You should read the following discussion and analysis of the Prudential Group's business, financial condition and results of operations set forth below in conjunction with the "Business" section and consolidated financial information and the related notes in the Accountants' Report of the Prudential Group set out in "Appendix I — Accountants' Report of the Group" of this listing document and other financial information appearing elsewhere in this listing document. Unless otherwise indicated, the financial data set out in this section has been extracted without material adjustment from the historical financial information for the Prudential Group as reported on by KPMG Audit Plc and KPMG set out in "Appendix I — Accountants' Report of the Group" of this listing document or the Prudential Group's unaudited accounting records, operating systems and other information prepared by Prudential. Investors should read the whole listing document and not only rely on key or summarised information in this section. The Prudential Group's financial information has been prepared in accordance with IFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States. A summary of the critical accounting policies which have been applied to these statements is set out in the sections "Critical accounting policies" and "Critical Accounting estimates and judgements" below. 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 out in the section "Risk Factors".

OVERVIEW

The Prudential Group is an international retail financial services group with significant operations in Asia, the US and the UK. The Prudential Group's aim is to promote the financial well-being of its customers and their families, with a particular focus on saving for retirement and security in retirement.

The Prudential Group is structured around four main business units: Prudential Corporation Asia, Jackson, Prudential UK insurance operations and M&G. These are supported by central functions which are responsible for leading Prudential Group strategy, cash and capital management, leadership development and succession, reputation management and other core group functions.

Prudential Corporation Asia is the leading European-based life insurer in Asia in terms of market coverage and the number of top five market positions. Prudential has life insurance and asset management operations in 13 markets covering China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Vietnam and the United Arab Emirates. On 6 January 2010 the Prudential Group announced it had entered into an agreement to acquire from UOB its 100% interest in UOB Life Assurance in Singapore for a total cash consideration of SGD428 million (approximately £192 million), subject to a post-completion adjustment to reflect the net asset value as at the completion date. This acquisition accompanied the announcement of a long-term strategic partnership with UOB. Through this partnership Prudential's life insurance products will be distributed through UOB Group's 414 bank branches across Singapore, Indonesia and Thailand.

Jackson provides retirement savings and income solutions in the mass and mass-affluent segments of the US market, primarily to retirees and those nearing retirement.

Prudential UK insurance operations is a leading provider of retirement savings and income solutions and life assurance in the UK and believes it has a strong combination of competitive advantages, including its significant longevity experience, multi-asset management capabilities and its brand and financial strength. Prudential UK provides a range of financial products and services, including annuities, corporate pensions, with-profits and unit-linked bonds, savings and investment products, protection and health insurance products.

M&G is the Prudential Group's UK and European fund management business and has £174 billion of assets under management as at 31 December 2009, of which £104 billion relates to the Prudential Group's long-term business funds. M&G aims to maximise profitable growth by operating in markets where it has leading positions and competitive advantages, including the markets for retail fund management, institutional fixed income, pooled life and pension funds, property and private finance.

PRINCIPAL FACTORS AFFECTING PRUDENTIAL GROUP'S RESULTS OF OPERATIONS

The Prudential Group'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 the Prudential Group's profitability.

See "Risk Factors" for more information on risks associated with these and other factors. In addition, changes to the composition of its businesses and the execution of its growth strategy may result in increased variation in profits from year to year.

General Economic and Market Conditions

After the severe difficulties encountered by the world economy and financial markets in the second half of 2008, the Prudential Group entered 2009 with a deliberately defensive position. The Prudential Group recognised early on the implications of the new economic climate and focused its strategy on capital conservation and cash generation. The Prudential Group prioritised value over volume and allocated capital strictly to the products and channels with the highest rates of return and shortest payback periods. This led the Prudential Group to reduce significantly its volumes of wholesale business, allowing it to grow the relatively more profitable retail sales by 11% in a year when many companies saw a contraction or stagnation of sales. This disciplined approach meant that, as conditions started to improve, the Prudential Group's capital strength allowed it to capture a more than proportionate share of many of its target markets.

Through the Prudential Group's international, selective and disciplined approach it maintains a diverse portfolio of businesses, which embrace countries at different stages of economic development, but which all share one key attribute: the opportunity for the Prudential Group to build a market-leading operation with prospects for sustainable, long-term, profitable growth and a superior rate of return on capital.

Prudential's financial strength is fundamental to its strategy and as a result of its disciplined risk management approach and targeted group-wide actions to grow and protect its capital, the Prudential Group is emerging from the global economic downturn with greater strength demonstrated by its increased IGD capital. Prudential believes that this capital strength has been instrumental in the Prudential Group's ability to invest in profitable growth in 2009, especially in its chosen markets in Asia and US.

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

Asia

Asia is home to 60% of the world's population and, given its impressive economic transformation over the last few years, the region now has an increasingly significant role in the global economy. This is translating into the rapid emergence of an increasingly urbanised and wealthy mass affluent sector that generates outstanding growth potential in retail financial services as people look to protect their financial well-being and manage their savings in more sophisticated and efficient ways. In addition, Asia's growing and increasingly middle class population face a growing need for financial advice and products to help people save for retirement, secure an income during retirement and protect their financial well-being throughout life.

The word 'Asia' is used extensively and broadly to describe what is, in fact, a highly diverse region of the world. This diversity exhibits itself in a myriad of ways: culture, religion, politics, wealth and distribution of wealth and not least, language. Furthermore, within the financial services sector there are complex legal and regulatory environments which vary materially by country. These are important considerations for any business with aspirations to develop businesses in Asia. While there are undoubtedly commonalities and opportunities for synergy across the region, a 'one size fits all' approach will generally produce suboptimal results. The Prudential Group's own diversity in terms of geographic presence, distribution channels and products continues to be a key factor in the success of its life insurance and asset management businesses.

The concept that Asian economies are decoupling from Western economies is a point for continued debate, but external indicators suggest that Asia is recovering more quickly from the recent global financial crisis. Sound fundamentals coupled with aggressive stimuli have enabled most Asian economies to outperform the developed Western markets over the course of 2009. So long as inflation remains under control, the Prudential Group expects that the Asian central banks are likely to resist currency appreciation and maintain low interest rates. The Prudential Group also anticipates that capital flows into Asia should increase as Asia's GDP growth continues to outpace the rest of the world.

In Asia, the Prudential Group continued to benefit in 2009 from its focus on regular premium products, as sales of single premium products suffered amid the market dislocation experienced in the first half of the year. In addition, the breadth of offering enabled the Prudential Group to refocus its energies on higher-margin health and protection products, and also on with-profits for the more cautious investor.

Overall, the Prudential Group believes that its strategy, and the consistency with which it executes it, are the core factors that differentiate it from its peers.

US

The United States is the world's largest retirement savings market, and is continuing to grow rapidly. As 78 million baby boomers[(1)] reach retirement age, their retirement assets will shift from asset accumulation to income distribution. There are already US$2 trillion of assets generating retirement income in the US — and this amount is forecast to rise to some US$7 trillion by 2029[(2)].

During 2009, the US financial services industry continued to face an array of challenges. After the S&P 500 index fell to a 12-year low in March, it rebounded and ended the year up 23.5% (compared to a 38.5% decline in 2008). Governmental interest rates increased but remained at historic lows, and rating agencies downgraded the financial strength ratings of many of the largest US insurance companies.

Further uncertainty arose early in the year as several companies scaled back their product offerings due to capital constraints which, combined with the financial strength downgrades, caused consumers to question the long-term financial stability of product providers. At the same time, tightening credit spreads and the rally in equity markets throughout the last nine months of the year created more favourable market conditions for the sale of variable annuities. These developments in the annuity market provided a competitive advantage to companies with strong financial strength ratings and a relatively consistent product set.

(1) Source: US Census Bureau

(2) Source: Tiburon Strategic Advisers, LLC

The Prudential Group's US business, Jackson, benefited significantly from this flight to quality in the US annuity market. Jackson's strategy continues to target increasing volumes in variable annuities in line with the goal of capital preservation. As Jackson focused on optimising the balance between new business profits and capital consumption, no institutional sales were made during the full year of 2009.

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 the Prudential Group'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 programme. While Jackson hedges its risk on an economic basis, the nature and duration of the hedging instruments, which are recorded at fair value through the income statement, will fluctuate and produce some accounting volatility.

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

UK

In 2009, Prudential UK performed strongly against a challenging background of difficult capital markets, volatile equity markets and widespread economic uncertainty which led to consumers looking for greater certainty and security through trusted and financially strong brands. Prudential UK believes that the business has a good combination of competitive advantages including its longevity experience, multi-asset investment capabilities, strong brand and financial strength. These helped put Prudential UK in a robust position to generate attractive returns across its businesses.

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

Prudential UK has a significant pipeline of internal vestings into its annuity business from maturing individual and corporate pension policies, which is expected to remain strong at least over the next ten years. Management has based this assessment on a combination of analysis of the projected value of maturities of in-force business (after allowing for lapses) used within the Prudential Group's actuarial valuation models as at 31 December 2008 and analysis of the Selected Retirement Date contained with the policy data for a population covering approximately 75% of in-force pension business. Prudential UK is one of the largest annuity providers in the UK market, with approximately 1.5 million annuities in payment as at 31 December 2009. Looking ahead, the UK annuities market is expected to grow in the near-term, and Prudential UK believes it is well positioned to maintain a significant share of this market.

In the United Kingdom, where Prudential's with-profits fund invests in debt and other fixed income securities, equity securities and real estate, shareholders' profits under IFRS are strongly related to the bonuses it declares. The most important influences on the bonus rates are the overall rate of return earned on investments and Prudential's expectation of future investment returns. Further information on with-profits products is provided in section 5.1 below. In addition, the shareholders' profits under IFRS are significantly influenced by the contribution from the growing shareholder backed annuity business. The key factors affecting the profitability of this business are described in note D2 to the consolidated financial information contained within the Accountants' Report set out in Appendix I to this listing document.

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 the Prudential Group 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 the Prudential Group's existing and future business by, for example, causing customers to cancel existing policies, requiring the Prudential Group 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 the Prudential Group operates have seen considerable regulatory change. Failure to comply with local regulation may result in sanctions, which could take the form of a financial penalty.

Additional regulation, scrutiny and related costs have put pressure on the margins on new business. In the United States, Jackson has been the subject of class action litigation which are discussed in more detail in this listing document in the section headed "Business - Legal and

Regulatory 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 the Prudential Group's financial condition, result of operations, or cash flows. Changes in pension, financial services and tax regulation could have an impact on the Prudential Group's results.

Exchange Rates

Due to the geographical diversity of the Prudential Group's businesses, it is subject to the risk of exchange rate fluctuations. The Prudential Group'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 the Prudential Group's consolidated financial information upon translation of results into pounds sterling.

TRADING RECORD

You should read the following analysis and discussion in conjunction with the Prudential Group's consolidated financial information included in the Accountants' Report set out in Appendix I to this listing document, which has been prepared in accordance with IFRS.

Consolidated income statement

	Year ended 31 December		
	2007	2008	2009
	£m	£m	£m
Gross premiums earned	18,359	18,993	20,229
Outward reinsurance premiums	(171)	(204)	(323)
Earned premiums, net of reinsurance	18,188	18,789	19,976
Investment return	12,225	(30,202)	26,889
Other income	2,457	1,146	1,234
Total revenue, net of reinsurance	32,870	(10,267)	48,099
Benefits and claims	(26,224)	4,620	(39,901)
Outward reinsurers' share of benefits and claims	(20)	389	265
Movement in unallocated surplus of with-profits funds	(541)	5,815	(1,559)
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(26,785)	10,824	(41,195)
Acquisition costs and other operating expenditure	(4,859)	(2,459)	(4,572)
Finance costs: interest on core structural borrowings of shareholder-financed operations	(168)	(172)	(209)
Loss on sale of Taiwan agency business	—	—	(559)
Total charges, net of reinsurance	(31,812)	8,193	(46,535)
Profit (loss) before tax (*being tax attributable to shareholders' and policyholders' returns*)[note 1]	1,058	(2,074)	1,564
Tax (charge) credit attributable to shareholders' returns	5	1,624	(818)
Profit (loss) before tax attributable to shareholders	1,063	(450)	746
Tax (charge) credit	(349)	1,683	(873)
Less: tax credit attributable to policyholders' returns	(5)	(1,624)	818
Tax (credit) charge attributable to shareholders' returns	(354)	59	(55)
Profit (loss) from continuing operations after tax	709	(391)	691
Discontinued operations (net of tax)	241	—	(14)
Profit (loss) for the year	950	(391)	677
Attributable to:			
Equity holders of the Company	947	(396)	676
Minority interests	3	5	1
Profit (loss) for the year	**950**	**(391)**	**677**
Earnings per share (in pence)			
Basic:			
Based on profit (loss) from continuing operations attributable to the equity holders of Prudential	28.8p	(16.0)p	27.6p
Based on profit (loss) from discontinued operations attributable to the equity holders of Prudential	9.9p	—	(0.6)p
	38.7p	(16.0)p	27.0p
Diluted:			
Based on profit (loss) from continuing operations attributable to the equity holders of Prudential	28.8p	(16.0)p	27.6p
Based on profit (loss) from discontinued operations attributable to the equity holders of Prudential	9.8p	—	(0.6)p
	38.6p	(16.0)p	27.0p

Notes

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

Consolidated statement of comprehensive income

		Year ended 31 December		
	Note	2007	2008	2009
		£m	£m	£m
Profit (loss) for the year		950	(391)	677
Other comprehensive income (loss):				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the year	B4	11	391	(206)
Related tax		2	119	11
		13	510	(195)
Movement in cash flow hedges		(3)	—	—
Related tax		1	—	—
		(2)	—	—
Available-for-sale securities:				
Unrealised valuation movements on securities classified as available-for-sale of banking operations		(2)	—	—
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:	D3(a)			
Unrealised holding gains (losses) arising during the year		(231)	(2,482)	2,249
Add back net losses included in the income statement on disposal and impairment		(13)	378	420
Total		(246)	(2,104)	2,669
Related change in amortisation of deferred income and acquisition costs	H1	88	831	(1,069)
Related tax		53	442	(557)
		(105)	(831)	1,043
Other comprehensive income (loss) for the year, net of related tax		(94)	(321)	848
Total comprehensive income (loss) for the year		856	(712)	1,525
Attributable to:				
Equity holders of Prudential		853	(717)	1,524
Minority interests		3	5	1
Total comprehensive income (loss) for the year		856	(712)	1,525

Consolidated statement of changes in equity

	Year ended 31 December								
	2007								
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Hedging reserve	Share-holders' equity	Minority interests	Total equity
	£m								
Reserves									
Profit for the year	—	—	947	—	—	—	947	3	950
Other comprehensive income(loss):									
Exchange movements on foreign operations and net investment hedges, net of related tax	—	—	—	13	—	—	13	—	13
Movement on cash flow hedges, net of related tax	—	—	—	—	—	(2)	(2)	—	(2)
Unrealised valuation movements, net of related change in amortisation of deferred income and acquisition costs and related tax	—	—	—	—	(105)	—	(105)	—	(105)
Total other comprehensive income (loss)	—	—	—	13	(105)	(2)	(94)	—	(94)
Total comprehensive income (loss) for the year	—	—	947	13	(105)	(2)	853	3	856
Dividends	—	—	(426)	—	—	—	(426)	(5)	(431)
Reserve movements in respect of share-based payments	—	—	18	—	—	—	18	—	18
Change in minority interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and of other consolidated investment funds	—	—	—	—	—	—	—	(28)	(28)
Share capital and share premium									
New share capital subscribed	1	181	—	—	—	—	182	—	182
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	—	(175)	175	—	—	—	—	—	—
Treasury shares									
Movement in the value of own shares held in respect of share-based payment plans	—	—	7	—	—	—	7	—	7
Movement in the value of Prudential plc shares purchased by unit trusts consolidated under IFRS	—	—	4	—	—	—	4	—	4
Net increase (decrease) in equity	1	6	725	13	(105)	(2)	638	(30)	608
At beginning of year	122	1,822	3,576	(125)	27	2	5,424	132	5,556
At end of year	123	1,828	4,301	(112)	(78)	—	6,062	102	6,164

	Year ended 31 December								
	2008								
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Hedging reserve	Share-holders' equity	Minority interests	Total equity
	£m								
Reserves									
Loss for the year	—	—	(396)	—	—	—	(396)	5	(391)
Other comprehensive income (loss):									
Exchange movement on foreign operations and net investment hedges, net of related tax	—	—	—	510	—	—	510	—	510
Unrealised valuation movements, net of related change in amortisation of deferred income and acquisition costs and related taxes	—	—	—	—	(831)	—	(831)	—	(831)
Total other comprehensive income (loss)	—	—	—	510	(831)	—	(321)	—	(321)
Total comprehensive income (loss) for the year	—	—	(396)	510	(831)		(717)	5	(712)
Dividends	—	—	(453)	—	—	—	(453)	(2)	(455)
Reserve movements in respect of share-based payments	—	—	18	—	—	—	18	—	18
Change in minority interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and of other consolidated investment funds	—	—	—	—	—	—	—	(50)	(50)
Share capital and share premium									
New share capital subscribed	2	168	—	—	—	—	170	—	170
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	—	(156)	156	—	—	—	—	—	—
Treasury shares									
Movement in own shares held in respect of share-based payment plans	—	—	3	—	—	—	3	—	3
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	—	—	(25)	—	—	—	(25)	—	(25)
Net increase (decrease) in equity	2	12	(697)	510	(831)	—	(1,004)	(47)	(1,051)
At beginning of year	123	1,828	4,301	(112)	(78)	—	6,062	102	6,164
At end of year	125	1,840	3,604	398	(909)	—	5,058	55	5,113

	Year ended 31 December								
	2009								
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Hedging reserve	Share-holders' equity	Minority interests	Total equity
	£m								
Reserves									
Profit for the year	—	—	676	—	—	—	676	1	677
Other comprehensive income (loss):									
Exchange movement on foreign operations and net investment hedges, net of related tax	—	—	—	(195)	—	—	(195)	—	(195)
Unrealised valuation movements, net of related change in amortisation of deferred income and acquisition costs and related taxes	—	—	—	—	1,043	—	1,043	—	1,043
Total other comprehensive income (loss)	—	—	—	(195)	1,043	—	848	—	848
Total comprehensive income (loss) for the year	—	—	676	(195)	1,043	—	1,524	1	1,525
Dividends	—	—	(481)	—	—	—	(481)	—	(481)
Reserve movements in respect of share-based payments	—	—	29	—	—	—	29	—	29
Change in minority interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and of other consolidated investment funds	—	—	—	—	—	—	—	(24)	(24)
Share capital and share premium									
New share capital subscribed	2	139	—	—	—	—	141	—	141
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	—	(136)	136	—	—	—	—	—	—
Treasury shares									
Movement in own shares held in respect of share-based payment plans	—	—	3	—	—	—	3	—	3
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	—	—	(3)	—	—	—	(3)	—	(3)
Net increase (decrease) in equity	2	3	360	(195)	1,043	—	1,213	(23)	1,190
At beginning of year	125	1,840	3,604	398	(909)	—	5,058	55	5,113
At end of year	127	1,843	3,964	203	134	—	6,271	32	6,303

Consolidated statement of financial position

	31 December		
	2007	2008	2009
	£m	£m	£m
Assets			
Intangible assets attributable to shareholders:			
Goodwill	1,341	1,341	1,310
Deferred acquisition costs and other intangible assets	2,836	5,349	4,049
Total	4,177	6,690	5,359
Intangible assets attributable to with-profits funds:			
In respect of acquired subsidiaries for venture fund and other investment purposes	192	174	124
Deferred acquisition costs and other intangible assets	19	126	106
Total	211	300	230
Total	4,388	6,990	5,589
Other non-investment and non-cash assets:			
Property, plant and equipment	1,012	635	367
Reinsurers' share of insurance contract liabilities	783	1,240	1,187
Deferred tax assets	951	2,886	2,708
Current tax recoverable	285	657	636
Accrued investment income	2,023	2,513	2,473
Other debtors	909	1,232	762
Total	5,963	9,163	8,133
Investments of long-term business and other operations:			
Investment properties	13,688	11,992	10,905
Investments accounted for using the equity method	12	10	6
Financial investments:			
Loans	7,924	10,491	8,754
Equity securities and portfolio holdings in unit trusts	86,157	62,122	69,354
Debt securities	83,984	95,224	101,751
Other investments	4,396	6,301	5,132
Deposits	7,889	7,294	12,820
Total	204,050	193,434	208,722
Properties held for sale	30	—	3
Cash and cash equivalents	4,951	5,955	5,307
Total assets	219,382	215,542	227,754

	31 December 2007 £m	31 December 2008 £m	31 December 2009 £m
EQUITY AND LIABILITIES			
Equity			
Shareholders' equity	6,062	5,058	6,271
Minority interests	102	55	32
Total equity	6,164	5,113	6,303
Liabilities			
Policyholder liabilities and unallocated surplus of with-profits funds:			
Insurance contract liabilities	132,776	136,030	145,713
Investment contract liabilities with discretionary participation features	29,550	23,446	24,880
Investment contract liabilities without discretionary participation features	14,032	14,501	15,805
Unallocated surplus of with-profits funds	13,959	8,414	10,019
Total	190,317	182,391	196,417
Core structural borrowings of shareholder-financed operations:			
Subordinated debt	1,570	1,987	2,691
Other	922	971	703
Total	2,492	2,958	3,394
Other borrowings:			
Operational borrowings attributable to shareholder-financed operations	3,081	1,977	2,751
Borrowings attributable to with-profits funds	987	1,308	1,284
Other non-insurance liabilities:			
Obligations under funding, securities lending and sale and repurchase agreements	4,081	5,572	3,482
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	3,556	3,843	3,809
Deferred tax liabilities	3,402	3,229	3,872
Current tax liabilities	1,237	842	1,215
Accruals and deferred income	599	630	594
Other creditors	1,020	1,496	1,612
Provisions	575	461	643
Derivative liabilities	1,080	4,832	1,501
Other liabilities	791	890	877
Total	16,341	21,795	17,605
Total liabilities	213,218	210,429	221,451
Total equity and liabilities	219,382	215,542	227,754

Consolidated statement of cash flows

	Year ended 31 December		
	2007	**2008**	**2009**
	£m	**£m**	**£m**
Cash flows from operating activities			
Profit (loss) before tax from continuing operations (*being tax attributable to shareholders' and policyholders' returns*)†	1,058	(2,074)	1,564
Profit (loss) before tax from discontinued operations	222	—	(14)
Total profit (loss) before tax	1,280	(2,074)	1,550
Changes in operating assets and liabilities:			
Investments	(11,818)	32,424	(26,388)
Other non-investment and non-cash assets	(378)	(828)	(384)
Policyholder liabilities (including unallocated surplus)	11,845	(26,987)	24,932
Other liabilities (including operational borrowings)	902	(631)	(299)
Interest income and expense and dividend income included in profit before tax	(8,301)	(7,927)	(7,267)
Other non-cash items (including £559 million in 2009 for the loss on disposal of Taiwan agency business)	(141)	(74)	650
Operating cash items:			
Interest receipts	5,641	5,875	5,734
Dividend receipts	2,732	2,019	1,780
Tax paid	(624)	(653)	(200)
Net cash flows from operating activities	1,138	1,144	108
Cash flows from investing activities			
Purchases of property, plant and equipment	(231)	(240)	(91)
Proceeds from disposal of property, plant and equipment	61	11	54
Disposal of Taiwan agency business	—	—	(497)
Completion adjustment for previously disposed business	—	—	(20)
Acquisition of subsidiaries, net of cash balances	(77)	—	—
Disposal of Egg, net of cash balances	(538)	—	—
Disposal of other subsidiaries, net of cash balances	157	—	—
Deconsolidation of investment subsidiaries	(91)	—	—
Net cash flows from investing activities	(719)	(229)	(554)
Cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed operations:			
Issue of subordinated debt, net of costs	—	—	822
Redemption of senior debt	(150)	—	(249)
Interest paid	(171)	(167)	(207)
With-profits operations:			
Interest paid	(9)	(9)	(9)
Equity capital*:			
Issues of ordinary share capital	6	12	3
Dividends paid	(255)	(297)	(344)
Net cash flows from financing activities	(579)	(461)	16
Net increase (decrease) in cash and cash equivalents	(160)	454	(430)
Cash and cash equivalents at beginning of year	5,071	4,951	5,955
Effect of exchange rate changes on cash and cash equivalents	40	550	(218)
Cash and cash equivalents at end of year	4,951	5,955	5,307

Notes

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

* Cash movements in respect of equity capital exclude scrip dividends.

CRITICAL ACCOUNTING POLICIES

The consolidated financial information of the Prudential Group and the parent company financial information have been prepared and approved by the Directors in accordance with IFRS as issued by the IASB and as endorsed by the EU. EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. As at 31 December 2009, there were no unendorsed standards effective for the three years ended 31 December 2009 affecting the consolidated financial information of the Prudential Group or the parent company financial information, and there was no difference between IFRS endorsed by the EU and IFRS issued by the IASB in terms of their application to the Prudential Group. Accordingly, the Prudential Group's financial information for the three years ended 31 December 2009 is prepared in accordance with IFRS as issued by the IASB. It is the Group's policy to adopt mandatory requirements of new or altered EU-adopted IFRS standards where required, with earlier adoption applied where permitted and appropriate in the circumstances.

The preparation of this financial information requires the Prudential Group 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, the Prudential Group evaluates its estimates, including those related to long-term business provisioning, the fair value of assets and the declaration of bonus rates. The Prudential Group 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. The Prudential Group believes that its critical accounting policies are limited to those described below.

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

Additional explanation is provided below and in cross-referenced notes within the consolidated financial information set out in Appendix I to this listing document 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 information set out in Appendix I to this listing document 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 the Prudential Group's businesses, the explanations refer to types of business, fund structure, the relationship between asset and policyholder liability measurement, and the differences in the method of accounting permitted under IFRS 4 for accounting for insurance contract assets, policyholder liabilities and unallocated surplus of the Prudential Group's with-profits funds.

Insurance contract accounting

With the exception of certain contracts described in note D1 to the consolidated financial statements in Appendix I to this listing document, the contracts issued by Prudential 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. In limited circumstances the Prudential Group has chosen to apply a more relevant or reliable measure. The following paragraphs explain how the current Prudential Group applies this policy. Except as described below, in respect of UK regulated with-profits funds where the basis applied has been improved to a more relevant or reliable measure (also as permitted under IFRS 4), 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 to the Prudential Group's UK and overseas operations.

