investments and other assets	268,833		268,833	264,962		264,962	256,380		256,380
Total assets	273,580	(835)	272,745	269,466	(769)	268,697	260,806	(766)	260,040
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds	236,290		236,290	232,304		232,304	224,980		224,980
Core structural borrowings of shareholder-financed operations	3,611		3,611	3,998		3,998	3,676		3,676
Deferred tax liabilities	4,211	(282)	3,929	4,194	(258)	3,936	4,224	(256)	3,968
Other liabilities	20,308		20,308	20,423		20,423	19,851		19,851
Total liabilities	264,420	(282)	264,138	260,919	(258)	260,661	252,731	(256)	252,475
Equity									
Shareholders' equity									
Asian insurance operations	2,349	(43)	2,306	2,269	(45)	2,224	2,149	(45)	2,104
	4,271	(510)	3,761	3,764	(466)	3,298	3,815	(465)	3,350

US insurance operations									
Rest of Group	2,497		2,497	2,468		2,468	2,067		2,067
	9,117	(553)	8,564	8,501	(511)	7,990	8,031	(510)	7,521
Non-controlling interests	43		43	46		46	44		44
Total equity	9,160	(553)	8,607	8,547	(511)	8,036	8,075	(510)	7,565
Total liabilities and equity	273,580	(835)	272,745	269,466	(769)	268,697	260,806	(766)	260,040

Liquidity and Capital Resources

Prudential Capital operates a central treasury function for Prudential, which has overall responsibility for managing Prudential'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 parent company level (including through finance subsidiaries whose obligations the parent company guarantees) or at the operating company level.

After making enquiries the directors of Prudential have a reasonable expectation that the Company and the Group have adequate resources to continue their operations for the foreseeable future.

Group and holding company cash flow

Prudential's consolidated cash flow includes the movement in cash included within both policyholders' and shareholders' funds, such as cash in the with-profits fund. Prudential therefore believes that it is more relevant to consider individual components of the movement in holding company cash flow which relate solely to the shareholders.

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Prudential continues to manage cash flows across the Group with a view to achieving a balance between ensuring sufficient net remittances from the businesses to cover the progressive dividend (after corporate costs) and maximising value for shareholders through the retention of the free surplus generated at business unit level, so that it can be reinvested in the profitable opportunities available to the Group. On this basis, the holding company cash flow statement at an operating level should ordinarily balance close to zero before exceptional cash flows, but from time to time additional remittances from business operations will be made to provide the Group with greater financial flexibility at the corporate centre.

Operating holding company cash flow for 2011 before the shareholder dividend was £809 million, £100 million higher than 2010. After deducting the higher level of shareholder dividend paid following the upward rebasing at the end of 2010 and the cancellation of the scrip dividend option, the operating holding company cash flow was positive £167 million (2010: £260 million).

Cash remittances to the Group from business units

The holding company received £1,105 million of net cash remittances from the business units in 2011, an increase of £170 million from 2010.

Asia continues to be cash positive, with its remittances to the Group during 2011 at £206 million (2010: £233 million). 2010 benefited from a one-off remittance of £130 million from Malaysia, representing the accumulation of historic distributable reserves. Excluding this amount Asia has doubled its net remittances in 2011. Asia remains on track to meet its objective of £300 million net remittances in 2013.

Cash received from Jackson was £322 million in 2011 (2010: £80 million), above the 2013 sustainable remittance target of £200 million. Jackson's remittance to the Group for 2011 was taken in the first half, with £200 million representing the remittances for the year and a further £122 million representing releases of excess surplus to Group. These exceptional releases reflect the success that Jackson has enjoyed in rebuilding its balance sheet strength post the 2008 financial crisis and in writing business at high internal rates of return (IRRs) and with fast payback.

The UK insurance operations remitted £297 million in 2011 (2010: £420 million). Total shareholder-backed business net remittances in 2011 were £74 million (2010: £218 million) with 2010 including £120 million as a result of one-off release of surplus and net financing payments during that year. Cash from the annual with-profits transfer to shareholders increased from £202 million to £223 million in 2011. The UK remains on track to deliver £350 million of cash to the Group in 2013.

The Group's UK asset management operations remit substantially all of their annual post-tax earnings to the Group. M&G and PruCap collectively remitted £280 million (2010: £202 million).

In the course of 2009 and 2010, the Group raised certain financing contingent on future profits of the UK and Hong Kong life insurance operations which increased the cash remitted by business units by £245 million in aggregate. This was done in order to increase the financial flexibility of the Group during the investment market crisis.

Since then principal and interest repayments have reduced the cash available to be remitted to the Group by these businesses. Based on our current plans, the remaining balance of £145 million will impact the net remittances from these businesses in 2012.

Central outflows and other movements

Central outflows increased to £296 million in 2011 (2010: £226 million). Lower corporate activities spend in 2011 was offset by increased net interest payments, following the additional debt raised in 2011, and higher Solvency II implementation spend as Prudential draws closer to the date that this regime comes into effect.

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After central costs, there was a net cash inflow before dividend of £809 million in 2011 compared to £709 million for 2010. The dividend paid was £642 million in 2011 compared to £449 million (net of scrip of £62 million) in 2010.

During the first half of 2011 Prudential raised £340 million, net of costs, from the issue of new subordinated debt. Substantially all of these proceeds (£333 million) were used to repay the €500 million Tier 2 subordinated debt in December 2011.

Outside of the normal recurring central cash flow items we incurred £205 million of other cash payments in 2011. These comprise the first instalment to the UK tax authorities following the settlement reached last year on historic tax issues and the prepayment of fees in relation to new distribution agreements in Asia. A further amount relating to the settlement with the UK tax authorities of £135 million will be paid evenly over the course of 2012 and 2013.

The overall holding company cash and short-term investment balances at 31 December 2011 was broadly level with the balance held at the end of 2010 at £1.2 billion. The company seeks to maintain a central cash balance in excess of £1 billion.

Liquidity requirements

Dividend payments

The total cost of dividends (excluding scrip dividends which were replaced by the Dividend Re-investment Plan (DRIP) as of the 2010 final dividend) settled by Prudential were £642 million and £511 million for the years ended 31 December 2011 and 2010, respectively. The dividend paid net of scrip was £449 million for the year ended 31 December 2010.

In light of the continued strong performance of the business and the Group's focus on a growing dividend, the Board has recommended a final dividend of 17.24 pence per share (2010: 17.24 pence), giving a full 2011 dividend of 25.19 pence (2010: 23.85 pence), representing an increase of 5.6 per cent over 2010. The 2011 final dividend of 17.24 pence per ordinary share will be paid in May 2012.

Debt service costs

Debt service costs charged to profit in respect of core borrowings paid by Prudential in 2011 were £286 million compared with £257 million in 2010. Of total consolidated borrowings of £7,923 million as at 31 December 2011, the parent company had core borrowings of £3,201 million outstanding, all of which have contractual maturity dates of more than five years.

Liquidity sources

The parent company held cash and short-term investments of £1,200 million, £1,232 million and £1,486 million as at 31 December 2011, 2010 and 2009, respectively. The sources of cash in 2011 included dividends, loans and interest received from operating subsidiaries. Prudential received £1,285 million in cash remittances from business units in 2011, compared to £1,122 million received in 2010 and £914 million received in 2009. 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. Offset against these cash remittances were £180 million, £187 million and £226 million of capital invested in 2011, 2010 and 2009 respectively. Overall net remittances from business units had increased from £935 million in 2010 to £1,105 million in 2011.

Shareholders' statutory transfer

In 2011, PAC declared a total surplus of £2,293 million from PAC's primary with-profits sub-fund, of which £2,064 million was added to with-profits policies and £229 million was distributed to shareholders. In 2010, PAC declared a total surplus of £2,367 million from PAC's primary with-profits sub-fund, of which £2,131 million was added to with-profits policies and £236 million was distributed to shareholders. In 2009, PAC declared total surplus of £2,149 million from PAC's primary with-profits sub-fund, of which £1,935 million was added to with-profits policies and £214 million was distributed to shareholders.

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 Prudential from the principal operating subsidiaries for 2011 and 2010:

	Dividends, loan and interest received in:	
	2011	**2010**
	£m	**£m**
Asian Operations	**344**	363
US Operations	**322**	80
UK Insurance Operations (mainly PAC)	**339**	477
M&G (including Prudential Capital)	**280**	202
Total	**1,285**	1,122

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 Prudential.

Changes to Group holdings during the period

During 2010 Prudential completed the acquisition of UOB Life for total cash consideration, of SGD 495 million (£220 million), giving rise to goodwill of £141 million. This acquisition accompanied a long-term strategic partnership with UOB facilitating distribution of Prudential's life insurance products through UOB's bank branches in Singapore, Indonesia and Thailand.

In 2010, Prudential also announced the acquisition of Standard Life Healthcare by its PruHealth joint venture partner Discovery and its combination with the existing PruHealth business. This led to a reduction in its shareholding in the enlarged combined businesses from 50 per cent to 25 per cent effective from 1 August, the date of the acquisition.

In June 2009, Prudential completed the sale of its Taiwan agency business.

Shareholders' net borrowings

	31 December 2011	2010
	£m	**£m**
Perpetual subordinated capital securities (Innovative Tier 1)	**1,823**	1,463
Subordinated notes (Lower Tier 2)	**829**	1,255
	2,652	2,718
Senior debt:		
2023	**300**	300
2029	**249**	249
Holding company total	**3,201**	3,267
Prudential Capital	**250**	250
Jackson surplus notes (Lower Tier 2)	**160**	159
Total	**3,611**	3,676
Less: Holding company cash and short-terms investments	**(1,200)**	(1,232)
Net core structural borrowings of shareholder-financed operations	**2,411**	2,444

The Group's core structural borrowings at 31 December 2011 totalled £3.6 billion on an IFRS basis, compared with £3.7 billion at 31 December 2010.

In January 2011, the Company issued US$550 million 7.75 per cent Tier 1 subordinated debt, primarily to retail investors. The proceeds, net of costs, were US$539 million (£340 million) and financed the repayment of the €500 million Tier 2 subordinated notes in December 2011.

After adjusting for holding company cash and short-term investments of £1,200 million, net core structural borrowings at 31 December 2011 were £2,411 million compared with £2,444 million at 31 December 2010. The decrease of £33 million represents the net fall in borrowings of £65 million, reflecting the debt repayment and issue described above together with foreign exchange movements in the year, offset by a £32 million fall in holding company cash and short-term investments.

In addition to its core structural borrowings set out above, Prudential also has in place an unlimited global commercial paper programme. As at 31 December 2011, Prudential had issued commercial paper under this programme totalling £736 million, US$2,539 million, €342 million, CHF62 million and AU$12 million. The central treasury function also manages Prudential's £5 billion medium-term note (MTN) programme, covering both core and non-core borrowings. In April and October 2011 Prudential refinanced an existing internal £200 million issue under this programme. In total, at 31 December 2011 the outstanding subordinated debt under the programme was £835 million, US$1,300 million and €20 million, while the senior debt outstanding was £550 million. In addition, Prudential's holding company has access to £2.1 billion of syndicated and bilateral committed revolving credit facilities, provided by 17 major international banks, expiring between 2013 and 2017. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2011. The commercial paper programme, the MTN programme and the committed revolving credit facilities are all available for general corporate purposes and to support the liquidity needs of Prudential's holding company and are intended to maintain a strong and flexible funding capacity.

Prudential manages the Group's core debt within a target level consistent with its current debt ratings. At 31 December 2011, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus net debt) was 10.9 per cent, compared with 11.8 per cent at 31 December 2010. Prudential plc has strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential's long-term senior debt is rated A+, A2 and A from Standard & Poor's, Moody's and Fitch, while short-term ratings are A-1, P-1 and F1 respectively.

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The financial strength of PAC is rated AA by Standard & Poor's, Aa2 by Moody's and AA by Fitch.

Jackson National Life Insurance Company's financial strength is rated AA by Standard & Poor's, A1 by Moody's and AA by Fitch.

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.

As at 31 December 2011, 2010 and 2009, PAC's long-term fund assets in excess of its minimum capital requirements were £16,675 million, £17,406 million and £13,288 million, respectively. The 'with-profits insurance capital component' of the enhanced capital requirement, as at 31 December 2011, 2010 and 2009 amounted to £9,674 million, £9,089 million and £5,570 million respectively.

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 of the consolidated financial statements in Item 18. 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. As at 31 December 2011, 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, utilisation 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

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loans, and funding of expenses including payment of commissions operating expenses and taxes. As at 31 December 2011, Jackson's outstanding notes and bank debt included:

- US$31 million of collateralised loans maturing through 2016,
- US$3 million of non-investment grade debt issued by variable interest entities maturing in 2016,
- US$15 million of mortgage loans and US$150 million of advances collaterised by structured securities from the Federal Home Loan Bank of Indianapolis,
- US$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 (eg 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. At 31 December 2011, a majority of Jackson's fixed annuity reserves include policy restrictions such as surrender charges and market value adjustments to discourage early withdrawal of policy and contract funds.

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. As at 31 December 2011, the portfolio of cash, short-term investments and publicly traded bonds and equities amounted to US$35.5 billion. Operating net cash inflows for Jackson in 2011 were US$1.2 billion.

As at 31 December 2011, the statutory capital and surplus of Jackson was US$3.6 billion, which was in excess of the requirements set out under Michigan insurance law. 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 Jackson's investments and products. As at 31 December 2011, 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.

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Derivative financial instruments and commitments

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, with the exception of some Asian transactions, are conducted under standardised 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.

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.

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. In addition, total return swaps and interest rate swaps are held for efficient portfolio management.

Some of the Group's products, especially those sold in the US, have certain guarantee features linked to equity indexes. A mismatch between guaranteed 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.

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 period for which Jackson holds the instrument without an exchange of the underlying principal amount. These agreements are used for hedging purposes;

- 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. Put-swaptions hedge against significant movements in interest rates;

- equity index futures contracts and equity index options (including various call, put options and put spreads) 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; and

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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 if a default event occurs in exchange for periodic payments made by Jackson for the life of the agreement. Jackson does not write default protection using credit derivatives.

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. The contractual obligations to purchase or develop investment properties at 31 December 2011 were £9 million (2010: £28 million).

At 31 December 2011, Jackson has unfunded commitments of £341 million (2010: £363 million) related to its investments in limited partnerships and of £77 million (2010: £88 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.

Contractual obligations

Contractual obligations with specified payment dates as at 31 December 2011 were as follows:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	£m	£m	£m	£m	£m
Policyholder liabilities(i)	381,754	20,626	42,042	40,646	278,440
Long-term debt(ii)	3,711	115	135		3,461
Other borrowings(ii)	4,212	3,466	255	162	329
Capital lease obligations	127	6	12	11	98
Operating lease obligations	311	66	87	86	72
Purchase obligations(iii)	427	427			
Obligations under funding, securities lending and sale and repurchase agreements	3,114	3,114			
Other long-term liabilities(iv)	4,243	4,007	196	40	
Total	397,899	31,827	42,727	40,945	282,400

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	£ million	£ million
Reconciliation to consolidated statement of financial position:		
Total contractual obligations per above		397,899
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 the consolidated statement of financial position	236,290	
Policyholder liabilities (undiscounted) per above	(381,754)	(145,464)
Other short-term/non-contractual obligations:		
Current tax liabilities	930	
Deferred tax liabilities	4,211	
Accruals and deferred income	736	
Other creditors (excluding capital and operating lease obligations and purchase obligations)	2,544	
Derivative liabilities	3,054	
Other liabilities	1,249	12,724
Other items		(739)
Total liabilities per consolidated statement of financial position		264,420

Notes

(i)

Amounts shown in respect of policyholder liabilities represent estimated undiscounted cash flows for Prudential'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. As at 31 December 2011, on the IFRS basis of reporting, the unallocated surplus was £9,215 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.

(ii)

The amounts represent the contractual maturity of amounts of borrowings included in the consolidated statement of financial position (i.e. excludes future interest payments) as shown in note H13 to Prudential's consolidated financial statements in Item 18. Long-term debt comprises the core structural borrowings of shareholder-financed operations and the £100 million 8.5 per cent undated subordinated guaranteed bonds of Scottish Amicable Finance plc. Other borrowings comprise operational borrowings attributable to shareholder-financed operations and borrowings attributable to with-profits operations but excluding the £100 million 8.5 per cent undated subordinated guaranteed bonds of Scottish Amicable Finance plc.

(iii)

Comprising unfunded commitments for investments in limited partnerships of £341 million (2010: £339 million) and unfunded commitments related to mortgage loans of £77 million (2010: £88 million) and commitments to purchase or develop investment properties of £9 million (2010: £28).

(iv) Amounts due in less than one year include amounts attributable to unit holders of consolidated unit trusts and similar funds of £3,840 million.

Group Consolidated Cash Flows

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 2011 were £1,738 million from operating activities, £(167) million from investing activities, and £(913) million from financing activities. Net cash inflows (outflows) in 2010 were £1,948 million from operating activities, £(234) million from investing activities, and £(446) million from financing activities. In 2009, net cash inflows (outflows) were £108 million from operating activities, £(554) million from investing activities, and £16 million from financing activities.

The Group held cash and cash equivalents of £7,257 million at 31 December 2011 compared with £6,631 million and £5,307 million at 31 December 2010 and 2009, respectively.

Item 6. Directors, Senior Management and Employees

The Prudential Board consists of 17 directors as at 30 March 2012.

In January 2011, John Foley and Mike Wells were appointed as executive directors, with John becoming the Group Chief Risk Officer and Mike taking over as President and Chief Executive Officer of Jackson National Life Insurance Company. James Ross retired from the Board at the conclusion of the Annual General Meeting held on 19 May 2011 and Bridget Macaskill stepped down from the Board on 30 September 2011. In January 2012, Kai Nargolwala and Alistair Johnston joined the board as non-executive directors and the Company announced that Kathleen O'Donovan will step down from the Board with effect from 31 March 2012. Harvey McGrath, Chairman of the Board, has signalled his intention to retire during 2012 once a suitable successor has been found.

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 30 March 2012.

Harvey McGrath
Chairman and Chairman of the Nomination Committee

Harvey McGrath was appointed as an independent non-executive director of Prudential in September 2008 and became the Chairman and Chairman of the Nomination Committee in January 2009. Harvey has a long and distinguished career in the international financial services industry, having started his career at Chase Manhattan Bank in London and New York. From 1980 to 2007 he worked for the Man Group, first as Treasurer, then Finance Director, then President of Man Inc. in New York before being appointed as Chief Executive of Man Group plc 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 London. He is the former Chairman of both London First and the East London Business Alliance and former Vice Chairman of the London Skills and Employment Board from 2006 to 2011. In July 2011, Harvey was appointed as co-chair of the new Board of the London Enterprise Partnership (LEP).

Harvey is Chairman of Governors of Birkbeck College and trustee of a number of charities. These include 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; Children and Families Across Borders (CFAB), 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. Harvey will retire from the Board in 2012 once a successor has been found. Age 60.

Tidjane Thiam
Group Chief Executive

Tidjane Thiam has been an executive director of Prudential since 25 March 2008. He was the Chief Financial Officer until 30 September 2009 and became Group Chief Executive with effect from 1 October 2009.

Tidjane was previously Group Executive Director and Chief Executive Officer, Europe at Aviva where he worked from 2002 to 2008 and held successively the positions of Group Strategy and Development Director and Managing Director, Aviva International. Tidjane spent the first part of his professional career with McKinsey & Company in Paris and New York, serving insurance companies and banks. He then spent a number of years in Africa where he was Chief Executive and later Chairman of the National Bureau for Technical Studies and Development in Cote d'Ivoire and a cabinet member as Secretary of

Planning and Development. Tidjane returned to France to become a partner with McKinsey & Company and one of the leaders of their Financial Institutions practice before joining Aviva in 2002.

Tidjane was a non-executive director of Arkema in France until November 2009. He is a member of the Board of the Association of British Insurers (ABI) and a member of the Council of the Overseas Development Institute (ODI) in London. Tidjane is a member of the Africa Progress Panel chaired by Kofi Annan and a sponsor of Opportunity International. In January 2011, he was appointed to chair the G20 High Level Panel for Infrastructure Investment, which reported to the G20 Leaders at the G20 Summit in Cannes in November 2011. Tidjane is a member of the UK-ASEAN Business Council and of the Strategic Advisory Group on UK Trade and Investment. In January 2012, Tidjane was appointed to the Prime Minister's Business Advisory Group. Tidjane was awarded the Légion d'Honneur by the French President in July 2011. Age 49.

