PRUDENTIAL

GROUP INVESTMENTS

IFRS DISCLOSURES

FROM THE 2008 ANNUAL REPORT

GROUP INVESTMENTS

IFRS DISCLOSURES FROM THE 2008 ANNUAL REPORT

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Section 1 - Balance sheets
1.1 Group balance sheet - analysis by business uni

For an appreciation of the shareholder exposure to investment value movements it is necessary to distinguish the effects of fund structure and type of business for the Group's operations. Analysis of the balance sheets which shows these features is shown in sections 1.2 to 1.6.

	Insurance operations								
	UK (section 1.2) £m	US (section 1.3) £m	Asia (section 1.4) £m	Total insurance operations £m	Asset management operations (section 1.5) £m	Unallocated to a segment (central operations) £m	Intra-group eliminations £m	31 Dec 2008 Group total £m	31 Dec 2007 Group total £m
Assets									
Intangible assets attributable to shareholders (note 1.1a):									
Goodwill	-	-	111	111	1,230			**1,341**	1,341
Deferred acquisition costs and other intangible assets	134	3,962	1,247	5,343	6			**5,349**	2,836
Total	134	3,962	1,358	5,454	1,236	-	-	**6,690**	4,177
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	174	-	-	174	-			**174**	192
Deferred acquisition costs and other intangible assets	13	-	113	126	-	-		**126**	19
Total	187	-	113	300	-	-	-	**300**	211
Total	321	3,962	1,471	5,754	1,236	-	-	**6,990**	4,388
Deferred tax assets (note 1.1b)	513	1,969	101	2,583	160	143		**2,886**	951
Other non-investment and non-cash assets	4,962	1,819	1,416	8,197	135	3,553	(5,608)	**6,277**	5,012
Investment of long-term business and other operations:									
Investment properties	11,959	13	20	11,992	-	-		**11,992**	13,688
Investments accounted for using the equity method	-	-	-	-	-	10		**10**	12
Loans and receivables	1,902	5,121	1,705	8,728	1,763	-		**10,491**	7,924
Equity securities and portfolio holdings in unit trusts	38,880	15,142	8,077	62,099	23	-		**62,122**	86,157
Debt securities (see section 4 for analysis of credit quality)	58,871	24,249	11,113	94,233	991	-		**95,224**	83,984
Other investments	4,160	1,256	144	5,560	462	279		**6,301**	4,396
Deposits	6,090	390	750	7,230	64	-		**7,294**	7,889
Total Investments	121,862	46,171	21,809	189,842	3,303	289	-	**193,434**	204,050
Held-for-sale assets	-	-	-	-	-	-		**-**	30
Cash and cash equivalents	2,571	246	1,501	4,318	1,472	165		**5,955**	4,951
Total assets	**130,229**	**54,167**	**26,298**	**210,694**	**6,306**	**4,150**	**(5,608)**	**215,542**	219,382
Equity and liabilities									
Equity									
Shareholders' equity	1,655	1,698	2,167	5,520	1,642	(2,104)		**5,058**	6,062
Minority interests	47	-	7	54	1			**55**	102
Total equity	1,702	1,698	2,174	5,574	1,643	(2,104)	-	**5,113**	6,164
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Insurance contract liabilities	72,756	42,476	20,798	136,030	-	-		**136,030**	132,776
Investment contract liabilities with discretionary participation features	23,367	-	79	23,446	-	-		**23,446**	29,550
Investment contract liabilities without discretionary participation features	11,584	2,885	32	14,501	-	-		**14,501**	14,032
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)	8,254	-	160	8,414	-	-		**8,414**	13,959
Total policyholder liabilities and unallocated surplus of with-profits funds	115,961	45,361	21,069	182,391	-	-	-	**182,391**	190,317
Core structural borrowings of shareholder-financed operations:									
Subordinated debt	-	-	-	-	-	1,987		**1,987**	1,570
Other	-	173	-	173	-	798		**971**	922
Total	-	173	-	173	-	2,785	-	**2,958**	2,492
Operational borrowings attributable to shareholder-financed operations	54	511	130	695	4	1,278		**1,977**	3,081
Borrowings attributable to with-profits funds	1,308	-	-	1,308	-	-		**1,308**	987
Deferred tax liabilities	1,421	1,337	441	3,199	11	19		**3,229**	3,402
Other non-insurance liabilities	9,783	5,087	2,484	17,354	4,648	2,172	(5,608)	**18,566**	12,939
Total liabilities	128,527	52,469	24,124	205,120	4,663	6,254	(5,608)	**210,429**	213,218
Total equity and liabilities	**130,229**	**54,167**	**26,298**	**210,694**	**6,306**	**4,150**	**(5,608)**	**215,542**	219,382

Notes

1.1a Intangible assets attributable to shareholders comprise principally goodwill of acquired business of £1,341 million (of which £1,153 million related to the acquisition of M&G in 1999) and deferred acquisition costs for life assurance contracts which are recognised and amortised in line with the requirements of the IASB standards IFRS 4 and IAS 18.

The movement in deferred acquisition costs and other intangible assets comprises :

	2008 £m	2007 £m
Balance at 1 January	**2,836**	2,497
Additions	**959**	717
Amortisation to income statement	**(551)**	(424)
Exchange differences	**1,035**	(42)
Change in shadow DAC (note 1.4d)	**1,070**	88
Balance at 31 December	**5,349**	2,836

1.1b The deferred tax asset is made up as follows:

	2008 £m	2007 £m
Unrealised losses on investments	**1,267**	129
Balance relating to investment and insurance contracts	**12**	2
Short-term timing differences	**1,282**	770
Capital allowances	**16**	20
Unused deferred tax losses	**309**	30
Total	**2,886**	951

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 available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. The significant increases in 2008 reflect the incidence of unrealised losses on the fixed income securities of US insurance operations, for which there is the intent and ability to hold for the longer-term. In addition deferred tax balances to UK shareholder-backed insurance business has increased reflecting losses carried forward on the tax basis which reflects the regulatory basis.

The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. Accordingly, for the 2008 results and balance sheet position at 31 December 2008, the possible tax benefit of approximately £211 million (2007: £280 million), which may arise from capital losses valued at approximately £1 billion (2007: £1.4 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £678 million (2007: £112 million), which may arise from tax losses and other potential temporary differences totalling £2.2 billion (2007: £350 million) is sufficiently uncertain that it has not been recognised. Forecasts as to when the tax losses and other temporary differences are likely to be utilised indicate that they may not be utilised in the short term.

The deferred tax liability is made up as follows:

	2008 £m	2007 £m
Unrealised gains on investments	**765**	2,098
Balance relating to investment and insurance contracts	**968**	599
Short-term timing differences	**1,490**	693
Capital allowances	**6**	12
Total	**3,229**	3,402

Unprovided deferred income tax liabilities on temporary differences associated with investments in subsidiaries, associates and interests in joint ventures are considered to be insignificant due to the availability of various UK tax exemptions and reliefs.

Deferred tax asset and liability balances have not been discounted.

1.2 Group balance sheet - analysis by type of business

		Shareholder-backed						
	Participating funds	Unit-linked and variable annuity	Non-linked business	Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	31 Dec 2008 Group total	31 Dec 2007 Group total
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Intangible assets attributable to shareholders (note 1.1a):								
Goodwill	-	-	111	1,230	-	-	**1,341**	1,341
Deferred acquisition costs and other intangible assets	-	-	5,343	6	-	-	**5,349**	2,836
Total	-	-	5,454	1,236	-	-	**6,690**	4,177
Intangible assets attributable to with-profits funds:								
In respect of acquired subsidiaries for venture fund and	174	-	-	-			**174**	192
Deferred acquisition costs and other intangible assets (note 1.1b)	126	-	-	-	-	-	**126**	19
Total	300	-	-	-	-	-	**300**	211
Total	300	-	5,454	1,236	-	-	**6,990**	4,388
Deferred tax assets (note 1.1b)	279	-	2,304	160	143	-	**2,886**	951
Other non-investment and non-cash assets	3,095	579	4,523	135	3,553	(5,608)	**6,277**	5,012
Investment of long-term business and other operations:								
Investment properties	9,911	710	1,371	-	-	-	**11,992**	13,688
Investments accounted for using the equity method	-	-	-	-	10	-	**10**	12
Loans and receivables	2,154	113	6,461	1,763	-	-	**10,491**	7,924
Equity securities and portfolio holdings in unit trusts	31,821	29,211	1,067	23	-	-	**62,122**	86,157
Debt securities (see section 4 for analysis of credit quality)	42,965	6,298	44,970	991	-	-	**95,224**	83,984
Other investments	3,768	204	1,588	462	279	-	**6,301**	4,396
Deposits	4,828	903	1,499	64	-	-	**7,294**	7,889
Total Investments	95,447	37,439	56,956	3,303	289	-	**193,434**	204,050
Held-for-sale assets	-	-		-	-	-	**-**	30
Cash and cash equivalents	1,733	1,148	1,437	1,472	165	-	**5,955**	4,951
Total assets	**100,854**	**39,166**	**70,674**	**6,306**	**4,150**	**(5,608)**	**215,542**	219,382
Equity and liabilities								
Equity								
Shareholders' equity	-	-	5,520	1,642	(2,104)	-	**5,058**	6,062
Minority interests	47	-	7	1			**55**	102
Total equity	47	-	5,527	1,643	(2,104)	-	**5,113**	6,164
Liabilities								
Policyholder liabilities and unallocated surplus of with-profits								
Insurance contract liabilities	58,310	27,799	49,921	-	-	-	**136,030**	132,776
Investment contract liabilities with discretionary	23,446	-	-	-	-	-	**23,446**	29,550
Investment contract liabilities without discretionary	32	10,277	4,192	-	-	-	**14,501**	14,032
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)	8,414	-		-	-	-	**8,414**	13,959
Total policyholder liabilities and unallocated surplus of with-profits funds	90,202	38,076	54,113	-	-	-	**182,391**	190,317
Core structural borrowings of shareholder-financed								
Subordinated debt	-	-	-	-	1,987	-	**1,987**	1,695
Other	-	-	173	-	798	-	**971**	797
Total	-	-	173	-	2,785	-	**2,958**	2,492
operations	-	-	695	4	1,278	-	**1,977**	3,081
Borrowings attributable to with-profits funds	1,308	-	-	-	-	-	**1,308**	987
Deferred tax liabilities	1,225	-	1,974	11	19	-	**3,229**	3,402
Other non-insurance liabilities	8,072	1,090	8,192	4,648	2,172	(5,608)	**18,566**	12,939
Total liabilities	100,807	39,166	65,147	4,663	6,254	(5,608)	**210,429**	213,218
Total equity and liabilities	**100,854**	**39,166**	**70,674**	**6,306**	**4,150**	**(5,608)**	**215,542**	219,382

1.3 UK insurance operations

Key points

- In order to explain the different types of UK business and fund structure, the balance sheet of the UK insurance operations requires analysis of the assets and liabilities between those of the Scottish Amicable Insurance Fund (SAIF), the PAC with-profits sub-fund (WPSF), unit-linked assets and liabilities and annuity and other long-term business.
- £86.6 billion of the £121.9 billion of investments are held by SAIF and the PAC WPSF. Shareholders are exposed only indirectly to value movements on these assets.
- The majority of the remaining investments of shareholder-backed business are held to back unit-linked liabilities and policyholder liabilities of annuity business. Assets and liabilities for these types of business are closely matched.
- Credit quality details of the debt securities are shown in section 4.

The assets and liabilities of the funds and subsidiaries of UK insurance operations are shown in the table below:

		PAC with-profits sub-fund (WPSF) (note 1.3a)			Other funds and subsidiaries				
	Scottish Amicable Insurance Fund (note 1.3b)	Excluding Prudential Annuities Limited	Prudential Annuities Limited (note 1.3c)	Total (note 1.3d)	Unit-linked assets and liabilities	Annuity and other long-term business	Total	**31 Dec 2008 Total**	31 Dec 2007 Total
	£m	£m	£m	£m	£m	£m	£m	**£m**	£m
Assets									
Intangible assets attributable to shareholders:									
Deferred acquisition costs and other intangible assets				-		134	134	**134**	157
	-	-	-	-		134	134	**134**	157
Intangible assets attributable to PAC with-profits fund:									
other investment purposes	-	174	-	174	-	-	-	**174**	192
Deferred acquisition costs	3	10		10	-	-	-	**13**	19
	3	184	-	184	-	-	-	**187**	211
Total	3	184	-	184	-	134	134	**321**	368
Deferred tax assets	7	174	98	272	-	234	234	**513**	105
Other non-investment and non-cash assets	244	2,246	380	2,626	443	1,649	2,092	**4,962**	4,110
Investments of long-term business and other operations:									
Investment properties	882	8,365	664	9,029	710	1,338	2,048	**11,959**	13,666
Financial investments (note 1.3f):									
Loans and receivables (note 1.3e)	194	1,000	151	1,151	-	557	557	**1,902**	1,245
Equity securities and portfolio holdings in unit trusts (note 1.3F)	3,718	25,056	247	25,303	9,827	32	9,859	**38,880**	60,829
Debt securities (note 1.3f) (see section 4 for analysis of credit quality)	4,218	21,658	11,888	33,546	4,409	16,698	21,107	**58,871**	57,180
Other investments (note 1.3f and 1.3g)	777	2,761	219	2,980	136	267	403	**4,160**	3,391
Deposits	649	3,974	160	4,134	489	818	1,307	**6,090**	7,228
Total investments	10,438	62,814	13,329	76,143	15,571	19,710	35,281	**121,862**	143,539
Held-for-sale assets	-	-	-	-	-	-	-	**-**	30
Cash and cash equivalents	196	707	184	891	979	505	1,484	**2,571**	1,869
Total assets	**10,888**	**66,125**	**13,991**	**80,116**	**16,993**	**22,232**	**39,225**	**130,229**	150,021
Equity and liabilities									
Equity									
Shareholders' equity	-	-	-	-	-	1,655	1,655	**1,655**	1,364
Minority interests	16	31		31	-	-	-	**47**	42
Total equity	16	31	-	31	-	1,655	1,655	**1,702**	1,406
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Insurance contract	9,524	29,486	11,477	40,963	6,041	16,228	22,269	**72,756**	82,938
Investment contract liabilities with discretionary participation features	494	22,873	-	22,873	-	-	-	**23,367**	29,466
Investment contract liabilities without discretionary participation features	-	-	-	-	10,277	1,307	11,584	**11,584**	12,073
Unallocated surplus of with-profits funds (reflecting application of 'realistic' provisions for UK regulated with-profits funds) (note 1.3h)	-	6,705	1,549	8,254	-	-	-	**8,254**	13,813
Total	10,018	59,064	13,026	72,090	16,318	17,535	33,853	**115,961**	138,290
Operational borrowings attributable to shareholder-financed operations				-	-	54	54	**54**	12
Borrowings attributable to with-profits funds	112	1,196	-	1,196	-	-	-	**1,308**	987
Deferred tax liabilities	28	663	295	958	-	435	435	**1,421**	2,383
Other non-insurance liabilities	714	5,171	670	5,841	675	2,553	3,228	**9,783**	6,943
Total liabilities	10,872	66,094	13,991	80,085	16,993	20,577	37,570	**128,527**	148,615
Total equity and liabilities	**10,888**	**66,125**	**13,991**	**80,116**	**16,993**	**22,232**	**39,225**	**130,229**	150,021

Notes

1.3a For the purposes of this table and subsequent explanation, references to the WPSF also include, for convenience, the amounts attaching to the Defined Charges Participating Sub-fund.

1.3b SAIF is a separate sub-fund within the PAC long-term business fund.

1.3c Wholly-owned subsidiary of the PAC WPSF that writes annuity business.

1.3d Excluding policyholder liabilities of the Hong Kong branch of PAC.

1.3e The loans of the Group's UK insurance operations of £1,902 million (2007: £1,245 million) comprise mortgage loans of £701 million (2007: £449 million), policy loans of £29 million (2007: £35 million) and other loans of £1,172 million (2007: £761 million). The mortgage loans are collateralised by properties. Other loans are all commercial loans and comprise mainly syndicated loans held by the PAC with-profits fund.