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

- derecognition of deferred acquisition costs and related deferred tax; and
- replacement of MSB liabilities with adjusted realistic basis liabilities.

The results included in the consolidated financial information set out in Appendix 1 to this listing document reflect this basis.

Unallocated surplus represents the excess of assets over policyholder liabilities for the Prudential Group's with-profits funds that have yet to be appropriated between policyholders and shareholders. The Prudential Group has opted to account for unallocated surplus wholly as a liability with no allocation to equity.

This treatment reflects the fact that shareholders' participation in the cost of bonuses arises only on distribution. Shareholder profits on with-profits business reflect one-ninth of the cost of declared bonus.

For the Prudential Group's current overseas operations, the application of the MSB (which permits the use of local GAAP in some circumstances) varies depending upon the basis of accounting applied prior to IFRS adoption or acquisition by the Prudential Group, and whether adjustments to the basis or a more appropriate method should be applied. 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 Prudential Group's current Asian operations, the local GAAP is applied with adjustments, where necessary, to comply with UK GAAP. For the operations in Taiwan, Vietnam and Japan, countries where local GAAP is not appropriate in the context of the previously applied MSB, accounting for insurance contracts is based on US GAAP. For participating business the liabilities include provisions for the policyholders' interest in realised investment gains and other surpluses that, where appropriate, and in particular for Vietnam, have yet to be declared as bonuses.

The usage of these bases of accounting has varying effects on the way in which product options and guarantees are measured. For UK regulated with-profits funds, options and guarantees are valued on a market consistent basis. The basis is described in note D2(F)(ii) to the consolidated financial information set out in Appendix 1 to this listing document. For other operations a market consistent basis is not applied under the accounting basis described in note A4 to the consolidated financial information set out in Appendix I to this listing document. Details of the guarantees, basis of setting assumptions, and sensitivity to altered assumptions are described in notes D3 and D4 to the consolidated financial information set out in Appendix I to this listing document.

Valuation and accounting presentation of fair value movements of derivatives and debt securities of Jackson

Under IAS 39, derivatives are required to be carried at fair value. Unless net investment hedge accounting is applied, value movements on derivatives are recognised in the income statement. With the exception of value movements on derivatives held for variable annuities and other equity related hedging activities, the value movements on derivatives held by Jackson are separately identified within the short-term fluctuations in investment returns identified as part of the Prudential Group's segment results described below and in note B1 to the consolidated financial information set out in Appendix I to this listing document. Derivative value movements in respect of equity risk within variable annuity business and other equity related hedging activities are included within the operating profit based on longer-term investment returns.

For derivative instruments of Jackson, the Prudential 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
- 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 Prudential Group has decided that, except for certain minor categories of derivatives, it is not appropriate to seek to achieve hedge accounting under IAS 39. As a result of this decision, the total income statement results are more volatile as the movements in the value of Jackson's derivatives are reflected within it.

Under IAS 39, unless carried at amortised cost (subject to impairment provisions where appropriate) under the held-to-maturity category, debt securities are also carried at fair value. The Prudential 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 Prudential 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 information set out in Appendix I to this listing document.

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 Prudential 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 Prudential Group uses operating profit based on longer-term investment returns as the segmental measure of its results. The basis of calculation is disclosed in the paragraph in this section "Analysis of IFRS basis operating profit based on longer-term investment returns and IFRS total profit".

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 Prudential Group provides additional analysis of results to provide information on results before and after short-term fluctuations in investment returns.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Investments

Determining the fair value of financial investments when the markets are not active

The Prudential 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 e.g. 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 Prudential Group is not active, the fair value is determined by using valuation techniques. The Prudential 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 affect the reported fair value of these financial investments.

The financial investments measured at fair value are classified (from 1 January 2009) 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 investments 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).

As at 31 December 2009, £5,557 million of the financial investments (net of derivative liabilities) valued at fair value were classified as level 3, which represents 3% of the total financial investments (net of derivative liabilities) carried at fair value at that date. Of these, £1,684 million are held to back shareholder non-linked business, and so changes to these valuations will directly affect shareholders' equity. Further details of the classification of financial instruments are given in note G1 to the consolidated financial information set out in Appendix I to this listing document.

Determining impairments relating to financial assets

Available-for-sale securities

Under IAS 39, the Prudential Group has the option on purchase to account for individual financial instruments as available-for-sale. Currently, the only financial investments carried on an available-for-sale basis by the Prudential Group 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.

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

  The duration of a security for 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, 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 accounted for as available-for-sale falls to be accounted for as unrealised gains or losses, with the movements in the accounting period being accounted for in other comprehensive income.

The Prudential 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 information, 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 of the consolidated financial information set out in Appendix I to this listing document.

Impairment losses recognised on available-for-sale securities amounted to £35 million, £497 million and £630 million, for 2007, 2008 and 2009 respectively. Of this amount, 14%, 29% and 86% respectively, 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 57%, 27%, and 11%, for 2007, 2008 and 2009 respectively, reflecting a deteriorating business outlook of the companies concerned. The impairment issues have been recorded in "investment return" in the income statement.

In 2007, 2008 and 2009 respectively, the Prudential Group realised gross losses on sales of available-for-sale securities of £86 million, £184 million and £134 million with 46%, 55% and 60% of these losses related to the disposal of fixed maturity securities of six, six, and five (2007, 2008 and 2009 respectively) individual issuers, which were disposed of to rebalance the portfolio in the US operations in response to the unstable mortgage lending.

The effect of those reasonably likely changes in the key assumptions underlying the estimates that underpin the assessment of whether impairment has taken place depends on the factors described 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.

The unrealised losses in the US insurance operations statement of financial position on unimpaired securities are £439 million, £3,178 million and £966 million, for 2007, 2008 and 2009 respectively. This reflects assets with fair market value of £10,291 million, £17,422 million, and £7,254 million, for 2007, 2008 and 2009 respectively and a book value of £10,730 million, £20,600 million and £8,220 million, for 2007, 2008 and 2009 respectively.

(a) Fair value of 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 as at 31 December 2007, 2008 and 2009. Book value represents cost/amortised cost of the debt securities.

Fair value of securities as a percentage of book value	2007 Fair value	2007 Unrealised loss	2008 Fair value	2008 Unrealised loss	2009 Fair value	2009 Unrealised loss
	£m		£m		£m	
Between 90% and 100%	9,370	(274)	8,757	(431)	5,127	(169)
Between 80% and 90%	784	(122)	4,581	(809)	1,201	(203)
Below 80%	137	(43)	4,084	(1,938)	926	(594)
Total	10,291	(439)	17,422	(3,178)	7,254	(966)

Included within the table above are amounts relating to sub-prime and Alt-A securities of:

Fair value of securities as a percentage of book value	2007 Fair value	2007 Unrealised loss	2008 Fair value	2008 Unrealised loss	2009 Fair value	2009 Unrealised loss
	£m		£m		£m	
Between 90% and 100%	572	(24)	479	(27)	102	(3)
Between 80% and 90%	132	(22)	120	(19)	160	(28)
Below 80%	28	(10)	192	(166)	159	(88)
Total	732	(56)	791	(212)	421	(119)

Sub-prime and Alt-A securities with unrealised losses of £37 million, £91 million and £21 million in the balance sheet as at 31 December 2007, 2008 and 2009, respectively, have been in an unrealised loss position for less than one year with the remaining securities with unrealised losses of £19 million, £121 million, and £98 million, respectively being in an unrealised loss position for more than one year.

b) Unrealised losses by maturity of security

	2007 Unrealised loss	2008 Unrealised loss	2009 Unrealised loss
	£m	£m	£m
Less than 1 year	(1)	(21)	—
1 to 5 years	(54)	(537)	(29)
5 to ten years	(164)	(1,236)	(127)
More than ten years	(60)	(395)	(92)
Mortgage-backed and other debt securities	(160)	(989)	(718)
Total	(439)	(3,178)	(966)

c) Age analysis of unrealised losses for the periods indicated

The following table shows the age analysis for all the unrealised losses in the portfolio by reference to the length of time the securities have been in an unrealised loss position:

	2007 £m			2008 £m			2009 £m		
Aged analysis of unrealised losses for the periods indicated	**Non - investment grade**	**Investment grade**	**Total**	**Non - investment grade**	**Investment grade**	**Total**	**Non - investment grade**	**Investment grade**	**Total**
Less than 6 months	(9)	(58)	(67)	(108)	(362)	(470)	(7)	(51)	(58)
6 months to 1 year	(21)	(115)	(136)	(125)	(1,164)	(1,289)	(25)	(59)	(84)
1 year to 2 years	(2)	(21)	(23)	(154)	(622)	(776)	(59)	(234)	(293)
2 years to 3 years	(34)	(140)	(174)	(15)	(91)	(106)	(125)	(199)	(324)
More than 3 years	(2)	(37)	(39)	(61)	(476)	(537)	(35)	(172)	(207)
Total	(68)	(371)	(439)	(463)	(2,715)	(3,178)	(251)	(715)	(966)

d) Securities whose fair value was below 80% of the book value

As shown in table (a) above, £43 million, £1,938 million and £594 million, for 2007, 2008, and 2009 respectively, of the £439 million, £3,178 million and £966 million of gross unrealised losses as at 31 December 2007, 31 December 2008, and 31 December 2009 respectively, related to securities whose fair value was below 80% of the book value. The analysis of the £43 million, £1,938 million and £594 million for 2007, 2008 and 2009 respectively, by category of debt securities and by age analysis indicating the length of time for which their fair value was below 80% of the book value, is as follows:

	2007		2008		2009	
Category analysis	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**
	£m		£m		£m	
Residential mortgage-backed securities						
Prime	2	(1)	287	(115)	322	(153)
Alt-A	27	(10)	144	(127)	77	(33)
Sub-prime	—	—	48	(39)	82	(55)
	29	(11)	479	(281)	481	(241)
Commercial mortgage-backed securities	4	(1)	811	(375)	87	(86)
Other asset-backed securities	4	(1)	198	(86)	183	(188)
Total structured securities	37	(13)	1,488	(742)	751	(515)
Corporates	100	(30)	2,596	(1,196)	175	(79)
Total	137	(43)	4,084	(1,938)	926	(594)

Age analysis of fair value being below 80% for the period indicated:

	2007		2008		2009	
Age analysis	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**	**Fair value**	**Unrealised loss**
	£m		£m		£m	
Less than 3 months	137	(43)	3,118	(1,364)	153	(45)
3 months to 6 months	—	—	696	(403)	5	(3)
More than 6 months	—	—	270	(171)	768	(546)
Total	137	(43)	4,084	(1,938)	926	(594)

Assets held at amortised cost

Financial assets classified as loans and receivables under IAS 39 are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest rate method. The loans and receivables include loans collateralised by mortgages, deposits and loans to policyholders. In estimating future cash flows, the Prudential 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 Prudential 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, as described subsequently, this basis has been applied by the Prudential Group.

For investment contracts that do not contain discretionary participating features, IAS 39 and, where the contract includes an investment management element, IAS 18, apply measurement principles to assets and liabilities attaching to the contract.

Valuation assumptions

i *Contracts of with-profits funds*

The Prudential Group's insurance contracts and investment contracts with discretionary participating features are primarily with-profits and other protection type policies. For UK regulated with-profits funds, the contract liabilities are valued by reference to the FSA realistic basis. In aggregate, this basis has the effect of placing a value on the liabilities of UK with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the with-profits funds and current circumstances.

The basis of determining liabilities for the Prudential 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(f)(ii) to the consolidated financial information set out in Appendix I to this listing document. The Prudential Group's other with-profits contracts are written in with-profits funds that operate in some of the Prudential Group's Asian operations. The liabilities for these contracts and those of Prudential Annuities Limited, which is a subsidiary company of the PAC with-profits funds, are determined differently. For these other with-profits contracts applicable to the Prudential Group's activities in 2007, 2008 and 2009, 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 Prudential Group's obligations and more detail on such circumstances are described in note H14 to the consolidated financial information set out in Appendix I to this listing document.

ii *Other contracts*

Contracts, other than those of with-profits funds, are written in shareholder-backed operations of the Prudential Group. The significant shareholder-backed product groupings and the factors that may significantly affect IFRS results due to experience against assumptions or changes of assumptions vary significantly between business units. For some types of business the effect of changes in assumptions may be significant, whilst for others, due to the nature of the product, assumption setting may be of less significance. The nature of the products and the significance of assumptions are discussed in notes D2, D3 and D4 to the consolidated financial information set out in Appendix I to this listing document. From the perspective of shareholder results the key sensitivity relates to the assumption for allowance for credit risk for UK annuity business. Prior to its disposal of the Taiwan agency business in the first half of 2009, the Prudential Group's financial results were also sensitive to the assumed future investment returns for that business.

Jackson

Jackson offers individual fixed annuities, fixed index annuities, immediate annuities, variable annuities, individual and variable life insurance and institutional products. With the exception of institutional products and an incidental amount of business for annuity certain contracts, which are accounted for as investment contracts under IAS 39, all of Jackson's contracts are accounted for under IFRS 4 as insurance contracts by applying US GAAP, the previous GAAP used before IFRS adoption. Under US GAAP the requirements of FAS 60 'Accounting and Reporting for Insurance Enterprises' and FAS 97 'Accounting and Reporting by Insurance Enterprises for certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments' apply to these contracts. The accounting requirements under these standards and the effect of changes in valuation assumptions are considered below for fixed annuity, variable annuity and traditional life insurance contracts.

Fixed annuity contracts, which are investment contracts under US GAAP terminology, are accounted for by applying in the first instance a retrospective deposit method to determine the liability for policyholder benefits. This is then augmented by potentially three additional amounts, namely deferred income, any amounts previously assessed against policyholders that are refundable on termination of the contract, and any premium deficiency, i.e. any probable future loss on the contract. These types of contract contain considerable interest rate guarantee features.

Notwithstanding the accompanying market risk exposure, except in the circumstances of interest rate scenarios where the guarantee rates included in contract terms are higher than crediting rates that can be supported from assets held to cover liabilities, the accounting measurement of Jackson's fixed annuity products is not generally sensitive to interest rate risk. This position derives from the nature of the products and the US GAAP basis of measurement.

Variable annuity contracts written by Jackson may provide for guaranteed minimum death, income, or withdrawal benefit features. In general terms, liabilities for these benefits are accounted for under US GAAP by using estimates of future benefits and fees under best estimate assumptions.

For variable annuity business, the key assumption is the expected long-term level of equity market returns, which for all years included in this listing document was 8.4% per annum (gross of 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% rate is maintained. The projected rates of return are capped at no more than 15% for each of the next five years. Further details are explained in note D3(i) to the consolidated financial information set out in Appendix I to this listing document.

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 Prudential 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 Prudential Group as a liability. The results of Asian unit-linked business are also relatively insensitive to changes in estimates or assumptions.

Prior to its disposal in the first half of 2009, the principal non-participating business in the Prudential Group's Asian operations, for which changes in estimates and assumptions were important from year to year, was the traditional whole-life business written in Taiwan. Premium rates were set to give a guaranteed minimum sum assured on death and a guaranteed surrender value on early surrender based on prevailing interest rates at the time of policy issue. Premium rates also included an allowance for mortality and expenses. This business was therefore especially sensitive to falling interest rates. This exposure has been removed following the disposal of the Taiwan agency business. The remaining non-participating business in Asia remains sensitive to interest rates but this sensitivity is of a much lower order. Further details are provided in note D4(i) to the consolidated financial information set out in Appendix I to this listing document.

Deferred acquisition costs

Significant costs are incurred in connection with acquiring new insurance business. Except for acquisition costs of with-profits contracts of the UK regulated with-profits funds, which are accounted for under the realistic FSA regime as described in note A4 to the consolidated financial information set out in Appendix I to this listing document, these costs, which vary with, and are primarily related to, the production of new business, are capitalised and amortised against margins in future revenues on the related insurance policies. The recoverability of the asset is measured and the asset is deemed impaired if the projected future margins are less than the carrying value of the asset. To the extent that the future margins differ from those anticipated, then an adjustment to the carrying value of the deferred acquisition cost asset will be necessary.

The deferral and amortisation of acquisition costs is of most relevance to the Prudential Group's results for shareholder-financed long-term business of Jackson and Asian operations. The majority of the UK shareholder-backed operations is for individual and group annuity business where the incidence of acquisition costs is negligible.

Jackson

For term business, acquisition costs are deferred and 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(i) and H1 to the consolidated financial information set out in Appendix I to this listing document.

Asian operations

In 2008, a number of changes have been made to the basis of estimating the level of deferred acquisition costs, as described in note D4(h)(c) to the consolidated financial information set out in Appendix I to this listing document.

Pensions

The Prudential 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 information 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 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 2009 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 50/50 between the WPSF and shareholders' funds.

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 Prudential Group are affected by changes in interest rates for corporate bonds that affect the rate applied to discount projected pension payments and changes in mortality assumptions and changes in inflation assumptions.

The table below shows the sensitivity of the underlying PSPS, Scottish Amicable and M&G pension scheme liabilities as at 31 December 2009 of £4,436 million, £515 million and £223 million respectively to changes in discount rates and inflation rates.

	2009		
Assumption	**Change in assumption**	**Impact on scheme liabilities on IAS 19 basis**	
Discount rate	Decrease by 0.2% from 5.8% to 5.6%	Increase in scheme liabilities by:	
		PSPS	3.5%
		Scottish Amicable	5.2%
		M&G	4.9%
Discount rate	Increase by 0.2% from 5.8% to 6.0%	Decrease in scheme liabilities by:	
		PSPS	3.2%
		Scottish Amicable	4.8%
		M&G	4.9%
Rate of inflation. .	Decrease by 0.2% from 3.7% to 3.5% with consequent reduction in salary increases	Decrease in scheme liabilities by:	
		PSPS	0.9%
		Scottish Amicable	4.9%
		M&G	4.5%

The sensitivity of the underlying pension scheme liabilities to changes in discount rates and inflation rates as shown above does not directly equate to an 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. Further information is included in note I2 of the consolidated financial information set out in Appendix I to this listing document.

For PSPS, the underlying surplus of the scheme of £528 million, £728 million and £513 million as at 31 December 2007, 2008 and 2009, respectively, 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 provision, will not have an impact on the Prudential Group's 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 Prudential 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.

This applies similarly to the Scottish Amicable scheme, whose deficit has been allocated 50% to the PAC with-profits fund and 50% to the PAC shareholders fund.

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 Prudential 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 information are discussed in note H4 to the Prudential Group's consolidated financial information set out in Appendix I to this listing document.

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 information in Appendix I to this listing document.

BASIS OF PROFITS

UK

The Prudential Group'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 the Prudential Group'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 the Prudential Group'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.

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 2009, liabilities to with-profits policyholders were in aggregate of £55.6 billion. Liabilities to with-profits policyholders in Asia as at 31 December 2009 were £8.8 billion. The details that follow are in respect of the UK with-profits business. The method by which bonuses for the Prudential Group's Asia with-profits business are determined is substantially similar to the method by which bonuses for the Prudential Group'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 judgement, 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 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 1% per annum over any year. However, the directors of PAC 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") (for accumulating with-profits policies) and is affected by the surrender bases (for conventional with-profits business); and
- for the Scottish Amicable Insurance Fund ("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 of directors 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: Smoothing of investment returns 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 quantify specifically 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 (e.g. 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.

Furthermore, in accordance with industry-wide regulatory requirements, the PAC Board has appointed:

- an Actuarial Function Holder who provides the PAC board of directors with all actuarial advice;
- a With-Profits Actuary whose specific duty is to advise the PAC board of directors 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% 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 of directors 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.

	2007	2008	2009
	£m	£m	£m
Net income of the fund:			
Investment return	5,881	(14,595)	10,461
Claims incurred	(6,512)	(7,068)	(6,253)
Movement in policyholder liabilities	(2,307)	13,504	(3,692)
Add back policyholder bonuses for the year (as shown below)	2,522	2,565	1,827
Claims incurred and movement in policyholder liabilities (including charge for provision for asset shares and excluding policyholder bonuses)	(6,297)	9,001	(8,118)
Earned premiums, net of reinsurance	4,181	2,927	3,063
Other income	1,417	(36)	(2)
Acquisition costs and other operating expenditure	(2,105)	(408)	(842)
Tax (charge) credit	(24)	1,191	(640)
Net income of the fund before movement in unallocated surplus	3,053	(1,920)	3,922
Movement in unallocated surplus	(252)	4,769	(1,893)
Surplus for distribution	2,801	2,849	2,029
Surplus for distribution allocated as follows:			
— 90% policyholders bonus (as shown above)	2,522	2,565	1,827
— 10% shareholders' transfers	279	284	202
	2,801	2,849	2,029

Unallocated surplus

The unallocated surplus represents the excess of assets over policyholder liabilities of the Prudential Group's with-profits funds. The annual excess or shortfall of income over expenditure of the with-profits funds after declaration and attribution of the cost of bonuses to policyholders and shareholders is transferred to, or from, the unallocated surplus through a charge or credit to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance of the unallocated surplus is determined after full provision for deferred tax on 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 the Prudential Group's Asian with-profits business.

Surplus assets and their use

The liability for unallocated surplus comprises amounts the Prudential Group 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 the Prudential Group 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, the Prudential Group 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

The Prudential Group'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 the Prudential Group 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.

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 the Prudential Group'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.

United States

The profit on Jackson's business predominantly arises from spread income from interest-sensitive products, such as fixed annuities, institutional products and fee income on variable annuities.

Asia

The assets and liabilities of contracts classified as insurance under IFRS 4 are determined in accordance with methods prescribed by local GAAP and adjusted to comply, where necessary, with UK GAAP. Under IFRS 4, subject to the conditions of that standard, the continued application of UK GAAP in this respect is permitted.

For Asian operations in countries where local GAAP is not well established and in which the business is primarily non-participating and linked business, US GAAP is used as the most appropriate reporting basis. This basis is applied in Japan and Vietnam, and materially for 2007 and 2008, but less for 2009 following the sale of the agency business in Taiwan. For with-profits business in Hong Kong, Singapore and Malaysia the basis of profit recognition is bonus driven as described in the section "Basis of Profits — United Kingdom — with-profits products".

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Determining operating segments and performance measure of operating segments

The Prudential Group determines and presents operating segments based on the information that internally is provided to the Group Executive Committee ("GEC"), which is the Prudential Group's chief operating decision maker.

An operating segment is a component of the Prudential Group 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 the Prudential Group'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 the Prudential Group reflect the Prudential Group's organisational structure, which is by both geography (Asia, US, UK) and by product line (insurance operations versus asset management). The Prudential Group's operating segments as determined under IFRS 8 are:

- Insurance operations
  - — Asia
  - — US (Jackson)
  - — UK
- Asset management operations
  - — M&G
  - — Asian asset management
  - — US broker dealer and asset management (including Curian).

Prudential Capital has been incorporated into the M&G operating segment for the purposes of segment reporting.

The performance measure of operating segments utilised by the Prudential Group 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 2009 this measure excludes the non-recurrent cost of hedging the Prudential Group IGD capital surplus included within short-term fluctuations in investment returns. In 2009, the Prudential Group sold its Taiwan agency business. In order to facilitate comparisons on a like-for-like basis, the loss on sale and the results of the Taiwan agency business during the period of ownership (including those for the 2007 and 2008 comparatives) are shown separately within the segmental analysis of profit. Segment results that are reported to the GEC 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 Asia Regional Head Office.

For the purposes of measuring operating profit, investment returns on shareholder-financed business are based on the expected longer-term rates of return. This 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 for life businesses exclusive of changes in market conditions. In determining profit on this basis, the following key elements are applied to the results of the Prudential Group's shareholder-financed operations.

Debt and equity securities

Longer-term investment returns comprise income and longer-term capital returns. For debt securities, the longer-term capital returns comprise two elements. These are a risk margin reserve ("RMR") based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and 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 risk margin reserve charge is most significant is Jackson National Life. The RMR charge for Jackson is based on long-term average default and recovery data as published by Moody's. During 2009 refinements were made to the RMR process following the National Association of Insurance Commissioners ("NAIC") issuing risk-based capital valuation data for more than 20,000 RMBS securities.

Longer-term equity returns comprise aggregate long-term income and capital returns.

Derivative value movements

Value movements for Jackson's equity-based derivatives and variable annuity product embedded derivatives are included in operating profits based on longer-term investment returns. The inclusion of these movements is so as to broadly match with the results on the Jackson variable annuity book that pertain to equity market movements, (subject to some limitations for GMDB products where US GAAP insurance accounting does not fully reflect the economic features being hedged). These accounting mismatches are magnified in a period of significant market movements.

Other derivative value movements are excluded from operating results based on longer-term investment returns. These derivatives are primarily held by Jackson as part of a broadly-based hedging programme for features of Jackson's bond portfolio (for which value movements are booked directly to shareholders' equity rather than income statement) and product liabilities (for which US GAAP accounting does not reflect the economic features being hedged).

These key elements are of most importance in determining the operating results based on longer-term investment returns of Jackson.

There are two exceptions to the basis described above for determining operating results based on longer-term investment returns. These are for:

- Unit-linked and US variable annuity separate account business. For such business, the policyholder liabilities are directly reflective of the asset value movements. Accordingly, all asset value movements are recorded in the operating results based on longer-term investment returns.
- Assets covering non-participating business liabilities that are interest rate sensitive. For UK annuity business, policyholder liabilities are determined by reference to current interest rates. The value movements of the assets covering liabilities are closely correlated with the related change in liabilities. Accordingly, asset value movements are recorded within the "operating results based on longer-term investment returns". Policyholder liabilities include a margin for credit as explained in note D2(f)(iii) of the consolidated financial information set out in Appendix I of this listing document. Variations between actual and best estimate expected impairments are recorded as a component of short-term fluctuations in investment returns.

Liabilities to policyholders and embedded derivatives for product guarantees

Under IFRS, the degree to which the carrying values of liabilities to policyholders are sensitive to current market conditions varies between territories depending upon the nature of the 'grandfathered' measurement basis. In general, in those instances where the liabilities are particularly sensitive to routine changes in market conditions, the accounting basis is such that the impact of market movements on the assets and liabilities are broadly equivalent in the income statement, and operating profit based on longer-term investment returns is not distorted. In these circumstances there is no need for the movement in the liability to be bifurcated between the element that relates to longer-term market conditions and short-term effects.