Nicolaos Nicandrou ACA
Chief Financial Officer

Nic Nicandrou has been an executive director of Prudential and Chief Financial Officer since October 2009. Before joining Prudential, he worked at Aviva, where he held a number of senior finance 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 started his career at PriceWaterhouseCoopers where he worked in both London and Paris. Age 46.

Robert Devey
Executive Director

Rob Devey has been an executive director of Prudential and Chief Executive, Prudential UK and Europe since November 2009. Rob joined Prudential from Lloyds Banking Group where he worked from 2002 in a number of senior leadership roles across insurance and retail banking. Prior to joining Lloyds Banking Group Rob was a consultant with the Boston Consulting Group (BCG) in the UK, US and Europe.

Rob chairs the London Leadership Team of Business in The Community and is also a trustee of the LloydsTSB Foundation for England and Wales. Age 43.

John Foley
Executive Director

John Foley has been an executive director of Prudential and Group Chief Risk Officer since January 2011. He joined Prudential as Deputy Group Treasurer in 2000 before being appointed Managing Director, Prudential Capital (formerly Prudential Finance (UK)) and Group Treasurer in 2001. He was appointed Chief Executive of Prudential Capital and to the Group Executive Committee in 2007. Prior to joining Prudential, John spent three years with National Australia Bank as General Manager, Global Capital Markets. John began his career at Hill Samuel & Co Limited where, over a 20 year period, he worked in every division of the bank, culminating in senior roles in risk, capital markets and treasury of the combined TSB and Hill Samuel Bank. Age 55.

Michael McLintock
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 from 2001 to 2008. Since October 2008, he has been a Trustee of the Grosvenor

Estate and was appointed as a non-executive director of Grosvenor Group Limited in March 2012. He has also been a member of the Finance Committee of the MCC since October 2005. Age 50.

Barry Stowe
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 been a member of the Board of Visitors of Lipscomb University since May 2009 and was a director of the Life Insurance Marketing Research Association (LIMRA) and the Life Office Management Association (LOMA) from October 2008 to October 2011. 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 to1995. Before joining Nisus, Barry spent 12 years at Willis Corroon in the US. Age 54.

Michael Wells
Executive Director

Mike Wells has been an executive director of Prudential since January 2011 when he succeeded Clark Manning as President and CEO of Jackson National Life Insurance Company. Mike has served in a variety of senior and strategic positions at Jackson over the last 15 years, including President of Jackson National Life Distributors. Mike has been Vice Chairman and Chief Operating Officer of Jackson for the last nine years. During this period he has led the development of Jackson's variable annuity business and been responsible for IT, strategy, operations, communications, distributions, Curian and the retail broker-dealers. Age 51.

Keki Dadiseth FCA
Non-executive director and member of the Remuneration Committee

Keki Dadiseth has been a non-executive director of Prudential since April 2005. He is a member of the Remuneration Committee and was a member of the Audit Committee from 2005 to 2007. During 2006, he was appointed as a non-executive director of ICICI Prudential Life Assurance Company Limited and ICICI Prudential Trust Limited. Keki is also a director of Britannia Industries Limited, Piramal Healthcare Limited, Siemens Limited, The Indian Hotels Company Limited and Godrej Properties Limited, all of which are quoted on the Bombay Stock Exchange. In addition, he acts as adviser to Goldman Sachs, Fleishman-Hillard Inc and Chairman of Marsh & McLennan Companies Group, India. He is Chairman of the Breach Candy Hospital Trust and a trustee for a number of Indian charities. Keki is the non-executive Chairman of Omnicom India Marketing Advisory Services Private Limited, an unquoted Indian company, and is also a board member of various other unquoted Indian companies. He serves as Chairman of Sony India Pvt Ltd and Senior Advisor to Sony Group in India.

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 and in 1987, he joined the Board of Hindustan Lever and became Chairman in 1996. Age 66.

Sir Howard Davies
Non-executive director, Chairman of the Risk Committee and member of the Audit Committee

Sir Howard has been a non-executive director of Prudential and Chairman of the Risk Committee since October 2010. He joined the Audit Committee in November 2010. Sir Howard was the Director of the London School of Economics and Political Science (LSE) from September 2003 to April 2011. Prior to joining the LSE, he was Chairman of the Financial Services Authority, the UK's financial regulator. He is a Professor at the Institut d'Études Politiques (Sciences Po), a director of Morgan Stanley Inc, an

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external adviser to the Government Investment Corporation of Singapore and a member of the International Advisory Board of the China Banking Regulatory Commission. Age 61.

Michael Garrett
Non-executive director and member of the Remuneration Committee

Michael Garrett has been a non-executive director of Prudential and a member of the Remuneration Committee since September 2004. He worked for Nestlé from 1961, becoming Head of Japan from 1990 to 1993, and then Zone Director and Member of the Executive Board, responsible for Asia and Oceania. 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, a think tank and forum for dialogue promoting free trade, from 2001 to 2011. 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 Swaziland International Business Advisory Panel under the auspices of the Global Leadership Foundation (GLF) London, as well as being a member of the Development Committee of the International Business Leaders Forum (IBLF) until stepping down in 2011. Age 69.

Ann Godbehere FCGA
Non-executive director, Chairman of the Audit Committee and member of the Risk Committee

Ann Godbehere has been a non-executive director of Prudential since August 2007. She has been a member of the Audit Committee since October 2007, becoming its Chairman in October 2009, and joined the Risk Committee in November 2010. Ann 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 Rio Tinto plc, Rio Tinto Limited, UBS AG, Ariel Holdings Limited, Atrium Underwriting Group Limited and Atrium Underwriters Limited. From its nationalisation in 2008 until January 2009 Ann was Interim Chief Financial Officer and Executive Director of Northern Rock. Ann joined the Board of British American Tobacco plc in October 2011 as a non-executive director. Age 56.

Alexander (Alistair) Johnston CMG FCA
Non-executive director and member of the Audit Committee

Alistair Johnston has been a non-executive director of Prudential and a member of the Audit Committee since January 2012.

Alistair was a partner of KPMG from 1986 to 2010. He joined KPMG (then Peat Marwick Mitchell) in 1973 and held a number of senior leadership positions. These included Vice Chairman of UK Financial

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Services and Head of UK Insurance Practice, International Managing Partner Global Markets and UK Vice Chairman. Latterly he served as a Global Vice Chairman of the firm from 2007 to 2010.

Alistair acted as a non-executive director of the Foreign & Commonwealth Office from 2005 to 2010 and chaired the audit committee until 2009. He was an Association Member of BUPA until January 2012. Alistair is a member of the Strategy and Development Board and a Visiting Professor at Cass Business School. In February 2012 Alistair was appointed as a Trustee of the Design Museum in London. Age 59.

Paul Manduca
Senior independent non-executive director and member of the Audit, Remuneration and Nomination Committees

Paul Manduca has been a non-executive director of Prudential since October 2010 and succeeded James Ross as the Board's Senior Independent Director in January 2011. He joined the Audit and Remuneration Committees in November 2010 and became a member of the Nomination Committee in January 2011.

Paul was appointed as a non-executive director of Wm Morrison Supermarkets Plc (Morrisons) in September 2005. He was the Senior Independent Director, a member of the Nomination Committee and Chairman of the Remuneration Committee of Morrisons. He previously chaired the Audit Committee and stepped down from the Board of Morrisons in March 2011. He is also Chairman of Aon Limited, a non-executive director and Chairman of the Audit Committee of KazmunaiGas Exploration & Production Plc, Chairman of Henderson Diversified Income Limited and Chairman of JPM European Smaller Companies Investment Trust Plc. Paul was a director of Development Securities plc until March 2010, Chairman of Bridgewell Group plc until 2007 and a director of Henderson Smaller Companies Investment Trust plc until 2006. Paul was European CEO of Deutsche Asset Management from 2002 to 2005, global CEO of Rothschild Asset Management from 1999 to 2002 and founding CEO of Threadneedle Asset Management Limited from 1994 to 1999 when he was also a director of Eagle Star and Allied Dunbar. Paul is a member of the Securities Institute. Age 60.

Kaikhushru Nargolwala FCA
Non-executive director and member of the Risk and Remuneration Committees

Kai Nargolwala has been a non-executive director of Prudential and a member of the Risk and Remuneration Committees since January 2012. Until December 2011 he was the non-executive Chairman of Credit Suisse Asia Pacific, having joined Credit Suisse in 2008 as a member of the Executive Board and CEO of the Asia Pacific region.

From 1998 to 2007, Kai worked for Standard Chartered PLC where he was a Group Executive Director responsible for Asia Governance and Risk. His responsibilities included developing strategy and business performance across Asia, as well as strategic merger and acquisition activity. Prior to that, he spent 19 years at Bank of America and from 1990 was based in Asia as Group Executive Vice President and Head of the Asia Wholesale Banking Group. From 2004 to 2007, he was a non-executive director at Tate & Lyle plc and at Visa International, where he served on the Asia Pacific Board.

Kai is currently a non-executive director and lead independent director of Singapore Telecommunications Limited, a member of the Board of the Casino Regulatory Authority of Singapore and a member of the Governing Board of the Duke-NUS Graduate Medical School. Age 61.

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Kathleen O'Donovan ACA
Non-executive director and member of the Audit and Nomination Committees

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 was its Chairman from May 2006 until September 2009. Kathleen joined the Nomination Committee in November 2010. Kathleen is also a director and Chairman of the Audit Committee of Trinity Mirror plc, the Senior Independent Director and Chairman of the Audit Committee of ARM Holdings plc and Chairman of the Invensys Pension Scheme.

Previously, Kathleen was a non-executive director and Chairman of the Audit Committees of Great Portland Estates PLC, EMI Group plc and the Court of the Bank of England, and a non-executive director of O_2 plc. From 1991 to 2002, Kathleen was Chief Financial Officer of BTR and Invensys and prior to that she was a partner at Ernst & Young. Kathleen retires from the Prudential Board with effect from 31 March. Age 54.

Lord Turnbull KCB CVO
Non-executive director, Chairman of the Remuneration Committee and member of the Risk and Nomination Committees

Lord Turnbull has been a non-executive director of Prudential since May 2006. He joined the Risk Committee and the Remuneration Committee in November 2010, and became Chairman of the Remuneration Committee and a member of the Nomination Committee in June 2011. From January 2007 to November 2010 he was a member of the Audit Committee. 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 from 2006 to 2007. He also worked part-time as a Senior Adviser to the London partners of Booz and Co (UK) until February 2011. Age 67.

Other Executive Officers

The heads of Prudential's business units, Prudential UK and Europe, M&G, Jackson National Life Insurance Company 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 Item 6, 'Compensation'.

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Compensation

Summary of main components of remuneration and related requirements

The table below summarises the Company's policies as they were applied during 2011:

ELEMENT	PURPOSE	APPROACH
Total compensation	Adopts appropriate compensation structures and reward payouts to attract high calibre executive directors.	Benchmarked against the relevant market(s) for the role, taking into account the individual's contribution and experience. Market position is compared with companies of similar size and complexity to Prudential in the relevant market(s) for the role. Consideration is also given to remuneration arrangements and levels offered to other Prudential employees.
Base salary	Along with benefits, provides the guaranteed element of remuneration necessary to recruit and retain the best people to lead our business.	Based on the scope of role and market position, as well as the individual's contribution and experience, taking into account total remuneration, market movement of salaries in comparator organisations and salary increases for employees generally. The Committee reviews salaries annually. Changes in base salaries are generally effective from 1 January.

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ELEMENT	PURPOSE	APPROACH
Annual bonus	Rewards the achievement of business results and individual objectives in a given year. Deferral reinforces the need for annual results to be grounded in business performance which is sustained over the longer term.	Executive directors have annual bonus plans based on the achievement of Group and business unit financial performance measures and personal objectives. 2011 Group and business unit targets focused on profitability, cash flow and capital preservation. Executive directors are required to defer between 30 per cent and 50 per cent of annual bonus (for Michael McLintock, 50 per cent of bonus over £500,000 is deferred) into Prudential shares for three years. Bonuses are not pensionable.
Long-term incentive	Rewards executive directors for delivering sustainable long-term returns for shareholders.	All executive directors participate in the Group Performance Share Plan (GPSP) under which awards vest based on relative TSR (Total Shareholder Return, a combination of share price growth and dividends paid) performance relative to an index of international insurers. Business unit Chief Executives also participate in business unit plans that focus on financial measures which contribute to the long-term success of the business unit and, therefore, the Group. Given the cash-generative priorities of the UK business unit, the Chief Executive of UK & Europe participates in a plan using the same TSR measures as the GPSP.
Shareholding guidelines	Encourage executives to build an interest in the Company's shares and support alignment with shareholder interests.	The Group Chief Executive and Chief Executive of M&G are required to build up and hold shares equal to 200 per cent of base salary. Other executive directors are required to build up and hold shares equal to 100 per cent of base salary.

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ELEMENT	PURPOSE	APPROACH
All-employee share plans	Offer all employees an opportunity to participate in the success of the Company.	The structure of plans is determined by local market practice and legislation. Executive directors are eligible to participate in all-employee plans on the same basis as other employees in their location.
Benefits	Provide health and security benefits as part of the fixed element of remuneration.	Set at an appropriate level. Executive directors receive benefits, for example participation in medical insurance schemes, health assessments, the use of a car and driver, and security arrangements. No benefits are pensionable.
Pension	Provides opportunities for executive directors to save for an income in retirement in a cost efficient manner.	It is the Company's policy to provide efficient pension plans to allow executive directors to save for their retirement. The Company's policy for all external appointments since June 2003 has been to provide a pension contribution as a fixed percentage of salary. The level of the Company's pension contribution is related to competitive practice in the executive directors' employment markets.

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Components of 2011 remuneration

On a policy basis, the package for 2011 offered the following proportions of fixed and variable and short- and long- term reward for our executive directors.

Remuneration based on good and superior performance (average of executive directors):

Good Performance	Superior Performance

'Good' performance results in the payment of 2011 annual bonus at plan and 2011 long-term incentive awards vesting at the threshold level. 'Superior' performance generates maximum payment of 2011 annual bonuses and 2011 long-term incentive awards vesting in full.

Base salary

No executive director was awarded a salary increase effective in 2011:

Director	Role	2010 Base Salary	Percentage Increase	2011 Base Salary
Rob Devey	Chief Executive, UK & Europe	£550,000	0%	£550,000
John Foley	Group Chief Risk Officer	n/a	0%	£550,000
Michael McLintock	Chief Executive, M&G	£350,000	0%	£350,000
Nic Nicandrou	Chief Financial Officer	£550,000	0%	£550,000
Barry Stowe	Chief Executive, PCA	HKD 8,000,000	0%	HKD 8,000,000
Tidjane Thiam	Group Chief Executive	£900,000	0%	£900,000
Mike Wells	President & CEO, JNL	n/a	0%	$1,000,000

Note:

John Foley and Mike Wells became executive directors on 1 January 2011.

Annual bonus

Performance measures

The 2011 annual bonus plans for the majority of executive directors included Group and business unit performance measures based on:

- IFRS operating profit
- EEV operating profit
- Holding company cash flow; and
- Insurance Groups Directive (IGD) Capital Surplus.

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These performance measures have been selected because they recognise the importance of generating profit while maintaining cash flow and capital coverage. Please see the Financial Statements and the Risk and Capital Management section of the Business Review for full definitions of these measures. Michael McLintock's annual bonus plan incorporated business unit measures including M&G investment performance and M&G IFRS operating profit (excluding PruCap). The performance measures for Mike Wells' annual bonus included Jackson's IFRS pre-tax operating income and EEV new business profit.

A portion of the annual bonus for each executive director is based on the achievement of personal objectives. These objectives include the executive's contribution to Group strategy as a member of the Board and specific goals related to their functional and/or business unit role (for instance, project measures relating to the implementation of Solvency II requirements). In addition, all employees are required to comply with the regulatory, governance and risk management practices and policies as these relate to their role and business area. Specifically, all business units must act within the Group's risk appetite.

Part of the annual bonus is deferred

A proportion of each executive director's annual bonus is not paid in cash and must be deferred. This portion is deferred for three years in the form of the Company's shares. This deferral aligns the interests of our executive directors with our shareholders and helps to ensure a focus on the sustainable success of the Company.

Executive directors' bonus opportunities, the weighting of performance measures for 2011 and the proportion of annual bonuses deferred are set out below.

2011 Executive directors' bonus opportunities, the weighting of performance measures and the proportion of annual bonuses deferred:

			Weighting of measures		
			Financial measures		
	Maximum bonus opportunity (% of salary)	**Deferral requirement**	**Group**	**Business Unit**	**Personal objectives**
Rob Devey	160%	40% of total bonus	20%	60%	20%
John Foley	160%	40% of total bonus	50%		50%
Michael McLintock	(note 1)	50% of bonus above £500,000	10%	60%	30%
Nic Nicandrou	160%	40% of total bonus	80%		20%
Barry Stowe	160%	40% of total bonus	20%	60%	20%
Tidjane Thiam	180%	50% of total bonus	80%		20%
Mike Wells(note 2)	c.385%	30% of total bonus	30%	60%	10%

Notes

(1) Michael McLintock's annual bonus and long-term incentive opportunities are based on M&G's performance both in absolute terms and relative to its peers. In line with practice in the asset management sector, there is no specified maximum incentive award. Michael's total remuneration (including long-term incentives) is subject to an overriding cap which requires that his total remuneration must not be greater than 3 per cent of M&G's annual IFRS profit.

(2) Mike Wells' annual bonus figure and the weighting of measures comprise 160 per cent of salary and a 10 per cent share of the Jackson senior management bonus pool based on the target performance of Jackson.

Rewarding 2011 performance

During 2011, the Group delivered growth in new business profits, IFRS profits and cash generation. In each of these three important areas, the Group exceeded both the performance achieved in 2010 and the stretching targets set by the Committee at the start of 2011, notwithstanding challenging global market conditions. All other financial targets set for the 2011 annual bonus plan were also exceeded,

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with achievement against most reaching or approaching the level required for maximum bonus payments. On the basis of this performance, the Committee approved the 2011 bonus payments set out in the 2011 emoluments table.

Long-term incentives

All executive directors participate in the Group Performance Share Plan (GPSP). Those executive directors with responsibility for a business unit also participate in plans linked to the long-term success of the relevant unit. The Committee will continue to keep the performance measures used in the long-term incentive plans under review to ensure their relevance.

Details of the awards made under these plans in 2011 can be found in the Directors' outstanding long-term incentive awards section. Additional discussion on the Group's share award and share option plans may be found in note I4 to the consolidated financial statements in Item 18.

Group Performance Share Plan

All executive directors participate in the GPSP. Awards vest on the basis of the Group's Total Shareholder Return (TSR) performance over a three year period. Total Shareholder Return is the combination of the share price growth and the dividends paid. Prudential's TSR performance over the performance period is compared with the TSR performance of an index composed of 10 international insurers (see box below). This performance measure was selected because it focuses on the value delivered to shareholders. TSR is measured on a local currency basis since this has the benefits of simplicity and directness of comparison.

The vesting schedule for outstanding GPSP awards is set out below:

Peer Companies used within the Index for 2011 GPSP awards
Aegon, Allianz, Aviva, Axa, Generali, ING, Legal & General, Manulife, Old Mutual and Standard Life.

For any GPSP award to vest, the Committee must be satisfied that the quality of the Company's underlying financial performance justifies the level of reward delivered at the end of the performance period. To ensure close alignment with our shareholders' long-term interests, participants receive the value of reinvested dividends over the performance period for those shares which ultimately vest. If performance measures are not achieved in full, the unvested portion of any award lapses and performance cannot be retested.

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On 31 December 2011, the performance period for the 2009 GPSP award (which began on 1 January 2009) came to an end. The peer group used for this award was the 10 companies listed above plus Friends Provident (Friends Provident is included in the calculation until its delisting in November 2009). Since the peer group's TSR index was 100 at the start of the 2009-2011 performance period and was 120 at the end of the period, (as illustrated below) in order for the 2009 GPSP awards to vest in full, Prudential's TSR index over the period had to increase from 100 to at least 144 (i.e. 120 × 1.2). The Committee believes that this is a stretching requirement that requires exceptional performance, relative to other international insurance companies, for awards to be released in full.

Prudential's TSR performance over this period was 201.84, equal to 169 per cent of the peer index. The Committee, having satisfied itself about the quality of the Company's underlying financial performance, confirmed vesting of 100 per cent of the 2009 GPSP award (for reference, 100 per cent of the 2008 GPSP award vested).