1.3f Included within debt securities, equities and other investments are instruments the market for which is not active. In these circumstances IAS 39 requires that a valuation technique be applied. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arms length exchange motivated by normal business considerations. Details of securities valued using valuation techniques are explained in section 2.

1.3g Other investments comprise:

	2008 £m	2007 £m
Derivative assets*	**1,326**	571
Partnerships in investment pools and other**	**2,834**	2,820
	4,160	3,391

* In the UK, Prudential uses derivatives to reduce equity and credit risk, interest rate and currency exposures, and to facilitate efficient portfolio management. After derivative liabilities of £3,401 million (2007: £689 million), which are also included in the balance sheet, the overall derivative position was a net liability of £2,075 million (2007: £118 million).

** Partnerships in investment pools and other comprise mainly investments held by the PAC with-profits fund. These investments are primarily venture fund investments and investment in property funds and limited partnerships.

1.3h Unallocated surplus of with-profits funds

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

The unallocated surplus represents the excess of assets over policyholder liabilities for the Group's with-profits funds. As allowed under IFRS 4, the Group has opted to continue to record unallocated surplus of with-profits funds wholly as a liability. The annual excess (shortfall) of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to (from) the unallocated surplus each year through a charge (credit) to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance of the unallocated surplus is determined after full provision for deferred tax on unrealised appreciation on investments.

1.4 US insurance operations

	2008			2007		
	Variable annuity separate account assets and liabilities (note 1.4a)	Fixed annuity, GIC and other business (note 1.4a)	**Total 2008**	Variable annuity separate account assets and liabilities (note 1.4a)	Fixed annuity, GIC and other business (note 1.4a)	**Total 2007**
	£m	£m	**£m**	£m	£m	**£m**
Assets						
Intangible assets attributable to shareholders						
Deferred acquisition costs and other intangible assets (note 1.4d)	-	3,962	**3,962**	-	1,928	1,928
Total	-	3,962	**3,962**	-	1,928	1,928
Deferred tax assets (note1.4d)	-	1,969	**1,969**	-	657	657
Other non-investment and non-cash assets	-	1,819	**1,819**	-	994	994
Investments of long-term business and other operations:						
Investment properties	-	13	**13**	-	8	8
Financial investments:						
Loans (note 1.4b)	-	5,121	**5,121**	-	3,258	3,258
Equity securities and portfolio holdings in unit trusts	14,538	604	**15,142**	15,027	480	15,507
Debt securities (see section 3 for analysis of credit quality)	-	24,249	**24,249**	-	19,002	19,002
Other investments (note 1.4c)	-	1,256	**1,256**	-	762	762
Deposits	-	390	**390**	-	258	258
Total investments	14,538	31,633	**46,171**	15,027	23,768	38,795
Cash and cash equivalents	-	246	**246**	-	169	169
Total assets	14,538	39,629	**54,167**	15,027	27,516	42,543
Equity and liabilities						
Equity						
Shareholders' equity	-	1,698	**1,698**	-	2,690	2,690
Minority interests	-	-	**-**	-	1	1
Total equity	-	1,698	**1,698**	-	2,691	2,691
Liabilities						
Policyholder liabilities:						
Insurance contract liabilities	14,538	27,938	**42,476**	15,027	17,899	32,926
Investment contract liabilities without discretionary participation features (GIC and annuity certain)	-	2,885	**2,885**	-	1,922	1,922
Total	14,538	30,823	**45,361**	15,027	19,821	34,848
Core structural borrowings of shareholder-financed operations	-	173	**173**	-	125	125
Operational borrowings attributable to shareholder-financed operations	-	511	**511**	-	591	591
Deferred tax liabilities	-	1,337	**1,337**	-	639	639
Other non-insurance liabilities	-	5,087	**5,087**	-	3,649	3,649
Total liabilities	14,538	37,931	**52,469**	15,027	24,825	39,852
Total equity and liabilities	14,538	39,629	**54,167**	15,027	27,516	42,543

Notes

1.4a Assets and liabilities attaching to variable annuity business that are not held in the separate account are shown within other business.

1.4b Loans

The loans of Jackson of £5,121 million (2007: £3,258 million) comprise mortgage loans of £4,534 million (2007: £2,841 million) and policy loans of £587 million (2007: £417 million). All of the mortgage loans are commercial mortgage loans which are collateralised by properties. The property types are mainly industrial, multi-family residential, suburban office, retail and hotel.

Jackson's mortgage loan portfolio does not include any single-family residential mortgage loans and therefore is not directly exposed to the risk of defaults associated with residential sub-prime mortgage loans.

The policy loans are fully secured by individual life insurance policies or annuity policies. These loans are accounted for at amortised cost, less any impairment.

1.4c Other investments comprise:

	2008	2007
	£m	£m
Derivative assets*	**675**	390
Partnerships in investment pools and other**	**581**	372
	1,256	762

* In the US, Prudential uses derivatives to reduce interest rate risk, to facilitate efficient portfolio management to match liabilities under annuity policies, and for certain equity-based product management activities. After taking account of the derivative liability of £863 million (2007: £158 million), which is also included in the balance sheet, the derivative position for US operations is a net liability of £188 million (2007: net asset of £232 million).

** Partnerships in investment pools and other comprise primarily investments in limited partnerships. These include interests in the PPM America Private Equity Fund and diversified investments of 157 (2007:164) in other partnerships by independent money managers that generally invest in various equities and fixed income loans and securities.

1.4d Deferred acquisition costs and deferred tax asset

The significant increase in DAC and deferred tax assets reflects the level of unrealised losses arising in the year.

Consequent upon the negative unrealised valuation movement in 2008 of £(2,710) million (2007: £(244) million) there is a credit of £1,070 million (2007: £88 million) for altered 'shadow' DAC amortisation booked within the statement of changes in equity. These adjustments reflect the changes in the pattern of reported gross profits that would have happened if the assets had been sold crystallising the loss, and the proceeds reinvested at correspondingly higher curve yields.

In the event of further unrealised losses, this dynamic would be constrained under two circumstances. Firstly, the DAC asset (by cohort) would not be written up any further beyond the original deferred amount plus a provision for interest accrual on the asset. Secondly, and more generally, the write up of DAC would be constrained if not supported by expectations of future profitability.

1.5 Asian insurance operations

	2008				2007			
	With-profits business (note 1.5a) £m	Unit-linked assets and liabilities £m	Other £m	**Total 2008 £m**	With-profits business (note 1.5a) £m	Unit-linked assets and liabilities £m	Other £m	Total 2007 £m
Assets								
Intangible assets attributable to shareholders								
Goodwill	-	-	111	**111**	-	-	111	111
Deferred acquisition costs and other intangible assets	-	-	1,247	**1,247**	-	-	745	745
Total	-	-	1,358	**1,358**	-	-	856	856
Intangible assets attributable to with-profit funds								
Deferred acquisition costs and other intangible assets	113	-	-	**113**	-	-	-	-
Deferred tax asset	-	-	101	**101**	-	-	73	73
Other non-investment and non-cash assets	225	136	1,055	**1,416**	134	58	497	689
Investments of long-term business and other operations:								
Investment properties	-	-	20	**20**	-	-	14	14
Financial investments:								
Loans (note 1.5b)	809	113	783	**1,705**	560	37	490	1,087
Equity securities and portfolio holdings in unit trusts (note 1.5c)	2,800	4,846	431	**8,077**	4,472	4,728	604	9,804
Debt securities (see section 3 for analysis of credit quality)	5,201	1,889	4,023	**11,113**	2,329	1,901	2,690	6,920
Other investments	11	68	65	**144**	13	6	23	42
Deposits	45	414	291	**750**	44	118	215	377
Total investments	8,866	7,330	5,613	**21,809**	7,418	6,790	4,036	18,244
Cash and cash equivalents	646	169	686	**1,501**	194	123	362	679
Total assets	**9,850**	**7,635**	**8,813**	**26,298**	7,746	6,971	5,824	20,541
Equity and liabilities								
Equity								
Shareholders' equity	-	-	2,167	**2,167**	-	-	1,369	1,369
Minority interests	-	-	7	**7**	-	-	7	7
Total equity	-	-	2,174	**2,174**	-	-	1,376	1,376
Liabilities								
Policyholder liabilities and unallocated surplus of with-profits funds:								
Insurance contract liabilities	7,823	7,220	5,755	**20,798**	6,280	6,971	3,661	16,912
Investment contract liabilities with discretionary participation features	79	-	-	**79**	84	-	-	84
Investment contract liabilities without discretionary participation features	32	-	-	**32**	37	-	-	37
Unallocated surplus of with-profits funds (see notes 1.3h in section 1.3)	160	-	-	**160**	146	-	-	146
Total	8,094	7,220	5,755	**21,069**	6,547	6,971	3,661	17,179
Operational borrowings attributable to shareholders- financed operations	-	-	130	**130**	-	-	-	-
Deferred tax liabilities	239		202	**441**	-	-	362	362
Other non-insurance liabilities	1,517	415	552	**2,484**	1,199	-	425	1,624
Total liabilities	9,850	7,635	6,639	**24,124**	7,746	6,971	4,448	19,165
Total equity and liabilities	**9,850**	**7,635**	**8,813**	**26,298**	7,746	6,971	5,824	20,541

Notes

1.5a The balance sheet for with-profits business comprises the with-profit assets and liabilities of the Hong Kong, Malaysia and Singapore with-profits operations. Assets and liabilities of other participating business are included in the column for 'other business'.

1.5b The loans of the Group's Asian insurance operations of £1,705 million (2007: £1,087 million) comprise mortgage loans of £238 million (2007: £132 million), policy loans of £675 million (2007: £430 million) and other loans of £792 million (2007: £525 million). The mortgage and policy loans are secured by properties and life insurance policies respectively. The majority of the other loans are commercial loans held by the Malaysian operation and which are all investment graded by two local rating agencies.

1.5c Other business' investments in equity securities and portfolio holdings in unit trusts are as follows:

	2008 £m
Malaysia	**12**
Japan	**29**
India	**9**
Taiwan	**313**
Vietnam	**42**
Thailand	**5**
Korea	**6**
China	**15**
	431

1.6 Asset management operations

	2008				2007			
	M&G £m	US £m	Asia £m	**Total 2008 £m**	M&G £m	US £m	Asia £m	Total 2007 £m
Assets								
Intangible assets:								
Goodwill	1,153	16	61	**1,230**	1,153	16	61	1,230
Deferred acquisition costs	6	-	-	**6**	6	-	-	6
Total	1,159	16	61	**1,236**	1,159	16	61	1,236
Other non-investment and non-cash assets	27	169	99	**295**	304	132	85	521
Investment properties	-	-	-	**-**	-	-	-	-
Financial investments:								
Loans (note 1.6a)	1,763	-	-	**1,763**	2,334	-	-	2,334
Equity securities and portfolio holdings in unit trusts	11	-	12	**23**	11	-	6	17
Debt securities (note 1.6b, see section 3 for analysis of credit quality)	975	-	16	**991**	857	-	25	882
Other investments (note 1.6e)	432	24	6	**462**	132	19	4	155
Deposits	35	16	13	**64**	-	15	11	26
Total investments	3,216	40	47	**3,303**	3,334	34	46	3,414
Cash and cash equivalents (note 1.6e)	1,329	39	104	**1,472**	1,751	33	56	1,840
Total assets	5,731	264	311	**6,306**	6,548	215	248	7,011
Equity and liabilities								
Equity								
Shareholders' equity (note 1.6c)	1,300	114	228	**1,642**	1,424	81	172	1,677
Minority interests (note 1.6d)	1	-	-	**1**	52	-	-	52
Total equity	1,301	114	228	**1,643**	1,476	81	172	1,729
Liabilities								
Intra-group debt represented by operational borrowings at Group level (note 1.6d)	1,278	-	-	**1,278**	2,477	-	-	2,477
Net asset value attributable to external holders of consolidated funds (note 1.6e)	1,065	-	-	**1,065**	1,234	-	-	1,234
Other non-insurance liabilities	2,087	150	83	**2,320**	1,361	134	76	1,571
Total liabilities	4,430	150	83	**4,663**	5,072	134	76	5,282
Total equity and liabilities	5,731	264	311	**6,306**	6,548	215	248	7,011

Notes

1.6a Loans
The M&G loans of £1,763 million relates to bridging loan finance managed by Prudential Capital. The bridging loan finance assets generally have no external credit ratings available, with internal ratings prepared by the Group's asset management operations as part of the risk management process rating £1,100 million BBB+ to BBB- and £663 million BB+ to BB-.

1.6b Debt securities
Of the debt securities of £975 million for M&G at 31 December 2008, £964 million were rated AAA to A– by Standard and Poor's or Aaa rated by Moody's.

1.6c M&G shareholder funds include those in respect of Prudential Capital, with the net reduction in the year primarily due to unrealised value movements of £190 million on Prudential Capital's bond portfolio.

1.6d Intra Group debt represented by operational borrowings at Group level
Operational borrowings for M&G are in respect of Prudential Capital's short-term fixed income security programme and comprise £1,269 million of commercial paper and £9 million of medium-term notes.

1.6e Consolidated investment funds
The M&G balance sheet shown above includes Prudential Capital together with investment funds which are managed on behalf of third parties. In respect of the consolidated investment funds, the balance sheet includes cash and cash equivalents of £835 million, £345 million of other investments, £(115) of other net assets and liabilities and the net asset value attributable to external unit holders of £1,065 million in respect of these funds, which are non-recourse to M&G and the Group.

1.7 Defined benefit pension schemes

Included in the Group's balance sheet shown in section 1.1 are surpluses and deficits on the IAS 19 economic basis as described in note 1.7b for the Group's defined benefits pension schemes. The assets and liabilities giving rise to the surpluses and deficits are as follows:

	2008				2007			
	PSPS £m	**Other schemes (note 1.7c) £m**	**Total £m**	**%**	PSPS £m	Other schemes (note 1.7c) £m	Total £m	%
Equities	**823**	**213**	**1,036**	**19**	1,278	265	1,543	28
Bonds	**2,430**	**277**	**2,707**	**51**	1,134	249	1,383	25
Properties	**283**	**18**	**301**	**6**	545	54	599	11
Cash-like investments (note 1.7a)	**1,267**	**6**	**1,273**	**24**	1,932	5	1,937	36
Total value of assets	**4,803**	**514**	**5,317**	**100**	4,889	573	5,462	100
Present value of benefit obligations	**(4,075)**	**(598)**	**(4,673)**		(4,361)	(654)	(5,015)	
	728	**(84)**	**644**		528	(81)	447	
Effect of the adoption of IFRIC 14 for accounting for pension schemes:								
Derecognition of PSPS surplus	**(728)**	**-**	**(728)**		(528)	-	(528)	
Set up obligation for deficit funding for PSPS until 5 April	**(65)**	**-**	**(65)**		(102)	-	(102)	
Pre-tax deficit (note 1.7b)	**(65)**	**(84)**	**(149)**		(102)	(81)	(183)	

Notes

1.7a The PSPS has entered into a derivatives based strategy to match the duration and inflation profile of its liabilities. This involved a reallocation from other investments to cash-like investments with an interest and inflation swap overlay. In broad terms, the Scheme is committed to making a series of payments related to LIBOR on a nominal amount and in return the Scheme receives a series of fixed and inflation-linked payments which match a proportion of its liabilities. As at 31 December 2008, the nominal value of the interest and inflation-linked swaps amounted to £1.2 billion (2007: £1.2 billion) and £0.3 billion (2007: £0.7 billion) respectively.

1.7b The resulting scheme deficit arising from the excess of liabilities over assets at 31 December 2008 of £149 million comprised a deficit of £67 million (2007: deficit of £98 million attributable to the PAC with-profits fund and deficit of £82 million (2007: deficit of £85 million) attributable to shareholder operations.

1.7c In addition to PSPS, there are two smaller schemes in the UK, the Scottish Amicable Pension Scheme, and the M&G Pension Scheme, with a combined deficit at 31 December 2008 of £67 million (2007: £71 million), gross of tax. There is also a small scheme in Taiwan, which at 31 December 2008 had a deficit of £17 million (2007: £10 million), gross of tax.