However, some types of business movements in liabilities do require bifurcation to ensure that at the net level (i.e. after allocated investment returns and change for policyholder benefits) the operating result reflects longer-term market returns.

Examples where such bifurcation is necessary are:

Asia

Vietnamese participating business

For the participating business in Vietnam, the liabilities include policyholders' interest in investment appreciation and other surplus. Bonuses paid in a reporting period and accrued policyholder interest in investment appreciation and other surpluses primarily reflect the level of 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 segmental analysis of profit before tax attributable to policyholders.

Non-participating business

Liabilities are bifurcated so that the movement in the carrying value of liabilities is split between that which is included in operating results based on longer-term investment returns, and the residual element for the effect of using year-end rates is included in short-term fluctuations and in the income statements.

Guaranteed Minimum Death Benefit product features

For unhedged Guaranteed Minimum Death Benefit ("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 Accounting Standards Codification Subtopic 944-80 (formerly SOP 03-1), which partially reflects changes in market conditions. Under the Prudential Group's supplementary basis of reporting, the operating profit reflects the change in liability based on longer-term market conditions with the difference between the charge to the operating result and the movement reflected in the total result included in short-term fluctuations in investment returns.

US operations — embedded derivatives for variable annuity guarantee features

Under IFRS, the Guaranteed Minimum Withdrawal Benefit ("GMWB") and Guaranteed Minimum Income Benefit ("GMIB") reinsurance are required to be fair valued as embedded derivatives. The movements in carrying values are affected by changes in the level of observed implied equity volatility and changes to the discount rate applied from year to year. For these embedded derivatives, as described in note D3(i) to the Prudential Group's consolidated financial information set out in Appendix I to this listing document, the discount rate applied reflects AA corporate bond curve rates. For the purposes of determining operating profit based on longer-term investment returns, the charge for these features is determined using historical longer-term equity volatility levels and long-term average AA corporate bond rate curves.

UK shareholder-backed annuity business

With one exception, the operating result based on longer-term investment returns reflects the impact of all value movements on policyholder liabilities for annuity business in PRIL and the PAC non-profit sub-fund.

The exception is for the impact on credit risk provisioning of actual downgrades during the year. As this feature arises due to short-term market conditions the effect of downgrades, if any, in a particular period, on the overall provisions for credit risks 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 applied to portfolio rebalancing to align more closely with the management benchmark.

Fund management and other non-insurance businesses

For these businesses, the particular features applicable for life assurance noted above do not apply. 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 with 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 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 the Prudential Group's accounting policies these items are records within the income statement, rather than through other comprehensive income, solely due to the interaction of the Prudential Group's approach to adoption of IFRS 4 for with-profits funds and the requirements of IAS 19. In analysing profit before shareholder tax the separate identification of these gains and losses is analogous to the more normal treatment of inclusion as a movement on other comprehensive income (i.e. not within profit for the period).

Analysis of IFRS basis operating profit based on longer-term investment returns and IFRS total profit

	2007	2008	2009
	£m	£m	£m
Insurance business			
Long-term business (ii)			
Asia	140	257	416
US (iv)	444	406	459
UK	524	545	606
Development expenses	(15)	(26)	(6)
Long-term business profit	1,093	1,182	1,475
UK general insurance commission (v)	4	44	51
Asset management business			
M&G	254	286	238
Asia asset management	72	52	55
Curian	(5)	(3)	(6)
US broker-dealer and asset management (iv)	13	10	10
	1,431	1,571	1,823
Other income and expenditure (viii)	(260)	(260)	(395)
Restructuring costs (ix)	(19)	(28)	(23)
Total IFRS basis operating profit based on longer-term investment returns (i)	1,152	1,283	1,405
Short-term fluctuations in investment returns (vi)			
Insurance operations	(50)	(1,408)	166
IGD hedge costs	—	—	(235)
Other operations	(1)	(313)	105
Total short-term fluctuations in investment returns	(51)	(1,721)	36
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes (vii)	(1)	(13)	(74)
Profit/(loss) before loss on sale and results of Taiwan agency business	1,100	(451)	1,367
Loss on sale and results of Taiwan agency business (iii)	(37)	1	(621)
Profit (loss) before tax from continuing operations attributable to shareholders	1,063	(450)	746
Tax (charge) credit attributable to shareholders' profit	(354)	59	(55)
Discontinued operations (net of tax)	241	—	(14)
Profit (loss) for the year	950	(391)	677
Minority interests	(3)	(5)	(1)
Total profit (loss) for the year attributable to equity holders of Prudential	947	(396)	676

Notes

(i) Operating profit based on longer-term investment returns.
Operating profit based on longer-term investment returns is a supplemental measure of results and is the basis on which

management regularly review the performance of the Prudential Group's segments as defined by IFRS 8. For the purposes of measuring operating profit, investment returns on shareholder-financed business are based on expected long-term rates of return as discussed above. The expected long-term rates of return are intended to reflect historical rates of return and, where appropriate, current inflation expectations adjusted for consensus economic and investment forecasts. The most significant operation that requires adjustment for the difference between actual and long-term investment returns is Jackson. The amounts included in operating results for long-term capital returns for Jackson's debt securities comprise two components. These are a risk margin reserve-based charge for long-term expected defaults, which is determined by reference to the credit quality of the portfolio, and amortisation of interest-related realised gains and losses to operating results based on longer-term results to the date when sold bonds would otherwise have matured. Consistent with the policy of including longer-term investment returns in the measure of operating profit, movements in policyholder liabilities are also, where appropriate, delineated between amounts included in operating profits and movements arising from short-term market conditions, which are recorded in short-term fluctuations in investment returns.

(ii) Effect of changes to assumptions, estimates and bases of determining life assurance liabilities.
The results of the Prudential Group's long-term business operations are affected by changes to assumptions, estimates and bases of preparation. These are described in notes D2(h), D3(h) and D4(h) contained within the consolidated financial information within the Accountants' Report set out in Appendix I to this listing document.

(iii) Sale of Taiwan agency business.
In order to facilitate comparisons of operating profit based on longer-term investment returns that reflect the Prudential 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 supplementary analysis of profit.

(iv) Jackson operating results based on longer-term investment returns.
IFRS basis operating profits for US operations include the following amounts (net of related change in amortisation or deferred acquisition costs, where applicable) so as to derive longer-term investment returns:

	2007	2008	2009
	£m	£m	£m
Debt securities:			
Amortisation of interest related realised gains and losses	31	24	47
Risk margin reserve charge for longer-term credit-related losses (see below)	(37)	(41)	(60)
Equity type investments:			
Longer-term returns	47	62	69

The risk margin reserve ("RMR") charge for longer-term credit-related losses is based on an average annual RMR of 22, 23 and 27 basis points for 2007, 2008 and 2009 respectively on average book values for the year as shown below:

Moody's rating category (or equivalent under NAIC rating of RMBS)	2007				2008				2009			
	Average book value	RMR	Annual expected losses		Average book value	RMR	Annual expected losses		Average book value	RMR	Annual expected losses	
	(US$m)	%	US$m		(US$m)	%	US$m		(US$m)	%	US$m	
A3 or higher	20,231	0.03	(6)	(3)	21,098	0.03	(6)	(3)	19,509	0.03	(5)	(3)
Baa1, 2, 3	20,306	0.22	(46)	(23)	20,145	0.23	(46)	(25)	21,072	0.23	(47)	(30)
Ba1, 2, 3	1,687	1.13	(19)	(9)	1,635	1.11	(18)	(10)	2,035	1.13	(23)	(15)
B1, 2, 3	530	2.88	(15)	(7)	514	2.80	(14)	(8)	594	2.86	(17)	(11)
Below B3	240	4.00	(10)	(5)	373	3.98	(15)	(8)	691	3.91	(27)	(17)
Total	42,994	0.22	(96)	(47)	43,765	0.23	(99)	(54)	43,901	0.27	(119)	(76)
Related change to amortisation of deferred acquisition costs (see below)			20	10			23	13			**25**	**16**
Risk margin reserve charge to operating profit for longer-term credit-related losses			(76)	(37)			(76)	(41)			**(94)**	**(60)**

During 2009, the National Association of Insurance Commissioners ("NAIC") changed its approach to the determination of regulatory ratings of residential mortgage backed securities ("RMBS"). This recognised the complexities associated with these investments and the limitations of the credit rating previously applied. The new ratings framework has been applied by an external third party, PIMCO, and provides regulatory rating details for more than 20,000 RMBS securities owned by US insurers at the end of 2009. Jackson has decided to use the ratings resulting from this model to determine the average annual RMR for 2009 as this is considered more relevant information for the RMBS securities concerned. If the previous approach of using Moody's ratings by a Nationally Recognised Statistical Ratings Organisation ("NRSROs") such as Moody's, Standard and Poor's or Fitch for these investments had been used this would have resulted in an annual RMR of 31 basis points for 2009, an additional £11 million of annual expected losses for the period. It should be noted that this change has no impact on the valuation applied to these securities within the IFRS balance sheet and so there is no impact on IFRS profit before tax or shareholder's equity as a result of this change.

The longer-term rates of return for equity-type investments ranged from 8.1% to 10.1% for 2007, 6.3% to 8.4% for 2008, and 6.7% to 7.9% for 2009 depending on the type of investments. These rates are currently based on spreads over 10 year US treasury rates of 400 to 600 basis points.

Market value movements on equity-based derivatives and embedded derivatives are also recorded within operating profits based on longer-term investment returns so as to be consistent with the market-related effects on fees and reserve movements for equity-based products. Market value movements on other derivatives are excluded from operating profit, and are included in short-term fluctuations in investment returns.

Consistent with the basis of measurement of insurance assets and liabilities for US GAAP investment contracts applied to Jackson's IFRS results, the charges and credits to operating profits based on longer-term investment returns are partially offset by related charges to amortisation of deferred acquisition costs.

(v) UK operations transferred its general insurance business to Churchill in 2002, with general insurance commission representing the commission receivable (net of expenses) for Prudential branded general insurance products as part of this arrangement.

(vi) Short-term fluctuations in investment returns on shareholder-backed business.

	2007	2008	2009
	£m	£m	£m
Insurance operations			
Asia	15	(138)	**31**
US	(18)	(1,058)	**27**
UK	(47)	(212)	**108**
Other operations			
IGD hedge costs	—	—	**(235)**
Other	(1)	(313)	**105**
Total	(51)	(1,721)	**36**

General overview of defaults

There were no default losses in 2007. The Prudential Group incurred defaults of £206 million in 2008 and £11 million in 2009 on its debt securities portfolio. Defaults in 2008 of £206 million (including losses on sale) arose primarily in respect of Lehman Brothers (£110 million) and Washington Mutual (£91 million), the majority of which arose in Jackson. The defaults of £11 million in 2009 were experienced by the UK shareholder-backed annuity business. Jackson experienced less than £1 million of default losses during 2009.

Asian insurance operations

For 2007, the £15 million of short-term fluctuations primarily reflect strong equity market movements in Vietnam. For 2008, the fluctuations of a charge of £138 million relate mainly to £81 million for Vietnam, reflecting a significant fall in the Vietnamese bond and equity markets. The fluctuations for Asian operations in 2009 of a gain of £31 million primarily relate to strong market performance in Taiwan and Japan partially offset by the fall in the Vietnamese bond markets.

US insurance operations

The short-term fluctuations in investment returns for US insurance operations for 2007, 2008 and 2009 comprise the following items:

	2007	2008	2009
	£m	£m	£m
Short-term fluctuations related to debt securities			
Charges in the year*			
Defaults	—	(78)	—
Losses on sales of impaired and deteriorating bonds	(51)	(130)	(6)
Bond write downs	(35)	(419)	(630)
Recoveries/reversals	8	3	5
	(78)	(624)	(631)
Less: risk margin charge included in operating profit based on longer-term investment returns	48	54	76
	(30)	(570)	(555)
Interest related gains (losses)			
Arising in the year	31	(25)	125
Less: amortisation gains and losses arising in current and prior years to operating profit based on longer-term investment returns	(37)	(28)	(59)
	(6)	(53)	66
Related change to amortisation of deferred acquisition costs	9	88	75
Total short-term fluctuations related to debt securities	(27)	(535)	(414)
Derivatives (other than equity related): market value movements (net of related change to amortisation of deferred acquisition costs)**	(19)	(369)	385
Equity type investments: actual less longer-term return (net of related change to amortisation of deferred acquisition costs)	42	(69)	(59)
Other items (net of related change to amortisation of deferred acquisition costs)***	(14)	(85)	115
Total	(18)	(1,058)	27

* The charges on the debt securities of Jackson comprise the following:

	2008 Total	Defaults	Bond write-downs	Losses on sale or impaired and deteriorating bonds	Recoveries/ reversals	2009 Total
	£m	£m	£m	£m	£m	£m
Residential mortgage-based securities						
Prime	25	—	268	—	—	268
Alt-A	138	—	192	(10)	—	182
Sub-prime	4	—	49	—	—	49
Total residential mortgage-backed securities	167	—	509	(10)	—	499
Corporate debt securities	441	—	91	16	—	107
Other	16	—	30	—	(5)	25
Total	624	—	630	6	(5)	631

As disclosed above, total 2007 defaults, losses on sale, write-downs and recoveries were £(78) million compared to £(624) million in 2008. Given the smaller scale of losses in 2007, a breakdown by type of debt security has not been provided.

Other bond write-downs and defaults of £30 million relate to Piedmont Securities in 2009. Piedmont is an investment vehicle investing in certain asset-backed and mortgage-backed securities in the US.

** The charge of £19 million and £369 million and gain of £385 million value movement for 2007, 2008 and 2009 respectively is for freestanding derivatives held to manage the fixed annuity and other general account business. Under

IAS 39, unless hedge accounting is applied, value movements on derivatives are recognised in the income statement. Derivative value movements in respect of equity risk within variable annuity business are included within the operating profit based on longer-term investment returns to match broadly with the commercial effects to which the variable annuity derivative programme relates (subject to some limitations to GMDB liabilities where US GAAP does not fully reflect the economic features being hedged.) Other derivative value movements are separately identified within short-term fluctuations in investment returns.

For the derivatives programme attaching to the fixed annuity and other general account business the Prudential Group has continued its approach of not seeking to apply hedge accounting under IAS 39. This decision reflects the inherent constraints of IAS 39 for hedge accounting investments and life assurance assets and liabilities under 'grandfathered' US GAAP under IFRS 4.

*** The £115 million gain (2008: charge of £85 million) for other items shown above comprises a gain of £85 million (2008: charge of £70 million) for the difference between the charge for embedded derivatives included in the operating result and the charge to the total result and a gain of £30 million (2008: charge of £15 million) of other items. For embedded derivatives the operating result reflects the application of 10-year average AA corporate bond rate curves and a static historical equity volatility assumption. The total result reflects the application of year-end AA corporate bond rate curves and current equity volatility levels.

In addition, for US insurance operations, included within the statement of comprehensive income, is an increase in net unrealised losses of £244 million and £2,104 million for 2007 and 2008 respectively, and a reduction in net unrealised losses on debt securities classified as available-for-sale of £2,669 million for 2009. These temporary market value movements do not reflect default or impairments. Additional details on the movement in the value of the Jackson portfolio are included in note D3 to the consolidated financial information set out in Appendix 1 to this listing document.

UK insurance operations

The short-term fluctuations charge of £212 million and gain of £108 million for 2008 and 2009, respectively, reflected primarily asset value movements, principally for shareholder-backed annuity business. The charge of £212 million in 2008 also included £42 million for the effect of credit downgrades on the calculation of liabilities for shareholder-backed annuity business in PRIL and PAC non-profit sub-fund.

IGD hedge costs

During the severe equity market conditions experienced in the first quarter of 2009 coupled with historically high equity volatility the Prudential 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 programmes. The hedge contracts have expired and have not been renewed.

Other operations

Short-term fluctuations of other operations, in addition to the previously discussed IGD hedge costs arise from:

	2007	2008	2009
	£m	£m	£m
Unrealised value movements on swaps held centrally to manage the Prudential Group assets and liabilities	(18)	(38)	28
Unrealised value movements on Prudential Capital's bond portfolio	(24)	(190)	66
Unrealised value movements on investments held by other operations	9	(14)	11
Value movements relating to the investment in an India mutual fund	32	(71)	—
	(1)	(313)	105

(vii) Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes.

	2007	2008	2009
	£m	£m	£m
Actuarial gains and losses			
Actual less expected return on scheme assets	4	(97)	23
Experience gains and losses on scheme liabilities	(4)	19	17
Gains (losses) on changes of assumptions for scheme liabilities	(7)	71	(147)
	(7)	(7)	(107)
Less: amount attributable to the PAC with-profits sub-fund	6	(2)	47
	(1)	(9)	(60)
Other gains and losses			
Movement in the provision for deficit funding of PSPS	—	(13)	(48)
Less: amount attributable to the PAC with-profits sub-fund	—	9	34
	—	(4)	(14)
Total	(1)	(13)	(74)

The actuarial gains and losses shown in the table above relate to the Scottish Amicable, M&G and until 2009 the small Taiwan defined benefit pension schemes. The amounts did not include actuarial gains and losses for the Prudential Staff Pension Scheme ("PSPS") for which the Prudential Group has not recognised its interest in the scheme's underlying surplus.

The losses of £147 million in 2009 on change of assumptions comprise mainly the effect of a decrease in the risk discount rate combined with the effect of an increase in inflation rates.

Other gains and losses relate to the change in the year or the provisions for deficit funding obligation for PSPS. Further details on the Prudential Group's defined benefit pension schemes and the effect of the accounting policy change are shown in note I2, contained in the consolidated financial information set out in Appendix I to this listing document.

(viii) Share-based payments.

The charge for share-based payments for Prudential schemes is for the Save As You Earn ("SAYE") and the Prudential Group performance-related schemes.

(ix) Restructuring costs are incurred in the UK as part of the EEV covered business (£7 million, £10 million and £16 million for 2007, 2008 and 2009 respectively) and as part of central operations, or the EEV non-covered business (£12 million, £18 million and £7 million for 2007, 2008 and 2009 respectively).

IFRS operating profit based on longer-term investment returns

The Prudential Group operating profit before tax based on longer-term investment returns on the IFRS basis was £1,152 million in 2007, £1,283 million in 2008 and £1,405 million in 2009.

Insurance operations

In Asia, IFRS operating profit for long-term business increased by 62% from £257 million in 2008 to £416 million in 2009. 2009 included a £63 million one-off release of reserves in the Malaysian life operations determined after assessing the measurement basis for policyholders' liabilities, following the implementation of a Risk Based Capital ("RBC") regime by the Malaysian regulatory authorities. Excluding this item, Asia delivered a strong underlying operating performance resulting in an increase of £96 million to £353 million in 2009 from £257 million for 2008. This increase reflected both underlying growth as the Prudential Group built the in-force book and a reduction in new business strain from a charge of £97 million in 2008 to a charge of £78 million in 2009.

The Prudential Group's larger markets in Asia of Malaysia, Hong Kong, Singapore and Indonesia continued to show strong increases in operating profit. In Indonesia, the results increased from £55 million in 2008 to £102 million in 2009, reflecting the strong underlying growth of the business and further improvements to the impact of new business on operating profits. In Malaysia, IFRS operating profit of £65 million in 2009, excluding the one-off credit, was up 41% from £46 million in 2008, driven mainly by the growth in the profits from the in-force business. Hong Kong recorded increased operating profit up 45% from £33 million in 2008 to £48 million in 2009, due mainly to increased profits from the in-force non-participating business, both as a result of growth and the non-recurrence of one-off costs in 2008. This has been offset by reduced participating fund profits following lower bonus payments to policyholders in 2009 reducing the corresponding transfer to shareholders from the with-profits fund. Singapore saw an increase in operating profit of £29 million in 2008 (35%) to £112 million in 2009 reflecting growth in the in-force business. Aside from Japan, where on 15 February 2010 the operation suspended writing new business, Taiwan, which is focusing on its bancassurance business following the disposal of its agency business in June 2009, and Thailand, all the Asian life operations generated operating profits on the IFRS basis in 2009.

In the US, the long-term business operating profit increased by 13% from £406 million in 2008 to £459 million in 2009, primarily from the effect of favourable exchange rate movements, increased operating profits from the fixed and fixed indexed annuity business and lower DAC amortisation on variable annuity business as compared to 2008. These increases were offset by the combined negative accounting impact of equity market movements on Jackson's variable annuity business and related hedging programme. The hedging programme is undertaken on an economic basis and the accounting measurement does not always fully capture the economic effects.

In the UK, the long-term business IFRS operating profit of £606 million in 2009 increased by 11% from £545 million in 2008. This reflected growth from the shareholder-backed annuity business, with operating profits being £194 million higher than in 2008, partially offset by lower contribution from the with-profits business of £281 million in 2009, compared with £395 million in 2008. The lower profit from the with-profit business reflected the impact of rate reductions in the February 2009 bonus declaration made in response to recent volatile investment performance. These lower bonus payments to policyholders have a corresponding negative impact on operating profit as they reduce the consequential transfer to shareholders from the with-profit fund, calculated as one-ninth of the cost of policyholders' bonus. Profit from UK general insurance commission increased to £51 million in 2009 from £44 million in 2008. As a result, the total IFRS operating profit increased by 12% in 2009 to £657 million from £589 million in 2008.

The Prudential Group's Asian operations IFRS operating profit for long-term business increased by 84% from £140 million in 2007 to £257 million in 2008. In Indonesia the results increased from £35 million in 2007 to £55 million in 2008 whilst in the established operations (Singapore, Hong Kong and Malaysia) the growth was more muted, growing from £153 million in 2007 to £162 million in 2008. For the Korean operation the result improved from a loss of £13 million in 2007 to a profit of £12 million in 2008. The driver for the growth was the implementation, for IFRS reporting purposes, of a more appropriate basis of deferring and amortising acquisition costs rather than continuing with the local regulatory basis reporting. The Indian operation posted a loss of £6 million in 2008, before development expenses for the agency field force which is shown separately in the analysis above of IFRS basis operating profit under 'development expenses'. The result also reflects that as the business matures it is appropriate to now defer and amortise acquisition costs, resulting in a benefit of £19 million in 2008. The result for other operations increased from £8 million in 2007 to £34 million in 2008 reflecting mainly reserve releases in the Japanese operation.

The US business's IFRS operating profit of £406 million in 2008 was down by 9% from £444 million in 2007. This was mainly due to accelerated levels of Variable Annuities DAC amortisation as a result of large negative equity market movements. These impacts were partially offset by positive operating derivative income on variable annuity business, reflecting the increase in market value of the net short derivative positions due to falling equity prices.

In the UK business, total IFRS operating profit increased by 12% in 2008 to £589 million from £528 million in 2007. The increase of 4% achieved for the long-term business in 2008 as compared to 2007 reflected profits attributable to the with-profits business of £395 million together with 15% growth from the long-term shareholder backed business. IFRS profits from the shareholder annuity business in 2008 included the impact of strengthening the allowance for credit defaults partly offset by profits emerging from a rebalancing of the asset portfolio. Non-long-term business IFRS profit reflected profit from general insurance commission which increased to £44 million in 2008 from £4 million in 2007, with cash beginning to emerge following the 2002 sale of the business to Churchill.

Asset management business

M&G's operating profit based on longer-term investment returns for 2009 was £238 million, a decrease of 17% from £286 million in 2008. This primarily reflected the relative levels of equity and property markets between 2008 and 2009, with the FTSE All Share Index being on average 15% lower in 2009 than in 2008, as well as higher staff costs and lower performance-related fees. These negative impacts were partly offset by revenue earned on the very strong fund net inflows during 2009 (£13.5 billion in 2009 compared with £3.4 billion in 2008).

M&G's operating profit based on longer-term investment returns for 2008 was £286 million, an increase of 13% from £254 million in 2007. Higher profits from the fixed income business and higher performance-related fees were partially offset by the negative impact of market conditions, particularly in the retail business.

The Asian asset management operations reported operating profit based on longer-term investment returns of £55 million, up by 6% from £52 million in 2008. This reflects favourable exchange rates and management's focus on profitability during the period. Profit in 2009 was adversely impacted by a one-off loss in India of £6 million.

In Asia, operating profit based on longer-term investment returns for asset management in 2008 was £52 million which represented a 28% decrease against the 2007 operating profit of £72 million driven by decreasing funds under management and performance-related fees as a result of the market position in 2008.

Unallocated corporate

The change of £135 million in other income and expenditure to negative £395 million in 2009 from the negative £260 million in 2008 primarily reflected lower returns on central funds as a result of falling interest rates, an increase in interest payable on core structural borrowings and the non-recurrence in 2009 of a positive one-off 2008 item of profit on the sale of a seed capital investment in an Indian mutual fund. Other income and expenditure in 2008 at negative £260 million was flat compared to 2007 (negative £260 million).

Charge for short-term fluctuations in investment returns

In calculating the IFRS operating profit, longer-term investment return assumptions are used rather than actual investment returns achieved. The actual movements in asset values beyond the longer-term assumptions appear in the profit and loss account as short-term fluctuations in investment returns, with the exception of Jackson, where unrealised gains or losses on debt securities feature directly as movements in shareholder reserves.

In 2009, short-term fluctuations of £36 million comprised £166 million relating to insurance operations offset by £130 million in respect of other operations and represented a significant increase over the negative short-term fluctuations of £1,721 million recognised in 2008.

Short-term fluctuations in investment returns for insurance operations of positive £166 million in 2009 comprised £31 million for Asia, £27 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 positive short-term fluctuations of £27 million for US insurance operations in 2009 comprised positive £385 million for market value movements on the free-standing derivatives used to manage the fixed annuity and other general account business, negative £414 million in respect of debt securities, 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 was a one-off £235 million cost arising from the hedge temporarily put in place during the first quarter, to protect the Prudential Group 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, the Prudential Group 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 programmes. 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 Group assets and liabilities.

The £1,721 million charge for short-term fluctuations in investment returns in 2008 mainly comprised £138 million, £1,058 million and £212 million relating to its Asian, US and UK insurance operations respectively.

The Asian insurance operations' negative short-term fluctuations of £138 million in 2008 primarily reflected movements in Vietnam and Japan of £81 million and £34 million respectively.

The result in Vietnam mainly reflected the two-thirds fall in the Vietnam equity market. In Japan there were a number of contributory factors, the largest of these being losses of £14 million reflecting the 42% fall in the country's stock market and unrealised losses of £13 million on leveraged super senior notes.