The line chart below compares Prudential's Total Shareholder Return (TSR) during the three years from 1 January 2009 to 31 December 2011 with that of the peer group against which TSR is measured for the purposes of the GPSP.

Prudential TSR v peer group total returns index % over the 3 years to December 2011

Business Unit Performance Plan (BUPP)

For executives with regional responsibilities, the Business Unit Performance Plan (BUPP) provides awards which vest subject to performance over a three-year period.

For any BUPP award to vest, the Committee must be satisfied that the quality of underlying financial performance of the relevant business unit justifies the level of reward delivered at the end of the performance period. To ensure close alignment with our shareholders' long-term interests, participants receive the value of reinvested dividends over the performance period for those shares which ultimately vest. If the performance conditions are not achieved in full, the unvested portion of any award lapses and cannot be retested.

Asia BUPP

In 2009, 2010 and 2011 Barry Stowe was granted Asia BUPP awards with a performance measure based on the growth of the Shareholder Capital Value (SCV) of the Asian business. SCV represents shareholders' capital and reserves on a European Embedded Value (EEV) basis for each business unit.

Over this period Prudential redirected the key metrics so that the performance of the Asian business has been managed and measured based on three core metrics of new business profit, IFRS profit and cash remittance. Given the success of this approach, SCV has been de-emphasised in the way that Prudential manages and measure the PCA business and the associated reward mechanisms.

The Committee therefore felt that it was appropriate to revise the performance conditions attached to outstanding awards to align them with the business plan and the long-term objectives of the Asian business. Vesting of these awards will now be dependent on the new business profit, IFRS profit and cash remittance performance of the Asian business. Each of these measures will determine vesting of one third of each award. For the 2009, 2010 and 2011 BUPP awards, performance will be measured over the periods 2009 to 2011, 2010 to 2013 and from 2011 to 2014 respectively. The Committee is satisfied that these conditions are more relevant than the original SCV measure and that they are broadly equivalent in their degree of stretch. This revision is also consistent with the change made to the performance condition of the UK BUPP award in 2010.

On 31 December 2011, the performance period for the 2009 Asia BUPP award (which began on 1 January 2009) came to an end. Over the period, the new business profit, IFRS profit and cash remittance achieved by the Asian business meant that the Committee, having satisfied itself as to the quality of the business units' underlying financial performance, confirmed vesting of 86.50 per cent of Barry Stowe's 2009 Asia BUPP award (for reference, 30 per cent of Barry Stowe's 2008 Asia BUPP award vested).

Jackson BUPP

In 2011 Mike Wells was granted a Jackson BUPP award with vesting dependent on the increase in Jackson's Shareholder Capital Value (SCV) over the performance period.

The levels of SCV growth required for vesting of Mike Wells' award are set out in the table below. Vesting occurs between these performance levels on a straight line basis. On 31 December 2011, the performance period for the 2009 Jackson BUPP award came to an end. Although no current executive director had a 2009 award under this plan the vesting level for other participants was 93.75 per cent (for reference, the SCV performance measure attached to the 2008 Jackson BUPP award was not achieved and so no part of that award vested).

Percentage of BUPP award which vests	**Compound annual growth in SCV over three years**
0%	<8%
30%	8%
75%	10%
100%	12%

UK BUPP

In 2009, 2010 and 2011 Rob Devey was granted UK BUPP awards. Given the cash-generative priorities of the UK business unit, UK BUPP awards are assessed using the same relative TSR measure applied to GPSP awards. As a result, all Rob Devey's outstanding UK BUPP awards have the same TSR conditions applied to them as the GPSP awards made in the same year.

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On 31 December 2011, the performance period for the 2009 UK BUPP (which began on 1 January 2009) came to an end. As detailed above, Prudential's TSR over this period was equal to 169 per cent of the peer index. The Committee, having satisfied itself as to the quality of the business unit's underlying financial performance, confirmed vesting of 100 per cent of Rob Devey's 2009 UK BUPP award (for reference, no current executive director had a 2008 UK BUPP award).

Limits on award sizes

The rules of the GPSP and BUPP set a limit on the value of shares which may be awarded to an executive in a financial year. The combined value of shares awarded under the two plans may not exceed a maximum of 550 per cent of salary although the awards made in a particular year are often significantly below theis limit. On a change in control of Prudential, vesting of awards made under these arrangements would be prorated for performance and to reflect the elapsed portion of the performance period.

M&G Executive Long-Term Incentive Plan

In 2009, 2010 and 2011 Michael McLintock was granted M&G Executive LTIP awards. Under this plan an annual award of phantom shares is made with a notional starting share price of £1. The phantom share price at vesting is determined by the increase or decrease in M&G's profitability over the three-year performance period with profit and investment performance adjustments also applied:

Profit growth

The value of phantom shares vesting will be adjusted by a profit measure as follows:

- No adjustment will be made if profits in the third year of the performance period are at least equal to the average annual profit generated over the performance period;
- A loss or zero profit will result in the value of the award being reduced to zero, irrespective of investment performance;
- Between these points, the value of phantom shares will be reduced on a straight line basis from no reduction to the complete elimination of the value of the award.

Investment performance

The value of phantom shares vesting will be adjusted by an investment performance measure as follows:

- Where the investment performance of M&G's funds is in the top two quartiles during the three-year performance period, the value of phantom shares vesting will be enhanced. The value of phantom shares may be doubled if performance is in the top quartile;
- Investment performance in the third quartile will not change the value of phantom shares vesting;
- Investment performance in the bottom quartile will result in awards being forfeited, irrespective of any profit growth.

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

On 31 December 2011, the performance period for the 2009 award under the M&G Executive Long-Term Incentive Plan (which began on 1 January 2009) came to an end. M&G's profit grew by 103 per cent over the period and M&G's investment performance was in the second quartile. The Committee, having satisfied itself about the quality of M&G's underlying financial performance,

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confirmed vesting of Michael McLintock's 2009 award with a value of £2.96 per share (for reference, the 2008 award vested with a value of £2.62 per share).

The number of phantom shares awarded depends on the performance of M&G and Michael McLintock's individual contribution in the financial year prior to the year in which the award is made. Therefore, the number of phantom shares to be awarded in 2012 relates to M&G's performance in 2011 and is calculated on the basis of the award's expected value. The expected value of the award is determined by a third party (PricewaterhouseCoopers LLP). Based on 2011 performance, an award of 952,960 phantom shares with an anticipated value of £1,238,849 will be made to Michael McLintock in 2012. The ultimate value of the award will be determined with reference to the profit and investment performance of M&G over the three years from 1 January 2012 to 31 December 2014. Based on 2010 performance, an award of 1,318,148 phantom shares with an anticipated value of £1,779,500 was made to Michael McLintock in 2011.

Jackson Long-Term Incentive Plans

Prior to his appointment as an executive director, Mike Wells participated in the two long-term incentive plans offered to senior staff within Jackson. Mike Wells was awarded ADRs under the JNL US Performance Share Plan and cash-based awards under the JNL Long-Term Incentive Plan. Awards made under both plans have a performance period of four years and vesting is dependent on the achievement of shareholder value targets. Up to 150% of the original number of ADRs awarded under the JNL Performance Share Plan may be released if stretch performance targets are achieved.

Outstanding awards made to Mike Wells before his appointment as an executive director will remain subject to the original performance conditions and vesting schedule. No further awards will be made to Mike Wells under these plans.

On 31 December 2011, the performance periods for the 2008 awards under the JNL long-term incentive plans (which began on 1 January 2008) came to an end. Over the period the shareholder value of the US business grew by 18.1 per cent per annum (on a compound basis) and 94.7 per cent over the performance period. This resulted in vesting of 150 per cent of Mike Wells' 2008 JNL US Performance Share Plan award and 95 per cent of his 2008 cash-settled JNL Long-Term Incentive Plan award.

All-employee share plans

It is important that all employees are offered the opportunity to own shares in Prudential, connecting them both to the success of the Company and to the interests of other shareholders. Executive directors are invited to participate in these plans on the same basis as other staff in their location.

Save As You Earn (SAYE) schemes

UK-based executive directors are eligible to participate in the Prudential HM Revenue and Customs (HMRC) approved UK SAYE scheme and Barry Stowe is invited to participate in the equivalent International Share Ownership Scheme. These schemes allow employees to save towards the exercise of options over Prudential plc shares with the option price set at the beginning of the savings period at a discount of up to 20 per cent of the market price.

Participants elect to enter into savings contracts of up to £250 per month for a period of three or five years. At the end of this term, participants may exercise their options within six months and purchase shares. If an option is not exercised within six months, participants are entitled to a refund of their cash savings plus interest if applicable under the rules. Shares are issued to satisfy those options which 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

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preceding 10 years under the scheme and any other 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.

Share Incentive Plan (SIP)

UK-based executive directors are also eligible to participate in the Company's HMRC approved Share Incentive Plan (SIP). This allows all UK based employees to purchase Prudential plc shares up to a value of £125 per month from their gross salary (partnership shares). 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, matching shares are forfeited.

No directors or other employees are provided with loans to enable them to buy shares.

Shareholding guidelines

As a condition of serving, all executive and non-executive directors are required to have beneficial ownership of a minimum of 2,500 ordinary shares in the Company. This interest in shares must be acquired within 12 months of appointment to the Board if the director does not have such an interest upon appointment.

Executive directors should have a substantial shareholding to maximise the community of interest between them and other shareholders. This may 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.

	Shareholding guideline as % of base salary	Shareholding at 12 March 2012 as % of base salary (note 1)
Rob Devey	100%	146%
John Foley	100%	423%
Michael McLintock	200%	1086%
Nic Nicandrou	100%	195%
Barry Stowe(note 2)	100%	274%
Tidjane Thiam	200%	461%
Mike Wells(note 2)	100%	449%

Notes:

(1) Based on the share price as at 31 December 2011 (£6.39). Calculated using base salaries on 31 December 2011.

(2) Shareholdings for Barry Stowe and Mike Wells include American Depositary Receipts (ADRs). One ADR is equivalent to two Prudential plc shares.

Pensions and long-term savings

For executive directors based in the UK and Asia, it is the Company's policy to provide a supplement in lieu of pension of 25 per cent of base salary. This includes, where relevant, any Company contributions to the staff defined contribution pension, which UK executive directors may choose to join and which has no salary cap. Executives are provided with life assurance cover of up to four times salary plus a dependants' pension.

Before becoming an executive director, John Foley participated in the Company's defined benefit pension arrangement on the same basis as other employees who joined the Group before 2003. John

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Foley elected to become a deferred member of this arrangement on 31 December 2010 and to join the defined contribution scheme with effect from 1 April 2011.

Michael McLintock participates in a contributory defined benefit scheme that provides a target pension of two thirds of final pensionable earnings on retirement at age 60 for an employee with 30 years or more potential service, for which his contribution is four per cent of base salary. Michael McLintock participates on the same basis as other employees who joined M&G at the same date. Benefits under the plan are subject to a notional scheme earnings cap (set at £123,600 for the 2010/11 tax year and at £129,600 for the 2011/12 tax year) which replicates the HMRC earnings cap in force before A-Day (6 April 2006). Michael McLintock is entitled to supplements based on his salary above the notional earnings cap.

Other executive directors based in the UK and Asia have elected to receive their pension benefits in the form of a cash supplement. Barry Stowe also receives a payment to the Hong Kong Mandatory Provident Fund.

Mike Wells 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. The Company provides matching contributions of 6 per cent of base salary (Mike Wells' salary for pension purposes is limited to $245,000). He is also eligible to participate in the profit sharing element of the plan which provides eligible participants with an annual profit sharing contribution, depending on the financial results of Jackson for the plan year, to a maximum of an additional 6 per cent of pensionable salary. An annual profit sharing contribution equivalent to 5 per cent of pensionable salary was made in 2011 (in 2010, the profit share contribution was 5 per cent of pensionable salary). Mike Wells is provided with life assurance cover of two times salary.

Components of 2012 Remuneration

Prudential's remuneration structures for 2012 are unchanged from those used in 2011, detailed in the preceding pages. A review of these structures will take place in 2012 for implementation in 2013, subject to shareholder approval (if required) at the 2013 AGM.

In December 2011 the Remuneration Committee undertook a review of the compensation levels of the executive directors. The Committee considered the performance, experience and internal relativities for each director as well as the business performance of Prudential over recent financial years (illustrated opposite). To provide context for this review, each director's remuneration was benchmarked against appropriate market reference point(s). The Committee felt that the benchmarks used represent the markets from which Prudential would be most likely to recruit future executives, and to which the Group might lose leaders, if reward were not to be competitive.

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New business profit[1], £m	IFRS operating profit[2], £m	Business unit net remittances, £m

Notes:

(1) Excludes Japan and Taiwan agency.

(2) In 2010, the Group amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. The prior period comparatives for 2009 and 2008 have been amended accordingly. Excludes Taiwan agency.

The benchmarks used were:

Director	Role	Benchmark(s) used to assess remuneration
Rob Devey	Chief Executive, UK & Europe	FTSE 40 International Insurance Companies
John Foley	Group Chief Risk Officer	FTSE 40
Michael McLintock	Chief Executive, M&G	PwC UK Asset Management Survey McLagan UK Investment Management Survey
Nic Nicandrou	Chief Financial Officer	FTSE 40 International Insurance Companies
Barry Stowe	Chief Executive, PCA	Towers Watson Asian Insurance Survey
Tidjane Thiam	Group Chief Executive	FTSE 40 International Insurance Companies
Mike Wells	President & CEO, JNL	Towers Watson US Financial Services Survey LOMA US Insurance Survey

Over the same period (2007 to 2011), the base salary for the Group Chief Executive has been largely unchanged while total remuneration delivered to the Group Chief Executive rose by an average of 4.8 per cent per annum on a compound basis; substantially lower than the growth in the key performance metrics (above) used to assess business performance.

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In light of the Remuneration Committee's compensation review and the Company's sustained performance, changes were made to the remuneration for the executive directors for 2012. In 2012, executive directors will be rewarded on the basis set out below:

			2012 Annual Bonus		Long-term incentives (2012 award as a percentage of salary)		
Director	**Role**	**Base Salary at 1 January 2012**	**Maximum % of salary**	**Deferral requirement**	**Group Performance Share Plan (GPSP)**	**Business Unit Performance Plan (BUPP)**	**Total**
Rob Devey	Chief Executive, UK & Europe	£600,000	160%	40% of total bonus	112.5%	112.5%	225.0%
John Foley	Group Chief Risk Officer	£610,000	160%	40% of total bonus	250.0%		250.0%
Michael McLintock	Chief Executive, M&G	£360,000	note 1	50% of bonus above £500,000	100.0%	344.1%	444.1%
Nic Nicandrou	Chief Financial Officer	£630,000	175%	40% of total bonus	225.0%		225.0%
Barry Stowe	Chief Executive, PCA	£641,000	160%	40% of total bonus	112.5%	112.5%	225.0%
Tidjane Thiam	Group Chief Executive	£1,000,000	200%	50% of total bonus	400.0%		400.0%
Mike Wells	President & CEO, JNL	£655,000	note 2	30% of total bonus	230.0%	230.0%	460.0%

Notes

(1)

Michael McLintock's annual bonus and long-term incentive opportunity under the M&G Executive LTIP are based on M&G's performance both in absolute terms and relative to its peers. In line with practice in the asset management sector, there is no specified maximum incentive award. Michael's 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.

(2)

Mike Wells' maximum annual bonus figure is comprised of 160 per cent of salary and a 10 per cent share of the Jackson senior management bonus pool based on the target performance of Jackson.

On a policy basis, the package for 2012 will offer the following proportions of fixed and variable and short- and long- term reward to executive directors.

Remuneration based on good and superior performance (average of executive directors):

Good Performance **Superior Performance**

'Good' performance results in the payment of plan annual bonuses in respect of 2012 and 2012 long-term incentive awards vesting at the threshold level. 'Superior' performance generates maximum payment of annual bonuses in respect of 2012 and 2012 long-term incentive awards vesting in full.

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Service Contracts

Executive directors' service contracts and letters of appointment

The normal notice of termination that the Company is required to give executive directors is 12 months. Accordingly, in normal circumstances, a director whose contract is terminated would be entitled to one year's salary and benefits in respect of their notice period. Additionally, outstanding awards under annual and long-term incentive plans may vest depending on the circumstances and according to the rules of the plans. When considering the termination of any service contract, the Remuneration Committee will have regard to the specific circumstances of each case, including the director's obligation to mitigate his loss. Payments are phased over the notice period.

Executive director	Date of contract	Notice period to the Company	Notice period from the Company
Rob Devey	1 July 2009	12 months	12 months
John Foley	8 December 2010	12 months	12 months
Michael McLintock	21 November 2001	6 months	12 months
Nic Nicandrou	26 April 2009	12 months	12 months
Barry Stowe	18 October 2006	12 months	12 months
Tidjane Thiam	20 September 2007	12 months	12 months
Mike Wells(note 1)	15 October 2010	12 months	12 months

Note

(1) The contract for Mike Wells is a renewable one year fixed term contract. The contract is renewable automatically upon the same terms and conditions unless the Company or the director gives at least 90 days' notice prior to the end of the relevant term.

Policy on external appointments

Subject to the Group Chief Executive's or Chairman's approval, executive directors are able to accept external appointments as non-executive directors of other organisations. Any fees paid may be retained by the executive director. During 2011, Michael McLintock received £45,000 as a trustee of another organisation (for reference, Michael McLintock received £42,500 for this role in 2010). Other directors served as non-executive directors on the boards of educational and cultural organisations without receiving a fee for such services.

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Non-executive directors' letters of appointment

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.

Under the terms of their letters of appointment, continuation of the non-executive directors' appointment is contingent on satisfactory performance and re-election by shareholders. Non-executive directors are typically expected to serve two three year terms from the date of their election by shareholders. Thereafter, the Board may invite the Director to serve for an additional period.

Non-executive director	Appointment by the Board	Initial election by shareholders at AGM	Notice period	Expiration of current term of appointment
Keki Dadiseth[1]	1 April 2005	AGM 2005	6 months	AGM 2012
Howard Davies	15 October 2010	AGM 2011	6 months	AGM 2014
Michael Garrett[1]	1 September 2004	AGM 2005	6 months	AGM 2012
Ann Godbehere	2 August 2007	AGM 2008	6 months	AGM 2014
Alistair Johnston[2]	1 January 2012	AGM 2012	6 months	AGM 2015
Bridget Macaskill[3]	1 September 2003	AGM 2004	6 months	n/a
Paul Manduca	15 October 2010	AGM 2011	6 months	AGM 2014
Kaikhushru Nargolwala[2]	1 January 2012	AGM 2012	6 months	AGM 2015
Kathleen O'Donovan[4]	8 May 2003	AGM 2004	6 months	n/a
James Ross[5]	6 May 2004	AGM 2005	6 months	n/a
Lord Turnbull	18 May 2006	AGM 2006	6 months	AGM 2012

Notes

(1) Keki Dadiseth and Michael Garrett were reappointed in 2011 for one year. The Board will consider a further renewal term in May 2012.

(2) For Alistair Johnston and Kaikhushru Nargolwala, the table assumes initial election by shareholders at the 2012 AGM.

(3) Bridget Macaskill retired from the Board on 30 September 2011.

(4) Kathleen O'Donovan will step down from the Board on 31 March 2012.

(5) James Ross retired from the board at the AGM on 19 May 2011.

Non-executive directors' fees

Non-executive directors are not eligible to participate in annual bonus plans, long-term incentive plans or pension arrangements. Their fees are determined by the Board and reflect their individual responsibilities, including chairmanship and membership of committees where appropriate. The Board reviews fees annually and revised fees, for the first time since 2008, with effect from 1 July 2011 (see the table below for details of the fee structure in place from this date). The fee levels established in 2011 recognise the impact that the increased size, complexity and the burden of regulatory scrutiny of

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the Group have had on the time commitment required from non-executive directors since fee levels were last varied in 2008.

Annual Fees	**From 1 July 2011**
	(£)
Basic fee	85,000
Audit Committee Chairman additional fee	70,000
Audit Committee member additional fee	25,000
Remuneration Committee Chairman additional fee	50,000
Remuneration Committee member additional fee	25,000
Risk Committee Chairman additional fee	60,000
Risk Committee member additional fee	25,000
Senior Independent Director additional fee	50,000

Notes

(1) No fee is payable for chairmanship or membership of the Nominations Committee.