GROUP INVESTMENTS

Section 2 - Valuation bases for Group assets

2.1 Summary of valuation bases applied

The accounting carrying values of the Group's assets reflect the requirements of IFRS. For financial investments the basis of valuation reflects the Group's application of IAS 39 ('Financial Instruments: Recognition and Measurement'). The basis applied for the assets section of the consolidated balance sheet at 31 December 2008 is summarised below.

	2008			2007		
	At fair value	Cost / Amortised cost (note 2.1a)	Total	At fair value	Cost / Amortised cost (note 2.1a)	Total
	£m	£m	£m	£m	£m	£m
Intangible assets attributable to shareholders:						
Goodwill	-	1,341	**1,341**	-	1,341	1,341
Deferred acquisition costs and other intangible assets	-	5,349	**5,349**	-	2,836	2,836
Total	-	6,690	**6,690**	-	4,177	4,177
Intangible assets attributable to PAC with-						
In respect of acquired subsidiaries for venture fund and other investment purposes	-	174	**174**	-	192	192
Deferred acquisition costs	-	126	**126**	-	19	19
Total	-	300	**300**	-	211	211
Total	-	6,990	**6,990**	-	4,388	4,388
Other non-investment and non-cash assets:						
Property, plant and equipment	-	635	**635**	-	1,012	1,012
Reinsurers' share of insurance contract liabilities	-	1,240	**1,240**	-	783	783
Deferred tax asset	-	2,886	**2,886**	-	951	951
Current tax recoverable	-	657	**657**	-	285	285
Accrued investment income	-	2,513	**2,513**	-	2,023	2,023
Other debtors	-	1,232	**1,232**	-	909	909
Total	-	9,163	**9,163**	-	5,963	5,963
Investments of long-term business, banking and other operations:						
Investment properties	11,992	-	**11,992**	13,688	-	13,688
Investments accounted for using the equity method	-	10	**10**	-	12	12
Financial investments:						
Loans	-	10,491	**10,491**	-	7,924	7,924
Equity securities and portfolio holdings in unit trusts (note 2.1b)	62,122	-	**62,122**	86,157	-	86,157
Debt securities (note 2.1b)	95,224	-	**95,224**	83,984	-	83,984
Other investments (note 2.1b)	6,301	-	**6,301**	4,396	-	4,396
Deposits	7,294	-	**7,294**	7,889	-	7,889
Total	182,933	10,501	**193,434**	196,114	7,936	204,050
Held for sale assets	-	-	**-**	30	-	30
Cash and cash equivalents	5,955	-	**5,955**	4,951	-	4,951
Total assets	188,888	26,654	**215,542**	201,095	18,287	219,382
Percentage of Group assets	88%	12%	**100%**	91%	9%	100%

Notes

2.1a Assets carried at cost or amortised cost are subject to impairment testing where appropriate under IFRS requirements.

2.1b These assets comprise financial instruments requiring fair valuation under IAS 39 with a value of £163.6 billion (2007: £94.5 billion). Eight per cent (2007: six per cent) have been valued using valuation techniques as described in section 2.2.

2.2 Determination of fair value

The fair values of the financial instruments for which fair valuation is required under IFRS and which are in an active market are determined by the use of current market bid prices for quoted investments, or by using quotations from independent third parties, such as brokers and pricing services. If the market for a financial investment of the Group is not active, the fair values of the financial instruments are established by using valuation techniques. These include financial investments which are not quoted on active markets and financial investments for which markets are no longer active as a result of market conditions e.g. market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments.

The source of pricing for the financial investments valued using valuation techniques could be from using quotations from independent third parties, such as brokers and pricing services or by using valuation techniques modelled internally by the Group. Priority is given to publicly available prices from independent sources, when available but overall, the source of pricing is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The fair value estimates are made at a specific point in time, based upon available market information and judgements about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Group's entire holdings of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses. In some cases the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realised in immediate settlement of the financial instrument. Illiquid market conditions have resulted in inactive markets for certain of the Group's financial instruments. As a result, there is generally no or limited observable market information for these instruments.

Fair value estimates for financial instruments deemed to be in an illiquid market are based on judgements regarding current economic conditions, liquidity discounts, currency, credit and interest rate risks, loss experience and other factors. These fair values are estimates and involve considerable uncertainty and variability as a result of the inputs selected and may differ significantly from the values that would have been used had a ready market existed, and the differences could be material.

The loans and receivables have been shown net of provisions for impairment. The fair value of loans has been estimated from discounted cash flows expected to be received. The rate of discount used was the market rate of interest.

The estimated fair value of derivative financial instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. This amount is determined using quotations from independent third parties or valued internally using standard market practices. In accordance with the Group's risk management framework, all internally generated valuations are subject to independent assessment against external counterparties' valuations.

The fair value of borrowings is based on quoted market prices, where available. For investment contracts in the US with fixed and guaranteed terms the fair value is determined based on the present value of future cash flows discounted at current interest rates.

The fair value of other financial liabilities is determined using discounted cash flows of the amounts expected to be paid.

2.3 Use of valuation techniques

Included within debt securities, equities and other investments are instruments the market for which is not active. In these circumstances IAS 39 requires that a valuation technique be applied. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arms length exchange motivated by normal business considerations.

The carrying value of financial investments (including derivative liabilities) on the balance sheet of the Group which are not quoted on active markets and for which fair value is determined using internal valuation techniques, or is provided by brokers or pricing services, where the specific securities have been valued using valuation techniques by these third party providers are as follows:

	2008 £m				
		Shareholder-backed business			
	UK with-profits fund*	UK insurance operations	US insurance operations	Other operations	Total
Debt securities	**12,341**	**685**	**24,246**	**47**	**37,319**
Equity securities	**661**	**-**	**235**	**-**	**896**
Other investments (including derivative assets)	**2,189**	**257**	**1,215**	**324**	**3,985**
	15,191	**942**	**25,696**	**371**	**42,200**
Derivative liabilities	**(496)**	**(238)**	**(863)**	**(351)**	**(1,948)**
Net of derivative liabilities	**14,695**	**704**	**24,833**	**20**	**40,252**

	2007 £m				
		Shareholder-backed business			
	UK with-profits fund*	UK insurance operations	US insurance operations	Other operations	Total
Debt securities	10,640	509	18,996	-	30,145
Equity securities	683	-	166	-	849
Other investments (including derivative assets)	2,425	103	744	73	3,345
	13,748	612	19,906	73	34,339
Derivative liabilities	(168)	(53)	(158)	(138)	(517)
Net of derivative liabilities	13,580	559	19,748	(65)	33,822

* Including SAIF

The majority of the financial investments valued using valuation techniques were debt securities.

The debt securities shown above include private debt securities such as private placements, project finance, asset securitisations and local authority securities. The securities are mainly long-dated and not regularly traded and are valued internally using market standard practices. The majority of the debt securities above are valued using matrix pricing, which is based on assessing credit quality of the underlying borrower to derive a suitable discount rate relative to government securities. Under matrix pricing, the debt securities are priced by taking the credit spreads on comparable quoted public debt securities and applied to the equivalent debt instruments factoring a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

Debt securities valued using valuation techniques held for UK insurance operations were £13,026 million (2007: £11,149 million) and of this amount £12,341 million (2007: £10,640 million) related to securities held by with-profits operations and £685 million (2007: £509 million) related to securities held by the UK shareholder-backed business.

Of the debt securities valued using valuation techniques held by the UK with-profits fund of £12,341 million at 31 December 2008 (2007: £10,640 million), £8,647 million (2007: £7,638 million) have been priced by independent third parties and £3,694 million (2007: £3,002 million) determined using internal valuation techniques

The debt securities held by the UK with-profits fund at 31 December 2008 of £12,341 million include US securities managed by PPM America with a value of £8,773 million. This amount comprises £8,738 million in respect of securities for which the fair value has been measured using valuation techniques for which all inputs significant to the measurement are based on observable market data. This categorisation corresponds to "Level 2" assets under proposed amendments to IAS 39. £35 million is in respect of securities for which the fair value has been measured using valuation techniques for any input significant to the measurement is not basec on observable market data i.e. "Level 3" securities.

For the UK operations, in accordance with the Group's Risk Management Framework, all internally generated calculations are subject to independent assessment by the Group's Fair Value Committees which comprise members who are independent of the fund managers involved in the day-to-day trading in these assets.

Of the debt securities valued using valuation techniques of £37,319 million (2007: £30,145 million) at 31 December 2008, debt securities with a fair value of £24,246 million (2007: £18,996 million) were held by the US insurance operations. The £24,246 million value at 31 December 2008 comprises "Level 2" and "Level 3" securities with values of £20,564 million and £3,681 million, respectively. Typical inputs used in pricing these debt securities include, but are not limited to, reported trades, benchmark yields, credit spreads, liquidity premiums, and/or estimated cash flows based on default and prepayment assumptions.

The majority of the debt securities of the US insurance operations are priced by independent pricing services and included as "Level 2" securities. As a result of typical trading volumes and the lack of quoted market prices for most debt securities, independent pricing services will normally derive the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable information. If there are no reported trades, the independent pricing services and brokers may use matrix or pricing model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at relevant market rates.

Debt securities of US insurance operations valued using internally derived valuation techniques in 2008 include certain asset-backed securities which had previously been valued using prices provided by a pricing service or brokers in the context of active markets. The use of such pricing sources has historically generated reliable fair values for these assets. The current market dislocations have caused a reassessment of the valuation process for these asset-backed securities. In particular, beginning at the end of the third quarter of 2008, the external prices obtained for certain asset-backed securities were deemed to be inappropriate in the current market conditions.

For the valuations at 31 December 2008, Jackson has therefore utilised internal valuation models, provided by PPM America, to derive fair values of all non-agency residential mortgage-backed securities and asset-backed securities and certain commercial mortgage-backed securities. The use of internal valuation models has resulted in a fair value of these securities that was higher than those provided from pricing services and brokers of £760 million on a total amortised cost of £3.5 billion.

The techniques used by PPM America include cash flow models based on spreads and, when available, market indices. The models used begin with current spread levels of similarly-rated securities to determine the market discount rate for the security. Additional risk premiums for illiquidity and non-performance are incorporated, if warranted, and included in the discount rate. Cash flows, as estimated by PPM America using issuer-specific default statistics and prepayment assumptions, are discounted to determine an estimated fair value.

The equity securities and other investments which included property and other partnerships in investment pools, venture investments and derivative assets and derivative liabilities as shown on the table above are valued using valuation techniques which apply less readily observable market factors and more non-observable factors than the matrix pricing technique as used for the majority of the debt securities.

The total amount of the change in fair value estimation using valuation techniques, including valuation techniques based on assumptions not wholly supported by observable market prices or rates, recognised in the income statement in 2008 was a gain of £355 million (2007: gain of £288 million) for the with-profits fund investments. The gain in 2008 reflects an underlying loss which is more than offset by the exchange gains of the foreign currency denominated investments of the with-profits fund. Changes in values of assets of the with-profits funds are reflected in policyholder liabilities and unallocated surplus. Due to the liability accounting treatment of unallocated surplus, changes in values of securities held by with-profits funds have no direct effect on the profit or loss attributable to shareholders or shareholders' equity.

The total amount of the change in fair value estimation using valuation techniques, including those based on assumptions not wholly supported by observable market prices or rates, recognised in the income statement in 2008 and which was attributable to shareholders, was a loss of £685 million (2007: gain of £116 million).

The 2007 comparatives shown above differ from the previously published information for the inclusion of the financial investments for which prices have been provided by independent third parties, such as pricing services and brokers, and for which the prices have been derived using valuation techniques by these providers. The previously published 2007 information included only the financial investments valued internally using valuation techniques.

GROUP INVESTMENTS

Section 3 - Impact of investment return on Group IFRS shareholders' results

3.1 Summary movement on Group IFRS shareholders' equity

	2008 £m	2007 £m
(Loss) profit before tax from continuing operations before tax attributable to shareholders (see section 3.2)	**(450)**	1,063
Tax credit (expense) attributable to shareholders' (losses) profits	**59**	(354)
(Loss) profit from continuing operations after tax	**(391)**	709
Discontinued operations (net of tax)	**-**	241
(Loss) profit for the year	**(391)**	950
Less: minority interests	**(5)**	(3)
(Loss) profit attributable to equity holders' of the Company	**(396)**	947
Items recognised directly in shareholders' equity:		
Exchange movements including related tax	**750**	13
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale (see section 3.4):		
Gross valuation movements	**(2,710)**	(244)
Related change in amortisation of deferred income and acquisition costs	**1,070**	88
Related tax	**569**	53
Other items recognised directly in shareholders' equity	**-**	(4)
Total of items of income and expense recognised directly in equity	**(321)**	(94)
Total income and expense for the year attributable to shareholders	**(717)**	853
Dividends	**(453)**	(426)
New share capital subscribed	**170**	182
Other movements	**(4)**	29
Net (decrease) increase in shareholders' equity	**(1,004)**	638
Shareholders' equity at beginning of year as previously reported	**6,201**	5,488
Effect of adoption of principles of IFRIC 14 for pension schemes	**(139)**	(64)
	6,062	5,424
Shareholders' equity at end of year	**5,058**	6,062

3.2 Supplementary analysis of profit from continuing operations before tax attributable to shareholders

	2008 £m	2007 £m
Asian operations		
Insurance business	**321**	189
Asset management	**52**	72
Development expenses	**(26)**	(15)
Total	**347**	246
US operations		
Jackson	**406**	444
Broker-dealer and asset management (including Curian losses of £3m (2007: £5m))	**7**	8
Total	**413**	452
UK operations		
UK insurance operations:		
Long-term business	**545**	524
UK general insurance commission (note 3.2a)	**44**	4
Total	**589**	528
M&G	**286**	254
Total	**875**	782
Other income and expenditure		
Investment return and other income	**89**	86
Interest payable on core structural borrowings	**(172)**	(168)
Corporate expenditure:		
Group Head Office	**(130)**	(129)
Asia Regional Head Office	**(41)**	(38)
Charge for share-based payments for Prudential schemes	**(6)**	(11)
Total	**(260)**	(260)
Restructuring costs	**(28)**	(19)
Operating profit from continuing operations based on longer-term investment returns	**1,347**	1,201
Short-term fluctuations in investment returns on shareholder-backed business (note 3.3)	**(1,783)**	(137)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(14)**	(1)
(Loss) profit from continuing operations before tax attributable to shareholders	**(450)**	1,063

Notes

3.2a UK general insurance commission

UK insurance operations transferred its general insurance business to Churchill in 2002. General insurance commission represents the net commission receivable for Prudential-branded general insurance products as part of this arrangement.

3.3 Short-term fluctuations in investment returns on shareholder-backed business

	2008 £m	2007 £m
Asian (note 3.3b)	**(200)**	(71)
US (note 3.4b)	**(1,058)**	(18)
UK (note 3.3c)	**(212)**	(47)
Other operations (note 3.3d)	**(313)**	(1)
Total (note 3.3a)	**(1,783)**	(137)

Notes

3.3a General

The short-term fluctuations in investment returns for 2008 primarily reflect temporary market value movements on the portfolio of investments held by the Group's shareholder-backed operations. Default losses were incurred during 2008 in respect of Lehman Brothers and Washington Mutual, with total losses (including losses on sale) for these in respect of the Group's shareholder backed business operations being £110 million and £91 million respectively of which the majority was incurred in Jackson. Excluding Lehman Brothers and Washington Mutual there was only one other default in 2008 which resulted in a loss of £5 million. There were no default losses in 2007.

3.3b Asian operations

The fluctuations for Asian operations in 2008 primarily relates to £(81) million for Vietnam, reflecting a significant fall in the Vietnamese bond and equity markets, and £(65) million for Taiwan, which reflects the decrease in Taiwanese equity markets and a £(40) million reduction in the value of an investment in a CDO fund. For 2007, the £(71) million of short-term fluctuations primarily reflected value movements in Taiwan on the value of debt securities arising from increases in interest rates and a £30 million reduction of the investment in a CDO fund, partially offset by strong equity market movements in Vietnam.

