

IFRS Disclosure
PRUDENTIAL PLC 2010 RESULTS

International Financial Reporting Standards (IFRS) basis results

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STATUTORY BASIS RESULTS

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED INCOME STATEMENT

	2010	2009
	£m	£m
Gross premiums earned	24,568	20,299
Outward reinsurance premiums	(357)	(323)
Earned premiums, net of reinsurance	24,211	19,976
Investment return	21,769	26,889
Other income	1,666	1,234
Total revenue, net of reinsurance	47,646	48,099
Benefits and claims	(40,608)	(39,901)
Outward reinsurers' share of benefit and claims	335	265
Movement in unallocated surplus of with-profits funds	(245)	(1,559)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(40,518)	(41,195)
Acquisition costs and other expenditure ^(note I)	(4,799)	(4,572)
Finance costs: interest on core structural borrowings of shareholder-financed operations	(257)	(209)
Loss on sale of Taiwan agency business ^(note J)	-	(559)
Total charges, net of reinsurance	(45,574)	(46,535)
Profit before tax <i>(being tax attributable to shareholders' and policyholders' returns)*</i>	2,072	1,564
Tax charge attributable to policyholders' returns	(611)	(818)
Profit before tax attributable to shareholders ^(note C)	1,461	746
Tax charge ^(note K)	(636)	(873)
Less: tax attributable to policyholders' returns	611	818
Tax charge attributable to shareholders' returns*** ^(note K)	(25)	(55)
Profit from continuing operations after tax	1,436	691
Discontinued operations (net of tax)**	-	(14)
Profit for the year	1,436	677
Attributable to:		
Equity holders of the Company	1,431	676
Non-controlling interests	5	1
Profit for the year	1,436	677
Earnings per share (in pence)	2010	2009
Basic:		
Based on profit from continuing operations attributable to the equity holders of the Company ^(note L)	56.7 p	27.6 p
Based on loss from discontinued operations attributable to the equity holders of the Company	-	(0.6)p
	56.7 p	27.0 p
Diluted:		
Based on profit from continuing operations attributable to the equity holders of the Company ^(note L)	56.6 p	27.6 p
Based on loss from discontinued operations attributable to the equity holders of the Company	-	(0.6)p
	56.6 p	27.0 p
Dividends per share (in pence)	2010	2009
Dividends relating to reporting year:		
Interim dividend (2010 and 2009)	6.61 p	6.29 p
Final/Second interim dividend (2010 and 2009)	17.24 p	13.56 p
Total	23.85 p	19.85 p
Dividends declared and paid in reporting year:		
Current year interim dividend	6.61 p	6.29 p
Second interim/final dividend for prior year	13.56 p	12.91 p
Total	20.17 p	19.20 p

*This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders and is stated after £377 million of pre-tax costs of the terminated AIA transaction. See note G.

**The 2009 charge of £14 million which was net of £nil tax, reflected completion adjustments for a previously disposed business.

***The 2010 tax charge attributable to shareholders' return includes an exceptional tax credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2010 £m	2009 £m
Profit for the year	1,436	677
Other comprehensive income:		
Exchange movements on foreign operations and net investment hedges:		
Exchange movements arising during the year	217	(206)
Related tax	34	11
	251	(195)
Available-for-sale securities:		
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:		
Unrealised holding gains arising during the year	1,170	2,249
Add back net losses included in the income statement on disposal and impairment	51	420
Total ^(note V)	1,221	2,669
Related change in amortisation of deferred income and acquisition costs	(496)	(1,069)
Related tax	(247)	(557)
	478	1,043
Other comprehensive income for the year, net of related tax	729	848
Total comprehensive income for the year	2,165	1,525
Attributable to:		
Equity holders of the Company	2,160	1,524
Non-controlling interests	5	1
Total comprehensive income for the year	2,165	1,525

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2010							
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Reserves								
Profit for the year	-	-	1,431	-	-	1,431	5	1,436
Other comprehensive income								
Exchange movements on foreign operations and net investment hedges, net of related tax	-	-	-	251	-	251	-	251
Unrealised valuation movements, net of related change in amortisation of deferred income and acquisition costs and related tax	-	-	-	-	478	478	-	478
Total other comprehensive income	-	-	-	251	478	729	-	729
Total comprehensive income for the year	-	-	1,431	251	478	2,160	5	2,165
Dividends								
Dividends	-	-	(511)	-	-	(511)	-	(511)
Reserve movements in respect of share-based payments								
Reserve movements in respect of share-based payments	-	-	37	-	-	37	-	37
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds								
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	-	-	-	-	-	-	7	7
Share capital and share premium								
New share capital subscribed (including shares issued in lieu of cash dividends)								
New share capital subscribed (including shares issued in lieu of cash dividends)	-	75	-	-	-	75	-	75
Reserve movements in respect of shares issued in lieu of cash dividends								
Reserve movements in respect of shares issued in lieu of cash dividends	-	(62)	62	-	-	-	-	-
Treasury shares								
Movement in own shares in respect of share-based payment plans								
Movement in own shares in respect of share-based payment plans	-	-	(4)	-	-	(4)	-	(4)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS								
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	3	-	-	3	-	3
Net increase in equity	-	13	1,018	251	478	1,760	12	1,772
At beginning of year	127	1,843	3,964	203	134	6,271	32	6,303
At end of year	127	1,856	4,982	454	612	8,031	44	8,075

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2009

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2010 £m	2009 £m
Assets		
Intangible assets attributable to shareholders:		
Goodwill ^(note Q)	1,466	1,310
Deferred acquisition costs and other intangible assets ^(note R)	4,609	4,049
Total	6,075	5,359
Intangible assets attributable to with-profits funds:		
In respect of acquired subsidiaries for venture fund and other investment purposes	166	124
Deferred acquisition costs and other intangible assets	110	106
Total	276	230
Total	6,351	5,589
Other non-investment and non-cash assets:		
Property, plant and equipment	612	367
Reinsurers' share of insurance contract liabilities	1,344	1,187
Deferred tax assets ^(note K)	2,188	2,708
Current tax recoverable	555	636
Accrued investment income	2,668	2,473
Other debtors	903	762
Total	8,270	8,133
Investments of long-term business and other operations:		
Investment properties	11,247	10,905
Investments accounted for using the equity method	71	6
Financial investments*:		
Loans ^(note T)	9,261	8,754
Equity securities and portfolio holdings in unit trusts	86,635	69,354
Debt securities ^(note U)	116,352	101,751
Other investments	5,779	5,132
Deposits	9,952	12,820
Total	239,297	208,722
Properties held for sale	257	3
Cash and cash equivalents	6,631	5,307
Total assets ^(note N)	260,806	227,754

*Included within financial investments are £8,708 million (2009: £10,501 million) of lent securities.

	2010 £m	2009 £m
Equity and liabilities		
Equity		
Shareholders' equity	8,031	6,271
Non-controlling interests	44	32
Total equity	8,075	6,303
Liabilities		
Policyholder liabilities and unallocated surplus of with-profits funds:		
Insurance contract liabilities	171,291	145,713
Investment contract liabilities with discretionary participation features	25,732	24,880
Investment contract liabilities without discretionary participation features	17,704	15,805
Unallocated surplus of with-profits funds	10,253	10,019
Total	224,980	196,417
Core structural borrowings of shareholder-financed operations:		
Subordinated debt	2,718	2,691
Other	958	703
Total^(note W)	3,676	3,394
Other borrowings:		
Operational borrowings attributable to shareholder-financed operations ^(note X)	3,004	2,751
Borrowings attributable to with-profits operations ^(note X)	1,522	1,284
Other non-insurance liabilities:		
Obligations under funding, securities lending and sale and repurchase agreements	4,199	3,482
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	3,372	3,809
Deferred tax liabilities ^(note K)	4,224	3,872
Current tax liabilities	831	1,215
Accruals and deferred income	707	594
Other creditors	2,321	1,612
Provisions	729	643
Derivative liabilities	2,037	1,501
Other liabilities	1,129	877
Total	19,549	17,605
Total liabilities	252,731	221,451
Total equity and liabilities^(note N)	260,806	227,754

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF CASH FLOWS

	2010 £m	2009 £m
Cash flows from operating activities		
Profit before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>) ^{(note (ii))}	2,072	1,564
Loss before tax from discontinued operations	-	(14)
Total profit before tax	2,072	1,550
Changes in operating assets and liabilities:		
Investments	(24,594)	(26,388)
Other non-investment and non-cash assets	(1,161)	(384)
Policyholder liabilities (including unallocated surplus)	24,287	24,932
Other liabilities (including operational borrowings)	1,332	(299)
Interest income and expense and dividend income included in result before tax	(7,514)	(7,267)
Other non-cash items ^{(note (iii))}	139	650
Operating cash items:		
Interest receipts	6,277	5,734
Dividend receipts	1,412	1,780
Tax paid	(302)	(200)
Net cash flows from operating activities	1,948	108
Cash flows from investing activities		
Purchases of property, plant and equipment	(93)	(91)
Proceeds from disposal of property, plant and equipment	4	54
Completion adjustment for previously disposed business	-	(20)
Disposal of Taiwan agency business ^{(notes (iii) and J)}	-	(497)
Acquisition of subsidiaries, net of cash balance ^{(note (iv))}	(145)	-
Net cash flows from investing activities	(234)	(554)
Cash flows from financing activities		
Structural borrowings of the Group:		
Shareholder-financed operations ^{(notes (v) and W):}		
Issue of subordinated debt, net of costs	-	822
Redemption of senior debt	-	(249)
Bank loan	250	-
Interest paid	(251)	(207)
With-profits operations ^{(notes (vi) and X):}		
Interest paid	(9)	(9)
Equity capital ^{(note (vii)):}		
Issues of ordinary share capital	13	3
Dividends paid	(449)	(344)
Net cash flows from financing activities	(446)	16
Net increase (decrease) in cash and cash equivalents	1,268	(430)
Cash and cash equivalents at beginning of year	5,307	5,955
Effect of exchange rate changes on cash and cash equivalents	56	(218)
Cash and cash equivalents at end of year	6,631	5,307