(2) The Company may determine that additional fees should be paid if, in a particular year, the number of meetings is materially greater than usual.

Please see the 2011 emoluments table for details of the fees received by individual non-executive directors during 2011.

Until July 2011, non-executive directors used the net value of £25,000 of their total annual fees to purchase shares in the Company. In July 2011, this arrangement was replaced with a share ownership requirement for non-executive directors, described below.

In July 2011, a new share ownership requirement for non-executive directors was introduced. Non-executive directors are required to hold shares with a value equivalent to one times the annual basic fee (excluding additional fees for chairmanship and membership of any committees). Non-executive directors will be expected to attain this level of share ownership within three years of the implementation of this requirement (or within three years of their date of appointment, if later). The Chairman is required to hold shares with a value equivalent to one times his annual base fee and is expected to attain this level of share ownership within five years of the date of his appointment.

Chairman's letter of appointment and benefits

Harvey McGrath was appointed as a non-executive director on 1 September 2008 and became Chairman on 1 January 2009. He is paid an annual fee of £500,000. A contractual notice period of 12 months by either party applies. Harvey McGrath is provided with life assurance cover of four times his annual fees and the use of a car and driver. No pension allowance is paid and he is not a member of any Group pension scheme. Harvey McGrath is also entitled to medical insurance coverage but he has not taken up this benefit.

Harvey McGrath will retire from the Board in 2012 when a successor has been found.

Directors' shareholdings

The interests of directors in ordinary shares of the Company are set out below. This includes shares acquired under the Share Incentive Plan (detailed in the Shares acquired under Shares Incentives Plan),

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deferred annual incentive awards and interests in shares awarded on appointment (detailed in the 'Other Share Awards' table). All interests are beneficial.

	01 January 2011	31 December 2011	12 March 2012	Approximate Percentage of Ordinary Shares as of 12 March 2012
Keki Dadiseth	30,655	32,196	32,196	0.001
Howard Davies	575	3,083	3,083	0.0001
Rob Devey	78,261	126,006	126,006	0.005
John Foley	535,386	364,378	364,378	0.014
Michael Garrett	36,972	39,233	39,233	0.002
Ann Godbehere	14,628	15,914	15,914	0.001
Alistair Johnston[note 1]		`-		
Bridget Macaskill[note 2]	44,006			
Paul Manduca	1,260	2,500	2,500	0.0001
Harvey McGrath	299,540	300,636	300,636	0.01
Michael McLintock	604,390	595,363	595,363	0.02
Kaikhushru Nargolwala[note 3]			16,000	0.001
Nic Nicandrou[note 4]	133,555	167,655	167,724	0.007
Kathleen O'Donovan	23,484	24,425	24,425	0.001
James Ross[note 5]	21,190			
Barry Stowe[note 6]	264,437	274,575	274,575	0.01
Tidjane Thiam	273,025	650,116	650,116	0.03
Lord Turnbull	15,589	16,624	16,624	0.001
Mike Wells[note 7]	293,842	438,718	438,718	0.02

Notes

(1)

Alistair Johnston was appointed to the Board on 1 January 2012.

(2)

Bridget Macaskill retired from the Board on 30 September 2011.

(3)

Kaikhushru Nargolwala was appointed to the Board on 1 January 2012.

(4)

Nic Nicandrou's interest in shares on 12 March 2012 includes his monthly purchases made under the SIP plan in January, February and March 2012.

(5)

James Ross retired from the Board on 19 May 2011.

(6)

Part of Barry Stowe's interest in shares is made up of 77,724 ADRs (representing 155,448 ordinary shares. 8,513.73 of these ADRs are held within an investment account which secures premium financing for a life assurance policy).

(7) Mike Wells' interest in shares is made up of 219,359 ADRs (representing 438,718 ordinary shares).

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DIRECTORS' REMUNERATION FOR 2011 (AUDITED INFORMATION)

(£ thousand)	Salary/ fees	2011 Cash bonus	2011 Deferred bonus	Total 2011 bonus	Benefits*	Cash supple- ments for pension purposes	Total emoluments 2011	Value of anticipated releases from LTIPs in respect of perform- ance periods ending 31 December 2011
Chairman								
Harvey McGrath	500				82		582	
Executive directors								
Rob Devey	550	479	319	798	111	138	1,597	1,544
John Foley(note 1)	550	518	345	863	139	100	1,652	
Michael McLintock	350	779	279	1,058	93	96	1,597	6,005
Nic Nicandrou	550	507	338	845	84	138	1,617	2,020
Barry Stowe(note 2)	641	579	386	965	544	160	2,310	2,341
Tidjane Thiam	900	785	785	1,570	116	225	2,811	1,910
Mike Wells(notes 1 and 3)	624	1,660	711	2,371	64		3,059	1,369
Total executive directors	**4,165**	**5,307**	**3,163**	**8,470**	**1,151**	**857**	**14,643**	**15,189**
Non-executive directors								
Keki Dadiseth(note 4)	102						102	
Howard Davies	153						153	
Michael Garrett	93						93	
Ann Godbehere	158						158	
Bridget Macaskill(note 5)	65						65	
Paul Manduca	156						156	
Kathleen O'Donovan	98						98	
James Ross(note 6)	33						33	
Lord Turnbull	129						129	
Total non-executive directors	**987**						**987**	
Overall total	**5,652**	**5,307**	**3,163**	**8,470**	**1,233**	**857**	**16,212**	**15,189**

* Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements and expatriate benefits.

Pension benefits are described in the section on Pensions and long-term savings.

Value of anticipated long-term incentive plan releases is the total of cash paid plus, for shares released, the value of the released shares based on the share price at 31 December 2011. All executive directors participate in long-term incentive plans and the details of share releases from awards with a performance period ending 31 December 2011 are provided in the footnote to the Shares based long-term incentive awards table. This figure does not include releases from other share plans or all-employee share plans. Dividend equivalents will be released on these vested shares.

Notes

(1)
John Foley and Mike Wells were appointed to the board on 1 January 2011.

(2)
Barry Stowe's benefits relate primarily to his expatriate status, including costs of £184,489 for housing, £32,077 for children's education, £35,093 for home leave and a £245,114 Executive Director Location Allowance.

(3)
Mike Wells' bonus figure excludes a contribution of $12,250 from a profit sharing plan which has been made into a 401(k) retirement plan. This is included in the table on pension contributions.

(4)
Keki Dadiseth was paid allowances totalling £8,997 in respect of his accommodation expenses in London whilst on the Company's business as is the usual practice for directors who are not resident in the UK.

(5)
Bridget Macaskill retired from the Board on 30 September 2011.

(6)
James Ross retired from the Board on 19 May 2011.

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DIRECTORS' REMUNERATION FOR 2010 (AUDITED INFORMATION)

(£ thousand)	Salary/ fees	2010 Cash bonus	2010 Deferred bonus	Total 2010 bonus	Benefits*	Cash supple-ments for pension purposes	Total emoluments 2010	Value of anticipated releases from LTIPs in respect of perform-ance periods ending 31 December 2010
Chairman								
Harvey McGrath	500				43		543	
Executive directors								
Rob Devey(note 1)	550	496	331	827	43	154	1,574	
Michael McLintock	350	1,052	552	1,604	53	87	2,094	3,312
Nic Nicandrou(note 2)	550	512	341	853	43	161	1,607	
Barry Stowe(note 3)	666	625	417	1,042	285	167	2,160	937
Tidjane Thiam	900		1,570	1,570	64	225	2,759	2,099
Total executive directors	3,016	2,685	3,211	5,896	488	794	10,194	6,348
Non-executive directors								
Keki Dadiseth(note 4)	87						87	
Howard Davies	27						27	
Michael Garrett	77						77	
Ann Godbehere	119						119	
Bridget Macaskill	89						89	
Paul Manduca	18						18	
Kathleen O'Donovan	87						87	
James Ross	108						108	
Lord Turnbull	88						88	
Total non-executive directors	700						700	
Overall total	4,216	2,685	3,211	5,896	531	794	11,437	6,348

* Benefits include (where provided) the use of a car and driver, medical insurance, security arrangements and expatriate benefits.

Pension supplements that are paid in cash and contributions to the LTSP and/or the ARBS are included in the table.

Value of anticipated long-term incentive plan releases is the total of cash paid plus, for shares released, the value of the released shares based on the share price at 31 December 2010.

Notes

(1)
Rob Devey elected not to receive his cash supplement for pension purposes in full during 2010. The Company made a request to the Trustees of the Alternative Retirement Benefit Scheme to accept a contribution equivalent to this supplement. The value of this contribution is included in the table above.

(2)
Nic Nicandrou elected not to receive his cash supplement for pension purposes in full during 2010. The Company made a request to the Trustees of the Long-Term Savings Plan to accept a contribution equivalent to this supplement. The value of this contribution is included in the table above.

(3)
Barry Stowe's benefits relate primarily to his expatriate status, including costs of £153,384 for housing, £47,639 for children's education and £42,509 for home leave.

(4)
Keki Dadiseth was paid allowances totalling £10,083 in respect of his accommodation expenses in London whilst on the Company's business as is the usual practice for directors who are not resident in the UK.

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Payments and share releases in 2011 to past executive directors

Mark Tucker

The 2008 Directors' remuneration report provided details of the remuneration arrangements which applied to Mark Tucker following his resignation as Group Chief Executive. These arrangements were implemented as intended by the Committee.

On 31 December 2010, the performance period for Mark Tucker's 2008 GPSP award came to an end. His GPSP award was prorated for service (21/36ths) and its vesting remained dependent on TSR performance achieved over the three-year performance period. Since this condition was met in full, Mark Tucker's prorated 2008 GPSP award vested and was released at the same time as for all other participants in the GPSP. This award was the last that Mark Tucker had outstanding under a Prudential long-term incentive plan.

Nick Prettejohn

The 2009 Directors' remuneration report provided details of the remuneration arrangements that would apply to Nick Prettejohn after he resigned from the position of Chief Executive UK & Europe. These arrangements were implemented as intended by the Committee.

The performance periods of Nick Prettejohn's GPSP and UK BUPP awards for 2008 and 2009 ended on 31 December 2010 and 31 December 2011 respectively. Vesting was prorated based on service (i.e. 21/36ths and 9/36ths). Vesting remained dependent on performance achieved over the performance period and shares were released at the same time as for all other participants in these plans.

The performance condition attached to the 2008 GPSP award was met in full and 100 per cent of the proportion of the award which was outstanding was released in 2011. Achievement of the SCV performance measure attached to the 2008 UK BUPP award was not achieved and so no part of the award vested.

The performance condition attached to the 2009 GPSP award was met in full and 100 per cent of the proportion of the award which was outstanding will be released during 2012. Achievement of the SCV performance measure attached to the 2009 UK BUPP award was 12.5 per cent per annum (on a compound basis), so 87.5 per cent of the outstanding portion of this award will be released during 2012.

Clark Manning

Clark Manning stepped down from his role as President and Chief Executive of Jackson and as an executive director on 31 December 2010. Clark Manning remained Chairman of Jackson until 30 April 2011 and acted in an advisory role until 31 December 2011. The 2010 Directors' remuneration report provided details of the remuneration arrangements that would apply to Clark Manning after his resignation. These arrangements were implemented as intended by the Committee.

During 2011, Clark Manning received the following payments:

- Salary and benefits were paid to Clark Manning until 31 December 2011;

- Clark Manning had a prorated 2011 annual bonus opportunity (4/12ths) based on his length of service as Chairman of Jackson during 2011. On this basis, a cash payment of £725,389 will be made to him in 2012;

- The deferred portion of the bonus awarded to Clark Manning in respect of performance in 2007 was released to him in March 2011. The Other outstanding deferred bonus shares will be released to Clark Manning in July 2012.

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The performance condition attached to the 2008 GPSP award was met in full and 100 per cent of the award was released in 2011.

Achievement of the SCV performance measure attached to the 2008 JNL BUPP award was not achieved and so no part of the award vested.

The performance condition attached to the 2009 GPSP award was met in full and 100 per cent of the award will be released during 2012. Achievement of the SCV performance measure attached to the 2009 Jackson BUPP award was 11.5 per cent per annum (on a compound basis), so 93.75 per cent of the outstanding portion of this award will be released during 2012.

Outstanding awards made under the GPSP and BUPP will vest (subject to the achievement of performance conditions) on the same schedule as awards made to other executive directors. These awards will be prorated to reflect the portion of the performance periods which had elapsed on 31 December 2011.

No awards were made to Clark Manning under any long-term incentive plan during 2011 and none will be made in any subsequent year.

No other amounts were paid during the financial year or were receivable by directors (or past directors) in connection with leaving the organisation.

Payments and share releases in 2011 to newly appointed executive directors

Shares awards made to Tidjane Thiam and Nic Nicandrou in connection with their appointment were released, as scheduled, during 2011. Details of these awards were originally set out in the Directors' remuneration reports for 2008 and 2009. Please see the Other Share Awards table for details.

No amounts were paid to Mike Wells or John Foley in connection with their appointment as executive directors.

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Directors' outstanding long-term incentive awards

Share-based long-term incentive awards

The table below sets out the outstanding share awards under the Group Performance Share Plan and Business Unit Performance Plans.

Plan name	Year of initial award	Conditional share awards outstanding at 1 January 2011 (Number of shares)	Conditional awards in 2011 (Number of shares)	Market price at date of original award (pence)	Dividend equivalents on vested shares (Number of shares released) (note 3)	Rights exercised in 2011	Rights lapsed in 2011	Conditional share awards outstanding at 31 December 2011 (Number of shares)	Date of end of performance period
Rob Devey									
GPSP	2009	120,898		639				120,898	31 Dec 11
BUPP	2009	120,897		639				120,897	31 Dec 11
GPSP	2010	104,089		568.5				104,089	31 Dec 12
BUPP	2010	104,089		568.5				104,089	31 Dec 12
GPSP	2011		76,242	733.5				76,242	31 Dec 13
BUPP	2011		76,242	733.5				76,242	31 Dec 13
		449,973	152,484					602,457	
John Foley									
GPSP	2011		152,484	733.5				152,484	31 Dec 13
			152,484					152,484	
Michael McLintock									
GPSP	2008	48,330		674.5	5,696	48,330			31 Dec 10
GPSP	2009	92,022		455.5				92,022	31 Dec 11
GPSP	2010	66,238		568.5				66,238	31 Dec 12
GPSP	2011		48,517	733.5				48,517	

									31 Dec 13
		206,590	48,517		5,696	48,330		206,777	
Nic Nicandrou									
GPSP	2009	316,328		639				316,328	31 Dec 11
GPSP	2010	208,179		568.5				208,179	31 Dec 12
GPSP	2011		152,484	733.5				152,484	31 Dec 13
		524,507	152,484					676,991	
Barry Stowe									
GPSP	2008	107,988		674.5	12,728	107,988			31 Dec 10
BUPP	2008	53,994		674.5	1,908	16,198	37,796		31 Dec 10
GPSP(note 1)	2009	196,596		455.5				196,596	31 Dec 11
BUPP(note 1)	2009	196,596		455.5				196,596	31 Dec 11
GPSP(note 1)	2010	129,076		568.5				129,076	31 Dec 12
BUPP(note 1)	2010	129,076		568.5				129,076	31 Dec 12
GPSP(note 1)	2011		88,270	733.5				88,270	31 Dec 13
BUPP(note 1)	2011		88,270	733.5				88,270	31 Dec 13
		813,326	176,540		14,636	124,186	37,796	827,884	
Tidjane Thiam									
GPSP	2008	314,147		674.5	37,035	314,147			31 Dec 10
GPSP	2009	299,074		455.5				299,074	31 Dec 11
GPSP	2010	510,986		568.5				510,986	31 Dec 12
GPSP	2011		374,279	733.5				374,279	31 Dec 13
		1,124,207	374,279		37,035	314,147		1,184,339	
Mike Wells(note 2)									

JNL PSP(note 4)	2007	85,500		700.0	85,500		31 Dec 10
JNL PSP(note 4)	2008	84,900		546		84,900	31 Dec 11
JNL PSP(note 4)	2009	218,100		455.5		218,100	31 Dec 12
JNL PSP(note 4)	2010	141,000		568.5		141,000	31 Dec 13
GPSP	2011		197,648	733.5		197,648	31 Dec 13
BUPP	2011		197,648	733.5		197,648	31 Dec 13
		529,500	395,296		85,500	839,296	

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Cash rights granted under the Business Unit Performance Plan.

	Plan name	Year of initial award	Face value of conditional awards outstanding at 1 January 2011	Conditionally awarded in 2011	Payments made in 2011	Cash rights lapsed in 2011	Face value of conditional awards outstanding at 31 December 2011	Date of end of performance period
			(£ thousand)	(£ thousand)	(£ thousand)	(£ thousand)	(£ thousand)	
Barry Stowe	BUPP	2008	358		107	251		31-Dec-10
			358		107	251		

Notes

(1)

The awards made in 2009, 2010 and 2011 for Barry Stowe were made in ADRs (1 ADR = 2 Prudential plc shares). The figures in the table are represented in terms of Prudential shares.

(2)

The awards for Mike Wells were all made in ADRs (1 ADR = 2 Prudential plc shares). The figures in the table are represented in terms of Prudential shares.

(3)

In 2009 and 2010 a scrip dividend equivalent and in 2011 a DRIP dividend equivalent was accumulated on these awards.

(4)

The table above reflects the maximum number of shares (150 per cent of the original awarded) which may be released to Mike Wells under the JNL Performance Share Plan. This maximum number of shares may be released if stretch performance targets are achieved.

(5)

At 31 December 2011, Prudential's TSR performance was 168.7 per cent of the TSR performance of the peer index. On this basis, it is anticipated that awards granted under this plan in 2009 will vest in full. This will result in 120,898 shares vesting for Rob Devey, 92,022 shares for Michael McLintock, 316,328 shares for Nic Nicandrou, 196,596 shares for Barry Stowe and 299,074 shares for Tidjane Thiam under this plan. Dividend equivalents will be released on these vested shares.

(6)

At 31 December 2011, the performance period of the 2009 BUPP awards came to an end. Over the performance period the new business profit, IFRS profit and cash remittance achieved by the Asian business meant that it is anticipated that 86.50 per cent of the award will vest. This will result in 170,055 shares being released to Barry Stowe under this plan. Since the UK BUPP uses the same TSR performance measure as the GPSP, it is anticipated that 120,897 shares will be released to Rob Devey under this plan. No current executive director participated in the 2009 JNL BUPP. Dividend equivalents will be released on these vested shares.

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Business-specific cash-based long-term incentive plans

Details of all outstanding awards under cash-based long-term incentive plans are set out in the table below. The performance period for all M&G Executive LTIP awards is three years while the performance period for all JNL LTIP awards is four years:

	Year of initial award	Face value of conditional awards outstanding at 1 January 2011	Conditionally awarded in 2011	Payments made in 2011	Face value of conditional share awards outstanding at 31 December 2011	Date of end of performance period
			(£ thousand)			
Michael McLintock						
M&G Executive LTIP	2008	1,141		2,990		31-Dec-10
M&G Executive LTIP	2009	1,830			1,830	31-Dec-11
M&G Executive LTIP	2010	987			987	31-Dec-12
M&G Executive LTIP	2011		1,318		1,318	31-Dec-13
Total cash payments made in 2011				2,990		
Mike Wells						
JNL LTIP	2007	699		858		31-Dec-10
JNL LTIP	2008	756			756	31-Dec-11
JNL LTIP	2009	894			894	31-Dec-12
JNL LTIP	2010	906			906	31-Dec-13
Total cash payments made in 2011				858		

Notes

Under the M&G Executive LTIP, the value of each unit at award is £1. The value of units changes based on M&G's profit growth and investment performance over the performance period. For the 2008 award of 1,141,176 units, the unit price at the end of the performance period was £2.62. This resulted in a payment of £2,989,881 to Michael McLintock. For the 2009 awards of 1,830,189 units, the unit price at the end of the performance period was £2.96, which will result in a payment of £5,417,359 to Michael McLintock during 2012.

In the 2010 Annual Report, the value shown for Michael McLintock's 2010 M&G Executive LTIP award was the expected value rather than the face value of the award. This has been amended in the table above.

See the long-term incentives section for a description of the JNL LTIP. Performance over the period from 2007 to 2010 resulted in a payment of £857,617 to Mike Wells in 2011. Performance over the period from 2008 to 2011 will result in a payment of £826,975 to Mike Wells during 2012. The awards above were made before Mike Wells became an executive director. Mike Wells was not made a 2011 JNL LTIP award and it is anticipated that no further awards will be made to him under this Plan.