3.3c UK insurance operations

The UK insurance operations short term fluctuations charge for 2008 of £212 million principally reflects £170 million for asset value movements, principally for the shareholder-backed annuity business, and £42 million for the effect of credit downgrades on the calculation of liabilities for shareholder-backed annuity business in PRIL and the PAC non-profit sub fund. The short-term fluctuations charge for 2007 arose mostly in PRIL. The fluctuations principally reflected the impact of widened credit spreads on the corporate bond securities backing the shareholders' equity of the business.

3.3d Other operations

The charge of £313 million for short-term fluctuations of other operations arises from:

	£m
Sale of investment in India mutual fund in May 2008 giving rise to a transfer to operating profit of £47m for the crystallised gain, and value reduction in the period, prior to sale, of £24m	(71)
Unrealised value movements on swaps held centrally to manage Group assets and liabilities	(38)
Unrealised value movements on Prudential Capital's bond portfolio	(190)
Unrealised value movements on a centrally held investment	(14)
	(313)

3.4 US insurance operations results

	2008 £m	2007 £m
Operating profits based on longer-term investment returns (note 3.4a)	**406**	444
Short-term fluctuations in investment returns (note 3.4b)	**(1,058)**	(18)
(Loss) profit before shareholder tax	**(652)**	426
Tax	**72**	(126)
(Loss) profit for the year	**(580)**	300

	2008 £m	2007 £m
(Loss) profit for the year (as above)	**(580)**	300
Items recognised directly in equity:		
Exchange movements	**785**	(42)
Unrealised valuation movements on securities classified as available-for-sale:		
Unrealised holding losses arising during the year	**(3,197)**	(231)
Less losses (gains) included in the income statement	**487**	(13)
	(2,710)	(244)
Related change in amortisation of deferred income and acquisition costs (note 3.4e)	**1,070**	88
Related tax	**569**	54
Total items of income and expense recognised directly in equity	**(286)**	(144)
Total income and expense for the year	**(866)**	156
Transfers to central companies	**(126)**	(122)
Net (decrease) increase in equity	**(992)**	34
Shareholders' equity at beginning of year	**2,690**	2,656
Shareholders' equity at end of year	**1,698**	2,690

Notes

3.4a Operating profits based on longer-term investment returns

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

	2008 £m	2007 £m
Debt securities:		
Amortisation of interest related realised gains and losses* (note 3.4b)	**24**	31
Risk margin reserve charge for longer-term credit related losses* (note 3.4b)	**(41)**	(37)
Equity type investments:		
Longer-term returns	**62**	47

* net of related change in amortisation of deferred acquisition costs

The risk margin reserve (RMR) charge for longer-term credit related losses for 2008 is based on an average annual RMR of 23 basis points (2007: 22 basis points) on a book value of US$44.8bn (2007: US$42.7bn) as shown below:

	2008				2007			
Moody's rating category	Book value US$m	RMR Bps	Annual expected losses US$m	Annual expected losses £m	Book value US$m	RMR Bps	Annual expected losses US$m	Annual expected losses £m
A3 or higher	**21,098**	**0.03**	**(6)**	**(3)**	20,231	0.03	(6)	(3)
Baa1, 2 or 3	**20,145**	**0.23**	**(46)**	**(25)**	20,306	0.22	(46)	(23)
Ba1, 2 or 3	**1,635**	**1.11**	**(18)**	**(10)**	1,687	1.13	(19)	(9)
B1, 2 or 3	**514**	**2.80**	**(14)**	**(8)**	530	2.88	(15)	(7)
Below B3	**373**	**3.98**	**(15)**	**(8)**	240	4.00	(10)	(5)
Total	**43,765**	**0.23**	**(99)**	**(54)**	42,994	0.22	(96)	(47)
Related change to amortisation of deferred acquisition costs			**23**	**13**			20	10
Risk margin reserve charge for longer-term credit related losses			**(76)**	**(41)**			(76)	(37)

The longer-term rates of return for equity-type interests ranged from 6.3 per cent to 8.4 per cent for 2008 and 8.1 per cent to 10.1 per cent for 2007 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 as shown below in note 3.4b.

3.4b Short-term fluctuations in investment returns

The short-term fluctuations in investment returns for US operations for the year comprise of the following items:

	2008 £m	2007 £m
Short- term fluctuations related to debt securities		
Charges in the year (note (ii))		
Defaults (note (i))	**(78)**	-
Bond write downs (note (i))	**(419)**	(35)
Losses on sales of impaired and deteriorating bonds	**(130)**	(51)
Recoveries/ reversals	**3**	8
	(624)	(78)
Less: Risk margin charge included in operating profit based on longer-term investment returns (note 3.4a)	**54**	48
	(570)	(30)
Interest related gains (losses)		
Arising in the year	**(25)**	31
Amortisation gains and losses arising in current and prior years to operating profit based on longer-term investment returns (note 3.4a)	**(28)**	(37)
	(53)	(6)
Related change to amortisation of deferred acquisition costs	**88**	9
Total short-term fluctuation related to debt securities	**(535)**	(27)
Derivatives (other than equity related, as explained in note 3.4a): market value movement (net of related change to amortisation of deferred acquisition costs) (note (iii))	**(369)**	(19)
Equity type investments: actual less longer-term return (net of related change to amortisation of deferred acquisition costs)	**(69)**	42
Other items (net of related change to amortisation of deferred acquisition costs) (note (iv))	**(85)**	(14)
Total	**(1,058)**	(18)

Notes

(i) In 2008, Jackson recorded £497 million (2007: £35 million) of defaults and writedowns arising from:

	2008 £m	2007 £m
Residential mortgage-backed securities	**167**	-
Public fixed income	**311**	21
Other	**19**	14
	497	35

Jackson's portfolio of debt securities is managed proactively with credit analysts closely monitoring and reporting on the credit quality of its holdings. Jackson continues to review its investments on a case-by-case basis to determine whether any decline in fair value represents an impairment. In addition, investment in structured securities where market prices are depressed are subject to a rigorous review of their future estimated cash flows, including expected and stress case scenarios, to identify potential shortfalls in contractual payments. Impairment charges are generally recorded on structured securities when the Company forecasts a contractual payment shortfall. The impairment loss reflects the difference between the fair value and book value.

A portion of the impairment losses arising in 2008 arose on residential mortgage-backed securities (RMBS). The impairment testing for RMBS was determined using a cash flow modelling approach designed to estimate future principal losses on underlying collateral mortgage loans supporting the investments in the structures. Principal loss estimates were based on the current delinquency/foreclosure statistics for the underlying pools. In aggregate, the more severe the current delinquency/foreclosure statistics for an underlying pool, the higher the principal losses projected. Projected underlying losses for each collateral pool are then run through a model of the bond structure to calculate the expected future cash flows of the bond. This cash flow simulation will indicate the extent of estimated future principal losses on securitisation tranches held by Jackson. In 2008, the collateral performance of these RMBS has deteriorated coupled with the deterioration of the market price of these securities.

(ii) The charges on debt securities incurred in 2008 of £624 million comprise the following:

	Defaults	Bond write downs £m	Losses on sale of impaired and deteriorating bonds £m	Recoveries / reversals £m	**Total £m**
Residential mortgage-backed securities					
Prime	-	25	-	-	**25**
Alt-A	-	138	-	-	**138**
Sub-prime	-	4	-	-	**4**
Total residential mortgage-backed securities	-	167	-		**167**
Public fixed income	78	233	130	-	**441**
Other	-	19	-	(3)	**16**
Total	**78**	**419**	**130**	**(3)**	**624**

(iii) The £369 million value movement is for freestanding derivatives held to manage the fixed annuity and other general account business. Under IAS 39 unless hedge accounting is applied, value movements on derivatives are recognised in the income statement. Except in respect of variable annuity business the value movements on derivatives held by Jackson are separately identified with short-term fluctuations in investment returns.

Derivative value movements in respect of variable annuity business are included within the operating profit based on longer-term investment returns to broadly match with the commercial effect to which the variable annuity derivative programme relates.

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

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

In addition, for US insurance operations, included within the statement of changes in equity is a net reduction (translated at the 2008 year-end exchange rate of 1.44) in the value of debt securities classified as available-for-sale of £2,710 million (2007: £244 million). This reduction reflects the effect of widened credit spreads and global credit concerns partially offset by the effect of reductions in US interest rates and a steepening yield curve. These market value movements do not reflect defaults or impairments. Additional details on the movement in the value of the Jackson portfolio are included in note 3.4c and 3.4d.

3.4c Unrealised valuation movements on securities classified as available-for-sale

For Jackson, included within the movements in shareholders' equity is a net reduction in value of Jackson's debt securities classified as 'available-for-sale' under IAS 39 of £2,710 million (2007: £244 million). This reduction reflects the effects of widening of global credit spreads partially offset by the effect of reduced risk-free interest rates and a steepening yield curve. These temporary market movements do not reflect defaults or impairments.

With the exception of debt securities for US insurance operations classified as 'available-for-sale' under IAS 39, unrealised value movements on the Group's investments are booked within the income statement. For debt securities classified as 'available–for-sale', unless impaired, fair value movements are recorded as a movement in shareholder reserves direct to equity. Realised gains and losses, including impairments, are recorded in the income statement.

In general, the debt securities of the Group's US insurance operations are purchased with the intention and the ability to hold them for the longer term. In 2008, there was a movement in the balance sheet value for debt securities classified as available-for-sale from a net unrealised loss of £136 million to a net unrealised loss of £2,897 million (2007: net unrealised gain of £110 million to a net unrealised loss of £136 million). During 2008, as a result of these factors, the gross unrealised gain in the balance sheet decreased from £303 million at 31 December 2007 to £281 million at 31 December 2008 while the gross unrealised loss increased from £439 million at 31 December 2007 to £3,178 million at 31 December 2008. Details of the securities in an unrealised loss position are shown in 3.4d below.

These features are included in the table shown below of the movements in the values of available-for-sale securities:

	2008	Changes in unrealised appreciation	Foreign exchange translation	2007
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value	**20,600**			10,730
Unrealised loss	**(3,178)**	(2,572)	(167)	(439)
Fair value (as included in balance sheet)	**17,422**			10,291
Assets fair valued at or above book value				
Book value	**6,296**			8,041
Unrealised gain	**281**	(138)	116	303
Fair value (as included in the balance sheet)	**6,577**			8,344
Total				
Book value	**26,896**			18,771
Net unrealised loss	**(2,897)**	(2,710)	(51)	(136)
Fair value (as included in balance sheet)*	**23,999**			18,635
Reflected as part of items recognised directly in shareholders' equity:				
Movement in unrealised appreciation (as shown in summary movement in note 3.1)	**(2,710)**			(244)
Exchange movements	**(51)**			(2)
	(2,761)			(246)

* Debt securities for US operations as included in the balance sheet of £24,249 million (2007: £19,002 million) comprise £23,999 million (2007: £18,635 million) in respect of securities classified as 'available-for-sale' and £250 million (2007: £367 million) for securities of consolidated investment funds classified as 'fair value through profit and loss'.

Included within the movement in unrealised losses for the debt securities of Jackson of £2,572 million (2007: £183 million) as shown above was a value reduction of £134 million (2007: £55 million) relating to the sub-prime and Alt-A securities.

3.4d Debt securities in an unrealised loss position

Debt securities above are shown net of cumulative impairment losses on retained securities of £846 million (2007: £246 million).

The unrealised losses in the US insurance operations balance sheet on unimpaired securities are (£3,178) million (2007: £(439) million). This reflects assets with fair market value and book value of £17,422 million (2007: £10,291 million) and £20,600 million (2007: £10,730 million) respectively.

The following table shows the fair value of the debt securities in a gross unrealised loss position for various percentages of book value and by maturity of security at 31 December 2008:

	2008 £m		2007 £m	
Fair value of securities as a percentage of book value	**Fair value**	**Unrealised loss**	Fair value	Unrealised loss
Between 90% and 100%	**8,757**	**(431)**	9,370	(274)
Between 80% and 90%	**4,581**	**(809)**	784	(122)
Below 80%	**4,084**	**(1,938)**	137	(43)
	17,422	**(3,178)**	10,291	(439)

By maturity of security	**2008 £m Unrealised loss**	2007 £m Unrealised loss
Less than 1 year	**(21)**	(1)
1 year to 5 years	**(537)**	(54)
5 years to 10 years	**(1,236)**	(164)
More than 10 years	**(395)**	(60)
Mortgage-backed and other debt securities	**(989)**	(160)
Total	**(3,178)**	(439)

As shown in the table above, £1,938 million of the £3,178 million of gross unrealised losses at 31 December 2008 related to securities whose fair value were below 80 per cent of the book value. The analysis of the £1,938 million, by category of debt securities and by age analysis indicating the length of time for which their fair value was below 80 per cent of the book value, is as follows:

	2008 £m		2007 £m	
	Fair value	**Unrealised loss**	Fair value	Unrealised loss
Residential Mortgage-backed Securities				
Prime	287	(115)	2	(1)
Alt - A	144	(127)	27	(10)
Sub-prime	48	(39)	-	-
	479	(281)	29	(11)
Commercial Mortgage-backed Securities.	198	(86)	4	(1)
Other asset-backed Securities	811	(375)	4	(1)
Total structured securities	1,488	(742)	37	(13)
Corporates	2,596	(1,196)	100	(30)
Total	4,084	(1,938)	137	(43)

	2008 £m		2007 £m	
By maturity of security	**Fair value**	**Unrealised loss**	Fair value	Unrealised loss
Less than 3 months	3,118	(1,364)	137	(43)
3 months to 6 months	696	(403)	-	-
More than 6 months	270	(171)	-	-
	4,084	(1,938)	137	(43)

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

(ii) Aged analysis of unrealised losses for the time periods indicated	2008 £m			2007£m		
	Non-investment grade	**Investment grade**	**Total**	Non-investment grade	Investment grade	Total
Less than 6 months	**(108)**	**(362)**	**(470)**	(9)	(58)	(67)
6 months to 1 year	**(125)**	**(1,164)**	**(1,289)**	(21)	(115)	(136)
1 year to 2 years	**(154)**	**(622)**	**(776)**	(2)	(21)	(23)
2 years to 3 years	**(15)**	**(91)**	**(106)**	(34)	(140)	(174)
3 years to 4 years	**(56)**	**(418)**	**(474)**	(1)	(8)	(9)
4 years to 5 years	**(5)**	**(31)**	**(36)**	-	(27)	(27)
5 years to 6 years	**-**	**(27)**	**(27)**	-	-	-
6 years to 7 years	**-**	**-**	**-**	(1)	(2)	(3)
	(463)	**(2,715)**	**(3,178)**	(68)	(371)	(439)

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

Fair value of securities as a percentage of book value	2008 £m		2007 £m	
	Fair value	**Unrealised loss**	Fair value	Unrealised loss
Between 90% and 100%	**479**	**(27)**	572	(24)
Between 80% and 90%	**120**	**(19)**	132	(22)
Below 80%	**192**	**(166)**	28	(10)
	791	**(212)**	732	(56)

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

3.4e Change in Shadow DAC on unrealised losses

Consequent upon the negative unrealised valuation movement in 2008 of £(2,710) million (2007: £(244) million) there is a credit of £1,070 million (2007: £88 million) for altered 'shadow' DAC amortisation booked within the statement of changes in equity. These adjustments reflect the changes in the pattern of reported gross profits that would have happened if the assets had been sold crystallising the loss, and the proceeds reinvested at correspondingly higher curve yields.

In the event of further unrealised losses, this dynamic would be constrained under two circumstances. Firstly, the DAC asset would not be written up any further beyond the original deferred amount plus a provision for interest accrual on the asset. Secondly, and more generally, the write up of DAC would be constrained if not supported by expectations of future profitability.