The Prudential Group's US results included a £1,058 million charge in 2008 (2007: £18 million charge) for short-term fluctuations in investment returns. This comprised £535 million in respect of debt securities, £439 million in respect of freestanding derivatives and embedded derivative liabilities, £69 million for equity-type securities and a net £15 million for other items.

The £535 million charge for debt securities in 2008 reflected the levels of defaults, losses on sale, and write downs in excess of the allowance for longer-term defaults included in the operating result. The main constituent of the £439 million charge in 2008 was £369 million for freestanding derivatives held to manage the fixed annuity and other general account business. There was also a charge of £70 million in 2008 in respect of Guaranteed Minimum Withdrawal Benefit and other embedded derivative liabilities for the difference between the effect of applying year-end AA corporate bond rate and equity volatility curves in the total result rather than longer-term levels, as applied in determining the operating result.

The UK insurance operations' short-term fluctuations charge of £212 million in 2008 reflected asset value movements, principally for the shareholder-backed annuity business, of negative £170 million and £42 million for the effect of credit downgrades on the measurement of annuity liabilities.

Other short-term fluctuations charge of £313 million in 2008 included £190 million for unrealised value movements in Prudential Capital and £71 million on the sale of an investment in an Indian Mutual Fund.

Sale of Taiwan agency business

On 20 February 2009, the Prudential Group 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 has resulted in a one-off negative pre-tax impact of £621 million. After allowing for tax, and other adjustments, the effect on shareholders' equity was negative £607 million. The overall size of loss reflects 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, as recognised under the Prudential Group's supplementary reporting basis under EEV principles. The loss on sale reflects this element of the economic value. Separately, it is to be noted that under IFRS there is no recognition of the enhanced IGD capital surplus position arising on completion.

Profit (loss) from continuing operations before tax attributable to shareholders

The total profit from continuing operations before tax attributable to shareholders and minority interests on an IFRS basis was £746 million in 2009, compared with a loss of £450 million in 2008. This increase principally reflects increases in operating profit and favourable short term fluctuations experienced in investment returns.

The total loss from continuing operations before tax attributable to shareholders and minority interests on an IFRS basis was £450 million in 2008, compared with a profit of £1,063 million for 2007. This reduction primarily reflects adverse short-term fluctuations experienced in investment returns.

Presentation of results before tax and effective rate of tax

The total tax charge for the Prudential 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 information set out in Appendix I to this listing document. 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 Prudential Group has chosen to adopt an income statement presentation of the tax charge and pre-tax results that delineates between policyholder and shareholder components.

	2007	2008	2009
	£m	£m	£m
Tax credit (charge)	(349)	1,683	(873)
Less: tax credit attributable to policyholders' returns	(5)	(1,624)	818
Tax credit (charge) attributable to shareholders' returns	(354)	59	(55)

The effective rate of tax attributable to shareholders' profits on operating profits, based on longer-term investment returns, was 23% in 2009 (2008: 23%). The effective rate of tax attributable to shareholders' profits at the total IFRS profit level for continuing operations was 7% in 2009 (2008: 13%) due to the ability to utilise losses carried forward for which the Prudential Group was previously unable to recognise a deferred tax asset in Jackson, partially offset by the absence of tax relief on the loss on the disposal of the Taiwan agency business.

The effective rate of tax attributable to shareholders' profits on operating profits, based on longer-term investment returns, was 23% in 2008 (2007: 31%). The effective rate of tax attributable to shareholders' profits at the total IFRS profit level for continuing operations was 13% in 2008

(2007: 33%). The effective rate of tax on operating profits was lower in 2008 than 2007, reflecting a combination of the settlement of issues with HM Revenue and Customs at amounts below those previously provided and a reduction in amounts previously provided on outstanding issues with HM Revenue and Customs. The effective rate of tax at total IFRS profits level in 2008 was lower than expected, substantially due to a restriction on the ability to recognise deferred tax assets on all losses in Asia and the US.

IFRS earnings per share

	2007	2008	2009
EPS-based operating profit based on longer-term investment returns from continuing operations after tax and minority interest	32.5p	39.9p	**43.3p**
Basic EPS based on total profit (loss) after minority interest	38.7p	(16.0)p	**27.0p**

Analysis of life insurance pre-tax IFRS operating profit based on longer-term investment returns by driver

	2007*	2008	2009
	£m	£m	£m
Investment spread	804	747	**1,001**
Asset management fees	365	403	**458**
Net expense margin	(443)	(385)	**(388)**
DAC amortisation (Jackson only)	(286)	(450)	**(223)**
Net insurance margin	273	308	**472**
With-profits business	420	425	**310**
Non-recurrent release of reserves for Malaysian life operation	—	—	**63**
Other	(40)	134	**(218)**
Total long-term business operating profit based on longer-term investment returns	1,093	1,182	**1,475**

The analysis above classifies the Prudential Group's pre-tax operating profits from long-term insurance operations in 2007, 2008 and 2009 into the underlying drivers of those profits, using the following categories:

(i) Investment spread — this 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.

(ii) Asset management fees — this represents profits driven by investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses.

(iii) Net expense margin — this represents expenses charged to the profit and loss account (excluding those borne by the with-profits fund and those products where earnings are purely protection driven) including amounts relating to movements in deferred acquisition costs, net of any fees or premium loadings related to expenses. Jackson DAC amortisation (net of hedging effects), which is intended to be part of the expense margin, has been separately highlighted in the table below.

(iv) Insurance margin — this represents profits derived from the insurance risks of mortality, morbidity and persistency, including fees earned on variable annuity guarantees.

(v) With-profits business — this represents the shareholders' transfer from the with-profits fund in the period.

(vi) Other represents a mixture of other income and expenses that are not directly allocated to the underlying drivers, including non-recurring items.

An analysis of life insurance pre-tax operating profit based on longer-term investment returns for 2007, 2008 and 2009 by driver and segment has also been provided:

	2007			
	Asia	US	UK	Total
	£m			
Investment spread	52	533	219	804
Asset management fees	39	266	60	365
Net expense margin	(119)	(186)	(138)	(443)
DAC amortisation (Jackson only)	—	(286)	—	(286)
Net insurance margin	142	122	9	273
With-profits business	26	—	394	420
Other(Note (1))	(15)	(5)	(20)	(40)
Total	125	444	524	1,093

	2008			
	Asia	US	UK	Total
	£m			
Investment spread	54	550	143	747
Asset management fees	54	292	57	403
Net expense margin	(79)	(192)	(114)	(385)
DAC amortisation (Jackson only)	—	(450)	—	(450)
Net insurance margin	198	122	(12)	308
With-profits business	30	—	395	425
Other(Note(1))	(26)	84	76	134
Total	231	406	545	1,182

	2009			
	Asia	US	UK	Total
	£m			
Investment spread	56	622	323	1,001
Asset management fees	80	324	54	458
Net expense margin	(65)	(227)	(96)	(388)
DAC amortisation (Jackson only)	—	(223)	—	(223)
Net insurance margin	253	178	41	472
With-profits business	29	—	281	310
Non-recurrent release of reserves for Malaysian Life operations	63	—	—	63
Other(Note(1))	(6)	(215)	3	(218)
Total	410	459	606	1,475

Notes:

(1) Asia "other" includes development expenses of £6 million (2008: £26 million, 2007: £15 million). US "other" comprises principally of hedging costs/profits before the allowance for Variable Annuity guarantee fees included within net insurance margin, together with other one-off items. UK "other" in 2008 represents the benefits of a number of one-off items.

Reconciliation of IFRS operating profit based on longer-term investment returns to IFRS total profit

The following tables reconcile the Prudential Group's operating profit based on longer-term investment returns to the Prudential Group's total profit (loss) after tax for 2007, 2008 and 2009:

Year ended 31 December 2007

	Insurance operations			Asset management					
	UK	US	Asia	M&G	US	Asia	Total segment	Unallocated corporate	Group Total
Operating profit based on longer-term investment returns	528	444	125	254	8	72	1,431	(279)	1,152
Short-term fluctuations in investment returns on shareholder-backed business	(47)	(18)	15	4	1	—	(45)	(6)	(51)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	—	—	—	5	—	—	5	(6)	(1)
Results for the sold Taiwan agency business	—	—	(37)	—	—	—	(37)	—	(37)
Profit/(loss) before tax attributable to shareholders from continuing operations	481	426	103	263	9	72	1,354	(291)	1,063
Tax attributable to shareholders									(354)
Profit/(loss) from continuing operations after tax									709
Discontinued operations									241
Profit for the year									950

Year ended 31 December 2008

	Insurance operations			Asset management			Total segment	Unallocated corporate	Group total
	UK	US	Asia	M&G	US	Asia			
Operating profit based on longer-term investment returns	589	406	231	286	7	52	1,571	(288)	1,283
Short-term fluctuations in investment returns on shareholder-backed business	(212)	(1,058)	(138)	(195)	—	—	(1,603)	(118)	(1,721)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	—	—	(2)	(10)	—	—	(12)	(1)	(13)
Results for the sold Taiwan agency business	—	—	1	—	—	—	1	—	1
(Loss) profit before tax attributable to shareholders from continuing operations	377	(652)	92	81	7	52	(43)	(407)	(450)
Tax attributable to shareholders									59
Loss for the year									(391)

Year ended 31 December 2009

	Insurance operations			Asset management			Total segment	Unallocated corporate	Group Total
	UK	US	Asia	M&G	US	Asia			
Operating profit based on longer-term investment returns	657	459	410	238	4	55	1,823	(418)	1,405
Short-term fluctuations in investment returns on shareholder-backed business	108	27	31	70	—	—	236	(200)	36
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

(i) This comprises loss on sale of Taiwan agency business of £559 million and trading results before tax of £62 million as explained in note I1 of the consolidated financial information set out in this listing document.

Profit (loss) from continuing operations after tax

The total profit after tax for 2009 was £691 million compared with a loss after tax of £391 million in 2008. This increase principally reflects increases in operating profit and favourable short-term fluctuations experienced in investment returns as illustrated by the tables above.

The total loss after tax for 2008 was £391 million compared with a profit after tax of £950 million in 2007. This reduction principally reflects adverse short-term fluctuations experienced in investment returns.

EXPLANATION OF MOVEMENTS IN PROFITS BEFORE SHAREHOLDER TAX BY NATURE OF REVENUE AND CHARGES

The following table shows the Prudential Group's consolidated total revenue and consolidated total charges for the periods presented:

	Year ended 31 December		
	2007	2008	2009
	£m	£m	£m
Gross earned premiums[(a)]	18,359	18,993	**20,299**
Outward reinsurance premiums	(171)	(204)	**(323)**
Earned premiums, net of reinsurance	18,188	18,789	**19,976**
Investment return[(b)]	12,225	(30,202)	**26,889**
Other income	2,457	1,146	**1,234**
Total revenue, net of reinsurance	32,870	(10,267)	**48,099**
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance[(c)]	(26,785)	10,824	**(41,195)**
Acquisition costs and other operating expenditure[(d)]	(4,859)	(2,459)	**(4,572)**
Finance costs: interest on core structural borrowings of shareholder-financed operations	(168)	(172)	**(209)**
Loss on sale of Taiwan agency business	—	—	**(559)**
Total charges, net of reinsurance	(31,812)	8,193	**(46,535)**
Profit (loss) before tax (being tax attributable to shareholders' and policyholders' returns)*	1,058	(2,074)	**1,564**
Tax (charge) credit attributable to policyholders' returns	5	1,624	**(818)**
Profit (loss) before tax attributable to shareholders	1,063	(450)	**746**
Tax (charge) credit attributable to shareholders' returns	(354)	59	**(55)**
Profit (loss) from continuing operations after tax	709	(391)	**691**
Discontinued operations (net of tax)[(e)]	241	—	**(14)**
Profit (loss) for the year	950	(391)	**677**

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

(a) Gross earned premiums

	Year ended 31 December		
	2007	2008	2009
	£m	£m	£m
Asian Operations	5,022	5,333	**5,345**
US Operations	5,860	6,032	**9,197**
UK Operations	7,477	7,628	**5,757**
Total	18,359	18,993	**20,299**

Gross earned premiums for insurance operations totalled £20,299 million in 2009, up 7% from £18,993 million in 2008. The increase of £1,306 million in 2009 was primarily driven by growth of £3,165 million in the US operations that was partially offset by a decrease of £1,871 million in the UK operations.

Gross earned premiums for insurance operations totalled £18,993 million in 2008 compared to £18,359 million in 2007. The increase in gross earned premiums in 2008 against 2007 was driven by growth across all regions during the year.

Asia

Gross earned premiums were flat in 2009, increasing by £12 million from £5,333 million in 2008 to £5,345 million. This reflects in part the fall in new business premiums across the Asian life insurance industry, particularly for single premium and investment-linked products, seen in the first half of 2009, being offset by strong sales in the fourth quarter of 2009 as consumer confidence returned to the retail financial services sector.

Gross earned premiums increased by 6% to £5,333 million in 2008 compared to £5,022 million in 2007, aided by exchange rate movements during the year.

The Prudential Group has focused on the sales of capital efficient unit-linked products in Asia, and is particularly strong in the regular premium savings sector. In recent years, the Prudential Group has increased its focus on higher-margin protection products, both as riders to savings policies and on a standalone basis.

United States

Gross earned premiums increased by 52% from £6,032 million in 2008 to £9,197 million in 2009. This increase reflected both the beneficial effects of exchange rate movements compared to 2008, as well as the highest level of variable annuity sales in the company's history, driven by the stabilisation of US equity markets that began in the second quarter of 2009. Jackson also experienced an increase in sales of fixed index annuities as a result of increased customer demand for products with a guaranteed rate of return. These increases were slightly offset by the restriction made by the company on the sales of institutional guaranteed investment contracts.

Gross earned premiums increased by 3% from £5,860 million in 2007 to £6,032 million in 2008. This increase was mainly as a result of exchange rate movements during the year, with a decrease in underlying variable annuity sales reflecting continued volatility in US equity markets in 2008 and intense price competition partially offset by increases in fixed annuity sales reflecting changing customer demands.

United Kingdom

Gross earned premiums for the UK operations decreased by 25% from £7,628 million in 2008 to £5,757 million in 2009. Sales of with-profits bonds increased by 35% on 2008 in 2009 but this was more than offset by lower sales of retail products due to persisting challenging market conditions and also reflecting the Prudential Group's focus on value over volume. Additionally, 2008 included a large bulk annuity transaction which was not repeated in 2009, due to the unavailability of transactions which met Prudential's return criteria.

Gross earned premiums for Prudential UK increased by 2% in the year from £7,477 million in 2007 to £7,628 million in 2008, primarily driven by strong growth in with-profits bonds supplemented by growth in offshore products and PruHealth, amongst other items.

(b) Investment return

	Year ended 31 December		
	2007	2008	2009
	£m	£m	£m
Asian Operations	1,818	(4,156)	4,431
US Operations	2,140	(5,409)	5,138
UK Operations	8,396	(20,435)	17,786
Unallocated corporate and intra-group elimination	(129)	(202)	(466)
Total	12,225	(30,202)	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 instead 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 Prudential 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		
	2007	2008	2009
	£m	£m	£m
Asian operations			
Policyholder returns			
Assets backing unit-linked liabilities	753	(2,552)	2,539
With-profits business	866	(1,611)	1,519
	1,619	(4,163)	4,058
Shareholder returns	199	7	373
Total	1,818	(4,156)	4,431
US operations			
Policyholder returns			
Assets held to back (separate account) unit-linked liabilities	620	(5,925)	3,760
Shareholder returns			
Realised gains and losses (including impairment losses on available-for-sale bonds)	(47)	(651)	(529)
Value movements on derivative hedging programme for general account business	19	(311)	340
Interest/dividend income and value movements on other financial instruments for which fair value movements are booked in the income statement	1,548	1,478	1,567
	1,520	516	1,378
Total	2,140	(5,409)	5,138

	Year ended 31 December		
	2007	2008	2009
	£m	£m	£m
UK operations			
Policyholder returns			
Scottish Amicable Insurance Fund ("SAIF")	849	(2,095)	1,438
Assets held to back unit-linked liabilities	515	(2,971)	2,947
With-profits fund (excluding SAIF)	5,881	(14,595)	10,461
	7,245	(19,661)	14,846
Shareholder returns			
Prudential Retirement Income Limited ("PRIL")	216	(684)	1,827
Other business	935	(90)	1,113
	1,151	(774)	2,940
Total	8,396	(20,435)	17,786
Unallocated corporate			
Shareholder returns	(129)	(202)	(466)
Group total			
Policyholder returns	9,484	(29,749)	22,664
Shareholder returns	2,741	(453)	4,225
Total	12,225	(30,202)	26,889

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 and 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%)). 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 assets of these three types of business represented 72% of the total investments of the Prudential Group as at 31 December 2009. The investment return related to the types of business above does not affect 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 a reciprocal impact on benefits and claims, with a decrease in market returns on the attached pool of assets affecting policyholder benefits on these products. Similarly, 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 normally closely matched, the discount rate applied to measure liabilities to policyholders (under grandfathered UK GAAP 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 the liabilities of 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 investment income, movements in the value of the derivative instruments held to manage the general account assets and liability portfolio, and realised gains and losses. However, separately reflecting Jackson's types of business, an allocation is made to policyholders through the application of crediting rates. The shareholder investment return for US operations also includes the fair value movement of the derivatives and the movement on the related liabilities of the variable annuity guarantees under Jackson's dynamic hedging programme.

The majority of the investments held to back the US non-participating 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 are booked directly to equity. The return on these assets is attributable to shareholders.

Reasons for year-on-year changes in investment returns

With two exceptions, all Prudential investments are carried at fair value in the balance sheet 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 the Prudential Group'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 periods presented:

	Year ended 31 December		
	2007	2008	2009
	£m	£m	£m
Interest/dividend income (including foreign exchange gains and losses)	462	302	625
Investment appreciation (depreciation)	1,356	(4,458)	3,806
Total	1,818	(4,156)	4,431

In the Prudential Group's Asian operations, debt securities accounted for 38%, 51% and 43% of the total investment portfolio as at 31 December 2007, 2008 and 2009, respectively, with equities comprising 54%, 37% and 48%, respectively. The remaining 8%, 12% and 9% of the total investment portfolio, respectively, primarily comprised loans and deposits with credit institutions. In Asia, investment return increased by £8,587 million in 2009 to £4,431 million. This increase was due to an increase of £323 million in interest and dividend income (including foreign exchange gains and losses) and an £8,264 million increase in investment appreciation, including realised and unrealised gains and losses. The increase of £8,264 million in investment appreciation primarily reflected the effect of the strong performance of Asian equity markets in 2009, in comparison to the significant downturns experienced in 2008.

In 2008, investment return decreased by £5,974 million from a £1,818 million credit in 2007 to a £4,156 million charge in 2008. This decrease was due to a £160 million decrease in interest/dividend income (including foreign exchange gains and losses) and a decrease of £5,814 million in investment appreciation compared to 2007. The decrease of £5,814 million in investment appreciation was primarily the result of volatility in the Asian financial markets in 2008, reflecting a combined effect of the significant downturn in the Asian equity markets partially offset by the effects of bond yield declines.

United States

The table below provides an analysis of investment return attributable to US operations for the periods presented:

	Year ended 31 December		
	2007	2008	2009
	£m	£m	£m
Realised losses (including impairment losses on available-for-sale bonds)	(47)	(651)	(529)
Investment return of investments backing US separate account liabilities	620	(5,925)	3,760
Other investment return	1,567	1,167	1,907
Total	2,140	(5,409)	5,138

In the Prudential Group's US operations, investment return increased from a charge of £5,409 million in 2008 to a credit of £5,138 million in 2009. The significant £10,547 million favourable change was due to a £122 million decrease in realised losses on available-for-sale debt securities, an increase of £9,685 million in investment return of investments backing the US variable annuity separate account liabilities and an increase of £740 million in other investment returns. Realised losses in 2009 of £529 million included mainly losses incurred in the debt securities portfolio due to write-downs and losses on the sale of bonds. The primary driver of the increase in the US investment return was the increase in returns on investments backing the US variable annuity separate account liabilities as a result of significantly more favourable movements in US equity markets in 2009. The increase of £740 million in other investment return was mainly accounted for by the movement in the fair value of derivatives held to manage the general account business, which was a positive £340 million in 2009 compared to a negative of £311 million in 2008.

Investment return decreased by £7,549 million from a £2,140 million credit in 2007 to a £5,409 million charge in 2008. This decrease was due to a £604 million increase in realised losses on debt securities classified as available-for-sale, a decrease in the investment return of the investments backing the US variable annuity separate account liabilities of £6,545 million and a decrease of £400 million in other investment returns. Realised losses in 2008 were £651 million compared to £47 million in 2007 and were related to losses incurred in the debt securities portfolio due to defaults, losses on the sale of bonds and write downs. The primary driver of the decrease in the US investment return was the reduction in returns on investments backing the US variable annuity separate account liabilities as a result of adverse movements in US equity markets. The investment return of the investment assets backing US separate account liabilities decreased by £6,545 million from a £620 million credit in 2007 to a £5,925 million charge in 2008. The decrease of £400 million in other investment return was mainly accounted for by a £311 million decrease in the fair value of derivatives held to manage the general account business.

United Kingdom

The table below provides an analysis of investment return attributable to UK operations for the periods presented:

	Year ended 31 December		
	2007	**2008**	**2009**
	£m	**£m**	**£m**
Interest/dividend income	6,763	7,117	6,628
Foreign exchange gains and losses*	(101)	(2,964)	921
Investment appreciation (depreciation)**	1,734	(24,588)	10,237
Total	8,396	(20,435)	17,786

* Foreign exchange gains and losses on retranslation of non-sterling based assets, including foreign currency forwards, principally of the UK with-profits fund.

** Investment appreciation (depreciation) comprises realised and unrealised gains and losses on the investments.

In the Prudential Group's UK operations, equities accounted for 42%, 32% and 28% of the total investment portfolio as at 31 December 2007, 2008 and 2009, respectively. Debt securities comprised 40%, 48% and 51%, respectively, with investment properties accounting for 10%, 10% and 8% of the total investment portfolio in each respective year. The remaining 8%, 10% and 13% of the total investment portfolio as at 31 December 2007, 2008 and 2009, respectively, related to loans, deposits with credit institutions, investment in partnerships in investment pools and derivative assets. Within debt securities of £69 billion as at 31 December 2009, 84% was comprised of corporate debt securities.

In the UK, the investment return improved significantly by £38,221 million in 2009, from a £20,435 million charge in 2008 to a £17,786 million credit in 2009. This significant favourable change comprises a decrease of £489 million in interest and dividend income, which was more than offset by an increase of £3,885 million in foreign exchange gains and a decrease in investment depreciation of £34,825 million. The reduction in interest and dividend income of £489 million in 2009 primarily reflected the combined effects of lower interest rates and portfolio changes from equities to other asset classes. The foreign exchange gains of £921 million in 2009 related mainly to gains from foreign currency forwards of the UK with-profits fund as sterling appreciated above the contract levels in 2009. The investment appreciation of £10,237 million in 2009 primarily reflected the recovery in the UK financial markets compared to 2008, especially in the latter half of 2009, and mainly reflected movement on equities and debt securities.

Investment return in the UK decreased £28,831 million from an £8,396 million credit in 2007 to a £20,435 million charge in 2008. This reduction was due to an increase of £354 million interest/dividend income being more than offset by a decrease of £2,863 million in foreign exchange gains and losses and an increase in investment depreciation of £26,322 million. The foreign exchange losses of £2,964 million in 2008 mainly related to losses from foreign currency forward contracts of the UK with-profits fund as sterling depreciated in 2008. These contracts were purchased to limit the effects of volatility in foreign exchange rates on investments denominated in currencies other than sterling. The investment depreciation of £24,588 million primarily reflected adverse conditions in the UK financial markets in 2008, with negative returns from holdings in equities, debt securities and investment properties.

Unallocated corporate and intra-group elimination

Investment return for unallocated corporate changed by a negative £264 million to a negative £466 million in 2009 compared to a negative £202 million in 2008. This change related mainly to a one-off £235 million IGD hedge cost incurred in 2009 as explained previously.

Investment return for unallocated corporate changed by a negative £73 million from a negative £129 million in 2007 to a negative £202 million in 2008.

(c) Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance

	Year ended 31 December		
	2007	2008	2009
	£m	£m	£m
Asian Operations	(5,722)	(192)	(7,710)
US Operations	(7,096)	(947)	(13,285)
UK Operations	(13,967)	11,963	(20,200)
Total	(26,785)	10,824	(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 the Prudential Group'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 benefits and claims and movement in unallocated surplus with-profits funds increased by £52,019 million in 2009 to a charge of £41,195 million compared to a credit of £10,824 million in 2008. Total benefits and claims and movement in unallocated surplus of with-profits funds decreased by £37,609 million in 2008 to a credit of £10,824 million compared to a charge of £26,785 million in 2007. The amounts of this year-on-year change attributable to each of the underlying reasons as stated above are shown below:

Prudential Group

	Year ended 31 December		
	2007	2008	2009
	£m	£m	£m
Claims incurred	(14,727)	(16,210)	(15,781)
(Increase)/decrease in policyholder liabilities	(11,517)	21,219	(23,855)
Movement in unallocated surplus of with-profits funds	(541)	5,815	(1,559)
Benefits and claims and movement in unallocated surplus	(26,785)	10,824	(41,195)

The principal driver for variations in amounts allocated to policyholders is changes to investment return reflected in the balance sheet measurement of liabilities for the Prudential Group's with-profits, SAIF and unit-linked policies (including US separate account business). In addition, for those 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 2009, benefits and claims and movements in unallocated surplus of with-profits funds totalled £7,710 million, representing an increase of £7,518 million compared to the charge of £192 million in 2009.

In 2008, benefits and claims and movements in unallocated surplus of with-profits funds totalled £192 million, a 97% decrease from £5,722 million in 2007.

The amounts of the year-on-year change attributable to each of the underlying reasons are shown below.

	Year ended 31 December		
	2007	2008	2009
	£m	£m	£m
Claims incurred	(1,429)	(1,552)	(1,814)
(Increase)/decrease in policyholder liabilities	(4,004)	314	(6,230)
Movement in unallocated surplus of with-profits funds	(289)	1,046	334
Benefits and claims and movement in unallocated surplus	(5,722)	(192)	(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 significant improvement in market returns in 2009 compared to 2008, there was a related increase in the charge for benefits and claims in the year. Conversely, in 2008, due to the significant decrease in market returns compared to 2007, there was a related decrease in the charge for benefits and claims in the period.