The sterling face value of Mike Wells' JNL LTIP awards have been calculated using the average exchange rate for the year in which the grant was made. The face value of conditional share awards outstanding on 1 January 2011 and 31 December 2011 was $5,600,000 and

$4,200,000 respectively.

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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 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 2010 annual incentives, made in 2011, the average share price was 735 pence. Details of shares acquired under the Share Incentive Plan are provided separately.

	Year of initial award	Conditional share awards outstanding at 1 January 2011 (Number of shares)	Conditionally awarded 2011 (Number of shares)	Dividends accumulated (Number of shares) (note 2)	Shares released in 2011 (Number of shares)	Conditional share awards outstanding at 31 December 2011 (Number of shares)	Date of end of restricted period	Shares released in 2011 (Number of shares)	Date of release	Market price at original date of award (pence)	Market price at date of vesting or release (pence)
Rob Devey											
Awards under appointment terms	2009	**50,575**				**50,575**	31 Mar 12			639	
Deferred 2009 annual incentive award	2010	**27,686**		**1,051**		**28,737**	31 Dec 12			552.5	
Deferred 2010 annual incentive award	2011		**44,987**	**1,707**		**46,694**	31 Dec 13			721.5	
John Foley											
Deferred 2008 deferred PruCap award	2010	**233,333**		**8,858**	**242,191**		16 Dec 11	242,191	16 Dec 11	612	609.5
Deferred 2009 deferred PruCap award	2010	**166,667**		**6,326**		**172,993**	14 Dec 12			612	
Michael McLintock											
Deferred 2007 annual incentive award	2010	**68,385**			**68,385**		31 Dec 10	68,385	10 Mar 11	519.5	735
Deferred 2008 annual incentive award	2010	**132,664**		**5,036**		**137,700**	31 Dec 11			519.5	
Deferred 2009 annual incentive award	2010	**72,104**		**2,736**		**74,840**	31 Dec 12			552.5	
Deferred 2010 annual incentive award	2011		**75,136**	**2,852**		**77,988**	31 Dec 13			721.5	
Nic Nicandrou											
Awards under appointment terms	2009	**13,898**			**13,898**		31 Mar 11	13,898	30 Mar 11	639	721.5
		16,059			**16,059**		31 Mar 11	16,059	30 Mar 11	639	721.5

		68,191				**68,191**	31 Mar 12			639	
Deferred 2009 annual incentive award	2010	**25,380**		**962**		**26,342**	31 Dec 12			552.5	
Deferred 2010 annual incentive award	2011		**46,394**	**1,761**		**48,155**	31 Dec 13			721.5	
Barry Stowe											
Deferred 2007 annual incentive award	2008	**45,339**			**45,339**		31 Dec 10	45,339	10 Mar 11	635	735
Deferred 2008 annual incentive award	2009	**21,815**		**828**		**22,643**	31 Dec 11			349.5	
Deferred 2009 annual incentive award	2010	**37,650**		**1,438**		**39,088**	31 Dec 12			552.5	
Deferred 2010 annual incentive award	2011		**54,244**	**2,072**		**56,316**	31 Dec 13			721.5	
Tidjane Thiam											
Awards under appointment terms	2008	**49,131**			**49,131**		31 Mar 11	49,131	30 Mar 11	662	721.5
Deferred 2008 annual incentive award	2010	**67,367**		**2,557**		**69,924**	31 Dec 11			552.5	
Deferred 2009 annual incentive award	2010	**60,928**		**2,312**		**63,240**	31 Dec 12			552.5	
Deferred 2010 annual incentive award	2011		**213,550**	**8,107**		**221,657**	31 Dec 13			721.5	
Mike Wells											
2009 After Tax(notes 1 & 3) Deferral Program award	2010	**32,250**				**32,250**	15 Mar 13			520	
Deferred 2010 Group Deferred Bonus Plan award(note 1)	2011		**87,508**	**3,346**		**90,854**	31 Dec 13			721.5	

Notes

(1) The Deferred Share Awards in 2010 and 2011 for Barry Stowe and Mike Wells were made in ADRs (1 ADR = 2 Prudential plc shares). The figures in the table are represented in terms of Prudential shares.

(2) In 2009 and 2010 a scrip dividend equivalent and in 2011 a DRIP dividend equivalent were accumulated on these awards.

(3) This award attracts dividends in the form of cash rather than shares.

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Shares acquired under the Share Incentive Plan

	Year of initial award	Share Incentive Plan awards held in Trust at 1 January 2011 (Number of shares)	Partnership shares accumulated in 2011 (Number of shares)	Matching shares accumulated in 2011 (Number of shares)	Dividend shares accumulated in 2011 (Number of shares)	Share Incentive Plan awards held in Trust at 31 December 2011 (Number of shares)
Nic Nicandrou						
Shares held in Trust	2010	303	222	55	16	596

Note

The table above provides information about shares purchased under the SIP together with Matching shares (awarded on a 1:4 basis) and Dividend shares. The total number of shares will only be released if Nic Nicandrou remains in employment for five years.

Outstanding share options

The following table sets out the share options held by the directors in the UK Savings Related Share Option Scheme (SAYE) as at the end of the period. No other directors held shares in any other option scheme.

				Exercise period		Number of options						
	Date of grant	Exercise price	Market price at 30 Dec 2011	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
Tidjane Thiam	25 Apr 08	551	638.5	01 Jun 11	30 Nov 11	1,705		1,705				
John Foley	25 Apr 08	551	638.5	01 Jun 13	29 Nov 13	2,953						2,953
Tidjane Thiam	16 Sep 11	465.8666	638.5	01 Dec 14	29 May 15		965					965
Nic Nicandrou	16 Sep 11	465.8666	638.5	01 Dec 16	31 May 17		3,268					3,268
Rob Devey	16 Sep 11	465.8666	638.5	01 Dec 16	31 May 17		3,268					3,268

Notes

(1) Tidjane Thiam made a total gain of £665 on the exercise of SAYE options during 2011 (2010: £0).

(2) No price was paid for the award of any option.

(3) The highest and lowest share prices during 2011 were 777 pence and 509 pence respectively.

Dilution

Releases from Prudential's GPSP and BUPP are satisfied using new issue shares rather than by purchasing shares in the open market. Shares relating to options granted under all-employee share plans are also satisfied by new issue shares. The combined dilution from all outstanding shares and options at 31 December 2011 was 0.2 per cent of the total share capital at the time. Deferred shares will continue to be satisfied by the purchase of shares in the open market.

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Directors' pensions and life assurance

The Company's pension policy is set out in the Pension and long-term savings section. Details of directors' pension entitlements under HMRC approved defined benefit schemes and supplements in the form of contributions to pension arrangements paid by the Company are set out in the following table:

	Age at 31 December 2011	Years of pensionable service at 31 December 2011	Accrued benefit at 31 December 2011 (£ per annum)	Additional pension earned during year ended 31 December 2011: Ignoring inflation on pension earned to 31 December 2010(1)	Additional pension earned during year ended 31 December 2011: Allowing for inflation on pension earned to 31 December 2010(2)	Transfer value of accrued benefit at 31 December(3): 2011	Transfer value of accrued benefit at 31 December(3): 2010	Increase in transfer value less contributions made by directors during 2011	Contributions to pension and life assurance arrangements(4)
			(£ thousand)	(£ thousand)	(£ thousand)	(£ thousand)	(£ thousand)	(£ thousand)	(£ thousand)
Rob Devey	43								5
John Foley	55								37
Michael McLintock	50	19	55	5	3	1102	856	232	22
Nic Nicandrou	46								5
Barry Stowe	54								2
Tidjane Thiam	49								9
Mike Wells	51								19

Notes

(1) As required by the Companies Act remuneration regulations.

(2) As required by Stock Exchange Listing rules.

(3) The transfer value equivalent has been calculated in accordance with the M&G Group Pension Scheme's transfer basis.

(4)

This table includes employer contributions to defined contribution plans. Supplements in the form of cash are included in the 2011 emoluments table.

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

Total contributions to directors' pension and life assurance arrangements in 2011, including cash supplements for pension purposes, were £957,960 (2010: £624,921) of which £100,960 (2010: £44,608) related to money purchase schemes.

Company TSR performance (unaudited information)

As required by the Companies Act, the line chart below compares Prudential's Total Shareholder Return (TSR) during the five years from 1 January 2007 to 31 December 2011, with that of the peer group against which TSR is measured for the purposes of the Group Performance Share Plan. Our performance is also shown relative to the FTSE 100 since Prudential is a major company within this

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index. This chart is prepared using the methodology stipulated in the Companies Act remuneration regulations:

Prudential TSR v FTSE 100 and peer group index total returns index % over the 5 years to December 2011

Share Ownership

Directors' shareholdings

The current shareholding policy and the interests of directors in ordinary shares of Prudential are shown under the sections "Compensation Shareholding guidelines" and "Compensation Directors' Shareholdings" above.

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 held, as at 12 March 2012, options to purchase 10,454 shares, all of which were issued under Prudential's SAYE 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

The Savings Related Share Option Scheme (SAYE) is open to all UK and certain overseas employees. Options under this scheme up to HM Revenue & Customs (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 is made for the grant of any options.

The share options held by the directors and other executive officers as at the end of period are shown under the section "Compensation Outstanding share options" above.

Options to purchase and discretionary awards of securities from Prudential

As of 12 March 2012, 13,143,226 options were outstanding, which Prudential issued under the SAYE schemes. As of 12 March 2012 directors and other executive officers held 10,454 of such

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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 12 March 2012, 2,574 options were outstanding under the RSP. Such outstanding options held by directors or other executive officers at 31 December 2011 are included in the shares set forth under 'Long-term incentive plans' in the 'Compensation' section above.

As of 12 March 2012, 3,394,608 shares were outstanding under the Prudential Jackson National Life US Performance Share Plan. Such outstanding awards held by directors or other executive officers at 31 December 2011, are included in the shares set forth under 'Long-term incentive plans' in the 'Compensation' section above.

As of 12 March 2012, 22,623,547shares were outstanding under other awards. Of those, 1,086,522 shares were outstanding under the Annual Incentive Plan, 816,284 shares were outstanding under the PruCap Deferred Bonus Plan, 496,560 shares were outstanding under the Momentum Retention Plan, 1,726,132 shares were outstanding under the One Off Awards, 7,907,113 shares were outstanding under the GPSP, 2,656,826 shares were outstanding under the BUPP, 1,323,833 shares were outstanding under the Deferred Share Plans and 6,338,777 shares were outstanding under the PCA LTIP and 271,500 were outstanding under the Prudential Agency Long-Term Incentive Plan. Such outstanding awards held by directors or other executive officers at 31 December 2011 are included under 'Long-term incentive plans' in the 'Compensation' section above.

The aggregate proceeds that would arise if all outstanding options under the SAYE schemes were exercised is £44 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	Shares Outstanding Under Other Awards	Total
	(In Millions)	(In Millions)	(In Millions)	(In Millions)	(In Millions)
2011					
2012	0.819		5.669	6.928	13.416
2013	0.749		0.451	8.08	9.28
2014	1.283		4.192	6.804	12.279
2015	0.544	0.003	1.641	0.612	2.8
2016			0.703	0.199	0.902
2017			0.487		0.487
Total	3.395	0.003	13.143	22.623	39.164

Information concerning the Group's share award and share option plans for its employees is provided in "Compensation" above as well as in note I4 to the consolidated financial statements in Item 18.

Board Practices

In accordance with Prudential's Articles of Association the Board, or the members in a general meeting, may appoint up to 20 directors. In line with UK corporate governance guidelines, all directors submit themselves for annual re-election by shareholders at the 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 usually appointed for an initial three-year term, commencing with their election by shareholders at the first Annual General Meeting following their appointment. Each appointment is reviewed towards the end of the three-year term against performance and the requirements of the Group's businesses. Non-executive directors are typically expected to serve for two terms of three years from their initial election by shareholders, although the Board may invite them to serve for an additional period. Their appointment is subjected to continued performance and re-election by shareholders.

The Company Secretary supports the Chairman in providing tailored induction programs for new directors and on-going development for all directors. On 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 the directors' obligations under the different listing regimes to which Prudential is subject, legal issues affecting directors of financial services companies, the Group's governance arrangements, its investor relations program, as well as its remuneration policies.

Directors have a statutory duty to avoid conflicts of interest with the Company. The Company's Articles of Association allow the directors to authorise conflicts of interest, and the Board has adopted a policy and effective procedures on managing and, where appropriate, approving conflicts or potential conflicts of interest. Under these procedures directors are required to declare all directorships or other appointments to companies which are not part of the Group as well as other situations which could result in conflicts or could give rise to a potential conflict. The Nomination Committee, or the Board where appropriate, evaluates and approves each such situation individually where applicable.

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 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 certain 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 where relevant by the Companies Act 2006) for the benefit of directors of Prudential plc and other such persons including, where applicable, in their capacity as directors of other companies within the Group. These indemnities were in force during 2011 and remain in force.

Policy on external appointments

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 the UK Corporate Governance Code, executive directors would be expected to hold no more than one non-executive directorship, nor the chairmanship, of a FTSE 100 company. Some of our executive directors hold directorships or trustee positions of unquoted companies or institutions. Details of any fees retained are included in Item 6, 'Service Contracts' on page 237 and major commitments of our executive directors are detailed in their biographies on pages 217 to 219.

Non-executive directors may serve on a number of other boards provided that they are able to demonstrate satisfactory time commitment to their role at Prudential and that they discuss any new appointment with the Chairman prior to accepting. This ensures that they do not compromise their independence and that any potential conflicts of interest and any possible issues arising out of the time commitments required by the new role can be identified and addressed appropriately. The major commitments of our non-executive directors are detailed in their biographies set out on page 219 to 222.

Board Committees

The Board has established audit, remuneration, nomination and risk committees as principal standing committees of the Board. Each committee has 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 committee are included below.

Group Audit Committee Report

The responsibilities of the Group Audit Committee (the Committee) and the activities it carried out during the year are set out below.

Role of the Committee

The Committee's principal responsibilities consist of oversight over financial reporting, the effectiveness of the internal control systems 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.

Responsibilities of the Committee

The Committee's principal business during the year consisted of the following:

- monitoring the integrity of the financial statements, including the review of half- and full-year results, the annual report and accounts and other significant financial announcements and reviewing the critical accounting policies and key judgmental areas contained therein;

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

- monitoring 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;

- reviewing the internal audit plan and resources, and monitoring the audit framework and effectiveness of the internal audit function;

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

reviewing the anti-money laundering procedures in place, as well as the review of procedures operated for handling allegations from whistleblowers; and

reviewing the effectiveness of the business unit audit committees.

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 approved by the Board and kept under regular review, are available on our website at *http://www.prudential.co.uk/prudential-plc/aboutpru/corporategoverna nce/* Alternatively, copies may be obtained by writing to the Company Secretary at the registered office.

Membership

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

Ann Godbehere *(Chairman)*
Howard Davies
Alistair Johnston (from 1 January 2012)
Paul Manduca
Kathleen O'Donovan (to 31 March 2012)

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

Full biographical details of the members of the Committee are set out in their biographies on page 219 to 222.

Meetings

The Committee meets at least five times a year and gives consideration to the financial statements of the Group and the Group's system of internal control, as well as its internal and external audit providers.

By invitation, the Chairman of the Board, the Group Chief Executive, the Chief Financial Officer, the Group General Counsel and Company Secretary, the Group-wide Internal Audit Director, the Group Chief Risk Officer and other senior staff from the group finance, internal audit, risk, compliance and security functions attended some of the meetings to contribute to the discussions relating to their respective areas of expertise. The lead and other partners of the external auditor also attended the meetings.

During 2011, the Committee met on ten occasions.

A detailed forward agenda has been in operation for a number of years and is reviewed and updated continually to ensure all matters for which the Committee is responsible are addressed at the appropriate time of year.

The Committee also received in-depth presentations on a range of topics and received the minutes of both the Disclosure Committee and the Assumptions Approval Committee. Further information on risk governance appears on pages 64 to 66 respectively.

The Committee Chairman reported to the Board on matters of particular significance after each meeting and the minutes were circulated to all Board members. The Committee regularly reviews its Terms of Reference, which were last refreshed and recommended to the Board for approval in December 2011.

The Committee recognises the need to meet without the presence of executive management. Such sessions were held with the external auditor in February and July 2011, and with the internal auditor in

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February and October 2011. At all other times management and auditors had open access to the Chairman and the Committee.

Financial reporting

As part of its review of financial statements prior to recommending their publication to the Board, the Committee focused on the critical accounting policies and practices, and any changes or decisions requiring a major element of judgement, unusual transactions, clarity of disclosures, significant audit adjustments (of which there were none in 2011), the going concern assumption, compliance with accounting standards, and compliance with obligations under applicable laws, regulations and governance codes.

In addition, the Committee is regularly briefed by management on developments in International Financial Reporting Standards.

Confidential reporting

One of the standing agenda items of the Committee is to review a report on the use of the confidential reporting procedures, which are available to employees to enable them to communicate confidentially, and anonymously if they so wish, on matters of concern and actions taken in response to these communications. No material control implications were raised through these procedures during the year.

Business unit audit committees

Each business unit has its own audit committee to provide oversight to the respective business unit and to assist the Committee in its oversight responsibilities for the Group. The members and chairmen are comprised primarily of senior management who are independent of the respective business unit. The minutes of these committees are reported 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 Group-wide Internal Audit. Business unit audit committees have adopted standard terms of reference across the Group with minor variations to address local 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, recommendations for approval of the business unit internal audit plans and overseeing the adequacy of internal audit resources. During the year the business unit audit committees reviewed their respective internal audit plans, resources and the results of internal audit work, and both external and internal auditors were able to discuss any relevant matters with the Chairman and members of the Committee as required.

Effectiveness of business unit audit committees

Group-wide Internal Audit has reviewed the effectiveness of each business unit audit committee using an established evaluation tool. The evaluation comprises an Annual Review questionnaire which is divided into specific areas for appraisal and a walk through of each committee's terms of reference, assessing whether these are appropriate for the business unit and if the committee has fulfilled its responsibilities under the terms. A memorandum summarising the findings of the review, as well as any action points, is compiled for each business unit audit committee.

The findings were reviewed by the Group-wide Internal Audit business unit audit director in conjunction with the Chairman and discussed by the respective business unit audit committees. In addition, the Chairman of each business unit audit committee has confirmed that, in their opinion, the current members have the appropriate balance of skills, knowledge and expertise to oversee the relevant business unit.

On completion of the review, Group-wide Internal Audit concluded that the overall arrangements for the business unit audit committees remained appropriate for the nature and purpose of each business unit and that each business unit audit committee continued to meet the responsibilities as set out in their respective terms of reference.

Internal control and risk management

The Committee reviewed the Group's statement on internal control systems prior to its endorsement by the Board.

Pursuant to the requirements of Section 404 of the Sarbanes-Oxley Act, the Group undertakes an annual assessment of the effectiveness of internal control over financial reporting. Further details are provided below.

Group-wide 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 fulfil its responsibilities under the UK Corporate Governance Code and the Code of Corporate Governance Practices in Appendix 14 of the Hong Kong Listing Rules, as well as the Sarbanes-Oxley Act, and provides independent assurance on the Group's processes of identification and control of risk. 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 the business unit audit committees. Total approved internal audit headcount across the Group was 136 at 31 December 2011. The Group-wide Internal Audit Director reports functionally to the Committee and for management purposes to the Chief Financial Officer.

The Committee assesses the effectiveness of the internal audit function by means of regular reviews, some of which are carried out by external advisers, and through ongoing dialogue with the Group-wide Internal Audit Director. An external review of Group-wide Internal Audit arrangements and standards was undertaken in respect of the period 1 January 2010 to 31 March 2011, the findings of which were reported to the Committee in detail in July 2011. The purpose of the review was to ensure that the activities and resources of internal audit continue to be effectively organised to support the oversight responsibilities of the Committee. The review, performed by PwC, confirmed that Group-wide Internal Audit is "Generally Conforming" with the Institute of Internal Auditors (IIA) International Standards, the highest classification available.

The Committee approved the Group-wide Internal Audit annual audit plan of assurance work to be undertaken during 2012.

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 290.

Remuneration Committee Report

The responsibilities of the Remuneration Committee (the Committee) and the activities it carried out during the year are set out below.