3.5 Actuarial gains and losses on defined benefit pension schemes

The movement on the IAS 19 basis financial position including the actuarial and other gains and losses of £(14) million recognised in the shareholder profit for the year are as follows:

	Deficit in schemes at 1 Jan 2008	(Charge) credit to income statement: Operating results (based on longer-term investment returns)	(Charge) credit to income statement: Actuarial and other gains and losses (note 3.5c)	Contributions paid	Exchange translation difference	Surplus (deficit) in schemes at 31 Dec 2008
	£m	£m	£m	£m	£m	£m
Prudential Staff Pension Scheme (PSPS) after derecognition of underlying surplus and establishing a liability for deficit funding under IFRIC 14	(102)					(65)
Other defined benefit schemes (notes 1.7 and 3.5b)	(81)					(84)
Total Group surplus (deficit) (as shown in section 1.6)	(183)	(36)	(21)	95	(4)	(149)
Less: amount attributable to PAC with-profits fund	98	10	7	(48)	-	67
Shareholders' share:						
Pre-tax (deficit) surplus	(85)	(26)	(14)	47	(4)	(82)
Related tax	22	7	5	(13)	-	21
Net of shareholders' tax	(63)	(19)	(9)	34	(4)	(61)

Notes

3.5a The table reflects the financial position of the defined benefit schemes on an 'economic basis'. This is the IAS 19 basis adjusted to include scheme assets invested in Prudential Group insurance policies. At 31 December 2008, the M&G Pension Scheme had invested £157 million in Prudential Group insurance policies. The Prudential Staff Pension Scheme (PSPS) has also invested £103 million of scheme assets in Prudential Group insurance policies, however the Company's interest in the financial position of PSPS is affected by the change in the accounting policy to effectively apply the interpretation included in IFRIC 14.

3.5b The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS), with 87 per cent (2007: 87 per cent) of the underlying scheme liabilities of the Group defined benefit schemes accounted for within PSPS.
The Group also operates two smaller defined benefit schemes for UK employees in respect of Scottish Amicable and M&G activities. For all three schemes the projected unit method was used for the most recent full actuarial valuations. There is also a small defined benefit scheme in Taiwan.

3.5c The components of the charge for actuarial and other gains and losses (gross of allocation of the share attributable to the PAC with-profits fund) are as follows:

	2008 £m
Actuarial gains and losses:	
Actual less expected return on pension scheme assets	**(97)**
Experience gains (losses) on scheme liabilities	**18**
Changes in assumptions underlying the present value of scheme liabilities	**71**
Total actuarial losses	**(8)**
Other gains and losses:	
Change in the provision for deficit funding for PSPS[b]	**(13)**
Actuarial and other gains and losses[b]	**(21)**

a The gains of £71 million relating to changes in assumptions comprises the gains due to the effect of an increase in the risk discount rate combined with the effect of decreases in inflation rates.
b The amounts of actuarial gains and losses shown in the table above relate to Scottish Amicable, M&G and a small Taiwan defined benefit pension scheme. Consistent with the derecognition of the underlying IAS 19 surplus of PSPS, the amounts do not include actuarial gains and losses for PSPS. In addition, as a result of the adoption of IFRIC 14, the Group has recognised a provision for deficit funding to 5 April 2010 in respect of PSPS. The change in the period in relation to this provision is recognised above as other gains and losses on defined benefit pension schemes.

3.5d The actuarial assumptions applied to the UK schemes are as follows:

	1 January 2008 %	31 December 2008 %
Discount rate	5.9	6.1
Rate of increase in salaries	5.3	5.0
Price inflation	3.3	3.0
Rate of increase of pensions in payment for inflation:		
Guaranteed (maximum 5 per cent)	3.3	3.0
Guaranteed (maximum 2.5 per cent)*	2.5	2.5
Discretionary*	2.5	2.5
Expected return on plan assets	6.2	5.9

* The rates of 2.5 per cent shown are those for PSPS. Assumed rates of increase of pensions in payment for inflation for all other schemes are 3.0 per cent in 2008 (2007: 3.3 per cent).

The current mortality assumptions are as follows:

Male: 100 per cent PMA92 with CMIR17 improvements to the valuation date and medium cohort improvements subject to a floor of 1.75 per cent up to the age of 90, decreasing linearly to zero by the age of 120.

Female: 100 per cent PFA92 with CMIR17 improvements to the valuation date and 75 per cent medium cohort improvements subject to a floor of 1.0 per cent up to the age of 90, decreasing linearly to zero by the age of 120.

Section 4 - Credit quality of Group's portfolios of debt securities at 31 December 2008

Debt securities are accounted for at fair value. The amounts included in the balance sheet are analysed as follows, with further information provided in the notes below.

Summary	Section cross reference	2008 Total £m	2007 Total £m
Insurance operations			
Asia (note 4a)	1.5	**11,113**	6,920
US (note 4b)	1.4	**24,249**	19,002
UK (note 4c)	1.3	**58,871**	57,180
		94,233	83,102
Asset management operations (note 4d)	1.6	**991**	882
Total (note 4e)	1.1	**95,224**	83,984

In the tables shown below, Standard & Poor's (S&P) ratings have been used where available. For securities, where S&P ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative.

Notes

4a Asian insurance operations

The following table summarises the credit quality of the debt securities of the Asian insurance operations by rating agency grading:

	2008				2007			
	With-profits business	Unit-linked business	Other business	Total	With-profits business	Unit-linked business	Other business	Total
	£m	£m	£m	£m	£m	£m	£m	£m
S&P – AAA	**2,085**	**341**	**206**	**2,632**	1,367	660	257	2,284
S&P – AA+ to AA-	**997**	**303**	**2,446**	**3,746**	242	153	1,599	1,994
S&P – A+ to A-	**640**	**96**	**72**	**808**	299	271	105	675
S&P – BBB+ to BBB-	**198**	**184**	**520**	**902**	142	34	17	193
S&P – Other	**77**	**63**	**113**	**253**	8	47	94	149
	3,997	**987**	**3,357**	**8,341**	2,058	1,165	2,072	5,295
Moody's – Aaa	**382**	**54**	**58**	**494**	16	185	-	201
Moody's – Aa1 to Aa3	**77**	**20**	**11**	**108**	7	19	19	45
Moody's – A1 to A3	**80**	**287**	**31**	**398**	11	16	1	28
Moody's – Baa1 to Baa3	**50**	**6**	**4**	**60**	12	7	-	19
Moody's – Other	**8**	**39**	**3**	**50**	58	-	-	58
	597	**406**	**107**	**1,110**	104	227	20	351
Fitch	**7**	**30**	**4**	**41**	-	1	-	1
Other	**600**	**466**	**555**	**1,621**	167	508	598	1,273
Total debt securities	**5,201**	**1,889**	**4,023**	**11,113**	2,329	1,901	2,690	6,920

The increase in holdings of debt securities for Asian operations was principally due to exchange rate movements, a rise in the number of unit trusts and similar funds requiring consolidation, and portfolio change for equities to bonds.

Of the £555 million (2007: £598 million) debt securities for other business which are not rated in the table above, £231 million (2007: £317 million) are in respect of government bonds, £221 million (2007: £83 million) corporate bonds rated as investment grade by local external ratings agencies, and nil (2007: £71 million) structured deposits issued by banks which are themselves rated but where the specific deposits have not been.

4b US insurance operations

Summary	2008 Total £m	2007 Total £m
Corporate security and commercial loans (note (ii)):		
Publicly traded and SEC Rule 144A traded	**13,198**	10,345
Non-SEC Rule 144A traded	**3,273**	2,613
	16,471	12,958
Residential mortgage-backed securities	**4,509**	3,177
Commercial mortgage-backed securities	**1,869**	1,532
Other debt securities (note (iv))	**1,400**	1,335
Total debt securities (note (i))	**24,249**	19,002

Notes

(i) Total debt securities by rating agency grading

The following table summarises by rating the debt securities held by US insurance operations as at 31 December 2008 using Standard and Poor's (S&P), Moody's and Fitch ratings:

	2008 £m	2007 £m
	Carrying value	Carrying value
S&P – AAA	**5,321**	3,896
S&P – AA+ to AA-	**853**	1,187
S&P – A+ to A-	**5,244**	3,657
S&P – BBB+ to BBB-	**7,077**	5,415
S&P – Other	**1,321**	1,113
	19,816	15,268
Moody's – Aaa	**458**	549
Moody's – Aa1 to Aa3	**100**	118
Moody's – A1 to A3	**111**	47
Moody's – Baa1 to Baa3	**100**	79
Moody's – Other	**95**	78
	864	871
Fitch	**464**	380
Other (see below)	**3,105**	2,483
Total debt securities	**24,249**	19,002

In the table above, S&P ratings have been used where available. For securities where S&P ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative.

The amounts within Other which are not rated by S&P, Moody's or Fitch have the following NAIC classifications:

	2008 £m	2007 £m
NAIC 1	**1,334**	1,079
NAIC 2	**1,650**	1,311
NAIC 3-6	**121**	93
	3,105	2,483

(ii) Corporate security and commercial loans

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

The following table shows the quality of publicly traded and SEC Rule 144A traded debt securities held by the US operations as at 31 December 2008 and 2007 by NAIC classifications:

	2008		2007	
	Carrying value £m	% of total	Carrying value £m	% of total
NAIC designation:				
1	**5,380**	**41**	4,338	42
2	**6,849**	**52**	5,194	50
3	**690**	**5**	542	5
4	**200**	**1**	231	2
5	**75**	**1**	40	1
6	**4**	**0**		
	13,198	**100**	10,345	100

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

	2008		2007	
	Carrying value £m	% of total	Carrying value £m	% of total
NAIC designation:				
1	**1,268**	**39**	1,011	39
2	**1,655**	**50**	1,351	52
3	**285**	**9**	206	8
4	**54**	**2**	45	1
5	**11**	**0**	–	–
	3,273	**100**	2,613	100

(iii) Mortgage-backed securities

The following table shows the quality of residential and commercial mortgage-backed securities:

	2008	2007
	Carrying value £m (unless otherwise stated)	Carrying value £m (unless otherwise stated)
Residential mortgage-backed securities (included within debt securities)		
Total residential mortgage-backed securities	**4,509**	3,177
Residential mortgage-backed securities rated AAA or equivalent by a nationally recognised statistical ratings organisation (including Standard & Poor's, Moody's and Fitch):		
Amount	**3,754**	2,724
Percentage of total	**83.3%**	85.7%
Residential mortgage-backed securities rated NAIC 1:		
Amount	**4,241**	3,170
Percentage of total	**94.1%**	99.8%
Commercial mortgage-backed securities (included within debt securities)		
Total commercial mortgage-backed securities	**1,869**	1,532
Commercial mortgage-backed securities rated AAA or equivalent by a nationally recognised statistical ratings organisation (including Standard & Poor's, Moody's and Fitch):		
Amount	**1,586**	1,264
Percentage of total	**84.9%**	82.5%
Commercial mortgage-backed securities rated NAIC 1:		
Amount	**1,815**	1,462
Percentage of total	**97.1%**	95.4%

(iv) Other debt securities

Included within other debt securities of £1,400 million (2007: £1,335 million) in the summary shown above are £893 million (2007: £706 million) of asset backed securities held directly by Jackson, of which £663 million (2007: £579 million) were NAIC designation 1 and £159 million (2007: £127 million) NAIC designation 2. In addition, other debt securities includes £257 million (2007: £316 million) in respect of securities held by the Piedmont trust entity and £250 million (2007: £313 million) from the consolidation of investment funds managed by PPM America.

4c UK insurance operations

The following table summarises by rating the securities held by UK insurance operations as at 31 December 2008:

		PAC with-profits sub-fund			Other funds and subsidiaries		UK insurance operations
	Scottish Amicable Insurance fund	Excluding Prudential Annuities Limited	Prudential Annuities Limited	Total	Unit-linked assets and liabilities	Annuity and other long-term business	2008
	£m	£m	£m	£m	£m	£m	£m
S&P – AAA	1,139	5,765	3,176	8,941	2,866	6,035	**18,981**
S&P – AA+ to AA-	318	1,817	1,389	3,206	423	2,065	**6,012**
S&P – A+ to A-	1,058	5,804	3,295	9,099	815	4,957	**15,929**
S&P – BBB+ to BBB-	789	3,875	919	4,794	210	1,620	**7,413**
S&P – Other	152	794	16	810	71	-	**1,033**
	3,456	18,055	8,795	26,850	4,385	14,677	**49,368**
Moody's – Aaa	111	344	89	433	9	128	**681**
Moody's – Aa1 to Aa3	66	353	255	608	-	159	**833**
Moody's – A1 to A3	43	222	232	454	-	181	**678**
Moody's – Baa1 to Baa3	35	146	138	284	-	135	**454**
Moody's – Other	4	136	12	148	-	10	**162**
	259	1,201	726	1,927	9	613	**2,808**
Fitch	34	181	188	369	-	157	**560**
Other	469	2,221	2,179	4,400	15	1,251	**6,135**
Total debt securities	4,218	21,658	11,888	33,546	4,409	16,698	**58,871**

The following table summarises by rating the securities held by UK insurance operations as at 31 December 2007:

	PAC with-profits sub-fund				Other funds and subsidiaries		UK insurance operations
	Scottish Amicable Insurance fund £m	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited £m	Total £m	Unit-linked assets and liabilities £m	Annuity and other long-term business £m	Total 2007 £m
S&P – AAA	1,453	6,434	4,356	10,790	3,534	5,779	21,556
S&P – AA+ to AA-	436	1,978	1,518	3,496	680	1,561	6,173
S&P – A+ to A-	1,030	4,356	2,693	7,049	1,093	3,385	12,557
S&P – BBB+ to BBB-	652	2,780	920	3,700	267	790	5,409
S&P – Other	167	757	11	768	6	1	942
	3,738	16,305	9,498	25,803	5,580	11,516	46,637
Moody's – Aaa	138	550	177	727	22	134	1,021
Moody's – Aa1 to Aa3	23	198	273	471	9	84	587
Moody's – A1 to A3	74	321	284	605	19	246	944
Moody's – Baa1 to Baa3	41	180	150	330	14	105	490
Moody's – Other	10	400	-	400	-	-	410
	286	1,649	884	2,533	64	569	3,452
Fitch	43	196	265	461	17	161	682
Other	528	2,233	2,428	4,661	90	1,130	6,409
Total debt securities	4,595	20,383	13,075	33,458	5,751	13,376	57,180

In the table above S&P ratings have been used where available. For securities where S&P ratings are not available those produced by Moody's and then Fitch have been used as an alternative.

Where no external ratings are available internal ratings produced by the Group's asset management operations, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. Of the total debt securities held at 31 December 2008 which are not externally rated, £2,325 million (2007: £2,972 million) were internally rated AAA to A-, £3,149 million (2007: £2,844 million) were internally rated BBB+ to B- and £661 million (2007: £593 million) were unrated. The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them.

The primary sensitivity of IFRS basis profit or loss and shareholders' equity relates to non-linked shareholder-backed business which covers other funds and subsidiaries in the table above.

4d Asset management operations

Of the £991 million (2007: £882 million) of debt securities of asset management operations, as shown in the summary table at the front of this section, securities with a value of £959 million (2007: £841 million) are held by M&G's Prudential Capital operation which were all AAA to A- rated where S&P rated or Aaa by Moody's.

4e Group exposure to holdings in asset-backed securities and monoline insurers

(i) Asset-backed securities

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

	2008 £m
Shareholder-backed business	
UK insurance operations (note a)	**1,075**
US insurance operations (note b)	**7,464**
Asian insurance operations (note c)	**15**
Other operations (note d)	**407**
	8,961
With-profits operations	
UK insurance operations (note a)	**4,977**
Asian insurance operations	**328**
	5,305
Total	**14,266**

(a) UK insurance operations

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

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

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

All of the £1,075 million exposure of the shareholder-backed business relates to the UK market and primarily relate to investments held by PRIL. £2,721 million of the £4,977 million (2007:£5,565 million) exposure of the with-profits operations relates to exposure to the UK market while the remaining £2,256 million relates to exposure to the US market.