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 2009, the accounting charge for benefits and claims increased by £12,338 million to £13,285 million compared to £947 million in 2008.

In 2008, the accounting charge for benefits and claims decreased by 87% to £947 million compared to £7,096 million in 2007. The amounts of the year-on-year change attributable to each of the underlying reasons are shown below:

	Year ended 31 December		
	2007	2008	2009
	£m	£m	£m
Claims incurred	(3,032)	(3,666)	(4,092)
(Increase)/decrease in policyholder liabilities	(4,064)	2,719	(9,193)
Benefits and claims and movement in unallocated surplus	(7,096)	(947)	(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 variations in the charge/credit in the increases or decreases in policyholder liabilities from year to year in the United States were primarily attributable to movements in the investment return on the assets backing the variable annuity separate account liabilities, and the growth of the variable annuity business.

United Kingdom

Overall, benefits and claims and the movement in unallocated surplus recorded in the income statement was a £20,200 million charge in 2009 compared to a £11,963 million credit in 2008 and a £13,967 million charge in 2007. 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		
	2007	2008	2009
	£m	£m	£m
Claims incurred	(10,266)	(10,992)	(9,875)
Decrease/(increase) in policyholder liabilities			
SAIF	504	3,578	37
PRIL	(1,075)	909	(1,746)
Unit-linked and other non-participating business	(571)	195	(3,031)
With-profits (excluding SAIF)	(2,307)	13,504	(3,692)
	(3,449)	18,186	(8,432)
Movement in unallocated surplus of with-profits funds	(252)	4,769	(1,893)
Benefits and claims and movement in unallocated surplus	(13,967)	11,963	(20,200)

Claims incurred in the UK operations decreased from £10,992 million in 2008 to £9,875 million in 2009. The reduction in claims incurred primarily reflects the combined effect of lower maturities and surrenders for with-profits funds. The reduction in maturing claims reflects a lower base level of policies.

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 significant improvement in market returns in 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 credit in 2008 to a net charge in 2009. Conversely, the comparison of the net credit in 2008 and the net charge in 2007 for benefits and claims and movement in unallocated surplus reflected the impact of negative market returns in 2008.

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 the Prudential Group 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 information set out in the Accountants' Report set out in Appendix I to this listing document, 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.

	Year ended 31 December		
	2007	2008	2009
	£m	£m	£m
Earned premiums, net of reinsurance(i)	4,181	2,927	3,063
Investment return	5,881	(14,595)	10,461
Other income	1,417	(36)	(2)
Acquisition costs and other operating expenditure(ii)	(2,105)	(408)	(842)
Tax (charge) credit	(24)	1,191	(640)
Total net income before benefit and claims and movement in unallocated surplus, net of reinsurance	9,350	(10,921)	12,040
Charges of:			
Claims incurred	(6,512)	(7,068)	(6,253)
(Increase)/decrease in policyholder liabilities(i)	(2,307)	13,504	(3,692)
Movement in unallocated surplus of with-profits funds	(252)	4,769	(1,893)
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(9,071)	11,205	(11,838)
Shareholders' profit after tax	279	284	202

(i) For the purposes of presentation in the Prudential Group'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. The earned premiums and increase in policyholder liabilities for 2007 as shown in the table above included £1.7 billion relating to this transfer. Profits to shareholders emerge on a 'charges less expenses' basis and policyholders are entitled to 100% of the investment earnings.

(ii) In November 2007, Prudential sold its subsidiary PPM Capital, and the Prudential Group ceased to consolidate venture fund investments managed by the sold entity from that date, resulting in a reduction in the associated operating expenditure. The acquisition costs and other operating expenditure for 2007 as shown above included the operating expenditure of the consolidated venture funds investments of £1,408 million up to the date when the investments ceased to be consolidated.

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 2009, the income statement of the UK component of the PAC with-profits funds was charged with a transfer of £1.9 billion 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 the Prudential Group's unallocated surplus from £8.4 billion in 2008 to £10.0 billion in 2009. 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 2009.

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%. The policyholder bonuses comprise the aggregate of regular and final bonuses. When determining policy payouts, including final bonuses, the Prudential Group considers asset shares of specimen policies.

The Prudential Group 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 the Prudential Group's ability to treat its customers fairly was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the long-term funds to provide financial support.

The factors that the PAC Board considers in setting bonus rates are described in more detail in the section "Business — With-profits products" of this listing document above and are summarised in note D2 to the consolidated financial information set out in the Accountants' Report set out in Appendix I to this listing document.

(d) Acquisition costs and other operating expenditure

	Year ended 31 December		
	2007	2008	2009
	£m	£m	£m
Asian Operations	(1,077)	(1,032)	(1,698)
US Operations	(730)	(613)	(879)
UK Operations	(3,001)	(710)	(2,013)
Unallocated corporate	(51)	(104)	18
Total	(4,859)	(2,459)	(4,572)

Total acquisition costs and other operating expenditure of £4,572 million in 2009 was 86% higher than the £2,459 million incurred in 2008. Total acquisition costs and other operating expenditure of £2,459 million in 2008 was 49% lower than the £4,859 million incurred in 2007.

Asia

Total acquisition costs and other operating expenditure for Asia in 2009 were £1,698 million, an increase of £666 million, or 65% over 2008. This increase was primarily due to an increase of £606 million in the charge for the 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 the Prudential Group. The increase in the charge reflects the increase in the overall returns in 2009 in these consolidated investment funds. Additionally, the increase in 2009 compared to 2008 included the effects of movements in the exchange rates applied to translate the results into the pounds sterling value.

In 2008, total acquisition costs and other operating expenses for Asia were £1,032 million, a decrease of £45 million compared to £1,077 million in 2007. This decrease mainly reflected a decrease in operating costs of £181 million to £380 million in 2008 partially offset by higher acquisition costs.

United States

Total acquisition costs and other operating expenditure for the US increased by £266 million from £613 million in 2008 to £879 million in 2009. The increase in 2009 compared to 2008 included the effects of movements in the exchange rates applied to translate the US dollar results into the pounds sterling value.

In 2008, acquisition costs and other operating expenditure of £613 million in 2008 were 16% lower than expenses in 2007 of £730 million, due mainly to a decrease in DAC amortisation.

United Kingdom

Total UK acquisition costs and other operating expenditure for the UK in 2009 were £2,013 million, compared to £710 million in 2008. The significant increase was primarily due to an increase over 2008 of £972 million in the charge for the 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 the Prudential Group. This increase was partially offset by decreases in acquisition costs incurred and other operating costs.

Total acquisition costs and other operating expenditure for the UK in 2008 were £710 million, compared to £3,001 million in 2007. The decrease of £2,291 million in 2008 mainly related to a decrease in other operating expenditure.

The principal movement in other operating expenditure in 2008 compared to 2007 related to the non-consolidation in 2008 of entities held by way of venture fund investments following the disposal of PPM Capital in the second half of 2007, which meant that the Prudential Group was no longer deemed to control these operations. Included within other operating expenses for 2007 was £1,289 million in respect of consolidated venture fund investments. Corresponding revenue for the investments of £1,418 million was included within other income for 2007. The decrease in 2008 was also due to the decrease over 2007 of £1,085 million in the charge for the investment results attributable to external unit-holders relating to consolidated investment funds managed on behalf of third parties. The decrease in the charge reflected the decrease in overall returns in 2008 in these consolidated investment funds.

Discontinued operations

The Prudential Group's discontinued operations related in 2007 to the UK banking business following the sale of Egg Banking Plc ("Egg") on 1 May 2007. The profit from discontinued operations of £241 million in 2007 arose as a result of a £290 million profit on the sale of Egg, which was partially offset by a £49 million trading loss incurred by Egg prior to its disposal. There was no impact on the results for 2008. The 2009 charge of £14 million, which is net of tax, reflected completion adjustments for a previously disposed business. Additional information is set out in note 19 to the Prudential Group's consolidated financial information contained within in the Accountants' Report set out in Appendix I to this listing document.

IFRS SHAREHOLDERS' FUNDS

The following table sets forth a summary of the movement in the Prudential Group's IFRS Shareholders' funds for 2007, 2008 and 2009:

	2007	2008	2009
	£m	£m	£m
Operating profit based on longer-term investment returns	1,152	1,283	1,405
Items excluded from operating profit	(89)	(1,733)	(659)
Total profit/(loss) before tax	1,063	(450)	746
Tax, discontinued operations and minority interest	(116)	54	(70)
Profit/(loss) for the period	947	(396)	676
Exchange movements, net of related tax	13	510	(195)
Unrealised gains and losses on Jackson securities classified as available-for-sale	(105)	(831)	1,043
Dividends	(426)	(453)	(481)
New share capital subscribed	182	170	141
Other	27	(4)	29
Net increase/(decrease) in shareholders' funds	638	(1,004)	1,213
Shareholders' funds at beginning of period	5,424	6,062	5,058
Shareholders' funds at the end of period	6,062	5,058	6,271

Statutory IFRS basis shareholders' funds as at 31 December 2009 were £6.3 billion. This compares to the £5.1 billion as at 31 December 2008, an increase of £1.2 billion.

The movement reflected the profit for the year after tax of £0.7 billion, exchange translation losses, principally on Jackson, of £0.2 billion and dividend payments of £0.5 billion, the positive effect of a reduction in the level of net unrealised losses on Jackson's debt securities of £1.0 billion and other items of £0.2 billion.

In 2009 the net unrealised gains/losses within the statement of financial position value for debt securities classified as available-for-sale moved from a net unrealised loss of £2,897 million to a net unrealised gain of £4 million. After allowing for DAC and tax effects this reduction in the level of unrealised gains/losses has led to a £1.0 billion increase in shareholders' funds during the year. The reduction in unrealised gains/losses reflects the benefits of some normalisation in credit markets with spreads tightening.

Statutory IFRS basis shareholders' funds as at 31 December 2008 were £5.1 billion, compared with £6.1 billion as at 31 December 2007. This result represented a decrease of £1.0 billion, reflecting operating profit of £1.3 billion and a foreign exchange credit of £0.5 billion net of tax, offset by unfavourable movement in short-term fluctuations in investment returns and other items excluded from operating profit of negative £1.7 billion, a net unrealised value change on Jackson debt securities of negative £0.8 billion net of tax and the balance of dividend payments of £0.5 billion partially offset by proceeds of new share capital subscribed of £0.2 billion.

The net unrealised value change on Jackson debt securities of £0.8 billion in 2008 is explained by net unrealised losses of negative £2,104 million (being the gross unrealised losses of £2,482 million less unrealised gains of £378 million); reflecting temporary market movements due to the effects of widening global credit spreads offset partially by the effect of reduced risk-free interest rates and a steepening yield curve. These unrealised losses were further offset by associated DAC of £831 million and tax of £442 million.

LIQUIDITY AND CAPITAL RESOURCES

Prudential Capital operates a central treasury function for the Prudential Group which has overall responsibility for managing the Prudential Group's capital funding programme as well as its central cash and liquidity positions. The Prudential Group 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.

Cash flow

The Prudential Group'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.

Holding company cash flow

The Prudential Group 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 reinvestment of the free surplus generated at business unit level in the particularly profitable opportunities available to the Prudential Group given its established position in key life insurance markets. On this basis, the holding company cash flow statement at an operating level should generally balance to close to zero before exceptional cash flows.

	2007	2008	2009
	£m	£m	£m
Net cash remitted by business units:			
UK Life fund paid to Group			
Shareholder-backed business:	261	279	**284**
Other UK paid to Group	3	46	**189**
Group invested in UK	(145)	(126)	**(39)**
Total shareholder-backed business	(142)	(80)	150
UK net	**119**	**199**	**434**
US paid to Group	122	144	39
Group invested in US	—	—	—
US net	**122**	**144**	**39**
Asia paid to Group			
Long-term business	148	163	181
Other operations	38	234	46
	186	397	227
Group invested in Asia			
Long-term business	(92)	(310)	**(101)**
Other operations	(57)	(82)	**(86)**
	(149)	**(392)**	**(187)**
Asia net	**37**	**5**	**40**
M&G paid to Group	**99**	**106**	93
PruCap paid to Group	**40**	**61**	82
Net remittances to Group from business units	**417**	**515**	688
Net interest paid	(96)	(128)	(214)
Tax received	40	130	71
Corporate activities	(200)	(177)	(163)
Total central outflows	(256)	(175)	(306)
Operating holding company(i) cash flow before dividend	161	340	382
Dividend paid net of scrip and share options	(243)	(286)	(344)
Operating holding company(i) cash flow after dividend	**(82)**	**54**	38

	2007 £m	2008 £m	2009 £m
Exceptional items:			
Cash flow arising from sale of Taiwan agency business	—	—	(125)
IGD hedge costs(ii)	—	—	(235)
Egg sale net proceeds	527	—	—
Other cash movements			
Issue of hybrid debt, net of costs	—	—	822
Repayment of maturing debt	(150)	—	(249)
Receipts (payments) arising from foreign exchange movements on US$ hedging instruments	38	(352)	60
Total holding company cash flow	**333**	**(298)**	**311**
Cash and short-term investments at 1 January 2009	1,119	1,456	1,165
Foreign exchange movements	4	7	10
Cash and short-term investments as at 31 December	**1,456**	**1,165**	**1,486**

(i) Including central finance subsidiaries.

(ii) Costs in respect of IGD hedge taken out in Q1 2009 to mitigate against further adverse movement in market indices from the lows experienced at that time.

Operating holding company cash flow for 2009 before dividend was £382 million, £42 million higher than for 2008. After dividend, the operating holding company cash flow was £38 million, £16 million lower than 2008 reflecting the higher dividend paid in 2009 and a higher scrip take-up in 2008.

The holding company received £688 million net remittances from business units in 2009, (including £506 million which relates to long-term business operations) up from £515 million in 2008, with increased contributions from the UK and Asia businesses partly offset by lower remittances from the US operations. The UK shareholder-backed business was cash flow positive in 2009, one year ahead of Prudential's previously announced target.

Prudential has flexibility available in its management of the holding company cash flow from and to the different business units. In 2009, it utilised this flexibility to bring forward the cash emergence of the in-force value through the proactive use of financing techniques.

Capital invested in business units in 2009 was £226 million compared to £518 million for 2008. Injections into Asia and the UK were both down from 2008 levels, when higher injections into Asia were made to meet solvency requirements following market falls, and reflecting Prudential's disciplined approach to capital preservation in the UK.

Net interest paid in 2009 increased from £128 million to £214 million. £38 million of the increase was in respect of the two debt issues in 2009 and, in addition, interest received on central shareholders' funds fell by £48 million due to falling interest rates.

Tax received in 2009 was £71 million, down £59 million from 2008, due to lower UK taxable profits available for offset. Payments for corporate activities at £163 million were £14 million lower, mainly due to the non-recurrence of 2008 costs relating to the investigation of the potential reattribution of the inherited estate.

After corporate costs, there was a net cash inflow before dividend of £382 million in 2009 compared to £340 million for 2008. The dividend paid net of scrip was £344 million in 2009 compared to £286 million in 2008. The take-up of scrip dividends in 2009 continued to be significant at £137 million (2008: £157 million).

As a consequence, overall, Prudential reported a positive underlying cash inflow before exceptional items of £38 million in 2009. There were also two exceptional payments. Prudential paid £125 million in connection with the sale of the Taiwan agency business to China Life Insurance

Company Ltd of Taiwan, which comprised £45 million to purchase a 9.99% stake in that company and £80 million for transaction-related expenditure including restructuring costs.

In the first quarter of 2009, Prudential incurred one-off exceptional costs in relation to an IGD hedge taken out in 2009 to mitigate against further adverse movement in market indices from the lows experienced at that time, with the transaction being executed by Jackson where the specialist skills reside for the particular types of instruments utilised and £235 million of capital has been injected into Jackson.

When taken in aggregate with the subordinated and Tier 1 debt raising net of repayments undertaken during 2009, the overall holding company cash balances as at 31 December 2009 increased by £0.3 billion to £1.5 billion (2008: £1.2 billion).

Movements Subsequent to 31 December 2009

Prudential cash and short term investments as included in the holding company cash flow statement as at 28 February 2010 were £1,260 million (31 December 2009: £1,486 million). The reduction since the year end comprises operating cash flow and payments in relation to the acquisition of UOB Life Assurance Limited totalling £240 million offset by £14 million of foreign exchange movements.

Core structural borrowings as at 28 February 2010 were £3,496 million (31 December 2009: £3,394 million), the movement arising principally from exchange rate movements. Overall net core structural borrowings as at 28 February 2010 were £2,236 million (31 December 2009: £1,908 million), reflecting the movements in cash and debt as described above.

In addition to core structural borrowings, the Prudential Group had operational borrowings attributable to shareholder-financed operations of £3,168 million at 28 February 2010 (31 December 2009: £2,751 million). The increase mainly reflects £250 million medium term notes issued in January 2010.

Between 28 February 2010 and the Latest Practicable Date, no new core structural borrowings have been issued. Net core structural borrowings being core structural borrowings net of holding company cash and short term investments in the period have increased by approximately £0.5 billion. As at the Latest Practicable Date operational borrowings attributable to shareholder-financed operations had not changed materially from those as at 28 February 2010. In addition to the borrowings noted above, Prudential has access to committed credit facilities and committed lending liquidity facilities as described in detail in the paragraph "Shareholder borrowings and financial flexibility" in this section. As at the Latest Practicable Date there has been no change in the terms of these facilities since 31 December 2009. No drawdown on these facilities has taken place since 31 December 2009. Additional borrowings will be incurred to finance part of the costs of the Acquisition as described in "Informations About the Transactions" in this listing document. The annual post-tax financing costs of these borrowings is estimated to be approximately £300 million (assuming this financing comprises (i) the issue of US$3 billion of MCNs and US$2 billion of Tier 1 Notes to AIA Aurora; and (ii) US$ 5.5 billion (gross) of external debt financing which is intended to be raised under the Bond Offerings, comprising of US$5.5 billion (gross) of upper and lower Tier 2 notes, the cost of which is estimated at market rates prevailing at the date of this listing document). Only a portion of the principal amount of the MCNs will be classified in the balance sheet as a liability with the residual being treated as a component of equity (see note 7 to the pro forma net asset statement in Appendix III to this listing document). Due to this accounting treatment, the £75 million coupon relating to the MCNs would not be included in the IFRS income statement as an expense and it is not included in the £300 million above. The MCN liability referred to above includes the present value of the future coupon payments and the unwind of the discount for the first year is an interest expense estimated at £4 million.

Summary balance sheet

	2007	2008	2009
	£m	£m	£m
Investments	204,050	193,434	**208,722**
Holding company cash and short-term investments	1,456	1,165	**1,486**
Other	13,876	20,943	**17,546**
Total assets	219,382	215,542	**227,754**
Less: Liabilities			
Policyholder liabilities	176,358	173,977	**186,398**
Unallocated surplus of with-profits funds	13,959	8,414	**10,019**
	190,317	182,391	**196,417**
Core structural borrowings of shareholders' financed operations (IFRS book value basis)	2,492	2,958	**3,394**
Other liabilities including minority interest	20,511	25,135	**21,672**
Total liabilities and minority interest	213,320	210,484	**212,483**
IFRS basis net assets net of minority interest	6,062	5,058	**6,271**
Share capital and premium	1,951	1,965	**1,970**
IFRS basis shareholders' reserves	4,111	3,093	**4,301**
IFRS basis shareholders' equity	6,062	5,058	**6,271**

The following sections focus on key areas of interest in the balance sheet.

Shareholders' net borrowings and debt ratings

Shareholders' borrowings for FY 2007, FY 2008 and FY 2009:

	2007	2008	2009
	£m	£m	£m
Perpetual subordinated capital securities (Innovative Tier 1)	763	1,059	**1,422**
Subordinated notes (Lower Tier 2)	807	928	**1,269**
	1,570	1,987	**2,691**
Senior debt:			
2009	248	249	—
2023	300	300	**300**
2029	249	249	**249**
Holding company total	2,367	2,785	**3,240**
Jackson surplus notes (Lower Tier 2)	125	173	**154**
Total	2,492	2,958	**3,394**
Less: Holding company cash and short-term investments	(1,456)	(1,165)	**(1,486)**
Net core structural borrowings of shareholder-financed operations	1,036	1,793	**1,908**

Shareholders' borrowings and financial flexibility

The Prudential Group's core structural borrowings as at 31 December 2009 totalled £3.4 billion on an IFRS basis, compared with £3.0 billion as at the end of 2008 and £2.5 billion at the end of 2007. In May 2009, senior debt of £0.3 billion was repaid on maturity and new hybrid debt of £0.4 billion was issued. In July 2009 a further £0.5 billion of new hybrid debt was issued. In addition, there were exchange translation gains of £0.2 billion on foreign currency denominated borrowings during 2009.

After adjusting for holding company cash and short-term investments of £1.5 billion, net core structural borrowings as at 31 December 2009 were £1.9 billion compared with £1.8 billion as at the end of 2008 and £1 billion as at the end of 2007. The movement of £0.1 billion in 2009 includes the gains of £0.2 billion mentioned above and the previously discussed positive cash flow of £38 million offset by the exceptional payments of £360 million.

Core structural borrowings as at 31 December 2009 included £2,933 million at fixed rates of interest, after taking into consideration the effects of interest rate swaps in place for these borrowings at that time, with maturity dates ranging from 2021 to perpetuity. The total US dollar denominated core structural borrowings as at 31 December 2009 were US$2,550 million, of which US$1,550 million were formally designated as net investment hedges, to hedge partially the currency exposure of the net investments in the US operations.

In addition to the core structural borrowings set out above, the Prudential Group also has in place an unlimited global commercial paper programme. As at 31 December 2009, the Prudential Group had issued commercial paper under this programme totalling £409 million, US$1,976 million, and EUR 449 million. The central treasury function also manages its £5,000 million medium-term note ("MTN") programme covering both core and non-core borrowings, under which the outstanding subordinated debt as at 31 December 2009 was £835 million, US$750 million and EUR520 million, while the senior debt outstanding was £200 million and US$12 million. In addition, Prudential has access to £1,600 million of committed revolving credit facilities, provided by 15 major international banks, and renewable between September 2011 and March 2012; and an annually renewable £500 million committed securities lending liquidity facility. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding as at 31 December 2009. The commercial paper programme, the MTN programme, the committed revolving credit facilities and the committed securities lending liquidity facility are all available for general corporate purposes and to support the liquidity needs of Prudential and are intended to maintain a strong and flexible funding capacity.

The Joint Lead Arrangers have entered into a subordinated debt financing facility to Prudential of up to £1 billion. This facility would only be available to be drawn during the period of twelve months following the completion of the Acquisition, on the occurrence of certain stresses on Prudential's IGD capital. Prudential is entitled to extend the availability of this facility for a further twelve months at its option. If drawn, the facility will provide Prudential with capital resources to enhance its IGD capital at the relevant time. The facility will provide for Lower Tier 2 loans with a term of six years. The amount drawn will replenish the IGD capital to the amount referred to under "FSA Supervision Arrangements for the Enlarged Group" in the section "Supervision and Regulation" of this listing document. There will be limited conditions to drawing the facility. If drawn, the Joint Lead Arrangers will have the right to exchange the drawings under the facility for Lower Tier 2 notes and/or Upper Tier 2 notes. Drawings under the facility will be used to prepay any amounts outstanding under the Bridge Facility. The commitments under the facility will be mandatorily cancelled, and, subject to FSA approval, any drawings under the facility will be mandatorily prepaid, by an amount equal to the capital benefit arising from (a) any disposals by the Enlarged Group and (b) any capital release from any member of the Enlarged Group, in each case which is counted towards Prudential's IGD capital ratios. The commitments under the facility will also be mandatorily cancelled by an amount equal to the proceeds of any other issuance of regulatory capital by Prudential (except where such issuance is used to refinance or replace any existing regulatory capital instruments). Whilst the facility is in place, Prudential will be subject to restrictions on making acquisitions and on paying dividends which are not consistent with the group dividend policy as described in the section "Information about the Enlarged Group" of this listing document.

The Prudential Group's core debt is managed within a target level consistent with its current debt ratings. As at 31 December 2009, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus debt) was 11.1%, compared with 10.7% as at 31 December 2008.

Prudential has strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential's long-term senior debt is rated (as at 31 March 2010) A+ (negative watch), A2 (negative outlook) and A+ (negative watch) from Standard & Poor's, Moody's and Fitch, while short-term ratings are A-1, P-1 and F1+ (negative watch), respectively.

Investments

	2007	2008				2009
	Total Group	Total Group	Participating ("PAR") Funds	Unit-Linked	Shareholder-backed	Total Group
	£m	£m	£m	£m	£m	£m
Debt securities	83,984	95,224	47,327	8,848	45,576	**101,751**
Equity	86,157	62,122	29,962	38,620	772	**69,354**
Property investments	13,688	11,992	8,759	662	1,484	**10,905**
Commercial mortgage loans	3,422	5,473	145	—	4,489	**4,634**
Other loans	4,502	5,018	1,742	27	2,351	**4,120**
Deposits	7,889	7,294	9,638	746	2,436	**12,820**
Other investments	4,408	6,311	3,448	110	1,580	**5,138**
Total	204,050	193,434	101,021	49,013	58,688	**208,722**

Total investments held by the Prudential Group as at 31 December 2009 were £208.7 billion, of which £101.0 billion were held by participating funds, £49.0 billion by unit-linked funds and £58.7 billion by shareholder-backed operations. Shareholders are not directly exposed to value movements on assets backing participating or unit-linked operations, with sensitivity mainly related to shareholder-backed operations.

Of the £58.7 billion investments related to shareholder-backed operations, £3.9 billion was held by Asia long-term business, £28.9 billion by Jackson and £22.8 billion by the UK long-term business respectively.

The investments held by the shareholder-backed operations are predominantly debt securities, totalling £2.5 billion, £22.8 billion and £19.0 billion for Asia, the US and the UK long-term business respectively, of which 79%, 93% and 95% are rated, either externally or internally, as investment grade. Included within debt securities of shareholder-backed operations are Tier 1 and Tier 2 bank holdings of £3.6 billion, of which Tier 1 holdings of UK bank securities is £153 million, with exposure being wholly within the UK long-term business. Within Tier 2, the Prudential Group's exposure to UK banks is £0.9 billion, with exposure being £0.7 billion, £0.1 billion, and £0.1 billion for the UK long-term business, the US and other operations respectively.