Role of the Committee

The Remuneration Committee (the "Committee") determines the remuneration packages of the Chairman and executive directors. It also monitors the level and structure of remuneration for a defined population of management and for individuals with the opportunity to earn over £1,000,000 per annum.

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

Responsibilities of the Committee

The Committee is responsible for:

- Determining the remuneration policy for the Chairman and approving the remuneration of the executive directors of the Company;
- Monitoring the remuneration of a defined leadership population and for individuals with the opportunity to earn over £1 million per annum.

Each business unit also has its own remuneration committee, with similar terms of reference, to ensure effective remuneration governance in all our businesses.

Membership

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

Lord Turnbull KCB CVO *(Chairman from 14 June 2011)*
Keki Dadiseth FCA
Michael Garrett
Bridget Macaskill (until 14 June 2011)
Paul Manduca
Kai Nargolwala (from 1 January 2012)

Meetings

The Committee meets at least three times a year and more often if required. In 2011, the Committee met seven times. Some key activities during the year are set out below:

- Approve the 2010 Directors' Remuneration Report;
- Determine 2010 annual bonuses and the vesting of 2008 long-term incentive awards in light of audited financial results for 2010;
- Approve the performance measures to be used for annual bonuses and long-term incentive awards;
- Consider the remuneration of the Group Leadership Team (comprising around 100 senior individuals including the Group Executive Committee), senior risk staff and of employees with a remuneration opportunity over £1 million per annum;
- Review current executive remuneration structures;

Review the structure of remuneration for staff in the Group Risk function;

Review the salaries and incentive opportunities for executive directors in 2012.

The Chairman of the Committee is responsible for reporting formally to the Board on the Committee's proceedings after each meeting on all matters within its duties and responsibilities.

Nomination Committee Report

The responsibilities of the Nomination Committee (the Committee) and the activities it carried out during the year are set out below.

Role of the Committee

The Committee in consultation with the Board, evaluates the balance of skills, knowledge and experience of the Board, taking into account the Group's business and with due regard for the benefits of diversity, including gender, identifies the roles and capabilities required to meet the demands of the business. Candidates are considered on merit against specific criteria and the Committee makes recommendations to the Board regarding suitable candidates for appointment to the Board.

The Committee also reviews the 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 authorise 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 authorised and on what terms.

Responsibilities of the Committee

The Committee's principal business during the year consisted of the following:

- reviewing the size, structure and composition of the Board, including the skills, knowledge, experience and diversity of Board members, and making recommendations to the Board with regard to any changes;
- identifying and nominating candidates for appointment to the Board, based on merit and against objective criteria;
- making recommendations on the appointment and removal of any members of the audit, risk, remuneration and nomination committees in consultation with the Chairman of those Committees; and
- considering and, where necessary, authorising any actual or potential situational conflicts, upon such terms and conditions as the Committee considered appropriate, arising out of a proposed new appointment, the changed circumstances of an existing appointment or that of a director's connected person.

The Committee's terms of reference, which are set by the Board and kept under regular review, are available on our website at http://www.prudential.co.uk/prudential-plc/aboutpru/corporate governance/ Alternatively, copies may be obtained by writing to the Company Secretary at the registered office.

Membership

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

Harvey McGrath *(Chairman)*
Bridget Macaskill (to 14 June 2011)
Paul Manduca
Kathleen O'Donovan (to 31 March 2012)
James Ross (to 19 May 2011)
Lord Turnbull (from 14 June 2011)

Meetings

The Committee meets at least twice a year to consider the Board composition and membership of the principal Committees and to consider the suitability of all directors standing for re-election at the

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AGM. In addition, the Committee meets to consider candidates for appointment to the Board. The Group Chief Executive is closely involved in the work of the Committee and is invited to attend and contribute to meetings.

During 2011, the Committee met on eight occasions.

The appointments of Kai Nargolwala and Alistair Johnston, made by unanimous decision of the Board, was the culmination of a comprehensive search process which commenced in the first half of the year under the direction of the Committee. With the assistance of external search consultants, a number of candidates meeting the criteria set by the Committee were identified. As part of the process, Alistair and Kai met the Chairman and Group Chief Executive, as well as a number of other directors prior to being appointed to the Board. The Committee will continue to play a key role in the search for a successor to the current Chairman, Harvey McGrath.

The Committee Chairman reported to the Board on matters of particular significance after each meeting.

Group Risk Committee Report

The responsibilities of the Group Risk Committee (the Committee) and the activities it carried out during the year are set out below.

Role of the Committee

The Committee provides leadership, direction and oversight in relation to the Group's overall risk appetite and tolerance and the risk management framework. Oversight of the framework includes reviewing the Group's risk policies and standards, supporting risk limits, methodologies adopted and the processes and controls in place for assessing the Group's risks.

The Committee also provides oversight in respect of the Group Chief Risk Officer's responsibilities and the Group Chief Risk Officer has open access to the Committee Chairman and the Committee.

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

Responsibilities of the Committee

The Committee's principal business during the year consisted of the following:

- reviewing the Group risk, capital and liquidity management framework, as well as the Group's risk appetite, its risk policies and standards, including the parameters used and methodologies and processes adopted for indentifying and assessing risks;
- reviewing the material and emerging risk exposures of the Group, including market, credit, insurance, operational, liquidity and economic and regulatory capital risks as well as regulatory and compliance matters;
- overseeing the Group's processes and policies for determining risk tolerance and reviewing management's measurement and effectiveness of the Group's risk tolerance levels;
- receiving and reviewing Group-wide Internal Audit Reports on the risk management function;
- assisting the Board in reviewing the risks inherent in the business plans; and

providing qualitative and quantitative advice to the Remuneration Committee on risk weightings applied to performance objectives incorporated in executive remuneration and evaluating whether the remuneration approach for senior executives was positioned within the Group's overall risk appetite framework.

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

Membership

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

Howard Davies *(Chairman)*
Ann Godbehere
Kai Nargolwala (from 1 January 2012)
James Ross (to 19 May 2011)
Lord Turnbull

Meetings

The Committee meets at least four times a year to consider the Group's risk appetite and provide oversight to the management of risk within the Group. The Chairman of the Committee is a member of the Group Audit Committee and works closely with that Committee in fulfilling the Committee's responsibilities.

The Chairman of the Board, the Group Chief Executive, the Chief Financial Officer and the General Counsel and Company Secretary are invited to attend the meetings. The Group Chief Risk Officer is closely involved in the work of the Committee and is invited to attend and contribute to the meetings. The Group-wide Internal Audit Director and the Group Risk Director are also invited to attend.

During 2011, the Committee met on five occasions.

The Committee was constituted in November 2010 and agreed the work plan for its first year of operation early in 2011. The Committee undertook a comprehensive analysis of the Group's key risks and received presentations by the relevant managers in these areas. The Committee further received presentations from certain of the business units on the particular risks inherent in those businesses, as well as the systems and controls in place to monitor and manage those risks. The Group Chief Risk Officer briefed the Committee on the structure and organisation of the Group Risk function. The Committee worked closely with the Group Audit Committee to ensure any risk assurance relevant to financial reporting was referred to the Group Audit Committee and with the Remuneration Committee on providing risk adjustment measures for executive remuneration.

The Chairman reviewed the work of the Committee, and the risk framework with the FSA as part of the regular processes of supervision.

The Committee received regular reports from the Group-wide Internal Audit Director, the Group Executive Risk Committee, the Group Operational Risk Committee and the Group Credit Risk Committee.

The effectiveness of the Committee was reviewed as part of the externally facilitated review of the Board and its committees. The findings will be discussed by the Board in March 2012.

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

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 www.prudential.co.uk/prudential-plc/aboutpru/nyse_corpgov. See also Item 16G, 'Corporate Governance' on page 293.

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:

	2011	2010	2009
Asian operations	**16,666**	17,988	19,502
US operations	**3,785**	3,545	3,371
UK operations	**4,963**	4,459	4,516
Total	**25,414**	25,992	27,389

At 31 December 2011, Prudential employed 24,358 persons with the increase in the year from the 23,010 persons as at 31 December 2010. Most of the increase relates to Asia, is due to regular business growth, supporting growth in operations along with branch expansions in certain countries. Of the 24, 358 employees, approximately 18 per cent were located in the United Kingdom and 66 per cent in Asia and 16 per cent in the United States. In the United Kingdom at 31 December 2011, Prudential had 476 employees paying union subscriptions through the payroll. At 31 December 2011, Prudential had 480 temporary employees in the United Kingdom, 2,316 in Asia and 128 in the United States. At 31 December 2011, Prudential had 117 fixed term contractors in the United Kingdom, 104 in the United States and 636 in Asia.

Item 7. Major Shareholders and Related Party Transactions

Major Shareholders

The Disclosure and Transparency Rules issued by the Financial Services Authority 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 12 March 2012 Prudential had received the following notifications:

Significant Changes in Ownership

In November 2009, Norges Bank notified Prudential that it had an interest of 78,052,980 shares, which represented 3.08 per cent of the ordinary share capital. In December 2009, BlackRock Inc. notified Prudential that it had an interest in 161,785,637 ordinary shares or 6.39 per cent of the ordinary share capital. Also in December 2009, Capital Research and Management Company notified Prudential that its interest had increased to 253,972,863 ordinary shares, or 10.03 per cent of the ordinary share capital. In January 2010, Legal and General Assurance (Pensions Management) Limited (PMC) notified Prudential that its holdings had increased to 127,270,971 or 5.02 per cent of the ordinary share capital. Later in January, Legal and General Assurance (Pensions Management) Limited (PMC) notified Prudential that its holdings had fallen to below 5 per cent of the ordinary share capital. In March 2010 Legal and General Assurance (Pensions Management) Limited (PMC) notified Prudential that its holdings had decreased to 101,114,567 shares or 3.98 per cent of the ordinary share capital. Also in March 2010, Capital Research and Management Company notified Prudential that it had an interest of 280,291,176 ordinary shares, or 11.07 per cent of the ordinary share capital. In April 2010, Capital Research and Management Company notified Prudential that it had an interest of 305,167,458 ordinary shares or 12.04 per cent of the ordinary share capital. In May 2010, Legal and General Group plc notified Prudential that it had an interest of 101,114,567 ordinary shares or 4.03 per cent of the ordinary share capital. In May 2010, Capital Research and Management Company notified Prudential that it had an interest of 329,934,111 shares, which represented 13.02 per cent of the ordinary share capital. In June 2010, Legal and General Assurance (Pensions Management) Limited (PMC) notified Prudential that it had an interest of 98,291,088 shares, which represented 3.87 per cent of the ordinary share capital.

In July 2010, Capital Research and Management Company notified Prudential that it had an interest of 329,847,111 shares, which represented 12.99 per cent of the ordinary share capital and later in the same month, they increased their interest to 330,456,135 shares, which represented 13.01 per cent of the ordinary share capital. In August 2010, BlackRock Inc notified Prudential that it had an interest of 126,912,539 shares, which represented 4.99 per cent of the ordinary share capital and the following day, notified that it had increased its interest to 126,965,629 shares, which represented 5.0 per cent of the ordinary share capital. Also in August 2010, Janus Capital Management LLC notified Prudential that it had an interest of 76,770,894 shares, which represented 3.02 per cent of the ordinary share capital. In September 2010, BlackRock Inc notified Prudential that it had decreased its interest to 125,634,073 shares, which represented 4.95 per cent of the ordinary share capital. Later in the month, BlackRock Inc notified Prudential that their holding increased to 127,010,669 shares representing 5.0 per cent of the ordinary capital. In September 2010, Legal and General Assurance (Pensions Management) Limited (PMC) notified Prudential that it had an interest of 102,426,001 shares, which represented 4.03 per cent of the ordinary share capital. In September 2010, Capital Research and Management Company notified Prudential that it had an interest of 330,673,911 shares, which represented 12.99 per cent of the ordinary share capital.

In October 2010, BlackRock Inc notified Prudential that it had an interest of 124,987,739 shares, which represented 4.91 per cent of the ordinary share capital. In November 2010, Capital Research and Management Company notified Prudential of a decrease in its interest to 296,189,505 shares, which represented 11.64 per cent of the ordinary share capital. In November 2010, Norges Bank notified Prudential that it had an interest of 102,495,000 shares, which represented 4.03 per cent of the ordinary share capital. In December 2010, Legal and General Assurance (Pensions Management) Limited (PMC) notified Prudential that it had an interest of 101,803,187 shares, which represented 3.99 per cent of the ordinary share capital.

In January 2011, BlackRock Inc notified Prudential that it had an interest of 127,614,906 shares, which represented 5.01 per cent of the ordinary share capital. In March 2011, Capital Research and Management Company notified Prudential of a decrease in its interest to 281,048,317 shares representing 11.04 per cent of the ordinary share capital. Also in March 2011, BlackRock Inc notified Prudential of a decrease in their interest of 126,093,582 shares representing 4.95 per cent of ordinary share capital and then in a further notification, of an increase in their interest to 127,414,496 shares representing 5.0 per cent of the ordinary share capital. BlackRock Inc made two notifications up to 15 April 2011; the first notification was of a decrease in their interest to 126,974,810 shares representing 4.98 per cent of the ordinary share capital and the second was of an increase in their interest to 128,470,662 shares representing 5.04 per cent of the ordinary share capital. In April 2011, BlackRock Inc notified a decrease in their interest in Prudential shares of 126,930,350, representing 4.98 per cent of the ordinary share capital. In May 2011 BlackRock Inc notified an increase in shares to 127,401,807, representing 5 per cent of the ordinary share capital and later in May, notified a decrease in their interest to 126,991,833 representing 4.95 per cent of the ordinary share capital. In May 2011, Capital Research and Management Company notified a decrease in their interest to 279,316,829 shares, representing 10.96 per cent of the ordinary share capital.

In June 2011, BlackRock Inc notified an increase to 127,695,916 shares representing 5.01 per cent of the ordinary share capital. In July 2011, Capital Research and Management Company notified a decrease to 252,448,407 shares, representing 9.91 per cent of the ordinary share capital. In August 2011, BlackRock Inc notified a decrease in interest to 125,132,015 shares, representing 4.91 per cent of the ordinary share capital and in November 2011, notified an increase to 127,422,766 shares, representing 5 per cent of the ordinary share capital. Later in November 2011, BlackRock Inc notified a decrease to 127,201,756 shares representing 4.99 per cent of the ordinary share capital.

Table: Major shareholders at 12 March 2012

Shareholder	Date advised	Percentage of share capital	Shareholding
Capital Research and Management Company	01/07/2011	9.91%	252,448,407
BlackRock Inc	11/11/2011	4.99%	127,201,756
Norges Bank	26/11/2010	4.03%	102,495,000
Legal and General Group plc	30/12/2010	3.99%	101,803,187

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 12 March 2012, there were 131 shareholders with a US address on Prudential's register of shareholders. These shares represented approximately 0.01 per cent of Prudential's issued ordinary share capital. As of 12 March 2012 there were 44 registered Prudential ADR holders. The shares represented by these ADRs amounted to approximately 1.77 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, collateralised 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 statement of financial position sheet at fair value or amortised 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 to the consolidated financial statements in Item 18.

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 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 Employees'. Key management remuneration is disclosed in note I5 to the consolidated financial statements in Item 18.

In 2011, 2010 and 2009, other transactions with directors were not deemed to be significant 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.

Item 8. Financial Information

See Item 18, 'Financial Statements'.

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Item 9. The Offer and Listing

Comparative Market Price Data

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

	Prudential Ordinary Shares		Prudential ADRs		Prudential Ordinary Shares (Hong Kong)*		Prudential Ordinary Shares (Singapore)*	
Year	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**
	(pence)		**(US Dollars)**		**(HK Dollars)**		**(US Dollars)**	
2007	810	619	33.24	24.77				
2008	726	245	28.78	7.4				
2009	650.5	207	21.75	5.6				
2010	681	487.5	21.26	14.5	81.1	57.2	10.5	7.41
2011	**777**	**509**	**25.84**	**16.22**	**100**	**62.35**	**12.58**	**7.97**

	Prudential Ordinary Shares		Prudential ADRs		Prudential Ordinary Shares (Hong Kong)*		Prudential Ordinary Shares (Singapore)*	
Quarter	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**
	(pence)		**(US Dollars)**		**(HK Dollars)**		**(US Dollars)**	
2010								
First quarter	645.5	487.5	20.67	14.6				
Second quarter	587.5	508.5	18.09	14.5	66.7	57.2	8.66	7.41
Third quarter	637.5	489.2	20.17	15.04	77.85	57.7	9.81	7.41
Fourth quarter	681	568	21.26	17.89	81.1	70	10.5	8.77
2011								
First quarter	**749**	**654.5**	**24.32**	**21.04**	**98**	**80.5**	**11.92**	**10.6**
Second quarter	**777**	**683**	**25.84**	**21.86**	**100**	**84.9**	**12.58**	**11.48**
Third quarter	**614.5**	**546.5**	**19.55**	**16.82**	**78.6**	**64**	**10.10**	**8.45**
Fourth quarter	**681**	**509**	**22.27**	**16.22**	**84.8**	**62.35**	**10.55**	**7.97**

	Prudential Ordinary Shares		Prudential ADRs		Prudential Ordinary Shares (Hong Kong)*		Prudential Ordinary Shares (Singapore)*	
Month	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**

	(pence)		(US Dollars)		(HK Dollars)		(US Dollars)	
September 2011	614.5	546.5	19.55	16.82	78.6	64	10.1	8.45
October 2011	681	509	22.27	16.22	84.8	62.35	10.55	7.97
November 2011	636.5	555	20.89	17.11	80.25	67.8	10.55	8.66
December 2011	654.5	600.5	20.56	18.64	79.1	73.6	10.2	9.74
January 2012	717.5	633.5	22.7	19.6	86	74	11.2	9.9
February 2012	732	711.5	23.3	22.4	89.2	85.2	11.5	11.2

*

Prudential listed on these stock exchanges on 25 May 2010. Accordingly, the market price data shown above for these stock exchanges is only from this date.

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Market Data

Prudential ordinary shares are listed on the Premium Listing segment of the Official List of the UK Listing Authority and traded on the London Stock Exchange under the symbol 'PRU'. On 25 May 2010, Prudential ordinary shares were admitted to listing on the Main Board of the Hong Kong Stock Exchange and are traded in board lots of 500 shares with the short name 'PRU' and stock code 2378; and as a secondary listing on the Singapore Stock Exchange, also traded in board lots of 500 shares, with the abbreviated name 'PRU 500'.

Prudential American Depositary Shares (ADSs) have been listed for trading on the New York Stock Exchange since 28 June 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. Under the provisions of the Companies Act 2006 which came into force on 1 October 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 14 May 2009 (which became effective on 1 October 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 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 14 May 2009 and effective on 1 October 2009, was filed as an exhibit to Form 20-F for the year ended 31 December 2008. In addition, both the Memorandum and Articles of Association may be viewed on Prudential's website at: *www.prudential.co.uk/prudential-plc/aboutpru/memorandum/*

Share capital

On 31 December 2011, the Company's issued share capital, which is set out in note H11 to the consolidated financial statements in Item 18, consisted of 2,548,039,330 (2010: 2,545,594,506) ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange and the Stock Exchange of Hong Kong. Subject to applicable local securities law, the Company's shares may be registered on the main register in the UK or the Company's branch registers in Ireland or Hong Kong. The number of accounts on the share registers at 31 December 2011 was 63,338 (2010: 66,048). The Company maintains secondary listings on the New York Stock Exchange in the form of American Depositary Receipts which are referenced to ordinary shares on the main UK register, under a depositary agreement with J.P. Morgan, and on the Singapore Stock Exchange in the form of interests in shares, which are referenced to the shares on the Hong Kong register under a depository agreement with the Central Depository (Pte) Limited (the "CDP").

In compliance with the Hong Kong Listing Rules, the Company has maintained a sufficiency of public float throughout the period.

A number of dividend waivers are in place and these relate to shares issued but not allocated under the Group's employee share plans. These shares are held by the Trustees and will, in due course, be used to satisfy requirements under the Group's employee share plans.

The issued share capital of Prudential is not currently divided into different classes of shares. The Companies Act 2006 abolished the requirement for a company to have an authorised share capital.

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As at 12 March 2012, the directors retained authority granted at the Annual General Meeting on 19 May 2011 to allot before the earlier of 30 June 2012 and the following Annual General Meeting, ordinary shares of up to an aggregate nominal value of £42,461,520 subject to limitations and reductions in certain circumstances. Of those shares, directors would retain authority to allot equity securities for cash up to a maximum nominal value of £6,369,234 without first being required to offer such securities to shareholders in proportion with their existing holding. In the case of a rights issue, directors retained authority to allot equity securities in favour of ordinary shareholders up to an aggregate nominal amount equal to £84,923,041 subject to reduction in certain circumstances.