(b) US insurance operations

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

	2008 £m
RMBS:	
Sub-prime (91% AAA, 3% AA)	291
Alt-A (60% AAA, 15% AA)	646
Prime (87% AAA, 5% AA)	3,572
CMBS (85% AAA, 9% AA)	1,869
CDO funds (34% AAA, 14% AA)*, including £6 million exposure to sub-prime	320
ABS (31% AAA, 16% AA), including £54 million exposure to sub-prime	766
Total	**7,464**

*Including the Group's economic interest in Piedmont and other consolidated CDO funds.

Jackson defines its exposure to sub-prime mortgages as investments in residential mortgage-backed securities in which the underlying borrowers have a US Fair Isaac Credit Organisation (FICO) credit score of 659 or lower. With an average FICO score of 610-620, Jackson's sub-prime collateral could be categorised as 'near prime' with a score close to a prime score of 660.

(c) Asian insurance operations

The Asian insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations.
The £328 million asset-backed securities exposure of the Asian with-profit operations comprises:

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

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

(d) Other operations

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

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

(ii) Direct holdings in monoline insurers

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

Section 5 - Sensitivity of shareholder results to market and other risks

5.1 Group Overview

Background

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

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

- Currency risk: due to changes in foreign exchange rates,
- Interest rate risk: due to changes in market interest rates, and
- Other price risk: due to fluctuations in market prices (other than those arising from interest rate risk or currency risk).

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

In addition, the profitability of the Group life assurance businesses and fund management business, is indirectly affected by the performance of the assets covering policyholder liabilities and related capital.

Key points

- The Group's with-profits and unit-linked funds absorb most market risk attaching to the funds' investments. Except for second order effects, for example on investment management fees and shareholders' share of costs of bonuses for with-profits business, shareholder results are not directly affected by market value movements on the assets of these funds.
- The Group's shareholder results are most sensitive to market risks for assets of shareholder-backed business.
- The main exposures of the Group's IFRS basis results to market risk for life assurance operations on investments of shareholder-backed business are for debt securities of Jackson and UK annuity business and value movements for certain Asian operations, principally Taiwan and Vietnam.

IFRS shareholder results-key exposures for market and other risk

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

For Jackson at the level of operating profit based on longer-term investment returns, the results are sensitive to market conditions to the extent of income earned on spread-based products and equity-based exposure (excluding movement in market implied volatility and based on average corporate AA interest rates) not mitigated by the equity and interest derivative programmes. Jackson's total profit and equity are exposed to similar market movements (including the effects of movements in market implied volatility and actual corporate AA interest rates). In each case, IFRS profit or loss and equity movements arise from the accounting rather than economic effect of market value movements on assets and derivatives attaching to fixed annuity, term and institutional business.

Jackson's derivative programme is used to substantially mitigate equity market risk attaching to its equity-based products and interest rate risk associated with its spread-based products. Movements in interest rates and credit spreads materially affect the carrying value of derivatives which are used to manage the liabilities to policyholders and backing investment assets of fixed annuity and other general account business. Combined with the use of US GAAP measurement for the asset and liabilities for the insurance contracts, which is largely insensitive to current period market movements, the Jackson total profit (i.e. including short-term fluctuations in investment returns) is very sensitive to market movements. In addition to these effects the Jackson IFRS equity is sensitive to the impact of interest rate and credit spread movements on the value of fixed income securities. Movements in unrealised appreciation on these securities are included as movement in equity (i.e. outside the income statement).

For Asian operations, other than possibly for the impact of any alteration to assumed long-term interest rates in Taiwan, at the level of operating profit based on longer-term investment returns it is mainly affected by the impact of market levels on unit-linked business persistency, and other insurance risk.

At the total IFRS profit level the Asian result is affected by short-term value movements on the asset portfolio for non-linked shareholder-backed business.

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

The most significant items for which the IFRS basis profit or loss and equity for the businesses is sensitive to market, insurance and lapse risk is as shown below. The distinction between direct and indirect exposure is not intended to indicate the relative size of the sensitivity.

Type of business	Market and credit risk					Insurance and lapse risk (notes 5.1e)
	Investments / Derivatives			Liabilities / unallocated surplus	Indirect exposure	
UK insurance operations (note 5.1a)						
With-profits business (including Prudential Annuities Limited)	Net neutral direct exposure (indirect exposure only)				Investment performance subject to smoothing through declared bonuses	Persistency risk to future shareholder transfers
SAIF sub-fund	Net neutral direct exposure (indirect exposure only)				Asset management fees earned by M&G	
Unit-linked business	Net neutral direct exposure (indirect exposure only)				Investment performance through asset management fees	Persistency risk
Shareholder-backed annuity business	Asset / liability mismatch risk					Mortality experience and assumptions for longevity
	Credit risk					
	Interest rate risk for assets in excess of liabilities i.e. representing shareholder capital					
US insurance operations (note 5.1b)						
All business	Currency risk					Persistency risk
Variable annuity business	Net effect of market risk arising from incidence of guarantee features and variability of asset management fees offset by derivative hedging programme					
Fixed indexed annuity business	Derivative hedge programme to the extent not fully hedged against liability and fund performance			Incidence of equity participation features		
Fixed indexed annuity, fixed annuity business and GIC business	Credit risk Interest rate risk These risks are reflected in volatile profit or loss for derivative value movements and impairment losses and, in addition, for shareholders' equity for value movements on fixed income securities classified as 'available-for-sale' under IAS 39				Spread difference between earned rate and rate credited to policyholders	Lapse risk but the effects of extreme events are mitigated by the use of swaption contracts

Asian insurance operations (note 5.1c)						
All business	Currency risk					Mortlaity and morbidity risk Persistency risk
With-profits business	Net neutral direct exposure (indirect exposure only)				Investment performance subject to smoothing through declared bonuses	
Unit-linked business	Net neutral direct exposure (indirect exposure only)				Investment performance through asset management fees	
Non-participating business (in particular Taiwan)	Interest rate and price risk			Long-term interest rates		
Asset management operations (note 5.1d)						
M&G	Credit risk on Prudential Capital loan book				Investment performance through asset management fees	
US broker-dealer and asset management						
Asian asset management						

Additional notes on these operations follow.

5.1a UK insurance operations

With-profits business

• With-profits business

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

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

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

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

• Prudential Annuities Limited (PAL)

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

• Scottish Amicable Insurance Fund (SAIF)

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

Shareholder-backed business

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

• Prudential Retirement Income Limited (PRIL)

The assets covering PRIL's liabilities are principally debt securities and other investments that are held to match the expected duration and payment characteristics of the policyholder liabilities. These liabilities are valued for IFRS reporting purposes by applying discount rates that reflect the market rates of return attaching to the covering assets.

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

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

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

- PAC non-profit sub-fund

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

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

- Other shareholder-backed unit-linked business

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

Additional information on the sensitivity of the results of UK insurance operations is shown in Section 5.2.

5.1b US insurance operations

The IFRS basis results of Jackson are highly sensitive to market risk on the assets covering liabilities for fixed annuity, term, institutional and other variable annuity business not segregated in the separate accounts.

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

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

These differences in carrying value give rise to potentially significant volatility in the IFRS income statement and shareholders' equity. As for other shareholder-backed business the profit or loss for Jackson is presented in the Group's supplementary basis of reporting as shown in section 3.2 and 3.4, by distinguishing the result for the year between an operating result based on longer-term fluctuation in investment returns. In this way the most significant direct effect of market changes that have taken place on the Jackson result are separately identified.

Excluding these short-term effects, the factors that most significantly affect the Jackson IFRS operating result based on longer-term investment returns are:

- Variable annuity business for the net effect of market risk arising from the incidence and valuation guarantee features and variability of asset management fees offset by derivative hedging performance. The net effect of market risk in Jackson's guarantees and derivatives included in operating result excludes the impact of changes in market implied volatility. Further movements in reserves for guarantees reflected in operating result are also based on a long-term average Corporate AA credit curve instead of the actual Corporate AA credit curve at the valuation date.
- Fixed Annuity business for the spread differential between the earned rate and the rate credited to policyholders; and
- Fixed Index Annuity business for the spread differential between the earned rate and the rate credited to policyholders and incidence of equity index participation features, net of the related hedging performance.

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

Additional information on the sensitivity of the results of US insurance operations is shown in Section 5.3.

5.1c Asian operations

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

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

This sensitivity is primarily reflected through the volatility of asset returns coupled with the fact that the accounting carrying value of liabilities to policyholders is only partially sensitive to changed market conditions. As for UK shareholder-backed operations and Jackson, the IFRS profit is distinguished in the Group's supplementary analysis so as to distinguish operating profits based on longer-term investment return and short-term fluctuations in investment returns.

In addition to these features, the overriding factor that affects IFRS basis results for Asian non-participating business is the return on the assets covering the Taiwan whole of life policies. This factor directly affects the actual return in any given reporting period. In addition though, the measurement of the liabilities to policyholders and the carrying value of deferred acquisition costs for this business is dependent upon an assessment of longer-term interest rates.

Additional information on the sensitivity of the results of Asian operations is shown in Section 5.4.

5.1d Asset management operations

The principal financial risks of the asset management operations are for credit risk on the bridging loan portfolio (as described in note 1.5) of M&G's Prudential Capital operation and the indirect effect of changes to market values of funds under management on fees.

5.1e Insurance and lapse risk

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

In the UK, adverse persistency experience can affect the level of profitability from with-profits and unit-linked business. For with-profits business in any given year, the amount represented by the share of cost of bonuses may be only marginally affected. However, altered persistency trends may affect future expected shareholder transfers.

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

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

5.1f Impact of diversification on risk exposure

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

Correlation across geographic regions
- Financial risk factors
- Non-financial risk factors

Correlation across risk factors
- Longevity risk
- Expenses
- Persistency
- Other risks

The effect of Group diversification is to significantly reduce the aggregate standalone volatility risk to IFRS operating profit based on longer-term investment returns. The effect is almost wholly explained by the correlations across risk types, in particular longevity risk.

5.2 Sensitivity of results to market and other risks: UK insurance operations

The risks to which the IFRS basis results of the UK insurance operations are sensitive are asset (liability) matching and experience and assumptions for mortality for shareholder-backed annuity business. Further details are described below.

5.2a With-profits business

SAIF

Shareholders have no interest in the profits of SAIF but are entitled to the investment management fees paid on the assets of the fund.

With-profits sub-fund business

For with-profits business (including non-participating business of PAL which is owned by the PAC with-profits sub-fund (WPSF)) 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, shareholders' profit for with-profits business is unaffected. This is because IFRS basis profits for with-profits business, which are determined on the same basis as on preceding UK GAAP, solely reflect one-ninth of the cost of bonuses declared for the year.

The main factors that influence the determination of bonus rates are the return on the investments of the fund, the effect of inflation, taxation, the expenses of the fund chargeable to policyholders and the degree to which investment returns are smoothed. Mortality and other insurance risk are relatively minor factors.

Unallocated surplus represents the excess of assets over policyholder liabilities of the fund. As unallocated surplus of the WPSF is recorded as a liability, movements in its value do not affect shareholders' profits or equity.

The level of unallocated surplus is particularly sensitive to the level of investment returns on the portion of the life fund assets that represents the surplus.

5.2b Shareholder-backed annuity business

Profits from shareholder-backed annuity business are most sensitive to:

- the extent to which the duration of the assets held closely matches the expected duration of the liabilities under the contracts. Assuming close matching, the impact of short-term asset value movements as a result of interest rate movements will broadly offset changes in the value of liabilities caused by movements in valuation rates of interest;
- actual versus expected default rates on assets held;
- the difference between long-term rates of return on corporate bonds and risk-free rates;
- the variance between actual and expected mortality experience;
- the extent to which expected future mortality experience gives rise to changes in the measurement of liabilities; and
- changes in renewal expense levels.

A decrease in assumed mortality rates of one per cent would decrease gross profits by approximately £35 million (2007: £35 million). A decrease in credit default assumptions of five basis points would increase gross profits by £71 million (2007: £72 million). A decrease in renewal expenses (excluding asset management expenses) of five per cent would increase gross profits by £15 million (2007: £13 million). The effect on profits would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above.

5.2c Unit-linked and other business

Unit-linked and other business represents a comparatively small proportion of the in-force business of the UK insurance operations.

Profits from unit-linked and similar contracts primarily arise from the excess of charges to policyholders, for management of assets under the Company's stewardship, over expenses incurred. The former is most sensitive to the net accretion of funds under management as a function of new business and lapse and mortality experience. The accounting impact of the latter is dependent upon the amortisation of acquisition costs in line with the emergence of margins (for insurance contracts) and amortisation in line with service provision (for the investment management component of investment contracts). By virtue of the design features of most of the contracts which provide low levels of mortality cover, the profits are relatively insensitive to changes in mortality experience.

5.2d Shareholder exposure to interest rate risk and other market risk

By virtue of the fund structure, product features and basis of accounting, the policyholder liabilities of the UK insurance operations are, except for pension annuity business, not generally exposed to interest rate risk. For pension annuity business, liabilities are exposed to fair value interest rate risk. However, the net exposure to the PAC WPSF (for PAL) and shareholders (for liabilities of PRIL and the non-profit sub-fund) is very substantially mitigated by virtue of the close matching of assets with appropriate duration.

The close matching by the Group of assets of appropriate duration to annuity liabilities is based on maintaining economic and regulatory capital. The measurement of liabilities under capital reporting requirements and IFRS is not consistent with contingency reserves and margins for prudence within the assumptions required under the FSA regulatory solvency basis not being recognised as liabilities for IFRS reporting purposes. As a result IFRS equity is higher than regulatory capital and therefore more sensitive to interest rate risk.

In light of the recent market conditions, the Group has extended the range of the movements in interest rates that are reasonably possible to occur at 31 December 2008 in its interest rate sensitivity analysis. Consequently, in addition to the movement in interest rates of one per cent as applied at 31 December 2007, for 2008, the Group has also estimated the sensitivity to movement in interest rates of two per cent. The estimated sensitivity of the UK non-linked shareholder backed business (principally pension annuities business) to a movement in interest rates of one per cent as at 31 December 2008 and 2007 and of a movement in interest rates of two per cent as at 31 December 2008 are as follows:

	2008				2007	
	Decrease 2%	**Decrease 1%**	**Increase of 1%**	**Increase of 2%**	Decrease of 1%	Increase of 1%
	£m	**£m**	**£m**	**£m**	£m	£m
Carrying value of debt securities and derivatives	**4,362**	**1,983**	**(1,676)**	**(3,108)**	1,930	(1,634)
Policyholder liabilities	**(3,974)**	**(1,798)**	**1,503**	**2,773**	(1,777)	1,467
Related deferred tax effects	**(109)**	**(52)**	**48**	**94**	(43)	47
Net sensitivity of profit and equity	**279**	**133**	**(125)**	**(241)**	110	(120)

In addition the shareholder backed portfolio of UK non-linked insurance operations covering liabilities and shareholders' equity includes equity securities and investment property. Similar to the sensitivity analysis to interest rate movement above, the Group has also extended the range of reasonably possible movements in the value of equity securities and investment property at 31 December 2008. In addition to the movement of 10 per cent as applied at 31 December 2007, for 2008, the Group has also estimated the sensitivity to movements of 20 and 40 per cent. Excluding any second order effects on the measurement of the liabilities for future cash flow to the policyholder, a 10 per cent fall in their value at 31 December 2008 and 2007 and a 20 and 40 per cent fall in their value at 31 December 2008 would have given rise to the following effects on pre-tax profit, profit after tax, and shareholders' equity.

	2008			2007
	Decrease of 40%	**Decrease of 20%**	**Decrease of 10%**	Decrease of 10%
	£m	**£m**	£m	£m
Pre-tax profit	**(508)**	**(254)**	**(127)**	(86)
Related deferred tax effects	**142**	**71**	**35**	24
Net sensitivity of profit after tax and shareholders equity	**(366)**	**(183)**	**(92)**	(62)

A 10, 20 or 40 per cent increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market movements and, therefore, the primary effect of such movements would, in the Group's supplementary analysis of profits, be included within the short-term fluctuations in investment returns.