In addition, £3.0 billion was held by asset management and other operations, of which £2.8 billion was managed by Prudential Capital, and a further £0.2 billion in central operations.

Policyholder liabilities

	Asia	US	UK	Total
	£m	£m	£m	£m
Shareholder-backed business				
At 1 January 2007	7,389	31,746	32,288	**71,423**
Premiums	3,098	6,352	4,394	**13,844**
Surrenders	(886)	(3,476)	(1,649)	**(6,011)**
Maturities/Deaths	(212)	(490)	(1,800)	**(2,502)**
Net cash flows	2,000	2,386	945	**5,331**
Investment-related items and other movements	1,017	1,225	1,324	**3,566**
Assumption changes	—	—	(34)	**(34)**
Foreign exchange translation differences	226	(509)	(5)	**(288)**
As at 31 December 2007	10,632	34,848	34,518	**79,998**
With-profits funds				
Policyholder liabilities				**96,360**
Unallocated surplus				**13,959**
Total as at 31 December 2007				**110,319**
Total policyholder liabilities including unallocated surplus as at 31 December 2007				**190,317**

	Asia	US	UK	Total
	£m	£m	£m	£m
Shareholder-backed business				
As at 1 January 2008	10,632	34,848	34,518	**79,998**
Premiums	3,124	6,728	6,215	**16,067**
Surrenders	(837)	(3,852)	(1,945)	**(6,634)**
Maturities/Deaths	(173)	(564)	(2,015)	**(2,752)**
Net cash flows	2,114	2,312	2,255	**6,681**
Investment-related items and other movements	(2,973)	(4,552)	(3,369)	**(10,894)**
Assumption changes	—	—	447	**447**
Foreign exchange translation differences	3,202	12,753	2	**15,957**
As at 31 December 2008	12,975	45,361	33,853	**92,189**
With-profits funds				
Policyholder liabilities				**81,788**
Unallocated surplus				**8,414**
Total as at 31 December 2008				**90,202**
Total policyholder liabilities including unallocated surplus as at 31 December 2008				**182,391**

	Asia	US	UK	Total
	£m	£m	£m	£m
Shareholder-backed business				
As at 1 January 2009	12,975	45,361	33,853	**92,189**
Premiums	2,984	9,177	3,596	**15,757**
Surrenders	(840)	(3,255)	(1,577)	**(5,672)**
Maturities/Deaths	(89)	(733)	(2,092)	**(2,914)**
Net cash flows	2,055	5,189	(73)	**7,171**
Investment-related items and other movements	2,811	2,986	5,023	**10,820**
Disposal of Taiwan agency business	(3,508)	—	—	**(3,508)**
Assumption changes	(67)	—	(46)	**(113)**
Foreign exchange translation differences	(1,216)	(5,225)	(57)	**(6,498)**
As at 31 December 2009	13,050	48,311	38,700	**100,061**
With-profits funds				
Policyholder liabilities				**86,337**
Unallocated surplus				**10,019**
Total as at 31 December 2009				**96,356**
Total policyholder liabilities including unallocated surplus as at 31 December 2009				**196,417**

Policyholder liabilities related to shareholder-backed business grew by £7.9 billion from £92.2 billion as at 31 December 2008 to £100.1 billion as at 31 December 2009.

The increase reflects positive net cash flows (premiums less surrenders and maturities/deaths) of £7.2 billion in 2009, predominantly driven by strong inflows in the US (£5.2 billion) and Asia (£2.1 billion), as well as positive investment-related items of £10.8 billion, primarily reflecting the growth in global equity and bond markets during the year.

These increases were offset by foreign exchange movements of negative £6.5 billion, the disposal of the Taiwan agency business in June 2009 (reduction of £3.5 billion) and a reduction in liabilities of £0.1 billion following assumptions changes primarily in Malaysia, namely £63 million relating to a consequential change in reserves following the adoption of a Risk-based Capital regime by the local regulator, and in the UK.

During 2009, the unallocated surplus, which represents the excess of assets over policyholder liabilities for the Prudential Group's with-profits funds on a statutory basis, increased from £8.4 billion as at 31 December 2008 to £10.0 billion as at 31 December 2009.

Derivative Financial Instruments and Commitments

The Prudential Group enters into a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward currency contracts and swaps, such as interest rate swaps, cross-currency swaps, swaptions and credit default swaps.

All over-the-counter derivative transactions are conducted under standardised International Swaps and Derivatives Association Inc ("ISDA") master agreements and the Prudential 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 Prudential Group's investment strategies and to manage exposure to interest rate, currency, credit and other business risks. The Prudential Group uses various interest rate derivative financial 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.

As part of the efficient portfolio management of the PAC with-profits fund, the fund may, from time to time, invest in cash-settled forward contracts over Prudential Shares, which are accounted for consistently with other derivatives. This is in order to avoid a mismatch of the with-profits investments portfolio with the investment benchmarks set for its equity-based investment funds. The contracts will form part of the long-term investments of the with-profits fund. These contracts are subject to a number of limitations for legal and regulatory reasons.

Some of the Prudential Group's products, especially those sold in the United States, have certain guarantee features linked to equity indexes. A mismatch between product liabilities and the performance of the underlying assets backing them, exposes the Prudential 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 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 purposes 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. On a net basis, put-swaptions hedge against significant upward movements in interest rates;
- equity index futures contracts and equity index call and put options are used to hedge Jackson's obligations associated with its issuance of fixed indexed immediate and deferred annuities and certain variable annuity guarantees. These annuities and guarantees contain embedded options which are fair valued for financial reporting purposes;
- total return swaps in which Jackson receives equity returns or returns based on reference pools of assets in exchange for short-term floating rate payments based on notional amounts, are held for both hedging and investment purposes;
- cross-currency swaps, which embody spot and forward currency swaps and additionally, in some cases, interest rate swaps and equity index swaps, are entered into for the purpose of hedging Jackson's foreign currency denominated funding agreements supporting trust instrument obligations;
- spread cap options which are used as a macro-economic hedge against declining interest rates. Jackson receives quarterly settlements based on the spread between the two-year and the 10-year constant maturity swap rates in excess of a specified spread; and
- credit default swaps, which represent agreements under which Jackson has purchased default protection on certain underlying corporate bonds held in its portfolio. These

contracts allow Jackson to sell the protected bonds at par value to the counterparty in the event of their default in exchange for periodic payments made by Jackson for the life of the agreement.

Contractual obligations

Contractual obligations with specified payment dates as at 31 December 2009 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[a]	367,620	17,799	35,716	35,374	278,731
Long-term debt[c]	7,429	2,216	1,143	180	3,890
Capital lease obligations	166	8	20[b]	18[b]	120
Operating lease obligations	345	63	94[b]	84[b]	104
Purchase obligations[c]	428[b]	428	—	—	—
Obligations under funding, securities lending and sale and repurchase agreements	3,482	3,482	—	—	—
Other long-term liabilities[d]	4,452	4,008	141	34	269
Total	383,922	28,004	37,114	35,690	283,114

(a) Amounts shown in respect of policyholder liabilities represent estimated undiscounted cash flows for the Prudential Group's life assurance contracts. In determining the projected payments, account has been taken of the contract features, in particular that the amount and timing of policyholder benefit payments reflect either surrender, death, or contract maturity. In addition, the undiscounted amounts shown include the expected payments based on assumed future investment returns on assets backing policyholder liabilities. The projected cash flows exclude the unallocated surplus of with-profits funds. As at 31 December 2009, on the IFRS basis of reporting, the unallocated surplus was £10,019 million. The unallocated surplus represents the excess of assets over liabilities, including policyholder "asset share" liabilities, which reflect the amount payable under the realistic Peak 2 reporting regime of the FSA. Although accounted for as a liability, as permitted by IFRS 4, there is currently no expected payment date for the unallocated surplus.

(b) This represents the contractual maturity of amounts included in the consolidated statement of financial position (i.e. excludes future interest payments.)

(c) Comprising unfunded commitments for investments in limited partnerships of £339 million and unfunded commitments related to mortgage loans of £89 million.

(d) Amounts due in less than one year include amounts attributable to unit holders of consolidated unit trusts and similar funds of £3,809 million.

	Total	Less than 1 year
	£m	£m
Reconciliation to consolidated statement of financial position:		
Total contractual obligations per above		383,922
Difference between policyholder liabilities per above (based on undiscounted cash flows) and total policyholder liabilities and unallocated surplus of with-profits funds per balance sheet:		
Total policyholder liabilities and unallocated surplus of with-profits funds per balance sheet	196,417	
Policyholder liabilities (undiscounted) per above	(367,620)	(171,203)
Other short-term/non-contractual obligations:		
Current tax liabilities	1,215	
Deferred tax liabilities	3,872	
Accruals and deferred income	594	
Other creditors (excluding capital and operating lease obligations and purchase obligations)	1,612	
Derivative liabilities	1,501	
Other liabilities	877	9,671
Other items		(939)
Total liabilities per consolidated statement of financial position		221,451

GROUP LIQUIDITY REQUIREMENTS

Dividend payments

The total cost of dividends settled by Prudential were £481 million, £453 million and £426 million for the years ended 31 December 2009, 2008 and 2007, respectively, gross of scrip. The dividend paid net of scrip and share options was £344 million, £297 million and £255 million for the years ended 31 December 2009, 2008 and 2007 respectively.

The Board recommended a final dividend for 2009 of 13.56 pence per share, bringing the 2009 full-year dividend to 19.85 pence per share, an increase of 5%. The 2009 full-year dividend is scheduled to be paid on 27 May 2010.

Debt service costs

Debt service costs charged to profit in respect of core borrowings paid by the Prudential Group in 2009 were £209 million compared with £172 million in 2008 and £168 million for 2007. Of total consolidated borrowings of £7,429 million as at 31 December 2009, the parent company had core borrowings of £3,236 million outstanding, all of which are due to mature in more than five years.

Group liquidity sources

The parent company held cash and short-term investments of £1,486 million, £1,165 million and £1,456 million as at 31 December 2009, 2008 and 2007, respectively. The sources of cash in 2009 included dividends, loans and interest received from operating subsidiaries, Prudential received £914 million in cash remittances from business units in 2009, compared to £1,033 million received in 2008 and £711 million received in 2007. These remittances primarily comprise dividends from business units and the shareholders' statutory transfer from the PAC long-term with-profits fund (UK Life Fund) relating to earlier bonus declarations. Offset against these cash remittances were £226 million, £518 million and £294 million of capital invested in 2009, 2008 and 2007 respectively. Overall net remittances from business units had increased from £515 million in 2008 to £688 million in 2009.

Shareholders' statutory transfer

In 2009, PAC declared a 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. In 2008, PAC declared a total surplus of £3,029 million from PAC's primary with-profits sub-fund, of which £2,730 million was added to with-profits policies and £298 million was distributed to shareholders. In 2007, PAC declared total surplus of £2,901 million from PAC's primary with-profits sub-fund, of which £2,612 million was added to with-profits policies and £289 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, the Prudential Group'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. The Prudential Group'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 FY 2007, 2008 and 2009:

	Dividends, loans and interest received in:		
	2007	2008	2009
	£m	£m	£m
Asian Operations	186	397	227
US Operations	122	144	39
UK Insurance Operations (mainly PAC)	264	325	473
M&G (including Prudential Capital)	139	167	175
Total	711	1,033	914

Each of the Prudential Group'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. The Prudential Group 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.

Acquisition and sale of businesses by shareholder-financed operations

On 1 March 2010, Prudential announced the proposed combination of the Prudential Group and the AIA Group as described in "Information About the Transactions" of this listing document.

On 6 January 2010, the Prudential Group announced the acquisition of UOB Life Assurance in Singapore for total cash consideration of SGD428 million (£192 million), subject to a post-completion adjustment to reflect the net asset value as at the completion date.

In June 2009, the Prudential Group completed the sale of its Taiwan agency business.

On 9 November 2007, the Prudential Group announced that it had completed the sale of PPM Capital, its direct private equity business.

On 29 January 2007, the Prudential Group announced that it had entered into a binding agreement to sell its holding in Egg to Citi. The sale completed on 1 May 2007 for a cash consideration (net of expenses) of £527 million.

Operating businesses

UK life insurance

The liquidity sources for the Prudential Group'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 the Prudential Group'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 the Prudential Group'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 2009, 2008 and 2007, PAC's long-term fund assets in excess of its minimum capital requirements were £13,288 million, £5,819 million and £26,866 million, respectively. The "with-profits insurance capital component" of the enhanced capital requirement, as at 31 December 2009, 2008 and 2007 amounted to £5,570 million, £1,062 million and £16,369 million respectively.

M&G

The principal liquidity source for M&G is fee income for managing retail, institutional and the internal investment funds of the Prudential Group'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 information set out in Appendix I to this listing document. 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 2009, 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 loans, and funding of expenses including payment of commissions, operating expenses and taxes. As at 31 December 2009, Jackson's outstanding notes and bank debt included:

- US$33 million of collateralised loans maturing in the period between 2011 and 2016,
- US$6 million of non-investment grade debt issued by variable interest entities maturing in the period between 2013 and 2016, and
- 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 (e.g. the unexpected default of a large, unrelated life insurer) and competition from other products, including non-insurance products such as mutual funds, certificates of deposit and newly developed investment products. Most of the life insurance, annuity and institutional products Jackson offers permit the policyholder or contract holder to withdraw or borrow funds or surrender cash values, although some include policy restrictions such as surrender charges and market value adjustments to discourage early withdrawal of policy and contract funds. As at 31 December 2009, approximately US$10.5 billion of policy and contract funds had no surrender charge or market value adjustment restrictions.

Jackson uses a variety of asset-liability management techniques to provide for the orderly provision of cash flow from investments and other sources as policies and contracts mature in accordance with their normal terms. Jackson's principal sources of liquidity to meet unexpected cash outflows associated with sudden and severe increases in surrenders and withdrawals are its portfolio of liquid assets and its net operating cash flows. As at 31 December 2009, the portfolio of cash, short-term investments and publicly traded bonds and equities amounted to US $28.7 billion. Operating net cash inflows for Jackson in 2009 were US$2.6 billion.

As at 31 December 2009, the statutory capital and surplus of Jackson was US $4.0 billion, which was in excess of the requirements set out under Michigan insurance law. As described in the section "Supervision and Regulation" of this listing document, 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 2009, 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 the Prudential Group'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 the Prudential Group'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.

RISK AND CAPITAL MANAGEMENT

Risk management

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

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

Risk oversight: 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 Prudential Group's risk exposures (market, credit, liquidity, insurance and operational risks) and monitor capital.
- *Balance Sheet and Capital Management Committee:* Meets monthly to monitor the Prudential Group's liquidity and oversee the activities of the Prudential Capital business unit.
- *Group Operational Risk Committee:* Reports to the Group Executive Risk Committee and meets quarterly to oversee the Group's non-financial risk (operational, business environment and strategic risks) exposures.
- The committees' oversight is supported by the Group Chief Risk Officer, with functional oversight provided by:
    - Group Security: Develop and deliver appropriate security measures to protect the Prudential Group's staff, physical assets and intellectual property.

- Group Compliance: Verify compliance with regulatory standards and inform the Prudential Group's senior management and the Board on key regulatory issues affecting the Prudential Group.
- Group Risk: Establish and embed a capital management and risk oversight framework and culture consistent with the Prudential Group's risk appetite that protects and enhances the Group's embedded and franchise value.

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

Principles and objectives

Risk is defined as the uncertainty that the Prudential Group 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 the Prudential Group.

The control procedures and systems established within the Prudential 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 the Prudential Group's risk appetite framework, i.e.:

- The retention of the risk contributes to value creation;
- The Prudential Group is able to withstand the impact of an adverse outcome; and
- The Prudential Group has the necessary capabilities, expertise, processes and controls to manage the risk.

The Prudential Group has the following 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 and industry.

Reporting

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

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

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

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

Risk oversight

Group risk appetite

The Prudential Group defines and monitors aggregate risk limits for its earnings volatility and its capital requirements based on financial and non-financial stresses:

(a) Earnings volatility: the objectives of the limits are to ensure that (a) the volatility of earnings is consistent with stakeholders' expectations, (b) the Prudential Group has adequate earnings (and cash flows) to service debt, for 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 applied to monitor the volatility of earnings are EEV operating profit and IFRS operating profit, although EEV and IFRS total profits are also considered.

(b) Capital requirements: the limits aim to ensure that (a) the Prudential Group meets its internal economic capital requirements, (b) the Prudential Group achieves its desired target rating to meet its business objectives, and (c) supervisory intervention is avoided. The two measures applied are the EU Insurance Groups Directive ("IGD") capital requirements and internal economic capital requirements. In addition, capital requirements are also monitored on a local statutory basis.

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

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

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

In the event that any of the business unit plans imply risk limits will be exceeded, this will necessitate a dialogue between GERC and the relevant business unit or units. Exceeding group limits may be avoided if, for example, limits in other business units are not fully utilised, or if the diversification effect at group level of a particular risk with other business units means the group limit is not breached.

Market risk is managed such that as conditions evolve the risk profile is maintained within risk appetite. In addition to business unit operational limits on credit risk, the Prudential Group sets counterparty risk limits at group level. The limits on total group-wide exposures to a single counterparty are specified within different credit rating 'categories'. Group Risk and the GERC monitor the Prudential Group's actual exposures against these limits on a monthly basis.

Risk exposures

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

Category	Risk type	Definition
1. Financial risks	(a) Market risk	The risk that arises from adverse changes in the value of, or income from, assets and changes in interest rates or exchange rates.
	(b) Credit risk	The risk of loss if another party fails to meet its obligations, or fails to do so in a timely fashion.
	(c) Insurance risk	The inherent uncertainty as to the occurrence, amount and timing of insurance cash flows. This includes the impact of adverse mortality, morbidity and persistency experience.
	(d) Liquidity risk	The risk that a business, though solvent on a balance sheet basis, either does not have the financial resources to meet its obligations as they fall due or can secure them only at excessive cost.

Category	Risk type	Definition
2. Non-financial risks	Operational risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes, people or systems, or from external events. This includes legal and regulatory compliance risk.
	Business environment risk	Exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall objectives and strategy.
	Strategic risk	Ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Prudential Group's capabilities.

Financial risks

(a) Market risk

i) Equity risk

In the UK business, most of the Prudential Group's equity exposure is incurred in the with-profits fund which includes a large inherited estate estimated at £6.4 billion as at 31 December 2009 (2008: £5.4 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. In the course of 2009, the Prudential Group has reduced the with-profits fund's exposure to UK equities whilst increasing the proportion of fixed income assets.

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

In the US, where Jackson is a leading provider of variable annuities, there are well-understood risks associated with the guarantees embedded in its products. Jackson provides guarantees for minimum death benefits ("GMDB") on all policies in this class, minimum withdrawal benefits ("GMWB") on 47% of the book, and minimum income benefits ("GMIB") on only 8%. To protect the shareholders against the volatility induced by these embedded options, both a comprehensive hedging programme and reinsurance are used. Due to the inability to reinsure economically or hedge the GMIB, Jackson ceased offering this benefit in 2009.

Jackson's variable annuity sales activities focus on meeting the needs of conservative and risk averse customers who are seeking accumulation pre-retirement and/or reliable income in retirement, and who display little tendency to arbitrage their guarantees. These customers select conservative investment options and, importantly, have historically bought fewer guarantee products compared to the industry as a whole. Jackson is able to meet the needs of these customers because its unique and market leading operational platform allows it to tailor more than 1,400 product combinations.

It is the Prudential Group's philosophy not to compete on price. Its individual guarantees tend to be more expensive than the market average, because it seeks to sell at a price capable of funding the cost it incurs to hedge or reinsure its risks.

The Prudential Group uses a macro approach to hedging that covers the entire equity risk in the US business, including all exposure to GMDB and GMWB guarantees. Within this macro approach use is made of the natural offsets that exist between the variable annuity guarantees and the fixed index annuity book, and then a combination of over the counter options and futures is used to hedge the residual risk, allowing for significant market shocks and limiting the amount of capital put at risk. The hedging programme also covers the fees on variable annuity guarantees.

Jackson hedges the economics of its products rather than the accounting result. Accordingly, while its hedges are effective on an economic basis, due to different accounting treatment for the hedges and some of the underlying hedged items, the reported income effect is more volatile. For Jackson's variable annuities guaranteed benefits and related hedges, while there has been some volatility of results in 2008 and 2009, there has been a small cumulative net operating loss of £7 million over the 24-month period, reflecting the overall effectiveness of the hedging programme. With its large fixed annuity and fixed indexed annuity books, Jackson has natural offsets for its variable annuity interest rate related risks. Specific limits are set for each major risk.

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.

Interest rates primarily affect the Asia, the US and the UK with-profits businesses. Following the sale of the agency-based business in Taiwan, the exposure to interest rate risk in Asia has significantly reduced. The remaining risk in the region relates mostly to guarantees on traditional shareholder-backed life products and asset-liability mismatches, driven by limited availability of long-term assets in some territories. This exposure is monitored and managed carefully on an ongoing basis, for example by setting clear limits on duration risk set in the investment guidelines. The Prudential Group has a range of risk mitigation options available that would help to reduce the exposure to interest rate movements.

In the US, there is interest rate risk across the portfolio. Jackson manages fixed annuity interest rate exposure through a combination of interest rate swaps and interest rate options, to protect capital against rates rising quickly, and through the contractual ability to reset crediting rates annually.

In the UK, the investment policy for the shareholder-backed annuity business is to match the cash flow from investments with the annuity payments. As a result, assets and liabilities are closely matched by duration. The impact of any residual cash flow mismatching can be adversely affected by changes in interest rates, therefore the mismatching position is regularly monitored.

iii) Foreign exchange risk

The Prudential Group principally operates in the UK, the US, and in 13 countries in Asia. The geographical diversity of the businesses means that it 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 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 the consolidated financial statements when results are expressed in pounds sterling.

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

(b) Credit risk

Debt portfolio

The Prudential Group's debt portfolio on an IFRS basis was £101.8 billion as at 31 December 2009. £45.6 billion of these assets backed shareholder business, of which 93% were investment grade, compared to 96% as at 31 December 2008. This change was a result of downgrades, largely occurring in March and April, with the pace of downgrade significantly slowing subsequently. Sovereign debt backing shareholder business represented 11% of the portfolio, or £4.9 billion as at 31 December 2009; 67% of this was AAA and 91% investment grade. Eurozone sovereign exposures backing shareholder business were £3.1 billion as at 31 December 2009; 98% of these were AAA rated. Of the remaining 2%, the highest exposure was in respect of Italy (£55 million) and Spain (£1 million) whilst there was no exposure to Greece, Portugal or Ireland.

Asia's debt portfolio totalled £10.0 billion as at 31 December 2009. Of this, approximately 75% was invested in unit-linked and with-profits funds with minimal shareholders' risk. The remaining 25% was shareholder exposure and was invested predominantly (79% in investment grade bonds). For Asia, the portfolio performed very well, and did not experience any default losses in 2009.

The UK's debt portfolio on an IFRS basis was £67.8 billion as at 31 December 2009, including £42.3 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 was £6.4 billion in unit linked funds where the shareholders' risk is limited, with the remaining £19.0 billion backing the shareholders' annuity business and other non-linked business (of which 78% is rated AAA to A, 19% BBB and 3% non-investment grade).

On a statutory (Pillar 1) basis, the Prudential Group held prudent credit reserves within the UK shareholder annuity funds of £1.6 billion as at 31 December 2009 to allow for future credit risk. For Prudential Retirement Income Limited ("PRIL") this allowance was set at 71 bps as at 31 December 2009 (2008: 80 bps). This represented 41% of the portfolio spread over swaps compared to 31% as at 30 June 2009 and 25% as at 31 December 2008. A low level of new defaults (£11 million) were reported on the debt portfolio held by the UK shareholder-backed annuity business in 2009.

During the second half of 2009, the Prudential Group materially reduced its holdings in subordinated financial debt backing the annuity business, which improved the overall credit quality of its bond portfolios. This resulted in gross losses of £254 million on shareholder-backed business and £80 million on policyholder backed business. On a Pillar I basis these losses were fully offset by a reduction in long-term default reserves of £180 million shareholder / £31 million policyholder that arose as a result of the improvement in the quality of its remaining bond portfolios and a further £74 million shareholder / £49 million policyholder release of short term default reserves which were allocated to the assets sold. On an IFRS basis, the gross costs less the reduction in long-term and short-term default reserves resulted in an overall pre-tax operating loss of £51 million shareholder / £32 million policyholder in 2009.

The most significant area of exposure to credit risk for the shareholders is Jackson in the US. As at 31 December 2009 Jackson's fixed income portfolio totalled £22.8 billion, comprised of £16.5 billion of Corporate Debt, £2.1 billion of Commercial Mortgage Backed Securities ("CMBS"), £3.3 billion of Residential Mortgage Backed Securities ("RMBS") and £0.9 billion of other instruments.

The US Corporate Debt portfolio of £16.5 billion was 94% investment grade as at 31 December 2009. Concentration risk was low, with the top 10 holdings accounting for less than 7% of the portfolio. The non-investment grade portfolio was also well diversified with an average holding of £8 million. The largest sector exposures in the investment grade portfolio were Utilities and Energy both at 15%. The portfolio is actively managed and exposures are sold as events dictate.

Within the RMBS portfolio of £3.3 billion, the agency guaranteed portion was 60% as at 31 December 2009. Another 21% of the portfolio was non-agency prime and Alt-A investments with pre-2006/2007 vintages, where experience has been much more positive than later vintages. The Prudential Group's exposure to the 2006/2007 vintages totalled £466 million as at 31 December 2009 of which £373 million was invested in the senior part of the capital structure, thereby significantly reducing the risk of defaults and the magnitude of loss if a shortfall were to occur. The actual exposure to non-senior 2006/2007 Prime and Alt-A RMBS was £93 million. The total RMBS portfolio had an average fair value price of 78 cents in the dollar.

The CMBS £2.1 billion portfolio is performing strongly, with 46% of the portfolio rated AAA and less than 1% rated below investment grade as at 31 December 2009. The entire portfolio had an average credit enhancement level of 30%. This level provides significant protection, since it means the bond has to incur a 30% loss, net of recoveries, before the Prudential Group is at risk.