At the Annual General Meeting scheduled to be held on 17 May 2012, the shareholders are to vote on granting the directors similar authorities to allot ordinary shares, before the earlier of 30 June 2013 and the following Annual General Meeting.

In addition the directors have authority to allot Sterling preference shares up to a maximum nominal amount of £20 million, Dollar preference shares up to a maximum nominal amount of US$20 million, and Euro preference shares up to a maximum nominal value of €20 million, the terms of which will be determined by the Board on allotment.

The Board 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. Under the Company's Articles of Association (which came into effect on 1 October 2009), the Board has discretion to determine the terms and manner of redemption of redeemable shares when the shares are allotted.

The Board may only capitalise any amounts available for distribution in respect of any series or class of preference shares if to do so would mean that the aggregate of the amounts so capitalised would be less than the multiple, if any, determined by the Board of the aggregate amount of the dividends payable in the 12 month period following the capitalisation 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. This restriction may be overturned with 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.

Dividends and other distributions

Under English law, Prudential may pay dividends only if distributable profits are available for that purpose. Distributable profits are accumulated, realised profits not previously distributed or capitalised, less accumulated, realised losses not previously written off in a reduction or reorganisation 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 become a legal liability of a company upon the later of the date they are declared by shareholders and the date the shareholder approval expresses them to be payable. Interim dividends only become a legal liability of a Company at the moment they are paid, unless a company's Articles of Association provide for declaration of interim dividends by directors. The Company's Articles do not provide for declaration of interim dividends.

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 in proportion to the number of

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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 shares instead of a cash dividend. The aggregate value of 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. 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, authorise 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 five per cent 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 and entitled to vote on the business to be transacted.

Under the Shareholders' Rights Directive (which was implemented in the UK with effect from 3 August 2009) notice periods for all general meetings have to be 21 days, except for a meeting (i) which is not an Annual General Meeting, (ii) for which an electronic facility for voting and appointing proxies is available to all members, and (iii) in respect of which a company obtains shareholder approval annually to retain the shorter 14-day 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 19 May 2011 to enable it to continue to do so after the implementation of the Directive. The approval will be effective until the Company's Annual General Meeting in 2012 when a similar resolution will be proposed.

Voting rights

Voting at any meeting of shareholders is by show of hands unless the Company's intention to call a poll on the resolution is stated in the notice to the general meeting or, before or on the declaration of the result of a vote on the show of hands or on the withdrawal of any other demand for a poll, a poll is duly demanded. A poll may be 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 authorised corporate representative, has one vote. On a poll, every shareholder who is present in person or by proxy and every duly authorised 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.

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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 authorised corporate representatives to vote in favour, or
- on a poll, more than 50 per cent of the votes cast to be in favour.

Some resolutions, referred to as special resolutions, such as a resolution to amend the 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 authorised corporate representative to vote in favour, or
- on a poll, at least 75 per cent of the votes cast to be in favour.

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.

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. Transfers of shares may also be made by a computer-based system transferred without a written instrument in accordance with English 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

Directors 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, and
- subdivisions of shares.

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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.

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 authorise, 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 has a lien on every share that is not a fully paid share.

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.

Board of directors

Prudential's Board of directors manages the Company business. However, the Company'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. The 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. Shareholders may vary the limits on the number of directors by ordinary resolution. There are currently seventeen directors on Prudential's Board.

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 UK Corporate Governance Code, contains a provision recommending that directors stand for annual re-election at the

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Annual General Meeting. In line with these provisions, all directors are expected to stand for re-election at each Annual General Meeting commencing at the 2012 Annual General Meeting.

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 of 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 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.

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 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 authorised 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 authorise 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 authorisation.

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 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'.

Transactions with Directors

Prudential may only grant a loan or quasi-loan, or provide security or financial accommodation, to its directors and their connected persons if approval has been obtained from shareholders at a general meeting.

Payments to Directors for loss of office

In accordance with English law, Prudential must obtain the approval of members in general meeting before making a payment in cash or non-cash benefits to a director or past director or any connected person as compensation for loss of any office (including as a director) or employment with Prudential or any of its subsidiary undertakings, and before making any payment in connection with his retirement. However, approval is not required for a payment made in good faith in discharge of an existing legal obligation, such as under an employment contract which has no connection with the event giving rise to the payment for loss of office.

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

Not applicable.

Exchange Controls

Other than the requirement to report certain events and transactions to HM Revenue and Customs, 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.

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Taxation

The following is a summary, under current law and practice, of the principal UK tax, US federal income tax, Hong Kong and Singapore 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 your holding of Prudential ordinary shares or ADSs;

- you hold Prudential ordinary shares or ADSs or shares held or traded in Singapore through CDP as a capital asset for tax purposes;

- 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; and

- you are not domiciled in the UK for inheritance tax purposes.

This summary does not address any tax consideration other than certain UK tax, US federal income tax, Hong Kong tax and Singapore 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 24 July 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 realisation of gain or loss for US federal income tax purposes.

UK Taxation of Dividends

UK tax is not 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 realised 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 ordinarily resident in the United Kingdom will not be liable for UK taxation on capital gains realised 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 resident or 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 resident or 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 which are registered on the main Prudential share register 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 which are registered on the main Prudential share register 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. Prudential ordinary shares which are registered on the Hong Kong or Irish branch register should not be treated as situated in the United Kingdom for the purpose of UK inheritance tax.

However, as a result of the UK-US estate tax treaty, Prudential ordinary shares which are registered on the main Prudential share register 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, subject to special rules relating to trusts and settlements, 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.

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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 or money's worth, 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. Following a ruling of the European Court of Justice in 2009 and subsequent announcements by the HMRC, the 1.5 per cent charge to stamp duty reserve tax on the issue of shares by a limited liability company incorporated under English law (i) into a clearance service within the EU or (ii) to an issuer of depositary receipts within the EU pursuant to an arrangement for the issue of depositary receipts representing such shares no longer applies. The position in relation to the issue of shares into clearance systems or depositary receipt schemes outside the EU, such as to the ADS Depository, and the treatment of transfers of shares after they have been placed into clearance services or depositary receipt schemes remains unclear and the law in this area may be particularly susceptible to change. In addition, Section 54 of the Finance Act 2010 has removed certain exemptions which applied to transfers from clearance systems or issuers of depositary receipts based in the EU to clearance systems or issuers of depositary receipts based outside the EU. It is recommended that, where this charge could arise, independent professional tax advice be 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.

Subject to the special rules relating to clearance systems and issuers of depository receipts, a transfer for value of Prudential ordinary shares (but excluding Prudential ordinary shares registered on the Hong Kong or Irish branch register unless the instruments of transfer is executed in the UK), 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 UK stamp duty is paid on a transfer of Prudential ordinary shares, no stamp duty reserve tax should generally be payable on the agreement for that transfer. Subject to certain special rules relating to clearance services, 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 UK stamp duty. No UK stamp duty reserve tax should be payable on an agreement to transfer Prudential ordinary shares registered on the Hong Kong or Irish branch registers, subject to the special rule relating to clearance systems and issuers of depository receipts.

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 ADS.

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 1 January 2013, 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 the nature of its business activities and its expectations regarding such activities in the future, Prudential believes that it was not treated as a PFIC within the meaning of the Code with respect to its 2011 taxable year and does not anticipate becoming a PFIC for its 2012 taxable year.

US Federal Income Tax Treatment of Capital Gains

If you sell your Prudential ordinary shares or ADSs, you will recognise a US source capital gain or loss equal to the difference between the US dollar value of the amount realised 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 recognised before 2013 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.

Hong Kong Taxation of Dividends

No tax will be payable in Hong Kong in respect of dividends Prudential pays to its US resident holders. Dividends distributed to Prudential's US resident holders will be free of withholding taxes in Hong Kong.

Hong Kong Taxation on gains of sale

No tax is imposed in Hong Kong in respect of capital gains. However, trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where the trading gains are derived from or arise in Hong Kong will be chargeable to Hong Kong profits tax. Hong Kong profits tax is currently charged at the rate of 16.5 per cent on corporations and at a maximum rate of 15 per cent on individuals. Certain categories of taxpayers whose business consists of buying and selling shares are likely to be regarded as deriving trading gains rather than capital gains (eg financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment purposes.

Trading gains from the sale of the Prudential Shares by US resident holders effected on the Hong Kong Stock Exchange will be considered to be derived from Hong Kong. A liability for Hong Kong profits tax would thus arise in respect of trading gains derived by US resident holders from the sale of Prudential Shares effected on the Hong Kong Stock Exchange where such trading gains are realised by US resident holders from a business carried on in Hong Kong.

Hong Kong Stamp duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1 per cent on the higher of the consideration for or the value of the Prudential Shares, will be payable by the purchaser on a purchase and by the seller on a sale of Prudential Shares where the transfer is required to be registered in Hong Kong (i.e. a total of 0.2 per cent is ordinarily payable on a sale and purchase transaction involving ordinary shares). In addition, a fixed duty of HK$5.00 is currently payable on any instrument of transfer of ordinary shares.

Hong Kong Estate duty

Hong Kong estate duty has been abolished with effect to all deaths occurring on or after 11 February 2006.

Singapore Taxation on gains of sale

Disposal of the Prudential Shares

Singapore does not impose tax on capital gains. There are no specific laws or regulations which deal with the characterisation of whether a gain is income or capital in nature. Gains arising from the disposal of the Prudential Shares by US resident holders may be construed to be of an income nature and subject to Singapore income tax, especially if they arise from activities which are regarded as the carrying on of a trade or business and the gains are sourced in Singapore.

Adoption of FRS 39 for Singapore Tax Purposes

Any US resident holders who apply, or who are required to apply, the Singapore Financial Reporting Standard 39 Financial Instruments Recognition and Measurement ('FRS 39') for the purposes of Singapore income tax may be required to recognise gains or losses (not being gains or losses in the nature of capital) in accordance with the provisions of FRS 39 (as modified by the applicable provisions of Singapore income tax law) even though no sale or disposal is made. Taxpayers who may be subject to such tax treatment should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding and disposal of the Prudential Shares.

Singapore Taxation of Dividend distributions

As Prudential is incorporated in England and Wales and is not tax resident in Singapore for Singapore tax purposes, dividends paid by Prudential will be considered as sourced outside Singapore (unless the Prudential Shares are held as part of a trade or business carried out in Singapore in which event the US resident holders of such shares may be taxed on the dividends as they are derived).

Foreign-sourced dividends received or deemed received in Singapore by an US resident individual not resident in Singapore is exempt from Singapore income tax. This exemption will also apply in the case of a Singapore tax resident individual who receives his foreign-sourced income in Singapore on or after 1 January 2004 (except where such income is received through a partnership in Singapore).

Foreign-sourced dividends received or deemed received by corporate investors in Singapore (including US investors) will ordinarily be liable to Singapore tax. However, foreign-sourced income in the form of dividends, branch profits and service income received or deemed to be received in Singapore by Singapore tax resident companies on or after 1 June 2003 can be exempt from tax if certain prescribed conditions are met, including the following:

(i) such income is subject to tax of a similar character to income tax under the law of the jurisdiction from which such income is received; and

(ii) at the time the income is received in Singapore, the highest rate of tax of a similar character to income tax (by whatever name called) levied under the law of the territory from which the income is received on any gains or profits from any trade or business carried on by any company in that territory at that time is not less than 15 per cent.

Certain concessions and clarifications have also been announced by the Inland Revenue Authority of Singapore with respect to such conditions.

Singapore Stamp duty

As Prudential is incorporated in England and Wales and the Prudential Shares are not registered on any register kept in Singapore, no stamp duty is payable in Singapore:

(i) on the issuance of Prudential Shares; and

(ii) on any transfer of Prudential Shares.

Prudential Shares held or traded in Singapore through CDP will be registered on the HK Register. As such, Hong Kong stamp duty will be payable on a transfer of Prudential Shares held or traded in Singapore through CDP. Please refer to the description under the Hong Kong stamp duty section above.

All persons, including US resident holders, who hold or transact in Prudential Shares in Singapore through the SGX-ST and/or CDP should expect that they will have to bear Hong Kong stamp duty in respect of transactions in Prudential Shares effected in Singapore through the SGX-ST and/or CDP. Such persons should consult their brokers, or custodians for information regarding what procedures may be instituted for collection of Hong Kong stamp duty from them.

Singapore Estate duty

Singapore estate duty has been abolished with respect to all deaths occurring on or after 15 February 2008.

Singapore Goods and Services Tax

There is no Goods and Services Tax ('GST') payable in Singapore on the subscription or issuance of the Prudential Shares. The clearing fees, instruments of transfer deposit fees and share withdrawal fees are subject to GST at the prevailing standard-rate (currently 7per cent) if the services are provided by a person belonging to Singapore to a holder of the Prudential Shares. However, such fees could be zero-rated when provided to a US resident holder of the Prudential Shares belonging outside Singapore provided certain conditions are met. For a holder of the Prudential Shares belonging in Singapore who is registered for GST, the GST incurred is generally not recoverable as input tax credit from the Inland Revenue Authority of Singapore unless certain conditions are satisfied. These GST-registered holders of the Prudential Shares should seek the advice of their tax advisors on these conditions.

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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 4 November 2002, are available on the Securities and Exchange Commission's website at www.sec.gov, and on the New York Stock Exchange's website at www.nyse.com.

Prudential also files reports and other documents with the London, Hong Kong and Singapore stock exchanges. This information may be viewed on the websites of each of those exchanges as follows: the London Stock Exchange at www.londonstockexchange.com, the Hong Kong Stock Exchange at www.hkex.com.hk and the Singapore Stock Exchange at www.sgx.com, as well as via the National Storage Mechanism at www.hemscott.com/nsm.do. All reports and other documents filed with the each of the exchanges are also published on Prudential's website at www.prudential.co.uk.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Overview

As a provider of financial services, including insurance, the management of risk lies at the heart of the Group's business. 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, and policies on certain financial risks. Additional guidelines are provided for some aspects of actuarial and financial activity.

Prudential's Group Risk 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 Group Risk 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, which has established the Group Risk Committee to assist in providing leadership, direction and oversight, and with the Group Chief Executive and the chief executive of each business unit. Risk oversight is provided by Group-level risk committees, chaired by the Group Chief Risk Officer or the Chief Financial Officer. Independent assurance on the Group's internal control and risk management systems is provided by the Group Audit Committee, supported by the Group-wide Internal Audit.

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The Group's risk reporting framework forms an important part of the Group's business processes and planning. Business units review their risks as well as opportunities as part of their business plans, and risks against business objectives are regularly discussed with Group executive management.

Additional information on the Group's risk framework is included in the risk and capital management section under 'Group Risk Framework in Item 4 Information on the Company'.

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 is summarised in the following sections.

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 Internal control and risk management' and 'Operating and Financial Review and Prospects Principal Factors Affecting Prudential Results of Operations'. Risks discussed under Item 4, 'Information on the Company Business of Prudential' include 'Business of Prudential UK Business' 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(e), D2(f), D3(f) and D4(f) to the consolidated financial statements in Item 18.

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 31 December 2011, the Group held 21 per cent (2010: 18 per cent) and 9 per cent (2010: 14 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.

Financial assets, of which 55 per cent (2010: 70 per cent) are held by the PAC with-profits fund, allow the PAC with-profits fund to obtain exposure to foreign equity markets.

Financial liabilities, of which 28 per cent (2010: 28 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 to the consolidated financial statements in Item 18).

The amount of exchange gains recognised in the income statement in 2011, except for those arising on financial instruments measured at fair value through profit and loss, is £1 million (2010: £82 million loss; 2009: £201 million loss). This constitutes £11 million loss (2010: £16 million loss; 2009: £41 million loss) on Medium Term Notes (MTN) liabilities and £12 million of net gains (2010: £98 million net loss;2009: £160 million loss), mainly arising on investments of the PAC with-profits fund. The gains/losses on MTN liabilities are fully offset by value movements on cross-currency swaps, which are measured at fair value through profit and loss.

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Currency of Core Borrowings

Prudential is subject to certain interest rate risk and foreign exchange risk on its core borrowings. At 31 December 2011, there was £1,611 million of pounds sterling debt, £1,983 million, or approximately $3,082 million, of US dollar debt and £17 million, or approximately €20 million of Euro debt. £3,344 million of the core debt was at fixed rates of interest and £267 million was at or has been swapped into floating rates of interest.

The profit and loss accounts of foreign subsidiaries are translated at average exchange rates for the year. Assets and liabilities of foreign subsidiaries are translated at closing exchange rates. Foreign currency borrowings that have been used to provide a hedge against Group equity investments in overseas subsidiaries are also translated at closing exchange rates. The impact of these translations is recorded as a component of the movement in shareholders' equity.

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 in Item 18.

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 31 December 2011 and 2010, 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.

	31 December 2011			31 December 2010		
	Carrying Value	**Fair Value**	**Estimated Increase in Fair Value**	**Carrying Value**	**Fair Value**	**Estimated Increase in Fair Value**
	(In £ millions)					
Long-term borrowings						
Bonds, €500 million aggregate principal amount, 5.75 per cent due 2021[(i)]				428	424	4
Bonds, £300 million aggregate principal amount, 6.875 per cent due 2023	**300**	**356**	**34**	300	333	31
Bonds, £250 million aggregate principal amount, 5.875 per cent due 2029	**249**	**270**	**32**	249	248	28
Bonds, £435 million aggregate principal amount, 6.125 per cent, due 2031	**428**	**423**	**46**	428	406	44
Bonds, £400 million aggregate principal amount, 11.375 per cent, due 2039	**384**	**509**	**35**	382	525	42
Capital securities, $1,000 million aggregate principal amount, 6.5 per cent perpetual	**644**	**560**	**68**	639	584	73
Capital securities, $250 million aggregate principal amount, 6.75 per cent perpetual[(iii)]	**161**	**164**	**1**	160	160	1
Capital securities, $300 million aggregate principal amount 6.5 per cent perpetual[(iii)]	**193**	**196**		192	189	
Capital securities, $750 million aggregate principal amount, 11.75 per cent perpetual	**477**	**550**	**16**	472	558	21
Capital securities, $550 million aggregate principal amount, 7.75 per cent perpetual[(iii)]	**348**	**343**	**40**			
Medium Term Subordinated Notes, €20 million, 2023[(ii)]	**17**	**17**		17	17	
Total central companies	**3,201**	**3,388**	**272**	3,267	3,444	244
Insurance operations						
Guaranteed bonds, £100 million, principal amount, 8.5 per cent undated subordinated	**100**	**106**	**6**	100	102	6
Surplus notes, $250 million principal amount, 8.15 per cent due 2027[(v)]	**160**	**178**	**15**	159	172	15
Total long-term business	**260**	**284**	**21**	259	274	21
Other operations						
Bank Loans[(iv)]	**250**	**250**		250	250	
Total	**3,711**	**3,922**	**293**	3,776	3,968	265

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. The borrowings were repaid in December 2011.

(ii)

The €20 million borrowings 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)

The US$250 million 6.75 per cent borrowings the US$300 million 6.5 per cent borrowings and the US$550 million 7.75 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.

(iv) The £250 million PruCap bank loan was made in December 2010 in two tranches: £135 million maturing in June 2014, currently drawn at a cost of twelve month £LIBOR plus 1.2 per cent and £115 million maturing on 20 December 2012, currently drawn at a cost of twelve month £LIBOR plus 0.99 per cent.

(v) The Jackson borrowings 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 31 December 2011 and 2010 as a result of these reductions in interest rates because the liabilities are recognised in the financial statements at carrying value, which is equal to their amortised cost.

Derivative Contracts

As at 31 December 2011 the net market value exposure of derivatives was an asset of £601 million of which the largest exposures were held by the UK and US insurance operations. Excluding derivative contracts within assets held to cover linked liabilities and those attributable to unit holders of consolidated unit trusts and similar funds, as at 31 December 2011 the market value exposure of derivatives of the UK and US insurance operations was an asset of £1,027 million. The tables below show the sensitivity of the UK and US insurance operations 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.