5.3 Sensitivity of results to market and other risks: US insurance operations

5.3a Currency fluctuations

Consistent with the Group's accounting policies, the profits of the Group's US operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2008, the rates were US$1.85 (2007: US$2.00) and US$1.44 (2006: US$1.99) to £1 sterling, respectively. A 10 per cent increase or decrease in these rates would reduce or increase profit before tax attributable to shareholders, profit for the year and shareholders' equity attributable to US insurance operations respectively as follows:

	A 10% increase in exchange rates		**A 10% decrease in exchange rates**	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
(Loss) profit before tax attributable to shareholders*	**59**	(39)	**(72)**	48
(Loss) profit for the year	**51**	(29)	**(62)**	35
Shareholders' equity attributable to US insurance	**(158)**	(242)	**193**	296

* Sensitivity on (loss) profit before tax i.e. aggregate of the operating profit based on longer-term investment returns and short-term fluctuations, as discussed in note 6.3

The opposite effect of a 10% increase and decrease of exchange rates on (loss) profit for 2008 compared to 2007 is due to a loss before and after tax for 2008 compared to a profit before and after tax for 2007.

5.3b Other sensitivities

The principal determinants of variations in operating profit based on longer-term returns are:

- growth in the size of assets under management covering the liabilities for the contracts in force;
- incidence of guarantees; and
- spread returns for the difference between investment returns and rates credited to policyholders.

For the purpose of determining longer-term returns, adjustment is necessary for the normalisation of investment returns to remove the effects of short-term volatility in investment returns.

- amortisation of deferred acquisition costs.

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 expected long-term spread between the earned rate and the rate credited to policyholders, which is based on an annual spread analysis. In addition, expected gross profits depend on mortality assumptions, assumed unit costs and terminations other than deaths (including the related charges) all of which are based on a combination of actual experience of Jackson, industry experience and future expectations.

A detailed analysis of actual experience is measured by internally developed mortality and persistency studies. For variable annuity business, the key assumption is the expected long-term level of equity market returns, which for 2008 and 2007 was 8.4 per cent per annum implemented using a mean reversion methodology. These returns affect the level of future expected profits through their effects on the fee income and the required level of provision for guaranteed minimum death benefit claims. The mean reversion methodology dampens the impact of equity market movements during a particular year, but does not fully eliminate the effects of movements in the equity markets.

In addition, the mean reversion methodology includes both a cap and a floor that determine the maximum impact that the methodology may have. Due to the significant market movements during 2008, Jackson exceed the cap on future equity market returns, resulting in a higher level of DAC amortisation than would have been recognised had the cap not been met.

- Variations in fees and other income, offset by variations in market value adjustment payments and, where necessary, strengthening of liabilities.

Except to the extent of mortality experience, which primarily affects profits through variations in claim payments and GMDB reserves, the profits of Jackson are relatively insensitive to changes in insurance risk.

5.3c Exposure to equity risk

Jackson is exposed to equity risk through the options embedded in the fixed indexed liabilities and GMDB and GMWB guarantees included in certain VA benefits. This risk is managed using a comprehensive equity hedging programme to minimise the risk of a significant economic impact as a result of increases or decreases in equity market levels while taking advantage of naturally offsetting exposures in Jackson's operations. Jackson purchases external futures and options that hedge the risks inherent in these products, while also considering the impact of rising and falling separate account fees.

As a result of this hedging programme, if the equity markets were to increase, Jackson's free-standing derivatives would decrease in value. However, over time, this movement would be broadly offset by increased separate account fees and reserve decreases, net of the related changes to amortisation of deferred acquisition costs. Due to the nature of the free-standing and embedded derivatives, this hedge, while highly effective on an economic basis, may not completely mute the immediate impact of the market movements as the free-standing derivatives reset immediately while the hedged liabilities reset more slowly and fees are recognised prospectively.

At 31 December 2008 based on the hedges in place at that time, it is estimated that an immediate decrease in the equity markets of 10 per cent would result in an accounting charge, net of related DAC amortisation, before tax of up to £20 million, excluding the impact on future separate account fees. After related deferred tax there would have been an estimated reduction in shareholders' equity at 31 December 2008 of up to £15 million. An immediate decrease in the equity markets of 20 and 40 per cent would result in an accounting charge, net of related DAC amortisation, before tax of up to £40 million and £ 90 million respectively, excluding the impact on future separate account fees. After related deferred tax there would have been an estimated reduction in shareholders' equity at 31 December 2008 of up to £30 million and £60 million respectively. Since the year–end the Group has implemented additional equity hedging to reduce the exposure to further falls in the level of the S&P index.

An immediate increase in the equity markets of the percentages above would result in an approximately equal and opposite estimated effect on profit and shareholders' equity. At 31 December 2007, it was estimated that an immediate decrease in the equity markets at 10 per cent would result in an accounting benefit, net of related DAC amortisation, before tax of up to £30 million, excluding the impact on future separate account fees. After related deferred tax, it was estimated that there would have been an increase in shareholders' equity of up to £20 million. The difference in the effects of a decrease in the equity markets at 31 December 2008 and 2007 was due to an increased number of GMDB and GMWB guarantees being 'in the money'. As a result of this changed position, the adverse effects from a decreasing equity market at 31 December 2008 more than offsets the benefits from the hedging instruments.

The actual impact on financial results would vary contingent upon the volume of new product sales and lapses, changes to the derivative portfolio, correlation of market returns and various other factors including volatility, interest rates and elapsed time.

In addition, Jackson is also exposed to equity risk from its holding of equity securities, partnerships in investment pools and other financial derivatives.

Jackson has extended the range of reasonably possible movements in the value of equity securities, partnerships in investment pools and other financial derivatives at 31 December 2008. Consequently, in addition to the movement of 10 per cent as applied at 31 December 2007, for 2008, Jackson has also estimated the sensitivity to movements of 20 and 40 per cent. A 10 per cent fall in their value at 31 December 2008 and 2007 and a 20 and 40 per cent fall in their value at 31 December 2008 would have given rise to the following effects on pre-tax profit, net of related changes in amortisation of DAC, profit after tax and shareholders' equity.

	2008			2007
	Decrease of 40%	**Decrease of 20%**	**Decrease of 10%**	Decrease of 10%
	£m	**£m**	**£m**	£m
Pre-tax profit, net of related changes in amortisation of DAC	**(255)**	**(141)**	**(98)**	(76)
Related deferred tax effects	**89**	**49**	**34**	27
Net sensitivity of profit after tax and shareholders' equity	**(166)**	**(92)**	**(64)**	(49)

5.3d Exposure to interest rate risk

Notwithstanding the 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 fixed annuity liabilities of Jackson products is not generally sensitive to interest rate risk. This position derives from the nature of the products and the US GAAP basis of measurement. The GMWB features attaching to variable annuity business represents embedded derivatives which are fair valued and so will be sensitive to changes in interest rate.

Debt securities and related derivatives are marked to fair value. Value movements on derivatives, again net of related changes to amortisation of DAC and deferred tax, are recorded within profit and loss. Fair value movements on debt securities, net of related changes to amortisation of DAC and deferred tax, are recorded within the statement of changes in equity. Similar to the sensitivity analysis to equity prices movement above, Jackson has extended the range of the movements in interest rates that are reasonably possible to occur at 31 December 2008 in its sensitivity analysis. In addition to the movement in interest rates of one per cent as applied at 31 December 2007, for 2008, Jackson has also estimated the sensitivity to movement in interest rates of two per cent. The estimated sensitivity of these items and policyholder liabilities to a one per cent decrease and increase in interest rates at 31 December 2008 and 2007 and to a two per cent decrease and increase in interest rates at 31 December 2008 is as follows:

	2008 £m				2007 £m	
	A 2% decrease	**A 1% decrease**	**A 1% increase**	**A 2% increase**	A 1% decrease	A 1% increase
Profit and loss:						
Direct effect						
Derivatives value change	**(575)**	**(268)**	**283**	**639**	(116)	163
Policyholder liabilities	**(517)**	**(218)**	**182**	**350**	(38)	29
Related effect on amortisation of DAC	**498**	**215**	**(193)**	**(395)**	52	(58)
Pre-tax profit effect						
Operating profit based on longer-term investment returns	**(128)**	**(59)**	**64**	**146**	(15)	11
Short-term fluctuations in investment returns	**(466)**	**(212)**	**208**	**448**	(87)	123
	(594)	**(271)**	**272**	**594**	(102)	134
Related effect on charge for deferred tax	**206**	**94**	**(95)**	**(207)**	36	(47)
Net profit effect	**(388)**	**(177)**	**177**	**387**	(66)	87
Statement of changes in equity:						
Direct effect on carrying value of debt securities	**2,476**	**1,238**	**(1,238)**	**(2,476)**	848	(848)
Related effect on amortisation of DAC	**(619)**	**(310)**	**310**	**619**	(212)	212
Related effect on movement in deferred tax	**(650)**	**(325)**	**325**	**650**	(223)	223
Net effect	**1,207**	**603**	**(603)**	**(1,207)**	413	(413)
Total net effect on IFRS equity	**819**	**426**	**(426)**	**(820)**	347	(326)

5.4 Sensitivity of results to market and other risks: Asian insurance operations

5.4a Currency translation

Consistent with the Group's accounting policies, the profits of the Asian operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period.

A 10 per cent increase or decrease in these rates and those of other Asian operations would have reduced or increased profit before tax attributable to shareholders, profit for the year and shareholders' equity, excluding goodwill, attributable to Asian operations respectively as follows:

	A 10% increase in exchange rates		**A 10% decrease in exchange rates**	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Profit before tax attributable to shareholders*	**(14)**	(16)	**18**	20
Profit for the year	**(6)**	(10)	**8**	13
Shareholders' equity, excluding goodwill, attributable	**(202)**	(124)	**246**	151

* Sensitivity on profit before tax i.e. aggregate of the operating profit based on longer-term investment returns, short-term fluctuations in investment returns, and actuarial gains and losses on defined benefit pension schemes

5.4b Other market risks

(i) With-profits business

Similar principles to those explained for UK with-profits business apply to profit emergence for the Asian with-profits business. Correspondingly, the profit emergence reflects bonus declaration and is relatively insensitive to period by period fluctuations in insurance risk or interest rate movements.

(ii) Unit-linked business

As for the UK insurance operations, the profits and shareholders' equity related to the Asian operations are primarily driven by charges related to invested funds. For the Asian operations, substantially all of the contracts are classified as insurance contracts under IFRS 4, i.e. containing significant insurance risk. The sensitivity of profits and equity to changes in insurance risk is minor and, to interest rate risk, not material.

(iii) Other business

Taiwan whole of life business – interest rate risk on deferred acquisition costs and policyholders' liabilities

The principal other business of Asian operations which is most sensitive to interest rates is the traditional whole of life business written in Taiwan.

The in-force business of the Taiwan life operation includes traditional whole of life policies where the premium rates have been set by the regulator at different points for the industry as a whole. Premium rates were set to give a guaranteed minimum sum assured on death and a guaranteed surrender value on early surrender based on prevailing interest rates at the time of policy issue. Premium rates also included allowance for mortality and expenses. The required rates of guarantee have fallen over time as interest rates have reduced from a high of eight per cent to current levels of around 1.4 per cent. The current low level of bond rates in Taiwan gives rise to a negative spread for the majority of these policies. The current cash cost of funding in-force negative spread in Taiwan is around £50 million a year.

The profits attaching to these contracts are particularly affected by the rates of return earned, and estimated to be earned, on the assets held to cover liabilities and on future investment income and contract cash flows. Under IFRS, the insurance contract liabilities of the Taiwan business are determined on the US GAAP basis as applied previously under UK GAAP. Under this basis, the policy liabilities are calculated on sets of assumptions, which are locked in at the point of policy inception, and a deferred acquisition cost is held in the balance sheet.

The adequacy of the insurance contract liabilities is tested by reference to best estimates of expected investment returns on policy cash flows and reinvested income. The assumed earned rates are used to discount the future cash flows. The assumed earned rates consist of a long-term best estimate determined by consideration of long-term market conditions and rates assumed to be earned in the trending period. For 2008 and 2007, it has been projected that rates of return for Taiwanese bond yields will trend from the current levels of some 1.4 per cent (2.5 per cent) to 5.5 per cent by 31 December 2018 (2007: 5.5 per cent by 2013).

The liability adequacy test results are sensitive to the attainment of the trended rates during the trending period. Based on the current asset mix, margins in other contracts that are used in the assessment of the liability adequacy tests and currently assumed future rates of return, if interest rates were to remain at current levels in 2009 and 2010 and the target date for attainment of the long-term bond yield deferred to 31 December 2020, the premium reserve, net of deferred acquisition costs, would be sufficient. If interest rates were to remain at current levels beyond the end of 2009 with the date of the attainment of the long-term rate further delayed, the margin within the net GAAP reserve will reduce further.

However, the need to write off deferred acquisition costs or increase the liabilities, and by how much, would be affected by the impact of new business written between 31 December 2008 and the future reporting dates to the extent that the business is taken into account as part of the liability adequacy testing calculations for the portfolio of contracts.

The adequacy of the liability is also sensitive to the level of the projected long-term rate on bonds. The current long-term assumption of 5.5 per cent has been determined on a prudent best estimate basis by reference to detailed assessments of the financial dynamics of the Taiwanese economy. In the event that the rate applied was altered, the carrying value of the deferred acquisition costs and policyholder liabilities would potentially be affected.

At 31 December 2008, if the assumed long-term bond yield applied had been reduced by both 0.5 and 1.0 per cent from 5.5 per cent to 4.5 per cent and continued to apply the same progression period to 31 December 2018, by assuming bond yields increase from current levels in equal annual instalments to the long-term rate, the premium reserve, net of deferred acquisition costs, would have been sufficient. An additional 0.5 per cent reduction in the assumed long-term rate from 4.5 per cent to 4.0 per cent would lead to a charge of some £150 million.

The adequacy of the Taiwan insurance contract liabilities is also sensitive to movements in short-term movements in market interest rates. This is because a reduction in the current interest rates would alter the progression rate to the long-term rate and the assumed timing of attainment of the rate may be insufficient and they would have been deferred. Based on the in-force business at 31 December 2008, a delay of one to two years in the attainment of the long-term rate of 5.5 per cent would not give rise to an additional charge. Based on the in-force business at 31 December 2008, a delay of three to four years in the attainment of the long-term rate of 5.5 per cent would not give rise to a significant charge. A delay of five years would give rise to a charge of some £60 million.

For the Korean and Japanese life business exposures described in note (e) above, the results are comparatively unaffected by changes of assumption.

Interest rate risk for other business excluding Taiwan

In addition to the sensitivity of the Taiwan results to the impact of current period and longer-term interest rates on liability adequacy tests, as described above, the other business and solvency capital of Asian operations are also sensitive to the vagaries of routine movements in interest rates.

Asian operations offer a range of insurance and investment products, predominantly with-profits and non-participating term, whole life endowment and unit-linked business.

Excluding with-profit and unit-linked business along with Taiwan, which is detailed above, 71 per cent (2007: 72 per cent) of the bond portfolio for other business of Asian operations at 31 December 2008 was held in Japan, Singapore and Vietnam with corporate bond rates varying from territory to territory and ranging from 1.17 per cent to 10.18 per cent at 31 December 2008 (1.5 per cent to 9.1 per cent at 31 December 2007) for these three countries. An analysis of movements in bond rates during previous periods and its impact on IFRS basis profit or loss and shareholders' equity has been undertaken, with reasonably possible movements for these countries being considered to be 0.5 per cent for Japan, 1.0 per cent for Singapore and 1.5 per cent for Vietnam.

Based on these movements, plus indicative changes for bonds held in other Asian operations within the region, the impact on IFRS basis profit or loss and shareholders' equity from a reasonably possible change in interest rates for Asian operations excluding Taiwan at 31 December 2008 has been assessed, with rate movements ranging from 0.5 per cent to 1.5 per cent (2007: 0.25 per cent to 1.0 per cent) dependent on country. Looking at the region in aggregate and noting that interest rates are unlikely to move consistently by the same degree from period to period, the range of movements considered to be reasonably possible would result in a change in IFRS profit or loss of plus or minus £56 million (2007: £30 million). These amounts, if they arose, would be recorded within the category short-term fluctuations in investment returns in the Group's supplementary analysis of profit before tax. After adjusting for deferred tax the reasonably possible effect on shareholders' equity is plus or minus £45 million (2007: £22 million).