Notes

- (i) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.
- (ii) The figure of £650 million for other non-cash items in 2009 includes £559 million for the loss on disposal of the Taiwan agency business.
- (iii) The amount of £497 million for full year 2009 in respect of the disposal of the Taiwan agency business shown above, represents the cash and cash equivalents of £388 million held by Taiwan agency business transferred on disposal and restructuring costs of £64 million. In addition, the cashflow for the disposal includes a £45 million outflow to purchase a 9.99 per cent stake in China Life.
- (iv) The acquisition of United Overseas Bank Life Assurance Limited (UOB) resulted in an outflow of cash from investing activities of £133 million. The remaining outflow of £12 million relates to the PAC with-profits fund purchase of Meterserve.
- (v) Structural borrowings of shareholder-financed operations comprise core debt of the parent company, PruCap bank loan and Jackson surplus notes. Core debt excludes borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.
- (vi) Structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.
- (vii) Cash movements in respect of equity capital exclude scrip dividends.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

NOTES ON THE IFRS BASIS RESULTS

A Basis of preparation and audit status

The statutory basis results included in this announcement have been extracted from the audited financial statements of the Group for the year ended 31 December 2010. These statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) as required by EU law (IAS Regulation EC1606/2032). EU-endorsed IFRSs may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2010, there were no unendorsed standards effective for the two years ended 31 December 2010 affecting the consolidated financial information of the Group and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Group. The auditors have reported on the 2010 statutory accounts. The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2010 or 2009 but is derived from these accounts.

Statutory accounts for 2009 have been delivered to the registrar of companies, and those for 2010 will be delivered following the Company's Annual General Meeting. The auditors have reported on these accounts. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

The additional information shown in notes 1 to 8 is unaudited.

B Significant accounting policies

The accounting policies applied by the Group in determining the IFRS basis results in this announcement are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2009, except for the adoption of the new accounting pronouncements in 2010 as described below. In addition, the presentation of operating profit based on longer-term investment returns, as applied in the supplementary analysis of profit before shareholder tax and segment reporting, has been altered for the Group's US insurance operations as described in note C.

Revised IFRS 3, 'Business Combinations' and Amendments to IAS 27, 'Consolidated and Separate Financial Statements' and IAS 31, 'Interests in Joint Ventures'

The Group has applied the revised IFRS 3 and amended IAS 27 and IAS 31 from 1 January 2010. The revised IFRS 3 and amended IAS 27 and IAS 31 are the outcomes of the second phase of the IASB's and the US Financial Accounting Standards Board's (FASB) joint business combination project. The change in accounting policy as a result of the adoption of these standards has been applied prospectively. No restatement to 2009 comparatives is required. The more significant changes from the revised IFRS 3 include:

- the immediate expensing of acquisition-related costs rather than inclusion in goodwill;
- recognition and measurement at fair value of contingent consideration classified as financial instruments at acquisition date with subsequent changes to income; and
- additional items or adjustments to items recognised in the business combination are permitted to be applied retrospectively during the measurement period to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period ends as soon as the acquirer receives the necessary information or learns that more information is not obtainable but is subject to an overall limit for one year.

The amendments to IAS 27 reflect changes to the accounting for non-controlling interests (known as minority interests prior to the amendments). From 1 January 2010, transactions that increase or decrease non-controlling interests without a change of control are accounted as equity transactions and therefore no goodwill is recognised. As a consequence, any gains or losses are reported directly in equity and not in the income statement.

The amendments to IAS 31 reflect changes to the accounting for changes in joint control over an entity. From 1 January 2010, when a jointly controlled entity becomes an associate of an investor, the investor shall measure at fair value any investment the investor retains in the former jointly controlled entity. The investor shall recognise in profit or loss any difference between:

- (a) the fair value of any retained investments and any proceeds from disposing of the part interests in the jointly controlled entity; and
- (b) the carrying amount of an investment at the date when joint control is lost.

Previously, no explicit guidance was provided.

The adoption of revised IFRS 3 and amended IAS 27 and IAS 31 has resulted in presentational and disclosure changes in the Group's financial statements, and affected the accounting for the acquisition of United Overseas Bank (UOB) Life Assurance Limited in Singapore. The disclosure on this acquisition is provided in note P. As a result of the adoption of the revised IFRS 3, the Group has expensed the UOB Life acquisition-related costs incurred of £2 million which would otherwise have been included within goodwill. The Group has also recognised a gain of £30 million related to the change of treatment of PruHealth from a joint venture to an associate, in line with the revisions to IAS 31 set out above as described in note H.

Other accounting pronouncements adopted in 2010

In addition, the Group has adopted the following accounting pronouncements in 2010 but their adoption has had no material impact on the results and financial position of the Group:

- Improvements to IFRSs (2009), which includes minor changes to 12 IFRSs;
- Amendments to IFRS 2, 'Group cash-settled share-based payment transactions'; and
- Amendments to IAS 39, 'Financial instruments: Recognition and measurement' – Eligible hedged items.

This is not intended to be a complete list of accounting pronouncements effective in 2010 as only those that could have an impact upon the Group's financial statements have been discussed.

C Segment disclosure – income statement

	2010	2009 ^{note (ii)}
	£m	£m
Asian operations ^{(note (i))}		
Insurance operations ^{(note E(i))}		
Underlying results before exceptional credit	536	353
Exceptional credit for Malaysia operations ^{(note E(i))}	-	63
Total Asian insurance operations	536	416
Development expenses	(4)	(6)
Total Asian insurance operations after development expenses	532	410
Asian asset management	72	55
Total Asian operations	604	465
US operations		
Jackson (US insurance operations) ^{(notes (ii) and E(ii))}	833	618
Broker-dealer and asset management	22	4
Total US operations	855	622
UK operations		
UK insurance operations:		
Long-term business ^{(note E(iii))}	673	606
General insurance commission ^{(note (iii))}	46	51
Total UK insurance operations	719	657
M&G	284	238
Total UK operations	1,003	895
Total segment profit	2,462	1,982
Other income and expenditure		
Investment return and other income	30	22
Interest payable on core structural borrowings	(257)	(209)
Corporate expenditure	(220)	(203)
Charge for share-based payments for Prudential schemes ^{(note (iv))}	(3)	(5)
Total	(450)	(395)
Solvency II implementation costs	(45)	-
Restructuring costs ^{(note (v))}	(26)	(23)
Operating profit based on longer-term investment returns ^{(note (ii))}	1,941	1,564
Short-term fluctuations in investment returns on shareholder-backed business ^(note F)	(123)	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes ^{(note (vi))}	(10)	(74)
Costs of terminated AIA transaction ^(note G)	(377)	-
Gain on dilution of holding in PruHealth ^(note H)	30	-
Loss on sale and results for Taiwan agency business ^{(notes (i) and J)}	-	(621)
Profit from continuing operations before tax attributable to shareholders	1,461	746

Notes

- (i) Sale of Taiwan agency business: In order to facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the Taiwan business for which the sale process was completed in June 2009 are included separately within the segmental analysis of profit for 2009.
- (ii) The Group has amended the presentation of operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. The 2009 comparatives have been amended accordingly. The effect of this change is explained below in this note.
- (iii) UK operations transferred its general insurance business to Churchill in 2002, with general insurance commission representing the net commission receivable net of expenses for Prudential-branded general insurance products as part of this arrangement.
- (iv) The charge for share-based payments for Prudential schemes is for the SAYE and Group performance-related schemes.
- (v) Restructuring costs comprise amounts incurred in the UK business defined as covered for EEV reporting purposes of £26 million and as part of central operations (EEV non-covered business) of £nil (2009: £16 million and £7 million respectively).
- (vi) The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes reflects the aggregate of actual less expected returns on scheme assets, experience gains and losses, the effect of changes in assumptions and altered provisions for deficit funding, where relevant.

Determining operating segments and performance measure of operating segments

The Group's operating segments determined in accordance with IFRS 8, are as follows:

Insurance operations

- Asia
- US (Jackson)
- UK

Asset management operations

- M&G
- Asian asset management
- US broker-dealer and asset management (including Curian)

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

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns. This measure excludes the recurrent items of short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. In addition, for 2010 this measure excluded costs associated with the terminated AIA transaction and gain arising upon the dilution of the Group's holding in PruHealth. For 2009 it excluded the non-recurrent cost of hedging the Group IGD capital surplus included within short-term fluctuations in investment returns and the loss on sale and the results of the Taiwan agency business during the period of ownership. In 2010 the Company amended its presentation of operating profit for its US insurance operations to exclude the net equity hedging gains and losses previously included relating principally to its variable annuity business. These amounts are included in short-term fluctuations in investment returns. Prior year comparatives have been amended accordingly. There is no change to total profit for continuing operations before tax attributable to shareholders arising from this altered treatment. Operating earnings per share is based on operating profit based on longer-term investment returns, after tax and non-controlling interests.