In Jackson total amounts charged to profits relating to debt securities was £631 million as at 31 December 2009 (2008: £624 million). This was net of recoveries/reversals recognised in the year of £5 million (2008: £3 million).

In 2009, Jackson's total defaults were less than £1 million (2008: £78 million). In addition, as part of its active management of the book, it incurred net losses of £6 million (2008: £130 million) on the sale of impaired bonds.

IFRS write downs excluding defaults for 2009 were £630 million compared to £419 million in 2008. Of this amount £509 million (2008: £167 million) was in respect of RMBS securities.

The impairment process reflects a rigorous review of every single bond and security in its portfolio. The accounting requires the Prudential Group to book full mark to market losses on impaired securities through the income statement. However, it 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.

In considering potential future losses for Jackson, it is essential to examine the key components of the debt portfolio. As at 31 December 2009, 93% of Jackson's total debt portfolio of £22.8 billion consisted of investment grade securities and 7% were non-investment grade.

The debt portfolio of the Prudential Group's asset management operations of £1.2 billion as at 31 December 2009 principally comprises £1.1 billion related to Prudential Capital operations. Of this amount, debt securities of £1.1 billion were rated AAA to A- by S&P or Aaa by Moody's.

Loans

Of the total Group loans of £8.8 billion as at 31 December 2009, £6.9 billion were held by shareholder-backed operations comprising of £4.5 billion commercial mortgage loans and £2.4 billion of other loans.

Of this total held by shareholder-backed operations, the Asian insurance operations held £0.4 billion of other loans, the majority of which are commercial loans held by the Malaysian operation that are investment graded by two local rating agencies. The US insurance operations held £4.3 billion of loans, comprising £3.8 billion of commercial mortgage loans, all of which are collateralised by properties, and £0.5 billion of policy loans. 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. The UK insurance operations held £0.8 billion of loans, the majority of which are mortgage loans collateralised by properties.

The balance of the total shareholder loans amounts to £1.4 billion and relates to bridging loan finance managed by Prudential Capital. The bridging loan assets generally have no external credit ratings available, with internal ratings prepared by the Prudential Group's asset management operations as part of the risk management process, with the majority being rated BBB+ to BBB-.

Unrealised Credit Losses in the US

Jackson's net unrealised position moved from a loss of £2,897 million as at 31 December 2008 to a net gain of £4 million as at 31 December 2009 as the markets rebounded from the historically wide spreads at the end of 2008. The gross unrealised loss position moved from £3,178 million as at 31 December 2008 to £966 million as at 31 December 2009. Gross unrealised losses on securities priced at less than 80% of face value totalled £594 million as at 31 December 2009 compared to £1.9 billion as at 31 December 2008.

(c) Insurance risk

The processes of determining the price of products and reporting the results of long-term business operations require the Prudential Group to make a number of assumptions. In common with other industry players, the profitability of the Prudential Group'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. Almost all of the Prudential Group's longevity risk arises in the UK, where this is managed as a key risk and where Prudential conducts rigorous research using data from its substantial annuitant portfolio. In other parts of the world, longevity risk is a very minor part of the risk profile. The Prudential Group's persistency assumptions reflect recent experience for each relevant line of business, and any expectations of future persistency. Where appropriate, allowance is also made for the relationship — either assumed or historically observed — between persistency and investment returns, and for the resulting additional risk.

(d) Liquidity risk

The holding 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 Prudential had £2.1 billion of undrawn committed facilities as at 31 March 2010, of which, in February 2009, it renewed £1.4 billion of the undrawn syndicated committed banking facility for a further three years. Prudential also has two £100 million undrawn bilateral committed banking facilities expiring in 2011 and 2012, with the balance being an annually renewable £500 million committed securities lending facility. In addition the Prudential Group has access to liquidity via the debt capital markets, which was demonstrated most recently through the two hybrid instruments, £400 million of Lower Tier 2 debt issued in May 2009 and US$750 million (approximately £455 million) of Innovative Tier 1 debt issued in July 2009, and a £250 million senior three-year MTN issued in January 2010. Liquidity is also assessed at business unit level under base case and stressed assumptions. The liquidity resources available have been assessed to be sufficient under both sets of assumptions.

Non-financial risk

The Prudential Group is exposed to operational, business environment and strategic risk in the course of running its businesses. It processes a large number of complex transactions across numerous and diverse products, and is subject to a number of different legal and regulatory, including tax, regimes. It 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.

The Prudential Group uses the qualitative and quantitative analysis of operational risk exposures material to the Prudential Group to support business decisions, to inform overall levels of capital held and to assess the adequacy of the corporate insurance programme.

Capital management

Regulatory capital (IGD)

The Prudential Group is subject to the capital adequacy requirements of the EU Insurance Groups Directive ("IGD") as implemented by the FSA in the UK. The IGD capital adequacy requirements involve aggregating surplus capital held in the Prudential Group'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.

The Prudential Group's position has been further strengthened during 2009, driven by its prudent but proactive risk management. Its IGD capital surplus is £3.4 billion as at 31 December 2009 (before allowing for the 2009 final dividend) giving a solvency ratio of 283%. This compares to a surplus as at 31 December 2008 (before allowing for the 2008 final dividend) of £1.5 billion(1) and a solvency ratio of 152% The positive movement of £1.9 billion during 2009 mainly comprises:

- Net capital generation mainly through operating earnings (in-force releases less investment in new business) of £1.1 billion;
- The impact of the sale of the agency distribution business in Taiwan of £0.8 billion;
- Hybrid debt issues in May and July 2009, totalling £0.9 billion;
- Additional recognition of £0.4 billion of surplus in respect of part of the shareholders' interest in the future transfers from the PAC with-profits fund, recognition of £0.2 billion of future profits in the UK and Hong Kong and other intra-group capital efficiencies of £0.3 billion;

Offset by:

- Final 2008 dividends, net of scrip, of £0.2 billion and interim 2009 dividends, net of scrip, of £0.1 billion;
- External financing costs and other central costs of £0.6 billion;
- Credit-related impairments and default losses in the US of £0.4 billion;
- Impacts arising from regulatory changes of £0.2 billion;
- Foreign exchange movements of £0.3 billion.

The Prudential Group has strengthened its IGD capital position in challenging markets. It continues to have further options available to it to manage available and required capital. These could take the form of either increasing available capital (for example, through financial reinsurance or debt issuance) or reducing required capital (for example, through the level and the mix of new business, notably by maintaining pricing discipline and through the use of other risk mitigation strategies such as hedging and reinsurance).

In addition to this strong capital position, the total credit reserve for the UK shareholder annuity funds, which protects the Prudential Group's capital position in excess of the IGD surplus, has been strengthened to £1.6 billion as at 31 December 2009 (from £1.5 billion at 30 September 2009). This reserve is equivalent to 71 bps per annum over the lifetime of the assets.

(1) *Source: Audited annual regulatory return under Insurance Groups Directive (Form 95)*

During the severe equity market conditions experienced in the first quarter of 2009 the Prudential Group entered into exceptional overlay short-dated hedging contracts to protect against potential tail-events on the IGD capital position, in addition to the regular operational hedging programmes. The hedge contracts have expired and not been renewed.

Stress testing

As at 31 December 2009, the impact of an instantaneous 20% fall in equity markets levels (which is equivalent to the worst historic daily fall in the S&P index), would reduce IGD surplus by £150 million. Were equity markets to fall by more than 20%, Prudential believes that this would not be an instantaneous fall but rather this would be expected to occur over a period during which it would be able to put into place mitigating management actions. For example, Prudential has estimated that the impact (net of mitigating management actions) of an additional 20% fall in equity markets over a four-week period following an instantaneous 20% fall would be an estimated reduction in the IGD surplus of a further £350 million.

In summary, the findings of the Prudential Group's stress testing and sensitivity analysis, which are part of the continual process of assessing the resilience of the Prudential Group's IGD capital position to withstand significant further deterioration in market conditions include:

- An instantaneous 20% fall in equity markets from 31 December 2009 levels would reduce IGD surplus by £150 million.
- A 40% fall in equity markets (comprising an instantaneous 20% fall followed by a further 20% fall over a four-week period) would reduce the IGD surplus by £500 million.
- A 150 bps reduction (subject to a floor of zero) in interest rates from 31 December 2009 would reduce the IGD surplus by £400 million.
- Credit defaults of 10 times the expected level would have an impact of £550 million in excess of the annual reserve release.

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

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

Solvency II

The EU is developing a new solvency framework for insurance companies, referred to as 'Solvency II'. The Solvency II Directive, which sets out the new solvency framework for insurers in the European Union, was formally approved by the Economic and Financial Affairs Council in November 2009. 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 will 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 Commission has already initiated the process of developing the detailed rules that complement the high-level principles in the Directive, referred to as 'implementing measures'. These are subject to a consultation process that is not expected to be finalised until late 2011.

In particular, the Committee of European Insurance and Occupational Pensions Supervisors ("CEIOPS") published a number of consultation papers in 2009 covering advice to the European Commission on the implementing measures but there remains significant uncertainty regarding the outcome from this process. 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 Fora, together with the Association of British Insurers ("ABI") and the Comité Européen des Assurances ("CEA").

Many of the issues being actively debated have received considerable focus both within the industry and from national bodies.

Having assessed the high-level requirements of Solvency II, an implementation programme was initiated with dedicated teams to manage the required work across the Prudential Group. The activity of the local Solvency II teams is being coordinated by Group Head Office to achieve consistency in the understanding and application of the requirements.

The Prudential Group is progressing its implementation plans further and remaining in regular contact with the FSA as it prepares for the initial 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.

The Prudential Group 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 its decision-making processes for product design and product pricing.

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

Risk mitigation and hedging

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

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

DIVIDEND POLICY

The Directors recommended a final dividend for 2009 of 13.56 pence per share payable on 27 May 2010 to the shareholders on the register at the close of business on 9 April 2010. The total dividend relating to the 2009 reporting period was £502 million (2008: £471 million, 2007: £444 million). Based on the number of issued shares as at the Latest Practicable Date, of 2,534,472,474 this equates to a dividend of 19.8 pence (2008: 18.6 pence, 2007: 17.5 pence).

The Board intends to maintain its focus on delivering a growing dividend, which will continue to be determined after taking into account the Prudential Group's financial flexibility and the Directors' 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. The 2009 IFRS operating earnings after tax and minorities cover the full year dividend 2.2 times (2008: 2.1 times).

DISTRIBUTABLE RESERVES

Distributability of reserves

Under English company law, Prudential may pay dividends only if "distributable reserves" of the holding company are available for that purpose. The holding company prepares its own financial statements in accordance with UK GAAP. Even if distributable reserves are available, under English 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.

At 31 December 2009 the UK GAAP retained earnings of the holding company from which distributable reserves may be derived were £1,856 million. (31 December 2008 £1,280 million, 31 December 2007 £1,185 million).

CAPITALISATION AND INDEBTEDNESS

The following table shows the capitalisation of Prudential Group as at 31 December 2009 and the indebtedness (excluding amounts in respect of the Prudential Group's life funds) of the Prudential Group as at 28 February 2010. With the exception of capitalisation balances which are extracted without material adjustment from the historical financial information set out in Appendix I and reported on by KPMG Audit Plc and KPMG, the following balances are extracted without material adjustment from unaudited information contained in underlying financial accounting systems and other management documents.

	£m
Capitalisation as at 31 December 2009:	
Share capital (2,532,227,471 ordinary shares of 5p each fully paid)	127
Share premium	1,843
Total share capital and share premium	1,970
Indebtedness as at 28 February 2010:	
Core structural borrowings of shareholder-financed operations (see (a) below)	3,496
Operational borrowings attributable to shareholder financed operations (see (b) below)	3,168
Total indebtedness (see (c) below)	6,664

There has been no material change in the issued share capital and share premium amounts of Prudential plc since 31 December 2009

(a) Prudential's Core structural borrowings of shareholder-financed operations as at 28 February 2010

	£m
Parent company (Prudential)	
Subordinated debt:	
Innovative Tier 1:	
US$1,000m 6.5% Perpetual Subordinated Capital Securities	657
US$250m 6.75% Perpetual Subordinated Capital Securities (i)	164
US$300m 6.5% Perpetual Subordinated Capital Securities (i)(ii)	206
US$750m 11.75% Perpetual Subordinated Capital Securities	483
	1,510
Lower Tier 2:	
€500m 5.75% Subordinated Notes 2021 (iii)	447
€20m Medium-Term Subordinated Notes 2023 (iv)	18
£435m 6.125% Subordinated Notes 2031	428
£400m 11.375% Subordinated Notes 2039	380
	1,273
Senior debt:	
£300m 6.875% Bonds 2023	300
£250m 5.875% Bonds 2029	249
	549
Total Parent company (Prudential)	3,332
Jackson	
Lower Tier 2:	
US$250m 8.15% Surplus Notes 2027 (v)	164
Total	3,496

Notes

(i) The US$250 million 6.75% borrowings and the US$300 million 6.5% borrowings can be converted, in whole or in part, at Prudential'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.

(ii) Interest on the US$300 million 6.5% borrowings was swapped into floating rate payments but, in 2008, was swapped back into fixed rate payments of 6.5% until September 2010.

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

(iv) The €20 million borrowings were issued at 20-year Euro Constant Maturity Swap (capped at 6.5%). These have been swapped into borrowings of £14 million with interest payable at three month £Libor plus 1.2%.

(v) The Jackson borrowings are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of Jackson.

(b) Operational borrowings attributable to shareholder-financed operations as at 28 February 2010

	£m
Borrowings in respect of short-term fixed income securities programmes:	
Commercial paper	2,235
Medium-Term Notes 2010	8
Medium-Term Notes 2013	249
	2,492
Non-recourse borrowings of US operations (i):	
Investment subsidiaries of Jackson	22
Piedmont and CDO funds (ii)	155
	177
Other borrowings:	
Bank loans and overdrafts (iii)	133
Obligations under finance leases	3
Other borrowings (iv)	363
	499
Total	**3,168**

Notes

(i) In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of those subsidiaries and funds.

(ii) Piedmont is an investment trust investing in certain asset-backed and mortgage-backed securities in the US. These borrowings pertain to debt instruments issued to external parties.

(iii) Bank loans and overdrafts include a short-term loan of £130 million in respect of Asian operations.

(iv) Other borrowings represents amounts whose repayment to the lender is contingent on future surpluses emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on the contracts, there is no recourse to other assets of the Prudential Group and the liability is not payable to the degree of shortfall.

(v) In addition to the operational borrowings shown in the table above, Prudential has issued £200 million Floating Rate Notes 2010, which were wholly subscribed to by a Prudential Group subsidiary. These borrowings are eliminated on consolidation and so have been excluded from the table above.

At 28 February 2010, a total of £543 million of borrowings are secured which includes borrowings with no recourse to assets beyond the investment fund to which they relate or future surpluses on contracts specified in the arrangement. There were no significant guarantees of third party indebtedness at that date.

(c) Guarantees and contingent liabilities

The Directors have confirmed, that there has been no material adverse change in outstanding guarantees and contingent liabilities as discussed in note H14 to the financial information set out in Appendix I to this listing document since 31 December 2009.

Prudential has access to committed credit facilities and committed lending liquidity facilities as described in detail in the paragraph "Shareholder borrowings and financial flexibility" in this section of the listing document. There has been no change in the terms of these facilities as at 28 February 2010.

(d) Mortgages and charges

As at 28 February 2010, no member of the Prudential Group has any outstanding mortgages or charges on its property, plant and equipment that would have a material impact on the financial position of the Prudential Group.

(e) Obligations under sale and repurchase agreements

Obligations under sale and repurchase agreements attributable to shareholder-financed operations as at 28 February 2010 amounted to £676 million.

CAPITALISATION AND INDEBTEDNESS OF THE ENLARGED GROUP

The following table shows the capitalisation of Prudential plc as at 31 December 2009 and indebtedness of Prudential and AIA on an aggregated basis (excluding amounts in respect of Prudential and AIA life funds) as at 28 February 2010. With the exception of capitalisation balances which are extracted without material adjustment from the historical financial information set out in Appendix I and reported on by KPMG Audit Plc and KPMG, the following balances are extracted without material adjustment from unaudited information contained in underlying financial accounting systems and other management documents.

	£m
Capitalisation of Prudential as at 31 December 2009	
Share capital (2,532,227,471 ordinary shares of 5p each fully paid)	127
Share premium	1,843
Total share capital and share premium (excluding reserves)	1,970
Indebtedness as at 28 February 2010:	
1. Prudential's core structural borrowings of shareholder-financed operations (see (a) below)	3,496
2. Prudential's operational borrowings attributable to shareholder-financed operations (see (b) below)	3,168
3. AIA's borrowings attributable to shareholder-financed operations (see (c) below)	413
Total aggregated indebtedness (1) + (2) + (3) (see (d) below)	7,077

There has been no material change in the issued share capital of Prudential plc since 31 December 2009

There has been no material change in the aggregated indebtedness of the Prudential Group and the AIA Group attributable to Shareholder-financed operations at the Latest Practicable Date as compared to the £7,077 million recorded at 28 February 2010 as shown in the indebtedness statement above.

(a) Prudential's core structural borrowings of shareholder-financed operations as at 28 February 2010

	£m
Parent company	
Subordinated debt:	
Innovative Tier 1:	
US$1,000m 6.5% Perpetual Subordinated Capital Securities	657
US$250m 6.75% Perpetual Subordinated Capital Securities (note i)	164
US$300m 6.5% Perpetual Subordinated Capital Securities (note i and ii)	206
US$750m 11.75% Perpetual Subordinated Capital Securities	483
	1,510
Lower Tier 2:	
€500m 5.75% Subordinated Notes 2021 (note iii)	447
€20m Medium-Term Subordinated Notes 2023 (note iv)	18
£435m 6.125% Subordinated Notes 2031	428
£400m 11.375% Subordinated Notes 2039	380
	1,273
Senior debt:	
£300m 6.875% Bonds 2023	300
£250m 5.875% Bonds 2029	249
	549
Total parent company	3,332
Jackson	
Lower Tier 2:	
US$250m 8.15% Surplus Notes 2027 (note v)	164
Total	3,496

Notes

i The US$250 million 6.75% borrowings and the US$300 million 6.5% borrowings can be converted, in whole or in part, at Prudential'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.

ii Interest on the $300 million 6.5% borrowings was swapped into floating rate payments but, in 2008, was swapped back into fixed rate payments of 6.5% until September 2010.

iii The €500 million 5.75% borrowings have been swapped into borrowings of £333 million with interest payable at six month £Libor plus 0.962%.

iv The €20 million borrowings were issued at 20-year Euro Constant Maturity Swap (capped at 6.5%). These have been swapped into borrowings of £14 million with interest payable at three month £Libor plus 1.2%.

v The Jackson borrowings are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of Jackson.

(b) Prudential's operational borrowings attributable to shareholder-financed operations as at 28 February 2010

	£m
Borrowings in respect of short-term fixed income securities programmes:	
Commercial paper	2,235
Medium-Term Notes 2010	8
Medium-Term Notes 2013	249
	2,492
Non-recourse borrowings of US operations (note i):	
Investment subsidiaries of Jackson	22
Piedmont and CDO funds (note ii)	155
	177

	£m
Other borrowings:	
Bank loans and overdrafts (note iii)	133
Obligations under finance leases	3
Other borrowings (note iv)	363
	499
Total	**3,168**

Notes

i In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of those subsidiaries and funds.

ii Piedmont is an investment trust investing in certain asset-backed and mortgage-backed securities in the US. These borrowings pertain to debt instruments issued to external parties.

iii Bank loans and overdrafts include a short-term loan of £130 million in respect of Asian operations.

iv Other borrowings represents amounts whose repayment to the lender is contingent on future surpluses emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on the contracts, there is no recourse to other assets of the Prudential Group and the liability is not payable to the degree of shortfall.

v In addition to the operational borrowings shown in the table above, Prudential has issued £200 million Floating Rate Notes 2010, which were wholly subscribed to by a Prudential Group subsidiary. These borrowings are eliminated on consolidation and so have been excluded from the table above.

(c) AIA's borrowings attributable to shareholder-financed operations as at 28 February 2010

	\$m (note i)	£m (note i)
Bank loans and overdrafts	574	377
Loans from other AIG companies	50	33
Other borrowings	4	3
Total	**628**	**413**

Notes

i AIA borrowings shown above in US$ have been translated to pounds sterling at a rate of 1.52.

(d) Guaranteed and secured borrowings

Prudential

At 28 February 2010, a total of £543 million of borrowings are secured which includes borrowings with no recourse to assets beyond the investment fund to which they relate or future surpluses on contracts specified in the arrangement. There were no significant guarantees of third party indebtedness at that date.

AIA

Properties with a book value of US$758 million (£498 million) and cash and cash equivalents of US$43 million (£28 million) at 28 February 2010 are pledged as security with respect to amounts disclosed as bank loans of US$496 million and other loans of US$4 million.

At 28 February 2010, AIA has issued capital guarantees and guarantees of indebtedness of approximately US$1 million. No borrowings are guaranteed by third parties.

(e) Guarantees, contingent liabilities and contingent indebtedness

Prudential

Prudential's outstanding guarantees and contingent liabilities are disclosed in note H14 to the financial information set out in Appendix I to this listing document. There has been no material adverse change in Prudential's outstanding guarantees and contingent liabilities since 31 December 2009.

Prudential has access to committed credit facilities and committed lending liquidity facilities as described in detail in the paragraph "Shareholder borrowings and financial flexibility". There has been no change in the terms of these facilities as at 28 February 2010.

AIA

AIA Group's contingent liabilities at 30 November 2009 are described in note 42 of Appendix II 'Accountants' Report of the AIA Group'. These contingent liabilities at 28 February 2010 are as stated in that note with the exception that the value of mortgage loans to which AIA is exposed under the Australian residential mortgage credit agreement has fallen to US$3,320 million (£2,184 million) and the associated liabilities and related reinsurance assets had fallen to US$20 million (£13 million); and the accumulation value for minimum guaranteed rates of return has risen to US$1,279 million (£841 million).

There has been no material adverse change in AIA's contingent liabilities since 28 February 2010.

(f) Mortgages and charges

Prudential

As at 28 February 2010, no member of the Prudential Group has any outstanding mortgages or charges on its property, plant and equipment that would have a material impact on the financial position of the Prudential Group.

AIA

Save as disclosed elsewhere in this listing document as at 28 February 2010 AIA did not have any outstanding mortgages, charges or other similar indebtedness.

(g) Obligations under sale and repurchase agreements

Prudential

Obligations sale and repurchase agreements attributable to shareholder-financed operations as at 28 February 2010 amounted to £676 million.

AIA

Obligations under sale and repurchase agreements as at 28 February 2010 amounted to US$554 million (£364 million).

INVESTMENTS

General

The overall financial strength of the Prudential Group and the results, both current and future, of the insurance business are in part dependent upon the quality and performance of the various investment portfolios in the UK, the US and Asia.

The Prudential Group's total investments

The following table shows the Prudential Group's insurance and non-insurance investments as at 31 December 2009. In addition, as at 31 December 2009 the Prudential Group had £80.9 billion of external mutual funds under management. Assets held to cover linked liabilities relate to unit-linked and variable annuity products.

	As at 31 December 2009								
	UK Insurance	US Insurance	Asia Insurance	Total Insurance	Asset Mgmt	Other	Total	Less: assets to cover linked liabilities and external unit holders(a)	Group excluding assets to cover linked liabilities and external unit holders
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Investment properties	10,861	33	11	10,905	—	—	10,905	(884)	10,021
Investments accounted for using the equity method	4	—	2	6	—	—	6	—	6
Financial investments:									
Loans	1,815	4,319	1,207	7,341	1,413	—	8,754	(27)	8,727
Equity securities	37,051	20,984	11,182	69,217	137	—	69,354	(35,517)	33,837
Debt securities	67,772	22,831	9,984	100,587	1,164	—	101,751	(13,364)	88,387
Other investments	3,630	955	258	4,843	113	176	5,132	(116)	5,016
Deposits	11,557	454	746	12,757	63	—	12,820	(929)	11,891
Total financial investments	121,825	49,543	23,377	194,745	2,890	176	197,811	(49,953)	147,858
Total investments	**132,690**	**49,576**	**23,390**	**205,656**	**2,890**	**176**	**208,722**	**(50,837)**	**157,885**

(a) Assets to cover external unit holders relate to assets attributable to unit holders of consolidated unit trusts and similar funds for which an equivalent liability is held in the balance sheet. The Prudential Group's interest in these unit trusts and similar funds are included in equity securities within the column "Group excluding assets to cover linked liabilities and external unit holders". This differs from the Prudential Group accounts where the funds are consolidated in full with the underlying investments held by the funds being shown in the Prudential Group balance sheet.

The Prudential Group's Investment Yields

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

	31 December					
	Yield	2007 Amount	Yield	2008 Amount	Yield	2009 Amount
		£m		£m		£m
Investment properties						
Net investment income	4.9%	611	5.6%	676	6.6%	700
Net realised investment (losses) gains	1.2%	147	(0.4)%	(51)	(0.6)%	(63)
Net unrealised investment (losses) gains	(5.8)%	(723)	(28.2)%	(3,372)	(0.7)%	(76)
Ending assets		12,658		11,282		10,021
Investments accounted for using the equity method						
Net investment income	0%	0	0%	0	0%	0
Net realised investment gains	0%	0	0%	0	0%	0
Net unrealised investment gains	0%	0	0%	0	0%	0
Ending assets		12		10		6
Loans						
Net investment income	6.4%	425	6.0%	549	4.8%	461
Net realised investment (losses) gains	0.7%	47	2.3%	210	(1.1)%	(105)
Net unrealised investment gains	0%	0	0%	0	0%	0
Ending assets		7,887		10,378		8,727
Equity securities						
Net investment income	4.5%	2,388	3.8%	1,731	3.9%	1,373
Net realised investment gains	8.7%	4,633	4.5%	2,014	5.5%	1,905
Net unrealised investment gains (losses)	(3.0)%	(1,589)	(39.7)%	(17,897)	14.8%	5,165
Ending assets		54,452		35,821		33,837
Debt securities						
Net investment income	5.9%	4,335	1.3%	1,071	6.9%	5,939
Net realised investment losses	(0)%	(18)	(0.7)%	(573)	(0.7)%	(572)
Net unrealised investment gains (losses)	(1.5)%	(1,129)	(2.9)%	(2,348)	3.9%	3,380
Ending assets		75,114		84,929		88,387
Other investments						
Net investment income	2.5%	119	3.0%	155	0.6%	32
Net realised investment (losses) gains	6.4%	306	(33.6)%	(1,745)	(9.7)%	(541)
Net unrealised investment (losses) gains	14.4%	687	(34.8)%	(1,805)	(0.4)%	(23)
Ending assets		4,275		6,097		5,016
Deposits						
Net investment income	5.5%	365	8.4%	534	0.7%	64
Net realised investment gains	0%	0	0%	0	0%	0
Net unrealised investment gains	0%	0	0%	0	0%	0
Ending assets		6,353		6,391		11,891
Total						
Net investment income	5.2%	8,243	3.0%	4,716	5.5%	8,569
Net realised investment gains (losses)	3.3%	5,115	(0.1)%	(145)	0.4%	624
Net unrealised investment gains (losses)	(1.8)%	(2,754)	(16.1)%	(25,422)	5.4%	8,446
Ending assets		160,751		154,908		157,885

The Prudential Group's insurance investment strategy and objectives

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

Internal funds under management

The Prudential Group manages 86% of its group funds principally through its fund management businesses, M&G in the United Kingdom, PPM America in the United States and Prudential Asset Management in Asia. The remaining 14% of the Prudential 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 UK, the Prudential Group 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.