Equity price risk

The principal holders of equity securities are the Taiwan, Singapore and Vietnam businesses. For the Taiwan and Singapore operations market changes have a direct effect on profit and loss with no matching effect on the carrying value of policyholder liabilities. This is also true for the Vietnam business. However, to the extent that equity investment appreciation is realised through sales of securities then policyholders' liabilities are adjusted to the extent that policyholders' participate.

In light of the recent market conditions, the Group has extended the range of reasonably possible movements in the value of equity prices at 31 December 2008. Consequently, in addition to the movement of 10 per cent as applied at 31 December 2007, for 2008, the Group has also estimated the sensitivity to movements of 20 and 40 per cent. The estimated sensitivity to a 10 per cent change in equity prices for shareholder-backed Asian other business, which would be reflected in the short-term fluctuation component of the Group's supplementary analysis of profit before tax, at 31 December 2008 and 2007 and to a 20 and 40 per cent change in equity prices at 31 December 2008 would be as follows:

	2008			2007
	Decrease of 40%	**Decrease of 20%**	**Decrease of 10%**	Decrease of 10%
	£m	**£m**	**£m**	£m
Pre-tax	**(176)**	**(88)**	**(44)**	(73)
Related deferred tax (where applicable)	**5**	**3**	**1**	5
Net effect on profit and equity	**(171)**	**(85)**	**(43)**	(68)

A 10, 20 or 40 per cent increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The low tax rate effect relates to the availability of capital losses in some of the territories.

GROUP INVESTMENTS

Section 6 - Accounting policies

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

Investment classification

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

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

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

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

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

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

Use of fair values

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

Impairments

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

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

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

Derivatives and hedge accounting

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

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

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

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

(iii) Cash flow hedges – the effective portion of changes in the fair value of derivatives designated as cash flow hedges is recognised in equity. Movements in fair value relating to the ineffective portion are booked in the income statement. Amounts recognised directly in equity are recorded in the income statement in the periods in which the hedged item affects profit or loss.

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

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

For the Group's continuing operations, hedge accounting under IAS 39 is not usually applied.

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

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

For Jackson an extensive derivative programme is maintained. Value movements on the derivatives held can be very significant in their effect on shareholder results. The Group has chosen to not generally seek to construct the Jackson derivative programme so as to facilitate hedge accounting where theoretically possible, under IAS 39.

Embedded derivatives

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

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

6.2 Investment properties

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

6.3 Supplementary analysis of results attributable to shareholders

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 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 are accounted for as liabilities and (ii) excess or deficits of income and expenditure of the funds over the required surplus for distribution are transferred to or from unallocated surplus. However, for shareholder-backed businesses the short-term fluctuations affect the result for the year and the Group provides additional analysis of results to provide information on results before and after short-term fluctuations in investment returns.

The Group provides supplementary analysis of profit before tax attributable to shareholders that distinguishes operating profit based on longer-term investment returns from other constituent elements of the total profit.

Operating profit based on longer-term investment returns

The Group continues to use operating profit based on longer-term investment returns as a supplemental measure of its results. 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 Group's shareholder-financed operations.

(i) Debt securities 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. Longer-term equity returns comprise aggregate long-term income and capital returns

(ii) Derivative value movements
Value movements for Jackson's equity-based derivatives and variable annuity product embedded derivatives are included in operating profits based on longer-term investment returns. The inclusion of these movements is so as to broadly match with the results on the Jackson variable annuity book that pertain to equity market movements.

Other derivative value movements are excluded from operating results based on longer-term investment returns. These derivatives are primarily held by Jackson as part of a broadly-based hedging 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 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 asset defaults which, if they occur, are recorded as a component of short-term fluctuations in investment returns.

6.4 Valuation and accounting presentation of fair value movements of derivatives and debt securities of Jacksor

Under IAS 39, derivatives are required to be carried at fair value. Unless hedge accounting is applied, value movements on derivatives are recognised in the income statement. Except in respect of variable annuity business, the value movements on these derivatives are separately identified within the short-term fluctuations in investment returns identified as part of the Group's supplementary analysis of results described in section 6.3 and in section 3.2. Derivative value movements in respect of variable annuity business are included within the operating profit based on longer-term investment returns.

For derivative instruments of Jackson, the Group has considered at length whether it is appropriate to undertake the necessary operational changes to qualify for hedge accounting so as to achieve matching of value movements in hedging instruments and hedged items in the performance statements. In reaching the decision a number of factors were particularly relevant. These were:

• IAS 39 hedging criteria has been designed primarily in the context of hedging and hedging instruments that are assessable as financial instruments that are either stand-alone or separable from host contracts, rather than, for example, duration characteristics of insurance contracts;

• the high hurdle levels under IAS 39 of ensuring hedge effectiveness at the level of individual hedge transactions for specific transactions;

• the difficulties in applying the macro hedge provisions under IAS 39 (which are more suited to banking arrangements) to Jackson's derivative book;

• the complexity of asset and liability matching of US life insurers such as those with Jackson's product range; and finally

• whether it is possible or desirable, without an unacceptable level of costs and restraint on commercial activity, to achieve the accounting hedge effectiveness required under IAS 39.

In this regard, the issues surrounding the IAS 39 application are very similar to those considered by other US life insurers when the US financial reporting standard FAS 133 was first applied for US GAAP reporting. Taking account of these considerations the Group has decided that, except for certain minor categories of derivatives, it is not appropriate to seek to achieve hedge accounting under IAS 39 by completely reconfiguring the structure of Jackson's derivative book. 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 Group has chosen not to classify any financial assets as held-to-maturity. Debt securities of Jackson are designated as available-for-sale with value movements, unless impaired, being recorded as movements within shareholders' equity. Impairments are recorded in the income statement.

GROUP INVESTMENTS

Section 7 - Reconciliation of Group's Directly Held Investments

7.1 Reconciliation of movements in investments

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

	Insurance operations			Total	Asset		31 Dec 2008
	UK £m	US £m	Asia £m	insurance operations £m	management operations £m	Unallocated to a segment £m	Group total £m
At January 2007							
Total investments (including derivative assets)	138,537	36,129	13,725	188,391	2,963	240	191,594
Less: Investments held by consolidated investment	(1,179)	-	(547)	(1,726)	-	-	(1,726)
Less: Derivative liabilities	(268)	(92)	(4)	(364)	(142)	(4)	(510)
Directly held investments, net of derivative liabilities	137,090	36,037	13,174	186,301	2,821	236	189,358
Net cash inflow from operating activities	3,128	2,612	2,731	8,471	317	(210)	8,578
Realised gains (losses) in the year	4,660	(47)	1,484	6,097	8	(16)	6,089
Unrealised gains (losses) in the year	(2,789)	636	(128)	(2,281)	(22)	3	(2,300)
Foreign exchange translation differences	99	(601)	298	(204)	104	-	(100)
Movement in the year of directly held investments, net of derivatives	5,098	2,600	4,385	12,083	407	(223)	12,267
At 31 December 2007 / 1 January 2008							
Total investments (including derivative assets)	143,539	38,795	18,244	200,578	3,414	58	204,050
Less: Investments held by consolidated investment	(662)	-	(683)	(1,345)	-	-	(1,345)
Less: Derivative liabilities	(689)	(158)	(2)	(849)	(186)	(45)	(1,080)
Directly held investments, net of derivative liabilities	142,188	38,637	17,559	198,384	3,228	13	201,625
Net cash inflow from operating activities	887	2,862	2,596	6,345	(615)	85	5,815
Realised gains (losses) in the year	73	(385)	(273)	(585)	9	(36)	(612)
Unrealised gains (losses) in the year	(26,932)	(8,825)	(4,199)	(39,956)	(156)	(19)	(40,131)
Foreign exchange translation differences	1,636	13,019	4,993	19,648	545	2	20,195
Movement in the year of directly held investments, net of derivatives	(24,336)	6,671	3,117	(14,548)	(217)	32	(14,733)
At 31 December 2008							
Total investments (including derivative assets)	121,862	46,171	21,809	189,842	3,303	289	193,434
Less: Investments held by consolidated investment	(609)	-	(1,101)	(1,710)	-	-	(1,710)
Less: Derivative liabilities	(3,401)	(863)	(32)	(4,296)	(292)	(244)	(4,832)
Directly held investments, net of derivative liabilities	117,852	45,308	20,676	183,836	3,011	45	186,892

7.2 UK Insurance Operations Movement in Investments

A reconciliation of the investments held directly by UK insurance operations from the beginning of the year to the end of the year is as follows:

		PAC with-profits sub-fund			Other funds and subsidiaries		
	Scottish Amicable Insurance Fund £m	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited £m	Total £m	Unit-linked assets and liabilities £m	Annuity and other long-term business £m	**Total** £m
At January 2007							
Total investments (including derivative assets)	14,201	74,463	15,305	89,768	17,237	17,331	138,537
Less: Investments held by consolidated investment	-	-	-	-	-	(1,179)	(1,179)
Less: Derivative liabilities	(36)	(169)	(44)	(213)	-	(19)	(268)
Directly held investments, net of derivative liabilities	14,165	74,294	15,261	89,555	17,237	16,133	137,090
Net cash inflow from operating activities	(829)	1,100	(216)	884	595	2,478	3,128
Realised gains (losses) in the year	637	3,364	73	3,437	693	(107)	4,660
Unrealised gains (losses) in the year	(420)	(847)	(650)	(1,497)	(478)	(394)	(2,789)
Foreign exchange translation differences	-	99	-	99	-	-	99
Movement in the year of directly held investments, net of	(612)	3,716	(793)	2,923	810	1,977	5,098
At 31 December 2007 / 1 January 2008							
Total investments (including derivative assets)	13,665	78,487	14,515	93,002	18,047	18,825	143,539
Less: Investments held by consolidated investment	-	-	-	-	-	(662)	(662)
Less: Derivative liabilities	(112)	(477)	(47)	(524)	-	(53)	(689)
Directly held investments, net of derivative liabilities	13,553	78,010	14,468	92,478	18,047	18,110	142,188
Net cash inflow from operating activities	(1,245)	(1,396)	(211)	(1,607)	811	2,928	887
Realised gains (losses) in the year	276	84	25	109	(156)	(156)	73
Unrealised gains (losses) in the year	(2,560)	(17,991)	(1,236)	(19,227)	(3,568)	(1,577)	(26,932)
Foreign exchange translation differences	-	1,631	3	1,634	(1)	3	1,636
Movement in the year of directly held investments, net of	(3,529)	(17,672)	(1,419)	(19,091)	(2,914)	1,198	(24,336)
At 31 December 2008							
Total investments (including derivative assets)	10,438	62,814	13,329	76,143	15,571	19,710	121,862
Less: Investments held by consolidated investment	-	(145)	-	(145)	(424)	(40)	(609)
Less: Derivative liabilities	(414)	(2,331)	(280)	(2,611)	(14)	(362)	(3,401)
Directly held investments, net of derivative liabilities	10,024	60,338	13,049	73,387	15,133	19,308	117,852

7.3 US Insurance Operations Movement in Investments

A reconciliation of the investments held directly by US insurance operations from the beginning of the year to the end of the year is as follows

	Variable annuity separate account assets and liabilities	Fixed annuity, GIC and other business	US insurance operations
	£m	£m	£m
At January 2007			
Total investments (including derivative assets)	11,367	24,762	36,129
Less: Derivative liabilities	-	(92)	(92)
Directly held investments, net of derivative liabilities	11,367	24,670	36,037
Net cash inflow from operating activities	3,227	(615)	2,612
Realised gains (losses) in the year	-	(47)	(47)
Unrealised gains (losses) in the year	620	16	636
Foreign exchange translation differences	(187)	(414)	(601)
Movement in the year of directly held investments, net of	3,660	(1,060)	2,600
At 31 December 2007 / 1 January 2008			
Total investments (including derivative assets)	15,027	23,768	38,795
Less: Derivative liabilities	-	(158)	(158)
Directly held investments, net of derivative liabilities	15,027	23,610	38,637
Net cash inflow from operating activities	1,363	1,499	2,862
Realised gains (losses) in the year	-	(385)	(385)
Unrealised gains (losses) in the year	(5,924)	(2,901)	(8,825)
Foreign exchange translation differences	4,072	8,947	13,019
Movement in the year of directly held investments, net of	(489)	7,160	6,671
At 31 December 2008			
Total investments (including derivative assets)	14,538	31,633	46,171
Less: Derivative liabilities	-	(863)	(863)
Directly held investments, net of derivative liabilities	14,538	30,770	45,308

7.4 Asian Insurance Operations Movement in Investments

A reconciliation of the investments held directly by Asian insurance operations from the beginning of the year to the end of the year is as follows

	With-profits business	Unit-linked assets and liabilities	Other	Total
	£m	£m	£m	£m
At January 2007				
Total investments (including derivative assets)	5,945	4,066	3,714	13,725
Less: Investments held by consolidated investment	(242)	-	(305)	(547)
Less: Derivative liabilities	-	-	(4)	(4)
Directly held investments, net of derivative liabilities	5,703	4,066	3,405	13,174
Net cash inflow from operating activities	858	1,965	(92)	2,731
Realised gains (losses) in the year	783	327	374	1,484
Unrealised gains (losses) in the year	(255)	286	(159)	(128)
Foreign exchange translation differences	111	146	41	298
Movement in the year of directly held investments, net of	1,497	2,724	164	4,385
At 31 December 2007 / 1 January 2008				
Total investments (including derivative assets)	7,418	6,790	4,036	18,244
Less: Investments held by consolidated investment	(218)	-	(465)	(683)
Less: Derivative liabilities	-	-	(2)	(2)
Directly held investments, net of derivative liabilities	7,200	6,790	3,569	17,559
Net cash inflow from operating activities	342	1,786	468	2,596
Realised gains (losses) in the year	(236)	(99)	62	(273)
Unrealised gains (losses) in the year	(1,362)	(2,685)	(152)	(4,199)
Foreign exchange translation differences	2,217	1,385	1,391	4,993
Movement in the year of directly held investments, net of	961	387	1,769	3,117
At 31 December 2008				
Total investments (including derivative assets)	8,866	7,330	5,613	21,809
Less: Investments held by consolidated investment	(705)	(153)	(243)	(1,101)
Less: Derivative liabilities	-	-	(32)	(32)
Directly held investments, net of derivative liabilities	8,161	7,177	5,338	20,676

7.5 Asset Management Movement in Investments

A reconciliation of the investments held directly by Asset Management operations from the beginning of the year to the end of the year is as follows

	M&G	US	Asia	Total
	£m	£m	£m	£m
At January 2007				
Total investments (including derivative assets)	2,903	35	25	2,963
Less: Investments held by consolidated investment	-	-	-	-
Less: Derivative liabilities	(142)	-	-	(142)
Directly held investments, net of derivative liabilities	2,761	35	25	2,821
Net cash inflow from operating activities	296	-	21	317
Realised gains (losses) in the year	8	-	-	8
Unrealised gains (losses) in the year	(22)	-	-	(22)
Foreign exchange translation differences	105	(1)	-	104
Movement in the year of directly held investments, net of	387	(1)	21	407
At 31 December 2007 / 1 January 2008				
Total investments (including derivative assets)	3,334	34	46	3,414
Less: Investments held by consolidated investment	-	-	-	-
Less: Derivative liabilities	(186)	-	-	(186)
Directly held investments, net of derivative liabilities	3,148	34	46	3,228
Net cash inflow from operating activities	(601)	-	(14)	(615)
Realised gains (losses) in the year	9	-	-	9
Unrealised gains (losses) in the year	(148)	(7)	(1)	(156)
Foreign exchange translation differences	516	13	16	545
Movement in the year of directly held investments, net of	(224)	6	1	(217)
At 31 December 2008				
Total investments (including derivative assets)	3,216	40	47	3,303
Less: Investments held by consolidated investment	-	-	-	-
Less: Derivative liabilities	(292)	-	-	(292)
Directly held investments, net of derivative liabilities	2,924	40	47	3,011