Segments results that are reported to the Group Executive Committee (GEC) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mainly in relation to the Group Head Office and Asian Regional Head Office.

For the purposes of measuring operating profit, investment returns on shareholder-financed business are based on the expected longer-term rates of return. This reflects the particular features of long-term insurance business where assets and liabilities are held for the long-term and for which the accounting basis for insurance liabilities under current IFRS is not generally conducive to demonstrating trends in underlying performance for life businesses exclusive of changes in market conditions. In determining profit on this basis, the following key elements are applied to the results of the Group's shareholder-financed operations.

(a) *Debt and equity securities*

Longer-term investment returns comprise income and longer-term capital returns. For debt securities the longer-term capital returns comprise two elements. These are a risk margin reserve (RMR) based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured. The shareholder-backed operation for which the RMR charge is most significant is Jackson National Life.

For 2010 and 2009 Jackson has used the ratings resulting from the regulatory ratings detail issued by the National Association of Insurance Commissioners (NAIC) for residential mortgage-backed securities (RMBS) to determine the average annual RMR. In addition, in 2010, the NAIC extended the new ratings framework to that previously covered residential mortgage-backed securities (RMBS) to include, commercial mortgage-backed securities (CMBS), which Jackson has used for 2010. These were developed by external third parties; PIMCO (for RMBS) and BlackRock Solutions (for CMBS), and are considered by management more relevant information for the MBS securities concerned than using ratings by Nationally Recognised Statistical Ratings Organisations (NRSRO).

(b) *US variable and fixed index annuity business*

(i) Current treatment

The following value movements for Jackson's variable and fixed index annuity business are excluded from operating profit based on longer-term investment returns:

- Fair value movements for equity-based derivatives;
- Fair value movements for embedded derivatives for Guaranteed Minimum Withdrawal Benefit (GMWB) "not for life" and fixed index annuity business, and Guaranteed Minimum Income Benefit (GMIB) reinsurance;
- Movements in accounts carrying value of GMDB and GMWB "for life" liabilities;
- Fee assessment, and claim payments, in respect of guarantee liabilities; and
- Related changes to amortisation of deferred acquisition costs for each of the above items.

(ii) Change of treatment in 2010

For previous reporting of the 2009 results, all of the above items were included in operating profit based on longer-term investment returns with the intention of broadly matching the impacts with two exceptions. The exceptions were for the effect of GMIB reinsurance and movements in carrying values of free standing derivatives and embedded derivatives arising from changes in the level of observed implied equity volatility and changes in the discount rate applied from year to year. Both of these items remain in short-term fluctuations in investment returns in 2010.

Previously, for the purposes of determining operating profit based on longer-term investment returns, the charge for these features was determined using historical longer-term equity volatility levels and long-term average AA corporate bond rate

curves with the movement relating to the change in difference in longer-term and current rates being included in short-term fluctuations (as shown in note F (e)).

However, despite this use of longer-term equity volatility assumption levels and AA corporate bond rate curves, accounting volatility arose within the operating profit based on longer-term investment returns that was not representative of the underlying economic result. This feature arose due to the movement in the change in the accounting values of the derivatives and Jackson's liabilities for variable and fixed indexed annuity guarantees included in the operating profit. Under IFRS, liabilities for GMDB and 'for life' GMWB are not fair valued. Instead, they are accounted for under IFRS using 'grandfathered' US GAAP in accordance with FASB ASC Subtopic 944-80, Financial Services – Insurance – Separate Accounts (formerly SOP 03-1). This accounting basis produces a distorting accounting effect on the operating profit that is not representative of the true economics of Jackson's hedging programme. Over the long term the impact of this accounting distortion should cumulatively net out to a broadly neutral effect, but in the short term the operating profit can be highly volatile. The recent growth in Jackson's variable annuity business had resulted in this short-term effect having a greater impact on the Group operating profit than in prior years. Further, these accounting mismatches are magnified in periods of significant market movements. These factors have prompted a reassessment of the presentation of operating profit based on longer-term investment returns.

The following items have been reclassified from operating profit to short-term fluctuations in investment returns:

- The fair value movement in free standing hedging derivatives, excluding the impact of the difference between longer-term and current period implied equity volatility levels;
- The movement in liabilities for those embedded derivative liabilities which are fair valued in accordance with IFRS, primarily GMWB "not for life" and fixed index annuity business, excluding the impacts of the differences between longer-term and current period equity volatility and incorporating 10-year average yield curves, in lieu of current period yield curves;
- Movements in IFRS basis guarantee liabilities for GMWB "for life", being those policies where a minimum annual withdrawal is permitted for the duration of the policyholders life subject to certain conditions, and GMDB business for which, under the US GAAP rules applied under IFRS, the reserving methodology under US GAAP principles generally gives rise to a muted impact of current period market movements;
- Fee assessment, and claims payments, in respect of guarantee liabilities;
- Related changes to the amortisation of deferred acquisition costs for each of the above items.

The change reflects management's IFRS 8 segment measure. Within the supplementary analysis of profit, the change is presentational only. It has no impact on profit before tax or shareholders' equity. The impact of this change is as follows:

	2010			2009		
	Previous basis £m	Change £m	Revised basis £m	Previous basis £m	Change £m	Revised basis £m
Operating profit based on longer-term investment returns						
Jackson	466	367	833	459	159	618
Rest of Group	1,108	–	1,108	946	–	946
Total	1,574	367	1,941	1,405	159	1,564
Short-term fluctuations in investment returns on shareholder-backed business	244	(367)	(123)	36	(159)	(123)
Shareholders' share of actuarial and other gains and loss on defined benefit pension schemes	(10)	–	(10)	(74)	–	(74)
Costs of terminated AIA transaction	(377)	–	(377)	–	–	–
Gain on dilution of holding in PruHealth	30	–	30	–	–	–
Loss on sale and results of Taiwan agency business	–	–	–	(621)	–	(621)
Profit from continuing operations before tax attributable to shareholders	1,461	–	1,461	746	–	746

(iii) US operations – Embedded derivatives for variable annuity guarantee features

The Guaranteed Minimum Income Benefit (GMIB) liability, which is fully reinsured, subject to a deductible and annual claim limits, is accounted for in accordance with FASB ASC Subtopic 944-80 Financial Services – Insurance – Separate Accounts (formerly SOP 03-1) under IFRS using 'grandfathered' US GAAP. As the corresponding reinsurance asset is net settled, it is considered to be a derivative under IAS 39 and the asset is therefore recognised at fair value. As the GMIB benefit is economically reinsured the mark to market element of the reinsurance asset is included as a component of short-term fluctuations in investment returns.

(c) Other derivative value movements

Derivative value movements are excluded from operating results based on longer-term investment returns. Non-equity based derivatives are primarily held by Jackson as part of a broadly-based hedging programme for features of Jackson's bond portfolio (for which value movements are booked in the statement of comprehensive income rather than the income statement) and

product liabilities (for which US GAAP accounting as grandfathered under IFRS 4 does not reflect the economic features being hedged).

Value movements for Jackson's equity-based derivatives and variable and fixed index annuity product embedded derivatives were in prior periods included in operating profits based on longer-term investment returns. In 2010 these value movements, which are variable in nature, have been included in short-term fluctuations and 2009 comparatives have been adjusted accordingly.

There are two exceptions to the basis described above in sections (a) to (c) 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 unit liabilities are directly reflective of the asset value movements. Accordingly all asset value movements are recorded in the operating results based on longer-term investment returns.
- Assets covering non participating business liabilities that are interest rate sensitive. For UK annuity business policyholder liabilities are determined by reference to current interest rates. The value movements of the assets covering liabilities are closely correlated with the related change in liabilities. Accordingly asset value movements are recorded within the operating results based on longer-term investment returns. Policyholder liabilities include a margin for credit risk. Variations between actual and best estimate expected impairments are recorded as a component of short-term fluctuations in investment returns.

(d) Other liabilities to policyholders and embedded derivatives for product guarantees

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

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

Examples where such bifurcation is necessary are:

(i) Asia

• *Vietnamese participating business*

For the participating business in Vietnam the liabilities include policyholders' interest in investment appreciation and other surplus. Bonuses paid in a reporting period and accrued policyholders' interest in investment appreciation and other surpluses primarily reflect the level of realised investment gains above contract specific hurdle levels. For this business, operating profit based on longer-term investment returns includes the aggregate of longer-term returns on the relevant investments, a credit or charge equal to movements on the liability for the policyholders' interest in realised investment gains (net of any recovery of prior deficits on the participating pool), less amortisation over five years of current and prior movements on such credits or charges.

The overall purpose of these adjustments is to ensure that investment returns included in operating results equal longer-term returns but that in any one reporting period movements on liabilities to policyholders caused by investment returns are substantially matched in the presentation of the supplementary analysis of profit before tax attributable to policyholders.

• *Non-participating business*

Bifurcation for the effect of determining the movement in the carrying value of liabilities to be included in operating results based on longer-term investment returns, and the residual element for the effect of using year end rates is included in short-term fluctuations and in the income statement.

• *Guaranteed Minimum Death Benefit (GMDB) product features*

For unhedged GMDB liabilities accounted for under IFRS using 'grandfathered' US GAAP, such as in the Japanese business, the change in carrying value is determined under FASB ASC subtopic 944-80, Financial Services – Insurance – Separate Accounts (formerly SOP 03-1), which partially reflects changes in market conditions. Under the company's segmental basis of reporting the operating profit reflects the change in liability based on longer-term market conditions with the difference between the charge to the operating result and the movement reflected in the total result included in short-term fluctuations in investment returns.