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

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

Investments

The following table summarises the total investments of the UK insurance business as at 31 December 2009.

	As at 31 December 2009					
	SAIF	PAC	Other	Total	Less: assets to cover linked liabilities and external unit holders	Total excluding assets to cover linked liabilities and external unit holders
	£m	£m	£m	£m	£m	£m
Investment properties	710	8,049	2,102	10,861	(884)	9,977
Investment accounted for using the equity method	—	—	4	4	—	4
Financial investments:						
Loans	138	968	709	1,815	—	1,815
Equity securities	2,994	23,277	10,780	37,051	(11,248)	25,803
Debt securities	4,797	37,542	25,433	67,772	(6,861)	60,911
Other investments	340	3,035	255	3,630	(72)	3,558
Deposits	869	8,755	1,933	11,557	(550)	11,007
Total financial investments	9,138	73,577	39,110	121,825	(18,731)	103,094
Total investments	9,848	81,626	41,216	132,690	(19,615)	113,075

Please refer to the notes in the Prudential Group total investments table above.

The following table shows additional analysis of the investments relating to the Prudential Group's UK insurance business, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, as at 31 December 2009. The "Other" column includes investments relating to solvency capital of unit-linked funds and investments relating to non-life long-term business.

	As at 31 December 2009					
	With-Profits	PRIL	SAIF	Other	Total	Total %
	£m	£m	£m	£m	£m	
Investment properties	7,975	968	710	324	9,977	8.8
Investments accounted for using the equity method	—	—	—	4	4	—
Financial investments:						
Loans:						
Mortgage loans	145	37	—	666	848	
Policy loans	15	—	9	—	24	
Other loans	808	6	129	—	943	
Total loans and receivables	968	43	138	666	1,815	1.6
Equity securities:						
UK:						
Listed	14,121	3	1,805	77	16,006	
Unlisted	323	—	45	—	368	
Total UK	14,444	3	1,850	77	16,374	14.5
International:						
United States	1,482	—	195	—	1,677	
Europe (excluding the UK)	2,807	—	392	—	3,199	
Japan	680	—	99	—	779	
Pacific (excluding Japan)	1,741	—	253	5	1,999	
Other	1,569	—	206	—	1,775	
Total international	8,279	—	1,145	5	9,429	8.3
Total equity securities	22,723	3	2,995	82	25,803	22.8
Debt securities:						
UK government	2,364	1,424	205	415	4,408	
US government	529	—	1	4	534	
Other	34,174	15,210	4,591	1,994	55,969	
Total debt securities	37,067	16,634	4,797	2,413	60,911	53.9
Other investments:						
Participation in investment pools	1,590	—	223	0	1,813	
Other financial investments	850	—	—	—	850	
Derivative assets	590	174	117	14	895	
Total other investments	3,030	174	340	14	3,558	3.2
Deposits	8,755	586	868	798	11,007	9.7
Total investments	80,518	18,408	9,848	4,301	113,075	100.0

Equity Securities

The Prudential Group'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

£25,803 million invested in equities as at 31 December 2009. Most of these equities support PAC'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 information set out in Appendix I to this listing document.

	As at 31 December 2009		As at 31 December 2008	
	Market Value	%	Market Value	%
	£m		£m	
United Kingdom	16,374	63.5	18,681	63.5
United States	1,677	6.5	2,066	7.0
Europe (excluding United Kingdom)	3,199	12.4	3,822	13.0
Japan	779	3.0	1,278	4.3
Pacific (excluding Japan)	1,999	7.7	1,968	6.7
Other	1,775	6.9	1,620	5.5
Total	25,803	100.0	29,435	100.0

The UK equity holdings are well diversified and broadly mirror the FTSE All-Share share index. The Prudential Group held equities in 463 UK companies as at 31 December 2009. The ten largest holdings in UK equities as at 31 December 2009 amounted to £6,731 million, accounting for 41.1% of the total UK equity holdings of £16,374 million supporting the UK insurance operations. The following table shows the market value of the ten largest holdings in UK equities as at 31 December 2009.

	As at 31 December 2009	
	Market Value	%
	£m	
BP	1,109	6.8
HSBC Holdings	1,007	6.1
Vodafone Group	807	4.9
GlaxoSmithKline	749	4.6
Royal Dutch Shell	681	4.2
British American Tobacco	544	3.3
Rio Tinto	705	4.3
Tesco	376	2.3
AstraZeneca	396	2.4
BHP Billiton	357	2.2
Total	6,731	41.1

A wide variety of industry sectors are represented in the Prudential Group's equity portfolio. As at 31 December 2009, within the £16,374 million in UK equities supporting the UK insurance operations, the Prudential Group had £10,341 million, or 63.2% of the holdings, invested in ten industries. The following table shows the primary industry concentrations based on market value of the portfolio of UK equities relating to the UK insurance business as at 31 December 2009.

	As at 31 December 2009	
	Market Value	%
	£m	
Oil and Gas Producers	2,324	14.2
Mining	1,546	9.4
Banks	1,527	9.3
Pharmaceuticals and Biotech	1,225	7.5
Tobacco	853	5.2
Mobile Telecommunications	808	4.9
Travel & Leisure	628	3.8
Aerospace and defence	507	3.2
Gas, Water & Multi Utilities	482	2.9
Support Services	441	2.8
Total	10,341	63.2

Debt Securities

As at 31 December 2009, 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% were issued by corporations and overseas governments other than the US, 7.2% were issued or guaranteed by the UK government and 0.9% 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 as at 31 December 2009, in accordance with the policies described in note A4 to the consolidated financial statements.

The following table contains balances derived from unaudited information contained in underlying financial accounting systems and other management documents.

	As at 31 December 2009	
	Market Value	%
	£m	
Securities maturing:		
Within one year	1,263	2.1
Over one year and up to five years	8,986	14.8
Over five years and up to ten years	14,253	23.4
Over ten years and up to fifteen years	8,926	14.7
Over fifteen years	27,483	45.0
Total debt securities	60,911	100.0

The following table shows debt securities by rating:

	As at 31 December 2009	
	Market Value	%
	£m	
S&P — AAA	13,628	22.4
S&P — AA+ to AA-	5,651	9.3
S&P — A+ to A-	17,785	29.2
S&P — BBB+ to BBB-	11,189	18.4
S&P — Other	2,165	3.5
	50,418	82.8
Moody's — Aaa	459	0.8
Moody's — Aa1 to Aa3	275	0.4
Moody's — A1 to A3	800	1.3
Moody's — Baa1 to Baa3	815	1.3
Moody's — Other	339	0.6
	2,688	4.4
Fitch	1,022	1.7
Other	6,783	11.1
Total debt securities	60,911	100.0

Real Estate

As at 31 December 2009, the Prudential Group'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 £9,977 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 information set out in Appendix I to this listing document.

	As at 31 December 2009	
	Market Value	%
	£m	
Office buildings	4,427	44.4
Shopping centres/commercial	3,540	35.5
Retail warehouses/industrial	1,472	14.8
Development	20	0.2
Other	518	5.1
Total	9,977	100.0

Approximately 41.4% of the UK held real estate investment is located in London and Southeast England (Buckinghamshire, Berkshire, East and West Sussex, Hampshire, Isle of Wight, Kent, Oxfordshire and Surrey) with 39.2% located throughout the rest of the UK and the remaining 19.4% located overseas.

Investments relating to US insurance business

Strategy

The investment strategy of the US insurance operations, for business other than the variable annuity business, is to maintain a diversified and largely investment grade debt securities portfolio that maintains a desired investment spread between the yield on the portfolio assets and the rate credited on policyholder liabilities. Interest rate scenario testing is continually used to monitor the effect of changes in interest yields on cash flows, the present value of future profits and interest rate spreads.

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

Investments

The following table shows total investments relating to the US insurance operations as at 31 December 2009.

	As at 31 December 2009		
	Variable annuity separate account assets	Fixed annuity, GIC and other business	Total
	£m	£m	£m
Investment properties	—	33	33
Financial investments:			
Loans	—	4,319	4,319
Equity securities	20,639	345	20,984
Debt securities	—	22,831	22,831
Other investments	—	955	955
Deposits	—	454	454
Total financial investments	20,639	28,904	49,543
Total investments	20,639	28,937	49,576

The following table further analyses the insurance investments of the US insurance operations, excluding the separate account investments supporting the variable annuity business, as at 31 December 2009.

	As at December 31 2009	
	£m	%
Non-institutional		
Investment properties	33	0.1
Loans	3,916	13.5
Equity securities	270	0.9
Corporate securities	14,881	51.5
Residential mortgage-backed securities	3,072	10.6
Commercial mortgage-backed securities	1,805	6.2
Other debt securities	862	3.0
Total debt securities	20,620	71.3
Other investments	955	3.3
Deposits	454	1.6
Total non-institutional	26,248	90.7

	As at December 31 2009 £m	%
Institutional		
Investment properties	—	—
Loans	403	1.4
Equity securities	75	0.3
Corporate securities	1,574	5.5
Residential mortgage-backed securities	244	0.8
Commercial mortgage-backed securities	299	1.0
Other debt securities	94	0.3
Total debt securities	2,211	7.6
Other investments	—	—
Deposits	—	—
Total institutional	2,689	9.3
Total		
Investment properties	33	0.1
Loans	4,319	14.9
Equity securities	345	1.2
Corporate securities	16,455	56.9
Residential mortgage-backed securities	3,316	11.5
Commercial mortgage-backed securities	2,104	7.2
Other debt securities	956	3.3
Total debt securities	22,831	78.9
Other investments	955	3.3
Deposits	454	1.6
Total	28,937	100.0

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

As at 31 December 2009, the US insurance operations had £16,455 million of corporate securities representing 56.9% of US insurance operations total investments (excluding separate account investments). Of the £16,455 million, £13,338 million consisted of debt securities that are publicly traded or trade under Rule 144A under the US Securities Act ("Rule 144A") and £3,117 million consisted of investments in non-Rule 144A privately placed fixed income securities.

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

The following table shows the credit quality of the portfolio of publicly traded and Rule 144A fixed income securities as at 31 December 2009.

	As at 31 December 2009	
	Book Value £m	%
NAIC class designation		
1.	5,067	38.0
2.	7,508	56.3
3.	598	4.5
4.	122	0.9
5.	40	0.3
6.	3	—
Total	13,338	100.0

The following table shows the credit quality of the non-Rule 144A private placement portfolio as at 31 December 2009.

	As at 31 December 2009	
	Book Value £m	%
NAIC class designation		
1.	1,084	34.8
2.	1,792	57.5
3.	162	5.2
4.	54	1.7
5.	20	0.6
6.	5	0.2
Total	3,117	100.0

Residential Mortgage-Backed Securities

As at 31 December 2009, the US insurance operations had £3,316 million of residential mortgage-backed securities, representing 11.5% of US insurance operations total investments (excluding separate account investments). As at 31 December 2009, 73.9% of this total were rated AAA (Standard & Poor's ratings have been used where available and for securities where Standard and 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

As at 31 December 2009, the US insurance operations had £2,104 million of commercial mortgage-backed securities, representing 7.2% of US insurance operations total investments (excluding separate account investments). 46.0% of this total were rated AAA (Standard and Poor's ratings have been used where available, and for securities where Standard and Poor's 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

As at 31 December 2009, the US insurance operations had £956 million of other debt securities, representing 3.3% of US insurance operations total investments excluding separate account investments.

Loans

As at 31 December 2009, loans totalled £4,319 million, representing 14.9% of US insurance operations total investments (excluding separate account investments). Of the total, £3,774 million related to commercial mortgage loans, £530 million to policy loans and £15 million to other loans.

Commercial mortgage loans

As at 31 December 2009, commercial mortgage loans represented 13.0% of US insurance operations total investments (excluding separate account investments). This total included 595 first mortgage loans with an average loan balance of approximately £6.3 million, collateralised 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, emphasising five main institutional property types: multi-family residential, retail, suburban office, industrial and hotel.

As at 31 December 2009, approximately 31.8% of the portfolio was industrial, 17.8% multi-family residential, 20.5% suburban office, 19.5% retail, 9.5% hotel and 0.9% other. Approximately 14% of the portfolio is collateralised by properties in California, 10.3% by properties in Texas and 7.9% by properties in Illinois. No other state represents more than 6.0%.

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 1.8% of US insurance operations total investments (excluding separate account investments) as at 31 December 2009. 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, totalled £345 million as at 31 December 2009.

Other

Other financial investments of £955 million, representing 3.3% of US insurance operations total investments (excluding separate account investments) as at 31 December 2009, were made up of £436 million of limited partnership interests and derivative assets of £519 million.

The largest investment in the limited partnerships category is a £68 million interest in the PPM America Private Equity Fund. The remainder of this category consists of diversified investments in 159 other partnerships managed by independent money managers that generally invest in various equity and fixed income loans and securities.

Investments relating to Asian insurance business

The Prudential Group'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 the Prudential Group's Singapore, Hong Kong, Malaysia, and Japan operations.

The following table shows Prudential Corporation Asia's investments as at 31 December 2009. In this table, investments are valued in accordance with the policies described in note A4 to the consolidated financial information set out in Appendix I to this listing document.

	At December 31, 2009						
	With-profits business	Unit-linked assets	Other	Total	Less: assets to cover linked liabilities and external unit holders	Total excluding assets to cover linked liabilities and external unit holders	%
	£m	£m	£m	£m	£m	£m	
Investment properties			11	11	—	11	0.1
Investments accounted for using the equity method	—	—	2	2	—	2	—
Financial investments:							
Loans	781	27	399	1,207	(27)	1,180	9.2
Equity securities	3,691	7,224	267	11,182	(3,630)	7,552	59.0
Debt securities	4,988	2,462	2,534	9,984	(6,503)	3,481	27.2
Other investments	73	44	141	258	(44)	214	1.7
Deposits	14	196	536	746	(379)	367	2.8
Total financial investments	9,547	9,953	3,877	23,377	(10,583)	12,794	99.9
Total investments	9,547	9,953	3,890	23,390	(10,583)	12,807	100

Please refer to notes in the Total Prudential Group Investments table.

The Prudential Group 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 the Prudential Group holds US fixed interest securities to back these liabilities.

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, as at 31 December 2009.

	At December 31, 2009	
	Market Value	%
	£m	
S&P — AAA	904	26.0
S&P — AA+ to AA-	632	18.2
S&P — A+ to A-	303	8.7
S&P — BBB+ to BBB-	115	3.3
S&P — Other	596	17.1
	2,550	73.3
Moody's — Aaa	51	1.5
Moody's — Aa1 to Aa3	303	8.7
Moody's — A1 to A3	16	0.5
Moody's — Baa1 to Baa3	8	0.2
Moody's — Other	15	0.4
	393	11.3
Fitch	—	—
Other	538	15.4
Total debt securities	3,481	100.0

Equity securities

The following table shows a geographic analysis of equity security investments of Prudential Corporation Asia's long-term insurance fund, excluding assets to cover linked liabilities and those attributable to external unit holders of consolidated unit trusts and similar funds, as at 31 December 2009.

	At December 31, 2009	
	Market Value	%
	£m	
Hong Kong	4,123	54.6
Singapore	3,224	42.7
Taiwan	47	0.6
Vietnam	26	0.3
Malaysia	126	1.7
Other	6	0.1
Total	7,552	100.0

Quantitative and Qualitative Disclosures about Market Risk

Overview

As a provider of financial services, including insurance, Prudential's business is the managed acceptance of risk. The control procedures and systems established within the Prudential 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 Prudential Group's internal control processes are detailed in the Group Governance Framework. This is supported by the Prudential Group's risk framework as discussed in detail in the paragraphs headed "Risk management" in this section of the listing document, which provides an overview of the group-wide philosophy and approach to risk management. Where appropriate, more detailed policies and procedures have been developed at the group and/or business unit levels. These include group-wide mandatory policies on certain operational risks, including: health, safety, fraud, money laundering, bribery, business continuity, information security and operational security. Additional guidelines are provided for some aspects of actuarial and finance activity.

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

Major risks

A summary of the principal risks relating to the Prudential Group's and Enlarged Group's business is found in the section "Risk Factors" of this listing document.

Market and financial risks

A detailed analysis of market and financial risks is provided in notes C(d), D1(e), D2(e), D3(e) and D4(e) to the consolidated financial information set out in Appendix I to this listing document.

Currency of Investments

The Prudential Group'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 the Prudential Group 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 2009, the Group held 19% (2008: 20%) of its financial assets in currencies, mainly US dollar and Euro, other than the functional currency of the relevant business unit.

The financial assets, of which 74% (2008: 77%) are held by the PAC with-profits fund, allow the PAC with-profits fund to obtain exposure to foreign equity markets.

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

Currency of Core Borrowings

The Prudential Group is subject to certain interest rate risk and foreign exchange risk on its core borrowings. As at 31 December 2009, there was £1,357 million debt, £1,576 million, or approximately US$2,550 million, of US dollar debt and £461 million, or approximately €520 million of Euro debt. £2,933 million of the core debt was at fixed rates of interest and £461 million has been swapped into floating rates of interest.

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

Sensitivity Analysis

The Prudential Group 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 Prudential Group's investments in debt securities, equities and real estate, to insurance contracts and to foreign exchange fluctuations, is provided in notes D2(i), D3(i), D4(i) and E4 to the consolidated financial information set out in Appendix I to this listing document.

Additional sensitivity analysis of the Prudential 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 as at 31 December 2009, 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 2009		
	Carrying Value	**Fair Value**	**Estimated Increase in Fair Value**
	£m	**£m**	**£m**
Long-term borrowings			
Central companies			
Bonds, €500 million aggregate principal amount, 5.75% due 2021[(1)]	**443**	**435**	**8**
Bonds, £300 million aggregate principal amount, 6.875% due 2023	**300**	**308**	**27**
Bonds, £250 million aggregate principal amount, 5.875% due 2029	**249**	**235**	**25**
Bonds, £435 million aggregate principal amount, 6.125%, due 2031	**428**	**395**	**41**
Bonds, £400 million aggregate principal amount, 11.375%, due 2039	**380**	**524**	**44**
Capital securities, US$1,000 million aggregate principal amount, 6.5% perpetual	**619**	**502**	**49**
Capital securities, US$250 million aggregate principal amount, 6.75% perpetual	**155**	**149**	**1**
Capital securities, US$300 million aggregate principal amount, 6.5% perpetual	**192**	**167**	**1**
Capital securities, US$750 million aggregate principal amount, 11.75% perpetual	**456**	**533**	**24**
Medium Term Subordinated Notes, €20 million, 2023	**18**	**18**	**0**
Total central companies	**3,240**	**3,266**	**220**
Insurance operations			

	31 December 2009		
	Carrying Value	Fair Value	Estimated Increase in Fair Value
	£m	£m	£m
Guaranteed bonds, £100 million, principal amount, 8.5% undated subordinated	100	97	11
Surplus notes, US$250 million principal amount, 8.15% due 2027	154	158	15
Total long-term business	254	255	26
Total	3,494	3,521	246

There is no impact on profit as at 31 December 2009 as a result of these reductions in interest rates because the liabilities are recognised in the financial information at carrying value, which is equal to their amortised cost.

Derivative Contracts

As at 31 December 2009, the net market value exposure of derivatives was a gain of £279 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 2009 the net market value exposure of derivatives of the UK and US insurance operations was a gain of £341 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% 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.

	As at 31 December 2009		
	10% Equity & Real Estate Increase Increase/(decrease) in Fair Value	Fair Value	10% Equity & Real Estate Decrease Increase/(decrease) in Fair Value
	£m	£m	£m
United Kingdom — insurance operations			
With-profits fund (including PAL)	(44)	157	45
Shareholder-backed annuities	—	46	—
SAIF	11	80	(11)
United States — insurance operations	(263)	58	332
Total	(296)	341	366

	As at 31 December 2009		
	100 bp Interest Rate Increase Increase/(decrease) in Fair Value	Fair Value	100 bp Interest Rate Decrease Increase/(decrease) in Fair Value
	£m	£m	£m
United Kingdom — insurance operations			
With-profits fund (including PAL)	(245)	157	284
Shareholder-backed annuities	(91)	46	115
SAIF	(21)	80	43
United States — insurance operations	159	58	(148)
Total	(198)	341	294

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, the Prudential Group would take certain actions including selling investments, changing investment portfolio allocation, and adjusting bonuses credited to policyholders. In addition, these analyses 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 the Prudential Group'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.

TREND INFORMATION — CURRENT TRADING AND PROSPECTS

The Prudential Group's outlook for its Asian business is positive. Although some challenges remain in the Asian economies, there are encouraging signs that the recovery is well underway. The Prudential Group has market-leading positions in several countries in Asia and this, combined with the GDP growth rates, high savings rates and low penetration of life insurance products make Asia the primary focus for growth and investment. The Prudential Group remains cautious with respect to the major Western economies, because of a number of imbalances threatening their return to higher growth, including high levels of consumer and government debt. In the US, the Prudential Group, through Jackson, continues to write high-margin, capital-efficient variable annuities and in the UK the Prudential Group continues to focus on its strong positioning, brand and products in order to continue to generate cash and capital for the Prudential Group.

The Prudential Group continues to deliver growth in its target markets. The Prudential Group's new business APE sales in the first quarter of 2010 of £807 million(2) have increased by 26% compared to the first quarter of 2009. This growth is driven by sales in our Asian and US businesses where the Prudential Group has seen growth of 30% and 39% respectively. The net investment flows of our investment management businesses in the first quarter of 2010 were £1.2 billion (First Quarter 2009: £2.7 billion).

As set out in this document, the total Rights Issue and Transaction Related Expenses (excluding any amounts associated with the hedging of the consideration amount) are estimated at

(2) Extracted from Prudential Plc First Quarter 2010 interim Management Statement dated 17 May 2010 and 2009 comparative APE sales exclude the Japanese insurance operations, which were closed to new business from 15 February 2010.

approximately £850 million. In relation to the Acquisition, the new IFRS standard on business combinations (IFRS 3 revised) will require expenses relating solely to the Acquisition, as opposed to capital raising, to be expensed. All incremental costs which arise as a result of the issue of the Rights Issue shares, such as underwriting fees, will be offset against share premium. Costs associated with debt financing will be offset against the debt proceeds raised and amortised to the profit and loss over the life of the debt instrument.

In addition to the Acquisition costs, integration costs are expected to be of the order of US$380 million before tax (excluding any amounts associated with revenue synergies), of which US$100 million is expected to be incurred in 2010 (approximately £65 million). As set out in "Information About the Transactions" in this listing document, it is anticipated that the combination will generate annualised run-rate cost synergies of approximately US$370 million before tax during 2013.

PROPERTY INTERESTS

The Company has applied for a waiver from strict compliance with the property valuation report requirements under Rules 5.01, 5.06 and 5.08 and paragraph 3(a) of the Practice Note 16 of the Listing Rules.

RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

The Directors have confirmed they are not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

DISCLOSURE OF FINANCIAL INFORMATION PURSUANT TO THE LISTING RULES

Note 2.1 to Paragraph 2 of Appendix 16 to the Listing Rules requires the annual accounts of an issuer to conform with either Hong Kong Financial Reporting Standards ("**HKFRS**") or IFRS. Prudential's consolidated annual accounts conform with IFRS as adopted by the European Union ("**EU IFRS**") and Prudential's solus accounts will be prepared in accordance with UK Generally Accepted Accounting Principles ("**UK GAAP**"). The IFRS accounting policies currently applied by Prudential comply both with IFRS as adopted by the EU and IASB effected IFRS. Prudential will include in its annual reports a reconciliation from UKGAAP to IFRS, with narrative descriptions of the major differences in a form which would facilitate investors' understanding of its financial performance and Prudential must revert to HKFRS or IFRS as required under the Listing Rules if it is no longer listed on the London Stock Exchange.

MAJOR CUSTOMERS

None of the Prudential Group's customers, nor its top five major customers combined, accounted for 30% or more of its gross written premiums, policy fees and deposits from its insurance businesses in 2007, 2008, 2009.

CUSTOMERS AND SUPPLIERS

The five largest customers of the Enlarged Group constituted in aggregate less than 30% of its total sales for each of 2007, 2008 and 2009.

The five largest suppliers of the Enlarged Group constituted in aggregate less than 30% of its total purchases for each of 2007, 2008 and 2009.

WORKING CAPITAL

Prudential is of the opinion that, after taking into account the bank and other facilities available to the Prudential Group, as well as the net proceeds of the Rights Issue, the working capital available to the Prudential Group is sufficient for its present requirements, that is, for at least the next 12 months from the date of this document.

For the avoidance of doubt, in the event that the Acquisition does not complete, Prudential is of the opinion that, after taking into account the bank and other facilities available to the Prudential Group, and excluding the net proceeds of the Rights Issue, the working capital available to the Prudential Group is sufficient for its present requirements, that is, for at least the next 12 months from the date of this document.

Prudential is of the opinion that, after taking into account the bank and other facilities available to the Enlarged Group, as well as the net proceeds of the Rights Issue, the working capital available to the Enlarged Group is sufficient for its present requirements, that is, for at least the next 12 months from the date of this document.

BUSINESS INTERRUPTIONS

There was no interruption in the Prudential Group's business that may have or have had a significant effect on the Enlarged Group financial position in the 12 months prior to the date of this listing document.