	31 December 2011			31 December 2010		
	10 per cent Equity & Real Estate Increase Increase/(decrease) in Fair Value	Fair Value	10 per cent Equity & Real Estate Decrease Increase/(decrease) in Fair Value	10 per cent Equity & Real Estate Increase Increase/(decrease) in Fair Value	Fair Value	10 per cent Equity & Real Estate Decrease Increase/(decrease) in Fair Value
	(£ millions)					
United Kingdom insurance operations						
With-profits fund (including PAL)	**(13)**	**134**	**47**	27	158	(22)
Shareholder-backed annuities		**114**			78	
SAIF	**8**	**(11)**	**(7)**	14	22	(13)
United States insurance operations	**(657)**	**790**	**666**	(372)	(154)	452
Total	**(662)**	**1,027**	**706**	(331)	104	417

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	31 December 2011			31 December 2010		
	100 bp Interest Rate Increase Increase/(decrease) in Fair Value	Fair Value	100 bp Interest Rate Decrease Increase/(decrease) in Fair Value	100 bp Interest Rate Increase Increase/(decrease) in Fair Value	Fair Value	100 bp Interest Rate Decrease Increase/(decrease) in Fair Value
	(£ millions)					
United Kingdom insurance operations						
With-profits fund (including PAL)	**7**	**134**	**13**	73	158	(75)
Shareholder-backed annuities	**(102)**	**114**	**129**	(80)	78	103
SAIF	**18**	**(11)**	**(20)**	10	22	(11)
United States insurance operations	**(592)**	**790**	**735**	(277)	(154)	363
Total	**(669)**	**1,027**	**857**	(274)	104	380

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 minimise 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 12. Description of Securities other than Equity Securities

Payments received from the ADR Depositary

Direct payments

J.P. Morgan Chase Bank, N.A. is the depositary ('ADR Depositary') of Prudential's ADR program. The ADR Depositary has agreed to reimburse Prudential for certain reasonable expenses related to Prudential's ADR program and incurred by Prudential in connection with the ADR program. Pursuant to this agreement, Prudential can claim up to US$75,000 for each incremental increase of 4,000,000 American Depositary Shares (ADS) issued and outstanding above the prior year's balance. The reimbursements shall be used by Prudential for actual expenses incurred in connection with the program during the contract year (year ending 19 May in each year), including but not limited to, expenses related to US investor relations servicing, US investor presentations, financial advertising and public relations.

No reimbursements were made by the ADR Depositary to Prudential in 2011. However, expenses in the sum of USD 75,000 which were incurred during the 2009 contract year were eligible for reimbursements and claimed during 2010.

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Indirect payments

As part of its service to Prudential, the ADR Depositary has agreed to waive the following fees for the standard costs associated with the maintenance of the ADR programme:

Category	Limit
General services, AGM services, report mailing services	up to US$5,000 per contract year

The amount of fees waived in each of the 2010 and 2011 contract years was US$5,000.

Fees or charges payable by ADR holders

The ADR holders of Prudential are required to pay the following fees to the ADR Depositary for general depositary services:

Category	ADR Depositary actions	Associated fee or charge
Depositing or surrendering the underlying shares	Each person to whom ADRs are delivered against deposits of shares, and each person surrendering ADRs for withdrawal of deposited securities	Up to US$5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs delivered or surrendered
Cable fee	Cable fee for delivery of underlying shares in the home market on the back of a cancellation	US$25 for each delivery
Currency charges	Charges incurred by the ADR Depositary in the conversion of foreign currency into US Dollars.	Amount paid by the ADR Depositary, and such charges are reimbursable out of such foreign currency.

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 plc's Group Chief Executive and Chief Financial Officer, the effectiveness of Prudential plc's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ('Exchange Act')) as of 31 December 2011. 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 plc's evaluation, Prudential plc's Group Chief Executive and Chief Financial Officer have concluded that as of 31 December 2011 Prudential plc's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by Prudential plc in the reports Prudential plc files and submits under the Exchange Act is recorded,

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processed, summarised and reported, within the time periods specified in the applicable rules and forms and that it is accumulated and communicated to Prudential plc's management, including Prudential plc's Group Chief Executive and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Prudential plc is required to undertake an annual assessment of the effectiveness of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act 2002 ('Section 404'). In accordance with the requirements of Section 404 the following report is provided by management in respect of Prudential plc's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the 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 Prudential plc. 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 International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management has conducted, with the participation of Prudential plc's Group Chief Executive and Chief Financial Officer, an evaluation of the effectiveness of internal control over financial reporting based on the criteria set forth 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 31 December 2011, Prudential plc's internal control over financial reporting was effective. In addition, there have been no changes in Prudential plc's internal control over financial reporting during 2011 that have materially affected, or are reasonably likely to affect materially, Prudential plc's internal control over financial reporting.

KPMG Audit Plc, which has audited the consolidated financial statements of Prudential plc for the year ended 31 December 2011, has also audited the effectiveness of Prudential plc's internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). KPMG Audit Plc's report on internal control over financial reporting is included in their combined report shown on page F-2 in Item 18.

Item 16A. Audit Committee Financial Expert

The Board has determined that Ann Godbehere, 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 Godbehere is independent within the meaning of Rule 10A-3 under the Exchange Act.

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.

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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 provided in accordance with a pre-approved budget and are reviewed by the Committee and approved where necessary. 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.

Auditor fees

During the year ended 31 December 2011 the Committee approved fees of £13.3 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 £2.9 million to KPMG for services not related to audit work which accounted for 18 per cent of total fees paid to the external auditor in the year. 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 2011.

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

	2011 (£ million)	**2010 (£ million)**
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**2.1**	1.9
Fees payable to the Company's auditor and its associates for other services:		
Audit of subsidiaries pursuant to legislation	**6.1**	6.1
Audit related assurance services	**2.6**	2.5
Tax compliance services	**0.6**	0.4
Other assurance services	**0.5**	0.6
Services relating to corporate finance transactions excluding the AIA transaction	**0.5**	0.1
All other services	**0.3**	0.4
Services relating to the AIA transaction		5.5
Total	**12.7**	17.5

In addition, there were fees of £0.1 million (2010: £0.1 million) for the audit of pension schemes.

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2011

Fees of £2.1 million for the audit of Prudential's annual accounts comprised statutory audit fees of £0.9 million, US reporting audit fees of £0.5 million and EEV reporting audit fees of £0.7 million. Fees of £6.1 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 £2.6 million for audit related assurance services supplied pursuant to legislation comprised of Sarbanes-Oxley reporting of £0.7 million, interim and regulatory reporting of £1.8 million and fees of £0.1 relating to valuation services.

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

Fees of £0.5 million for all other assurance services comprised services in respect of accounting and regulatory requirements of £0.1 million services, in respect of attestation letters of £0.3 million, and services in respect of compliance of legislation of £0.1 million.

2010

Fees of £1.9 million for the audit of Prudential's annual accounts comprised statutory audit fees of £0.8 million, US reporting audit fees of £0.5 million and EEV reporting audit fees of £0.6 million. Fees of £6.1 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 £2.5 million for audit related assurance services supplied pursuant to legislation comprised of Sarbanes-Oxley reporting of £0.5 million, interim and regulatory reporting of £1.9 million and fees of £0.1 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 £0.4 million for services relating to taxation related to tax compliance throughout the Group.

The fees for services relating to the AIA transaction of £5.5 million were primarily comprised of the following services:

Accountants' Report on historical financial information on Prudential Group

Consulting Actuaries' Report on AIA EEV information

Technical accounting advice

Financial due diligence

Working capital review

Synergies review

Extraction comfort

Auditor performance and independence

As part of its work during the year, 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, 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. The Committee reviewed the external audit strategy and received reports

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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. Since 2005 the Committee has annually considered the need to re-tender the external audit service. It again considered this in February 2012 and concluded that there was nothing in the performance of the auditor requiring a change. In line with the Auditing Practices Board Ethical Statements and the Sarbanes-Oxley Act, the lead audit partner, who was appointed by KPMG Audit plc in 2007, will be replaced by a new lead audit partner in respect of the 2012 financial year.

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 will be put to a shareholder vote at the Annual General Meeting on 17 May 2012.

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 31 December 2011.

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased at Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under Plans or Programs
		(£)		
1 January 31 January	12,723	6.83	N/A	N/A
1 February 28 February	11,688	7.13		
1 March 31 March	2,106,702	7.24		
1 April 30 April	263,361	7.44		
1 May 31 May	174,614	7.49		
1 June 30 June	1,418,209	7.15		
1 July 31 July	98,334	6.95		
1 August 31 August	1,520,620	5.95		
1 September 30 September	19,273	5.97		
1 October 31 October	15,385	6.07		
1 November 30 November	110,951	6.24		
1 December 31 December	2,456,692	6.20		

Note

(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.

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.

In addition, 177,642 shares were allotted to the employee benefit trusts in lieu of receiving cash dividends as part of Prudential's dividend re-investment program in May and September 2011.

Item 16G. Corporate Governance

On 4 November 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 the following 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 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 notifying it of specified changes to its audit committee or a change to the Company's status as a foreign private issuer; 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 Listing Rules, Disclosure and Transparency Rules and Prospectus Rules issued by the Financial Services Authority, and to report and explain non-compliance with the UK Corporate Governance Code which is issued by the Financial Reporting Council. As a company listed on the Hong Kong Stock Exchange, Prudential is also required to comply with certain continuing obligations set forth in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the 'HK Listing Rules') and is expected to comply with or explain any deviation from the provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the HK Listing Rules (the 'HK Code'). Any deviation from compliance with either corporate governance code is set out fully in the Governance Report in the Annual Report 2011.

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The table below discloses differences between Prudential's corporate governance practices and the NYSE rules on corporate governance. Unless specifically indicated otherwise, compliance with the provisions of the UK Corporate Governance Code in the table below also includes compliance with the HK Code.

	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 requirements contained in the UK Corporate Governance Code (the UK Code). The UK Code requires that the Board should include a balance of executive and 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 Keki Dadiseth, Howard Davies, Michael Garrett, Ann Godbehere, Alistair Johnston, Paul Manduca , Kai Nargolwala, Kathleen O'Donovan and Lord Turnbull are 'independent' under the UK Code. The Board is therefore compliant with the composition requirement under the UK Code.
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 organisation that has a relationship with the company). The listed company must comply with the disclosure requirements set forth in Item 407(a) of Regulation S-K. 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.	The Board is required to determine whether directors are independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could affect, the directors' judgment. 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;

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NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
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). 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'. iii) (A) The director is a current partner or employee of a firm that is the listed 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 a 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. 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 per cent of such other company's consolidated gross revenues.	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. In addition, in assessing whether its directors are 'independent', the Board considers a further list of factors set forth in the Hong Kong Listing Rules that the Hong Kong Stock Exchange takes into account in assessing the independence of non executive directors (without treating any such factor as necessarily conclusive). These include, among others, whether a director: is a director, partner or principal of a professional adviser which currently provides, or has within one year immediately prior to the date of his proposed appointment provided, services, or is an employee of such professional adviser who is or has been involved in providing such services during the same period to, among others, Prudential or any of its subsidiaries; is, or has at any time during the two years immediately prior to the date of proposed appointment been, an executive or director (other than an independent non-executive director) of, among others, Prudential or any of its subsidiaries. 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 per cent by Prudential, and in addition Mr Dadiseth serves at Prudential's request as a non-executive director of ICICI Prudential Trust Limited, an Indian company which is owned 49 per cent by Prudential. The Board does not consider that these appointments in any way affect Mr Dadiseth's status as an independent director of Prudential.

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NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
	The non-executive Directors considered by the Board to be independent are identified in the Company's Annual Reports in accordance with the UK Code and on Prudential's website. Throughout the year 2011 all non-executive directors were considered by the Board to be independent in character and judgment.
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 provisions set out in the UK Code, which requires that the Chairman of Prudential should hold meetings with the non-executive directors without executives present. The Chairman of Prudential usually meets formally, at least annually, with the non-executive directors without the executive directors being present. During 2011, the Chairman met with the non-executive directors without the presence of the executive directors on seven occasions.
Nominating/Corporate Governance Committee	
4 a) Listed companies must have a nominating/ corporate governance committee composed entirely of independent directors. b) The nominating/corporate governance committee must have a written charter that addresses: 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 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 ii) an annual performance evaluation of the committee.	Prudential complies with the corresponding provisions set out in the UK Code, which requires that Prudential has a Nomination Committee, which should comprise a majority of independent non-executive directors. Prudential's Nomination Committee has written terms of reference in accordance with the UK 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. The Board is responsible for regularly reviewing its corporate governance standards and practices. Requirements of the UK code to which Prudential is subject, do not mandate it to establish a corporate governance committee. Under the UK 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.

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	NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
	Compensation Committee	
5	a) Listed companies must have a compensation committee composed entirely of independent directors. b) The compensation committee must have a written charter that addresses: i) the committee's purpose and responsibilities which, at minimum, must be to have direct responsibility to: 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 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 c) prepare the disclosure required by Item 407(e)(5) of Regulation S-K; ii) an annual performance evaluation of the compensation committee.	Prudential complies with the equivalent requirements set out in the UK Code, which requires that Prudential has a Remuneration Committee that is comprised of at least three independent non-executive directors. Prudential's Remuneration Committee has written terms of reference in accordance with the UK Code. The terms of reference are available on Prudential's website. Prudential complies with the equivalent requirement set out in the UK Code, which provides that the Remuneration Committee: a) should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments; b) should recommend and monitor the level and structure of remuneration for senior management; 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. Under the UK 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.

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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. In general: Rule 10A-3(1) requires that each member of the audit committee be a member of the board of directors of the listed issuer, and be independent within the meaning of the Rule, subject to certain exemptions; Rule 10A-3(2) requires the audit committee to be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the issuer, and the independent auditor must report directly to the audit committee; Rule 10A-3(3) requires that an audit committee establish procedures for the receipt, retention and treatment of complaints received by the issuer regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; Rule 10A-3(4) requires that an audit committee have the authority to engage outside advisors, including counsel, as it determines necessary to carry out its duties. The Rule also requires the issuer to provide appropriate funding, as determined by the audit committee, for payment of compensation to the issuer's independent auditor and to any advisors employed by the audit committee; Rule 10A-3(5) requires that the audit committee be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor engaged for the purpose of preparing an audit report or performing other audit, review or attest services for the issuer, and the independent auditor must report directly to the audit committee.	Prudential complies with equivalent requirements set out in the UK 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 UK 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. 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 Governance Framework. The Audit Committee makes recommendations, through the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment or removal of the external auditor. 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.

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	NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
7	a) The audit committee must have a minimum of three members. All audit committee members must satisfy the requirements for independence set out in Section 303A.02 and, in the absence of an applicable exemption Rule I0A-3(b)(1).	Prudential complies with the equivalent provisions set out in the UK Code which requires that the Audit Committee should comprise a minimum of three 'independent' non-executive directors. Prudential has determined that each member of its Audit Committee is 'independent' for the purposes of Rule 10A-3(6)(1) under the Securities Exchange Act and UK Code. Prudential complies with the equivalent provisions set out in the UK Code which requires that the Board should satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience. The Board of Prudential has designated that Ann Godbehere, Chairman of the Audit Committee, qualifies as an audit committee financial expert.
	b) The audit committee must have a written charter that addresses: i) the committee's purpose which, at minimum, must be to:	Prudential's Audit Committee has written terms of reference in accordance with the UK Code. The terms of reference are available on Prudential's website. The UK 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 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 authorise the Board to set the remuneration and terms of engagement of the external auditor.

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NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
(B) prepare the disclosure required by Item 407(d)(3)(i) of Regulation S-K;	The UK 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	A description of the Committee's 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 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;	Prudential's Audit Committee monitors and reviews the effectiveness of the Company's internal audit function.
(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 listed company's specific disclosures under 'Management's Discussion and Analysis of Financial Condition and Results of Operations';	Prudential's Audit Committee 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 judgments 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;	Prudential's Audit Committee reviews the Company's interim management statements and press releases associated with key financial results prior to their publication.
(D) Discuss policies with respect to risk assessment and risk management;	Prudential's Audit Committee reviews the Company's internal financial controls and, unless expressly addressed by the Board itself, reviews the Company's internal control and risk management systems in relation to financial reporting. With the establishment of the Group Risk Committee, the oversight of risk management has transferred to that Committee with effect from 2011.

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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.
c) 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 UK 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.

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NYSE Corporate Governance Rules	Description of differences between Prudential's governance practice and the NYSE Corporate Governance Rules
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 the corresponding provisions set out in the Listing Rules issued by the Financial Services Authority and the UK Code, which require that Prudential include an explanation in its Annual Report of how it complies with the principles of the UK Code and require confirmation that it complies with the UK 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.
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 fulfill the requirement.
12 A foreign private issuer that is required to file an annual report on Form 20-F with the SEC must include the statement of significant differences in that annual report. All other foreign private issuers may either (i) include the statement of significant differences in an annual report filed with the SEC or (ii) make the statement of significant differences available on or through the listed company's website. If the statement of significant differences is made available on or through the listed company's website, the listed company must disclose that fact in its annual report filed with the SEC and provide the website address.	Prudential conforms by publishing this document in its annual report on Form 20-F and on its website to fulfill the 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, Risk Committee and Audit Committee, its corporate governance practice, its Code of Business Conduct and document disclosing any significant ways in which its corporate governance practices differ from those followed by companies under NYSE listing standards are posted in the English language.

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Item 18. Financial Statements

Index to the consolidated financial statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Prudential plc

We have audited the accompanying consolidated statements of financial position of Prudential plc (the Company) and its subsidiaries (collectively, the Group) as of 31 December 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended 31 December 2011 and the related condensed financial statement schedule of the Company, appearing on pages S-2 to S-11. We also have audited the Group's internal control over financial reporting as of 31 December 2011 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Group's management is responsible for these consolidated financial statements and condensed financial statement schedule, 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 accompanying consolidated financial statements and condensed financial statement schedule and an opinion on the Group's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended 31 December 2011, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). In addition, in our opinion, the related condensed financial statement schedule of the Company, when considered in relation to the basic consolidated financial

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statements taken as a whole, presents fairly, in all material respects, the information set forth therein in conformity with UK generally accepted accounting practice (UK GAAP). 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 the condensed financial statement schedule of the Company. Also in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of 31 December 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

30 March 2012	By:	/s/ KPMG AUDIT PLC
		KPMG Audit Plc London, England

NOTES ON THE GROUP FINANCIAL STATEMENTS

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Prudential plc and subsidiaries
Consolidated Income Statements
Years ended 31 December

	Note	2011	2010	2009
		£m	**£m**	**£m**
Gross premiums earned		**25,706**	24,568	20,299
Outward reinsurance premiums		**(429)**	(357)	(323)
Earned premiums, net of reinsurance	**F2**	**25,277**	24,211	19,976
Investment return	**F2**	**9,360**	21,769	26,889
Other income	**F2**	**1,869**	1,666	1,234
Total revenue, net of reinsurance	**F1,F2**	**36,506**	47,646	48,099
Benefits and claims	**F1**	**(31,060)**	(40,608)	(39,901)
Outward reinsurers' share of benefit and claims	**F1**	**746**	335	265
Movement in unallocated surplus of with-profits funds	**H12**	**1,025**	(245)	(1,559)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**F1**	**(29,289)**	(40,518)	(41,195)
Acquisition costs and other expenditure	**F3**	**(5,005)**	(4,799)	(4,572)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**F4**	**(286)**	(257)	(209)
Loss on sale of Taiwan agency business	**I2**			(559)
Total charges, net of reinsurance	**F1**	**(34,580)**	(45,574)	(46,535)
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)**		**1,926**	2,072	1,564
Tax credit (charge) attributable to policyholders' returns	**F5**	**17**	(611)	(818)
Profit before tax attributable to shareholders	**B1**	**1,943**	1,461	746
Tax charge	**F5**	**(432)**	(636)	(873)
Less: tax attributable to policyholders' returns	**F5**	**(17)**	611	818
Tax charge attributable to shareholders' returns**	**F5**	**(449)**	(25)	(55)
Profit from continuing operations after tax		**1,494**	1,436	691
Discontinued operations (net of tax)	**I10**			(14)
Profit for the year		**1,494**	1,436	677
Attributable to:				
Equity holders of the Company		**1,490**	1,431	676

Non-controlling interests		**4**	5	1
Profit for the year		**1,494**	1,436	677
Earnings per share (in pence)				
Basic:				
Based on profit from continuing operations attributable to the equity holders of the Company	**B2**	**58.8p**	56.7p	27.6p
Based on loss from discontinued operations attributable to the equity holders of the Company	**B2**			(0.6)p