(ii) UK shareholder-backed annuity business

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

The exception is for the impact on credit risk provisioning of actual downgrades during the period. As this feature arises due to short-term market conditions, the effect of downgrades, if any, in a particular period, on the overall provisions for credit risk is included in the category of short-term fluctuations in investment returns.

The effects of other changes to credit risk provisioning are included in the operating result, as is the net effect of changes to the valuation rate of interest due to portfolio rebalancing to align more closely with management benchmark.

(e) Fund management and other non-insurance businesses

For these businesses, the particular features applicable for life assurance noted above do not apply. For these businesses it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses (including impairments) in the operating result with unrealised gains and losses being included in short-term fluctuations. For this purpose impairments are calculated as the credit loss determined by comparing the projected cash flows discounted at the original effective interest rate to the carrying value. In some instances it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying economic substance of the arrangements.

Additional segmental analysis of revenue

The additional segmental analyses of revenue from external customers excluding investment return and net of outward reinsurance premiums are as follows:

	2010				
	Asia £m	US £m	UK £m	Intragroup £m	Total £m
Revenue from external customers:					
Insurance operations	6,373	11,710	6,476	(10)	24,549
Asset management	248	597	768	(314)	1,299
Unallocated corporate	-	-	29	-	29
Intragroup revenue eliminated on consolidation	(77)	(72)	(175)	324	-
Total revenue from external customers	6,544	12,235	7,098	-	25,877

	2009				
	Asia £m	US £m	UK £m	Intragroup £m	Total £m
Revenue from external customers:					
Insurance operations	5,336	9,097	5,822	(11)	20,244
Asset management	213	499	513	(271)	954
Unallocated corporate	-	-	12	-	12
Intragroup revenue eliminated on consolidation	(70)	(67)	(145)	282	-
Total revenue from external customers	5,479	9,529	6,202	-	21,210

Revenue from external customers is made up of the following:

	2010 £m	2009 £m
Earned premiums, net of reinsurance	24,211	19,976
Fee income from investment contract business and asset management (included within 'Other income')	1,666	1,234
Total revenue from external customers	25,877	21,210

In their capacity as fund managers to fellow Prudential Group subsidiaries, M&G, the US and the Asian asset management businesses generate fees for investment management and related services. Intragroup fees included within asset management revenue were £314 million (2009: £271 million) earned £165 million (2009: £134 million) by M&G, £72 million (2009: £67 million) by the US asset management segment and £77 million (2009: £70 million) by the Asian asset management segment. In 2010, the remaining £10 million (2009: £11 million) of intragroup revenue was recognised by UK insurance operations. These services are typically charged as a percentage of funds under management.

Revenue from external customers of Asian, US and UK insurance operations shown above are net of outwards reinsurance premiums of £146 million, £83 million, and £128 million respectively (2009: £119 million, £82 million and £122 million respectively).

D Profit before tax – Asset management operations

The profit included in the income statement in respect of asset management operations is as follows:

	M&G £m	US £m	Asia (note(v)) £m	Total 2010 £m	Total 2009 £m
Revenue, (excluding revenue of consolidated investment funds and NPH broker-dealer fees)	943	229	251	1,423	1,097
Revenue of consolidated investment funds ^{(note (i))}	11	-	-	11	102
NPH broker-dealer fees ^{(note (ii))}	-	369	-	369	317
Gross revenue	954	598	251	1,803	1,516
Charges, (excluding charges of consolidated investment funds and NPH broker-dealer fees)	(617)	(207)	(179)	(1,003)	(744)
Charges of consolidated investment funds ^{(note (i))}	(11)	-	-	(11)	(102)
NPH broker-dealer fees ^{(note (ii))}	-	(369)	-	(369)	(317)
Gross charges	(628)	(576)	(179)	(1,383)	(1,163)
Profit before tax	326	22	72	420	353
Comprising:					
Operating profit based on longer-term investment returns ^{(note (iii))}	284	22	72	378	297
Short-term fluctuations in investment returns ^{(note (iv))}	47	-	-	47	70
Shareholder's share of actuarial gains and losses on defined benefit pension schemes	(5)	-	-	(5)	(14)
Profit before tax	326	22	72	420	353

Notes

- (i) Revenue in respect of consolidated investment funds. The investment funds are managed on behalf of third-parties and are consolidated under IFRS in recognition of the control arrangements for the funds. The gains (losses) in respect of the investment funds are non-recourse to M&G and the Group and are added back through charges and consequently there is no impact on the profit before tax.
- (ii) NPH broker-dealer fees represents commissions received, which are then paid on to the writing broker on sales of investment products.
- (iii) M&G operating profit based on longer-term investment returns:

	2010 £m	2009 £m
Asset management fee income	612	457
Other income	3	13
Staff costs	(263)	(205)
Other costs	(123)	(100)
Underlying profit before performance-related fees	229	165
Performance-related fees	17	12
Operating profit from asset management operations	246	177
Operating profit from Prudential Capital	38	61
Total M&G operating profit based on longer-term investment returns	284	238

The difference between the fees and other income shown above in respect of asset management operations, and the revenue figure for M&G shown (excluding consolidated investment funds) in the main table primarily relates to total revenue of Prudential Capital (including short-term fluctuations) of £136 million (2009: £155 million) and commissions which have been netted off in arriving at the fee income of £612 million (2009: £457 million) in the table above. The difference in the presentation of commission is aligned with how management reviews the business.

- (iv) Short-term fluctuations in investment returns for M&G are primarily in respect of unrealised value movements on Prudential Capital's bond portfolio.
- (v) Included within Asian asset management revenue and charges are £60 million of commissions (2009: £57 million).

E Key assumptions, estimates and bases used to measure insurance assets and liabilities

(i) Asian insurance operations

- (a) In 2010, one-off changes made to reserving assumptions resulted in a release from liabilities of £19 million.
- (b) In 2009, the local regulatory basis in Malaysia was replaced by the Malaysian authority's Risk-Based Capital (RBC) framework. In light of this development, the Company re-measured these liabilities by reference to the method applied under the new RBC framework which resulted in a one-off release from liabilities at 1 January 2009 of £63 million.

(ii) US insurance operations

There are no changes in assumptions that had a material impact on the 2010 results of US insurance operations.

Separately, in 2010, the Group amended its presentation of operating profit for its US insurance operations to exclude the net equity hedge accounting effect of negative £367 million (2009: negative £159 million) relating to its variable and fixed index annuity business and reclassified it as a short-term fluctuation within the Group's supplementary analysis of profit. This is explained further in note C(b). This change had no effect on the measurement of insurance assets and liabilities and therefore on total profit or shareholders' equity.

(iii) UK insurance operations

Annuity business: allowance for credit risk

For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest for discounting projected future annuity payments to policyholders that would have otherwise applied. Since mid-2007 there has been a significant increase in the actual and perceived credit risk associated with corporate bonds as reflected in the significant widening that has occurred in corporate bond spreads. Although bond spreads over swap rates have narrowed from their peak in March 2009, they are still high compared with the levels seen in the years immediately preceding the start of the dislocated markets in 2007. The allowance that should therefore be made for credit risk remains a particular area of judgement.

The additional yield received on corporate bonds relative to swaps can be broken into the following constituent parts:

- (a) the expected level of future defaults;
- (b) the credit risk premium that is required to compensate for the potential volatility in default levels;
- (c) the liquidity premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps; and
- (d) the mark to market risk premium that is required to compensate for the potential volatility in corporate bond spreads (and hence market values) at the time of sale.

The sum of (c) and (d) is often referred to as "liquidity premium".

The credit risk allowance is a function of the asset mix and the credit quality of the underlying portfolio. At 31 December 2010, 84 per cent (2009: 80 per cent) of the assets backing the UK shareholder annuity and other business were debt securities as shown in O (i). This comprises both government and corporate bonds. Government bonds are generally given a credit default allowance of zero. For corporate bonds the credit allowance varies by credit rating. An analysis of the credit ratings of debt securities is included in note U (i).

Given that the normal business model for Prudential's annuity business is to hold bonds to match long-term liabilities, the valuation rate that is applied to discount the future annuity payments includes a liquidity premium that reflects the residual element of current bond spreads over swap rates after providing for the credit risk.

Historically, until the second half of 2007, when corporate bond spreads widened significantly, the allowance for credit risk was calculated as the long-term expected defaults and a long-term credit risk premium. This long-term credit risk was supplemented by a short-term allowance from 31 December 2007 to allow for the concern that credit ratings applied by the rating agencies may be downgraded and defaults in the short-term might be higher than the long-term assumptions.

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL at 31 December 2010, 2009 and 2008, based on the asset mix at the relevant balance sheet date are shown below.

	Pillar 1 regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
31 December 2010			
Bond spread over swap rates ^{(note (i))}	160	-	160
Long-term expected defaults ^{(note (ii))}	16	-	16
Long-term credit risk premium ^{(note (iii))}	10	-	10
Short-term allowance for credit risk ^{(note (iv))}	42	(26)	16
Total credit risk allowance	68	(26)	42
Liquidity premium	92	26	118

	Pillar 1 regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
31 December 2009			
Bond spread over swap rates ^{(note (i))}	175	-	175
Credit risk allowance			
Long-term expected defaults ^{(note (ii))}	19	-	19
Long-term credit risk premium ^{(note (iii))}	13	-	13
Short-term allowance for credit risk ^{(note (iv))}	39	(24)	15
Total credit risk allowance	71	(24)	47
Liquidity premium	104	24	128

	Pillar 1 regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
31 December 2008			
Bond spread over swap rates ^{(note (i))}	323	-	323
Credit risk allowance			
Long-term expected defaults ^{(note (ii))}	15	-	15
Long-term credit risk premium ^{(note (iii))}	11	-	11
Short-term allowance for credit risk ^{(note (iv))}	54	(25)	29
Total credit risk allowance	80	(25)	55
Liquidity premium	243	25	268

Notes

- (i) Bond spread over swap rates reflect market observed data.
- (ii) For the valuations prior to 31 December 2010, long-term expected defaults were derived by applying Moody's data from 1970 to 2004 uplifted by between 100 per cent (B) and 200 per cent (AAA) according to credit rating on the annuity asset portfolio. The credit rating assigned to each asset held was based on external credit rating and for this purpose the credit rating assigned to each asset held was the lowest credit rating published by Moody's, Standard and Poors and Fitch.
For the 31 December 2010 valuation, long-term expected defaults are derived by applying Moody's data from 1970 to 2009 and the definition of the credit rating used has been revised from the lowest credit rating to the second highest credit rating published by Moody's, Standard and Poors and Fitch.
- (iii) For the valuations prior to 31 December 2010, the long-term credit risk premium provides compensation against the risk of potential volatility in the level of defaults and is derived by applying the 95th percentile from Moody's data from 1970 to 2004 to the annuity asset portfolio. For the 31 December 2010 valuation, the long-term credit risk premium is derived from Moody's data from 1970 to 2009. The combined effect of this change and the changes described in (ii) above is neutral on the long-term credit risk allowance for PRIL.
- (iv) The short-term allowance for credit risk assumed in the Pillar 1 solvency valuations at 31 December 2008 was determined as 25 per cent of the increase in corporate bond spreads (as estimated from the movements in published corporate bond indices) since 31 December 2006. Subsequent to this date movements have reflected events in the period, namely the impact of credit migration, the decision not to release favourable default experience, new business and asset trading amongst other items. This is demonstrated by the analyses below.

The very prudent Pillar 1 regulatory basis reflects the overriding objective of ensuring sufficient provisions and capital to ensure payments to policyholders can be made. The approach for IFRS aims to establish liabilities that are closer to 'best estimate'. IFRS default assumptions are therefore set between the EEV and Pillar I assumptions.

Factors affecting the credit risk allowance at 31 December 2010

The main factors influencing the credit risk allowance at 31 December 2010 for PRIL are as follows:

a Credit downgrades and default experience

The credit risk allowances have been adjusted during 2010 to take account of emerging downgrade and default experience. Experience in relation to changes in credit rating has improved in 2010 and no assets defaulted for the PRIL business during the year. The allowance for short-term downgrades has been reduced to offset the impact of credit downgrades on the long-term assumptions. In addition, the allowance for short-term defaults has been updated to eliminate any experience profits that would otherwise have arisen due to default experience being better than allowed for in the opening reserves.

b Asset trading

Since the second half of 2009, the Group started trading out of subordinated financial debt into higher quality assets. The continuation of the reduction in the subordinated financial debt holdings in 2010 improved the overall credit quality of the corporate bond portfolio and so allowed a release of long-term credit reserves.

On a Pillar 1 basis this transaction had no overall impact on the solvency surplus of PRIL, the PAC non-participating sub-fund and PAL. On an IFRS basis, the reduction in subordinated financial debt holdings generated a pre-tax IFRS operating loss of £4 million (2009: loss of £51 million).

c Asset purchases in respect of new business

Similar to 2009, the assets purchased during 2010 to back new business have been of better average credit quality than the assets held at 31 December 2008, in particular no subordinated bank debt or sub-investment grade assets have been bought to back new business. As a result of the lower credit risk of the new business assets the overall allowance for credit risk required at 31 December 2010 is reduced when the new business assets and in-force assets are aggregated together.

After taking account of the factors noted above the movement on the average basis points allowance for PRIL on Pillar 1 regulatory and IFRS bases are as follows:

	Pillar 1 Regulatory basis			IFRS		
	Long term	Short term	Total	Long term	Short term	Total
Total allowance for credit risk at 31 December 2009	32	39	71	32	15	47
Credit downgrades	1	(1)	-	1	(1)	-
Retention of surplus from favourable default experience	-	7	7	-	3	3
Asset trading	(5)	-	(5)	(5)	-	(5)
New business	-	(2)	(2)	-	(1)	(1)
Other	(2)	(1)	(3)	(2)	-	(2)
Total allowance for credit risk at 31 December 2010	26	42	68	26	16	42

Overall this has led to a credit allowance for Pillar 1 purposes to be 43 per cent (2009: 41 per cent) of the bond spread over swap rates. For IFRS purposes it represents 26 per cent (2009: 27 per cent) of the bond spread over swap rates.

The reserves for credit risk allowance at 31 December 2010 for the UK shareholder annuity fund were as follows:

	Pillar 1 Regulatory basis			IFRS		
	Long term	Short term	Total	Long term	Short term	Total
	£bn	£bn	£bn	£bn	£bn	£bn
PRIL	0.6	1.0	1.6	0.6	0.4	1.0
PAC non-profit sub-fund	0.1	0.1	0.2	0.1	-	0.1
Total	0.7	1.1	1.8	0.7	0.4	1.1

Mortality and other assumption changes

In 2009, Prudential's annuity business liabilities were determined using the Continuous Mortality Investigation ("CMI") medium cohort projections with a floor. In November 2009 a new mortality projection model was released by the CMI. This model is expected to become the new industry standard.

The new model has been applied in determining the 2010 results with calibration to reflect an appropriate view of future mortality improvement. In recognition of the trend in assumed mortality improvements the Company has in previous years included margins in its annuity liabilities. In determining the 2010 results the appropriate level of these margins has been reassessed.

The net effect of applying the new model, releases of margins, and changes to other related mortality assumption for shareholder-backed business is a credit of £8 million. With a £38 million benefit from altered expense assumptions the overall credit for shareholder-backed business is £46 million.

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

	2010 £m	2009* £m
Insurance operations:		
Asia ^{(note (ii))}	114	31
US ^{(note (iii))}	(378)	(132)
UK ^{(notes (i) and (iv))}	116	108
Other operations		
– IGD hedge costs ^{(note (v))}	-	(235)
– Other ^{(note (vi))}	25	105
	25	(130)
Total	(123)	(123)

*The Group has amended the presentation of operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation costs) and include it in short-term fluctuations. The 2009 comparatives have been amended accordingly. Note C explains the effect of the change.

Notes

(i) *General overview of defaults*

The Group incurred defaults of £nil in 2010 (2009: £11 million) on its debt securities portfolio. The defaults of £11 million in 2009 were experienced by the UK shareholder-backed annuity business.

(ii) *Asian insurance operations*

The fluctuations for Asian insurance operations in 2010 of £114 million primarily reflect unrealised gains on the debt securities held by shareholders' funds, as well as a £30 million unrealised gain on the Group's 8.66 per cent stake in China Life Insurance Company of Taiwan. For 2009, the gain of £31 million primarily relates to strong market performance in Taiwan and Japan partially offset by the fall in the Vietnamese bond markets.

(iii) *US insurance operations*

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

	2010 £m	2009* £m
Short-term fluctuations relating to debt securities:		
Charges in the year ^{(note (a))}		
Defaults	-	-
Losses on sales of impaired and deteriorating bonds	(99)	(6)
Bond write downs	(124)	(630)
Recoveries / reversals	10	5
Total charges in the year ^{(note (a))}	(213)	(631)
Less: Risk margin charge included in operating profit based on longer-term investment returns ^{(note (b))}	73	76
	(140)	(555)
Interest related realised gains (losses):		
Arising in the year	224	125
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	(82)	(59)
	142	66
Related change to amortisation of deferred acquisition costs	(3)	75
Total short-term fluctuations related to debt securities	(1)	(414)
Derivatives (other than equity related): market value movement (net of related change to amortisation of deferred acquisition costs) ^{(note (c))}	(15)	385
Net equity hedge results based on longer-term equity volatility and interest rates (net of related change to amortisation of deferred acquisition costs) ^{(note (d))}	(367)	(159)
Equity-related derivatives: volatility and interest rate normalisation (net of related change to amortisation of deferred acquisition costs) ^{(note (e))}	2	85
Equity type investments: actual less longer-term return (net of related change to amortisation of deferred acquisition costs) ^{(note (b))}	3	(59)
Other items (net of related change to amortisation of deferred acquisition costs)	-	30
Total	(378)	(132)

*The Group has amended the presentation of operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. The 2009 comparatives have been amended accordingly. Note C explains the effect of the change.

Notes

(a) The charges on the debt securities of Jackson comprise the following:

	Defaults £m	Bond write downs £m	Losses on sale of impaired and deteriorating bonds £m	Recoveries/ reversals £m	Total 2010 £m	Total 2009 £m
Residential mortgage-backed securities:						
Prime (including agency)	-	21	35	-	56	268
Alt-A	-	35	20	(1)	54	182
Sub-prime	-	15	(2)	-	13	49
Total residential mortgage-backed securities	-	71	53	(1)	123	499
Corporate debt securities	-	1	40	(4)	37	107
Other	-	52	6	(5)	53	25
Total	-	124	99	(10)	213	631

Within other bond write downs of £52 million (2009: £30 million), £40 million (2009: £30 million) relates to Piedmont securities.

Piedmont is an investment vehicle investing in certain asset-backed and mortgage-backed securities in the US.

(b) The risk margin reserve (RMR) charge for longer-term credit related losses included in operating profit based on longer-term investment returns for 2010 is based on an average annual RMR of 26 basis points (2009: 27 basis points) on average book values of US\$44.2 billion (2009: US\$ 43.9 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of MBS)	2010				2009			
	Average book value US\$m	RMR %	Annual expected loss US\$m	Annual expected loss £m	Average book value US\$m	RMR %	Annual expected loss US\$m	Annual expected loss £m
A3 or higher	20,622	0.06	(12)	(8)	19,509	0.03	(5)	(3)
Baa1, 2 or 3	20,785	0.26	(53)	(34)	21,072	0.23	(47)	(30)
Ba1, 2 or 3	1,935	1.04	(20)	(13)	2,035	1.13	(23)	(15)
B1, 2 or 3	500	2.99	(15)	(10)	594	2.86	(17)	(11)
Below B3	321	3.88	(13)	(8)	691	3.91	(27)	(17)
Total	44,163	0.26	(113)	(73)	43,901	0.27	(119)	(76)
Related change to amortisation of deferred acquisition costs (see below)			28	18			25	16
Risk margin reserve charge to operating profit for longer-term credit related losses			(85)	(55)			(94)	(60)

For the period ended 31 December 2010, Jackson has continued the practice commenced in the second half of 2009 in relation to RMBS and for 2010 for CMBS to determine the risk margin charge included in operating profit based on longer-term investment returns using the regulatory rating as determined by external third parties; PIMCO (for RMBS) and BlackRock Solutions (for CMBS) on behalf of the National Association of Insurance Commissioners (NAIC). See note C for further information.

The longer-term rates of return for equity-type investments are currently based on spreads over 10 year US treasury rates of 400 to 600 basis points. The longer-term rates of return for equity-type investments ranged from 6.5 per cent to 7.9 per cent in 2010, and 6.7 per cent to 9.9 per cent in 2009 depending on the type of investments.

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

(c) The loss of £15 million (2009: gain of £385 million) is for the value movement of non-equity 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.

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 of IAS 39 for hedge accounting investments and life assurance assets and liabilities under 'grandfathered' US GAAP under IFRS 4.

(d) The Group has amended its presentation of equity-based derivatives and associated guarantee liabilities to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) from operating profit based on longer-term investment returns and include it in short-term fluctuations. The 2009 comparatives have been amended accordingly. The effect of this change is explained in note C.

(e) Prior to the change in the presentation of operating profit of the US insurance operations as explained in note C, the effect of the difference in the value movements for freestanding derivatives and embedded derivatives arising from changes between longer-term and actual levels of implied equity volatility and end of period AA corporate bond yield curves was reflected in short-term fluctuations in investment return. This normalisation reflects the use of longer-term implied equity volatility levels, and also, for embedded derivatives 10 year average AA corporate bond yield curves, in the value movement included in net equity hedge accounting effect and is unaffected by the change in the presentation of the net equity hedge accounting effect.

This volatility and interest rate normalisation of value movements for freestanding and embedded derivatives gave rise to a £2 million gain (2009: £85 million). The net equity hedge accounting effect based on longer-term equity volatility and interest rate is as described above in note (d).

- (f) In addition to the items discussed above, for US insurance operations, included within the statement of comprehensive income is an increase in net unrealised gains on debt securities classified as available-for-sale of £1,221 million (2009: reduction in net unrealised losses of £2,669 million). Temporary market value movements do not reflect defaults or impairments. Additional details on the movement in the value of the Jackson portfolio are included in note V.
- (iv) *UK insurance operations*
The short-term fluctuations gain for UK insurance operations of £116 million (2009: £108 million) reflected principally asset value movements for shareholder-backed annuity business.
- (v) *IGD hedge costs*
During the severe equity market conditions experienced in the first quarter of 2009 coupled with historically high equity volatility, the Group entered into exceptional short-dated hedging contracts to protect against potential tail-events on the IGD capital position, in addition to the regular operational hedging programmes. The hedge contracts have expired and have not been renewed.
- (vi) *Other*
Short-term fluctuations of other operations, in addition to the previously discussed IGD hedge costs, arise from:

	2010 £m	2009 £m
Unrealised value movements on swaps held centrally to manage Group assets and liabilities	(25)	28
Unrealised value movements on Prudential Capital bond portfolio	48	66
Unrealised value movements on investments held by other operations	2	11
	25	105

G Costs of terminated AIA transaction

The following costs were incurred in relation to the proposed, and subsequently terminated transaction, to purchase AIA Group Limited and related rights issue.

	2010 £m
AIG termination break fee	153
Underwriting fees	58
Costs associated with foreign exchange hedging	100
Adviser fees and other	66
Total costs before tax	377
Associated tax relief	(93)
Total costs after tax	284

Of the £377 million total costs before tax, the £100 million associated with foreign exchange hedging has been recorded within "Investment return" and the other £277 million has been recorded as "Other expenditure" within "Acquisition costs and other expenditure" in the consolidated income statement.

H Change to the Group's holding in PruHealth

On 1 August 2010, Discovery Holdings of South Africa, the Group's joint venture partner in its investment in PruHealth, completed the acquisition of the entire share capital of Standard Life Healthcare, a wholly-owned subsidiary of the Standard Life Group, for £138 million. Discovery funded the purchase of the Standard Life Healthcare transaction, and contributed Standard Life Healthcare to PruHealth as a capital investment on completion. As a result of the transaction, Discovery have increased their shareholding in PruHealth from the previous level of 50 per cent to 75 per cent, and Prudential's shareholding has been reduced from 50 per cent of the previous joint venture structure to 25 per cent of the new structure with the much enlarged business.

As a result of this dilution in holding and the consequential loss of control, PruHealth has been reclassified from a joint venture to an associate and the entity is no longer proportionally consolidated from the date of the transaction. In accordance with IAS 31 "Interests in joint ventures" a gain of £30 million arises upon the dilution, representing the difference between the fair value of the enlarged 25 per cent investment still held and the book value of the original 50 per cent investment holding.

I Acquisition costs and other expenditure

	2010 £m	2009 £m
Acquisition costs incurred	2,024	1,796
Acquisition costs deferred less amortisation of acquisition costs	(918)	(763)
Administration costs and other expenditure	3,496	2,924
Movements in amounts attributable to external unit holders	197	615
Total acquisition costs and other expenditure	4,799	4,572

The acquisition costs as shown on the table above relate to policy acquisition costs. Acquisition costs from business combinations are included within other expenditure.

The total amounts for acquisition costs and other expenditure shown above includes Corporate Expenditure shown in note C (Segment disclosure – income statement). The charge for Corporate Expenditure comprises:

	2010 £m	2009 £m
Group head office		
Regular and project costs	(147)	(140)
Provision for property leases and other non-recurrent items	(25)	(6)
	(172)	(146)
Asia regional office		
Gross costs	(90)	(95)
Recharges to Asia operations	42	38
	(48)	(57)
Total	(220)	(203)

J Sale of Taiwan agency business in 2009

In 2009, the Company sold the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan for the nominal sum of NT\$1. In addition, the Company invested £45 million to purchase a 9.99 per cent stake in China Life through a share placement. The sale was completed on 19 June 2009.

The Company retained its interest in life insurance business in Taiwan through its retained bank distribution partnerships and its direct investment in China Life made in 2009. At 31 December 2010 the Company's interest in China Life was 8.66 per cent (31 December 2009: 9.99 per cent).

The effects on the IFRS income statement was a pre-tax loss of £621 million comprising a loss on sale of £559 million and trading losses before tax up to the date of sale of £62 million. After allowing for tax and other adjustments, the reduction to shareholders equity was £607 million.

The loss on sale of £559 million included cumulative foreign exchange gains of £9 million recycled through the profit and loss account as required by IAS 21.

K Tax

(i) Tax charge

The total tax charge comprises:

	2010	2009
	£m	£m
Tax charge		
UK tax	(313)	(895)
Overseas tax	(323)	22
Total tax charge*	(636)	(873)

An analysis of the total tax expense attributable to continuing operations recognised in the income statement by nature of expense is as follows:

	2010	2009
	£m	£m
Current tax	(91)	(529)
Deferred tax	(545)	(344)
Total tax charge*	(636)	(873)

* The 2010 tax charge attributable to shareholders' return includes an exceptional tax credit of £158 million which primarily relates to the impact of a settlement agreed with the UK Tax authorities.

The current tax charge of £91 million includes £13 million for 2010 (2009: charge of £6 million) in respect of the tax charge for Hong Kong. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either (i) five per cent of the net insurance premium or (ii) the estimated assessable profits, depending on the nature of the business written.

The 2010 total tax charge comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders. The tax charge attributable to shareholders of £25 million for 2010 (2009: charge of £55 million) comprises:

Tax charge attributable to shareholders	2010	2009
	£m	£m
UK tax	187	(176)
Overseas tax	(212)	121
Total tax charge	(25)	(55)

(ii) Deferred tax

The statement of financial position contains the following deferred tax assets and liabilities:

	2010		2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	£m	£m	£m	£m
Unrealised gains and losses on investments	449	(1,678)	1,156	(1,744)
Balances relating to investment and insurance contracts	11	(1,057)	20	(961)
Short-term timing differences	1,152	(1,477)	1,228	(1,159)
Capital allowances	16	(12)	18	(8)
Unused tax losses	560	–	286	–
Total	2,188	(4,224)	2,708	(3,872)

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 taxation regimes applicable across the Group often apply 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 2010 results and financial position at 31 December 2010, the possible tax benefit of approximately £143 million (31 December 2009: £257 million), which may arise from capital losses valued at approximately £0.5 billion (31 December 2009: £1.2 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £298 million (31 December 2009: £607 million), which may arise from tax losses and other potential temporary differences totalling £1.2 billion (31 December 2009: £2.1 billion) is sufficiently uncertain that it has not been recognised. Forecasts as to when these tax losses and other temporary differences are likely to be utilised indicate that they may not be utilised in the short term.

Under IAS 12, 'Income Taxes', deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting periods.

The UK government's tax rate change to 27 per cent has had the effect of reducing the UK with-profits and shareholder-backed business elements of the net deferred tax balances as at 31 December 2010 by £11 million. The tax change to 27 per cent is effective from 1 April 2011 but has been enacted at 31 December 2010. The subsequent proposed phased rate changes to 24 per cent are expected to have the effect of reducing the UK with-profits and shareholder-backed business elements of the net deferred tax balances at 31 December 2010 by £65 million.

(iii) Reconciliation of tax charge on profit attributable to shareholders for continuing operations

	Asian insurance operations	US insurance operations	UK insurance operations	Other operations	Total
	£m (except for tax rates)				
2010					
Profit (loss) before tax attributable to shareholders:					
Operating profit based on longer-term investment returns ^{(note (iii))}	532	833	719	(143)	1,941
Short-term fluctuations in investment returns	114	(378)	116	25	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	(5)	(5)	(10)
Costs of terminated AIA transaction	-	-	-	(377)	(377)
Gain on dilution of holding in PruHealth	-	-	30	-	30
Total	646	455	860	(500)	1,461
Expected tax rate: ^{(note (i))}					
Operating profit based on longer-term investment returns ^{(note (iii))}	22%	35%	28%	28%	29%
Short-term fluctuations in investment returns	25%	35%	28%	28%	52%
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	28%	28%	20%
Costs of terminated AIA transaction	-	-	-	28%	28%
Gain on dilution of holding in PruHealth	-	-	28%	-	28%
Expected tax (charge) credit based on expected tax rates:					
Operating profit based on longer-term investment returns ^{(note (iii))}	(117)	(292)	(201)	40	(570)
Short-term fluctuations in investment returns	(29)	132	(32)	(7)	64
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	1	1	2
Costs of terminated AIA transaction	-	-	-	106	106
Gain on dilution of holding in PruHealth	-	-	(8)	-	(8)
Total	(146)	(160)	(240)	140	(406)
Variance from expected tax charge: ^{(note (ii))}					
Operating profit based on longer-term investment returns ^{(note (iii))}	59	43	18	237	357
Short-term fluctuations in investment returns	21	-	-	7	28
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	-	1	1
Costs of terminated AIA transaction	-	-	-	(13)	(13)
Gain on dilution of holding in PruHealth	-	-	8	-	8
Total	80	43	26	232	381
Actual tax (charge) credit:					
Operating profit based on longer-term investment returns, excluding exceptional tax credit ^{(note (iii))}	(58)	(249)	(183)	119	(371)
Exceptional tax credit*	-	-	-	158	158
Operating profit based on longer-term investment return	(58)	(249)	(183)	277	(213)
Short-term fluctuations in investment returns	(8)	132	(32)	-	92
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	1	2	3
Costs of terminated AIA transaction	-	-	-	93	93
Gain on dilution of holding in PruHealth	-	-	-	-	-
Total	(66)	(117)	(214)	372	(25)
Actual tax rate:					
Operating profit based on longer-term investment returns	11%	30%	25%	194%	11%
Total profit	10%	26%	25%	74%	2%
Actual tax rate (excluding exceptional tax credit*):					
Operating profit based on longer-term investment returns	11%	30%	25%	83%	19%
Total profit	10%	26%	25%	43%	13%

*The tax charge attributable to shareholders' return includes an exceptional tax credit of £158 million which primarily relates to the impact of settlement agreed with the UK tax authorities.

2009*	Asian insurance operations	US insurance operations	UK insurance operations £m (except for tax rates)	Other operations	Total
Profit (loss) before tax attributable to shareholders:					
Operating profit based on longer-term investment returns ^{(note (iii))}	410	618	657	(121)	1,564
Short-term fluctuations in investment returns	31	(132)	108	(130)	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	(46)	(28)	(74)
Loss on sale and results for Taiwan agency business	(621)	–	–	–	(621)
Total	(180)	486	719	(279)	746
Expected tax rate: ^{(note (i))}					
Operating profit based on longer-term investment returns ^{(note (iii))}	24%	35%	28%	28%	30%
Short-term fluctuations in investment returns	25%	35%	28%	36%	45%
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	28%	28%	28%
Loss on sale and results for Taiwan agency business	25%	–	–	–	25%
Expected tax (charge) credit based on expected tax rates:					
Operating profit based on longer-term investment returns ^{(note (iii))}	(98)	(216)	(184)	34	(464)
Short-term fluctuations in investment returns	(8)	46	(30)	47	55
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	13	8	21
Loss on sale and results for Taiwan agency business	155	–	–	–	155
Total	49	(170)	(201)	89	(233)
Variance from expected tax charge: ^{(note (ii))}					
Operating profit based on longer-term investment returns ^{(note (iii))}	35	76	(29)	8	90
Short-term fluctuations in investment returns	15	196	–	14	225
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	–	–	–
Loss on sale and results for Taiwan agency business	(137)	–	–	–	(137)
Total	(87)	272	(29)	22	178
Actual tax (charge) credit:					
Operating profit based on longer-term investment returns ^{(note (iii))}	(63)	(140)	(213)	42	(374)
Short-term fluctuations in investment returns	7	242	(30)	61	280
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	13	8	21
Loss on sale and results for Taiwan agency business	18	–	–	–	18
Total	(38)	102	(230)	111	(55)
Actual tax rate:					
Operating profit based on longer-term investment returns	15%	23%	32%	35%	24%
Total profit	(21)%	(21)%	32%	40%	7%

*The Group has amended the presentation of operating profit for its US insurance operations to remove the net equity accounting effect (incorporating related amortisation of deferred acquisition costs) and included it in short-term fluctuations. The 2009 comparatives have been amended accordingly. Note C explains the effect of the change.

Notes

- (i) *Expected tax rates for profit (loss) attributable to shareholders:*
- The expected tax rates shown in the table above reflect the corporation tax rates generally applied to taxable profits of the relevant country jurisdictions.
 - For Asian operations the expected tax rates reflect the corporation tax rates weighted by reference to the source of profits of operations contributing to the aggregate business result.
 - The expected tax rate for Other operations reflects the mix of business between UK and overseas operations, which are taxed at a variety of rates. The rates will fluctuate from year to year dependent on the mix of profits.
- (ii) *For 2010 and 2009, the principal variances arise from a number of factors, including:*
- (a) Asian long-term operations
For 2010 and 2009, profits in certain countries which are not taxable partly offset by the inability to fully recognise deferred tax assets on losses being carried forward.
 - (b) Jackson
For 2010, the benefit of a deduction from taxable income of a proportion of dividends received attributable to the variable annuity business. For 2009, the ability to fully recognise deferred tax assets on losses brought forward which we were previously unable to recognise together with income subject to a lower level of taxation and the benefit of a deduction from taxable income of a proportion of dividends received attributable to the variable annuity business.
 - (c) UK insurance operations
For 2010, routine revisions to prior period tax returns. For 2009, adjustments in respect of prior year tax charge and different tax bases of UK life business.
 - (d) Other operations

For 2010, an exceptional tax credit which primarily relates to the impact of the settlement agreed with the UK tax authorities and the ability to recognise a deferred tax credit on various tax losses which we were previously unable to recognise, partly offset by the inability to fully recognise a tax credit in respect of non deductible capital costs incurred in relation to the terminated AIA transaction. For 2009, the ability to recognise a deferred tax asset on various tax losses which we were previously unable to recognise partly offset by adjustments in respect of the prior year tax charge.

- (e) For 2009, the actual tax rate in relation to Asia excluding the result for the sold Taiwan agency business would have been 13 per cent.
 (iii) Operating profit based on longer-term investment returns is net of attributable restructuring costs and development expenses.

L Supplementary analysis of earnings per share

	2010					
	Before tax (note C) £m	Tax (note K) £m	Non-controlling interests £m	Net of tax and non-controlling interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns, excluding exceptional tax credit	1,941	(371)	(5)	1,565	62.0 p	61.9 p
Exceptional tax credit*	-	158	-	158	6.3 p	6.3 p
Based on operating profit based on longer-term investment return	1,941	(213)	(5)	1,723	68.3 p	68.2 p
Short-term fluctuations in investment returns on shareholder-backed business	(123)	92	-	(31)	(1.2)p	(1.2)p
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(10)	3	-	(7)	(0.3)p	(0.3)p
Costs of terminated AIA transaction	(377)	93	-	(284)	(11.3)p	(11.3)p
Gain on dilution of holding in PruHealth	30	-	-	30	1.2 p	1.2 p
Based on profit for the year from continuing operations including exceptional tax credit	1,461	(25)	(5)	1,431	56.7 p	56.6 p

*The tax charge attributable to shareholders' return includes an exceptional tax credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities.

	2009 **					
	Before tax (note C) £m	Tax (note K) £m	Non-controlling interests £m	Net of tax and non-controlling interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns	1,564	(374)	(2)	1,188	47.5 p	47.4 p
Short-term fluctuations in investment returns on shareholder-backed business	(123)	280	1	158	6.3 p	6.3 p
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(74)	21	-	(53)	(2.1)p	(2.1)p
Adjustment from loss on sale and result of Taiwan agency business	(621)	18	-	(603)	(24.1)p	(24.0)p
Based on profit for the year from continuing operations	746	(55)	(1)	690	27.6 p	27.6 p
Adjustment for post-tax results of discontinued operations	(14)	-	-	(14)	(0.6)p	(0.6)p
Based on profit for the year from continuing operations	732	(55)	(1)	676	27.0 p	27.0 p

**The Group has amended the presentation of operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. The 2009 comparatives have been amended accordingly. Note C explains the effect of the change.

Earnings per share are calculated based on earnings attributable to ordinary shareholders, after related tax and non-controlling interests.

The weighted average number of shares for calculating basic earnings per share for 2010 was 2,524 million (2009: 2,501 million). The weighted average number of shares for calculating diluted earnings per share for 2010 was 2,529 million (2009: 2,506 million).

M Dividend

Dividends per share (in pence)	2010	2009
Dividends relating to reporting year:		
Interim dividend (2010 and 2009)	6.61 p	6.29 p
Final /Second interim dividend (2010 and 2009)	17.24 p	13.56 p
Total	23.85 p	19.85 p
Dividends declared and paid in reporting year:		
Current year interim dividend	6.61 p	6.29 p
Second interim /final dividend for prior year	13.56 p	12.91 p
Total	20.17 p	19.20 p

Interim dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by shareholders. The second interim dividend of 13.56 pence per ordinary share for the year ended 31 December 2009 was paid to eligible shareholders on 27 May 2010 and the 2010 interim dividend of 6.61 pence per ordinary share was paid to eligible shareholders on 23 September 2010.

Following the Board's decision to rebase the dividend upwards and subject to shareholders' approval, the 2010 final dividend of 17.24 pence per ordinary share will be paid on 26 May 2011 in sterling to shareholders on the principal and Irish branch registers at 6.00 p.m BST on Friday, 1 April 2011 (the "Record Date"), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30 p.m Hong Kong time on the Record Date ("HK Shareholders"). Holders of US American Depositary Receipts ("US Shareholders") will be paid their dividends in US dollars on or about five days after the payment date of the dividend to shareholders on the principal register. The final dividend will be paid on or about 2 June 2011 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited ("CDP") at 5.00 p.m Singapore time on the Record Date ("SG Shareholders"). The dividend payable to the HK Shareholders will be translated at the exchange rate ruling at the close of business on 8 March 2011. The exchange rate at which the dividend payable to the SG Shareholders will be translated into SG\$ will be determined by CDP. The dividend will distribute an estimated £439 million of shareholders' funds.

The scrip dividend is not being offered in respect of this dividend. In its place shareholders will be offered a Dividend Reinvestment Plan (DRIP).

N Group statement of financial position analysis

(i) Group statement of financial position analysis

To explain more comprehensively the assets, liabilities and capital of the Group's businesses, it is appropriate to provide analyses of the Group's statement of financial position by operating segment and type of business.

Position at 31 December 2010:

	Insurance operations			Total insurance operations	Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	2010 Group total	2009 Group total
	UK	US	Asia						
By operating segment	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Intangible assets attributable to shareholders:									
Goodwill ^(note Q)	-	-	236	236	1,230	-	-	1,466	1,310
Deferred acquisition costs and other intangible assets ^(note R)	118	3,543	939	4,600	9	-	-	4,609	4,049
Total	118	3,543	1,175	4,836	1,239	-	-	6,075	5,359
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes									
Deferred acquisition costs and other intangible assets	166	-	-	166	-	-	-	166	124
Total	13	-	97	110	-	-	-	110	106
Total	179	-	97	276	-	-	-	276	230
Total	297	3,543	1,272	5,112	1,239	-	-	6,351	5,589
Deferred tax assets ^(note K)	214	1,391	98	1,703	123	362	-	2,188	2,708
Other non investment and non-cash assets	4,633	1,241	811	6,685	999	4,159	(5,761)	6,082	5,425
Investment of long term business and other operations:									
Investment properties	11,212	26	9	11,247	-	-	-	11,247	10,905
Investments accounted for using the equity method	69	-	2	71	-	-	-	71	6
Financial investments:									
Loans ^(note T)	2,302	4,201	1,340	7,843	1,418	-	-	9,261	8,754
Equity securities and portfolio holdings in unit trusts	40,519	31,501	14,464	86,484	151	-	-	86,635	69,354
Debt securities ^(note U)	74,304	26,366	14,108	114,778	1,574	-	-	116,352	101,751
Other investments	3,998	1,199	382	5,579	59	141	-	5,779	5,132
Deposits	9,022	212	638	9,872	80	-	-	9,952	12,820
Total investments	141,426	63,505	30,943	235,874	3,282	141	-	239,297	208,722
Properties held for sale	254	3	-	257	-	-	-	257	3
Cash and cash equivalents	2,839	232	1,601	4,672	1,436	523	-	6,631	5,307
Total assets	149,663	69,915	34,725	254,303	7,079	5,185	(5,761)	260,806	227,754

Further segmental analysis:

The non-current assets of the Group comprise goodwill, intangible assets other than DAC and present value of acquired in-force business and property, plant and equipment included within 'other non-investment and non-cash assets'. Items defined as financial instruments or related to insurance contracts are excluded. Of the Group's total non-current assets at 31 December 2010 of £2,454 million (2009: £1,965 million), £1,708 million (2009: £1,444 million) was held in the UK by the UK insurance operations, M&G and central operations, £131 million (2009: £112 million) was held in the US and £615 million (2009: £409 million) was held in Asia.

No individual country in Asia held non-current assets at the end of the year which exceeds 10 per cent of the Group total.

By operating segment	Insurance operations			Total insurance operations	Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	2010 Group total	2009 Group total
	UK	US	Asia						
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Equity and liabilities									
Equity									
Shareholders' equity	2,148	3,815	2,149	8,112	1,787	(1,868)	-	8,031	6,271
Non-controlling interests	35	-	5	40	4	-	-	44	32
Total equity	2,183	3,815	2,154	8,152	1,791	(1,868)	-	8,075	6,303
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Insurance contract liabilities	84,152	58,641	28,498	171,291	-	-	-	171,291	145,713
Investment contract liabilities with discretionary participation features	25,613	-	119	25,732	-	-	-	25,732	24,880
Investment contract liabilities without discretionary participation features	15,765	1,882	57	17,704	-	-	-	17,704	15,805
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)	10,187	-	66	10,253	-	-	-	10,253	10,019
Total policyholder liabilities and unallocated surplus of with-profits funds	135,717	60,523	28,740	224,980	-	-	-	224,980	196,417
Core structural borrowings of shareholder financed operations:									
Subordinated debt	-	-	-	-	-	2,718	-	2,718	2,691
Other	-	159	-	159	250	549	-	958	703
Total (note W)	-	159	-	159	250	3,267	-	3,676	3,394
Operational borrowings attributable to shareholder financed operations (note X)	162	90	189	441	3	2,560	-	3,004	2,751
Borrowings attributable to with-profits operations (note X)	1,522	-	-	1,522	-	-	-	1,522	1,284
Other non-insurance liabilities:									
Obligations under funding, securities lending and sale and repurchase agreements	2,398	1,801	-	4,199	-	-	-	4,199	3,482
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	1,755	33	1,126	2,914	458	-	-	3,372	3,809
Deferred tax liabilities (note K)	1,738	1,776	495	4,009	5	210	-	4,224	3,872
Current tax liabilities (note K)	399	34	70	503	33	295	-	831	1,215
Accruals and deferred income	340	-	109	449	244	14	-	707	594
Other creditors	1,939	511	1,122	3,572	4,039	471	(5,761)	2,321	1,612
Provisions	442	19	61	522	157	50	-	729	643
Derivative liabilities	792	799	222	1,813	78	146	-	2,037	1,501
Other liabilities	276	355	437	1,068	21	40	-	1,129	877
Total	10,079	5,328	3,642	19,049	5,035	1,226	(5,761)	19,549	17,605
Total liabilities	147,480	66,100	32,571	246,151	5,288	7,053	(5,761)	252,731	221,451
Total equity and liabilities	149,663	69,915	34,725	254,303	7,079	5,185	(5,761)	260,806	227,754

(ii) Group statement of financial position - additional analysis by business type

	Shareholder-backed business						2010 Group total £m	2009 Group total £m
	Participating funds £m	Unit-linked and variable annuity £m	Non-linked business £m	Asset management operations £m	Unallocated to a segment (central operations) £m	Intra-group eliminations £m		
Assets								
Intangible assets attributable to shareholders:								
Goodwill (note Q)	-	-	236	1,230	-	-	1,466	1,310
Deferred acquisition costs and other intangible assets (note R)	-	-	4,600	9	-	-	4,609	4,049
Total	-	-	4,836	1,239	-	-	6,075	5,359
Intangible assets attributable to with-profits funds:								
In respect of acquired subsidiaries for venture fund and other investment purposes	166	-	-	-	-	-	166	124
Deferred acquisition costs and other intangible assets	110	-	-	-	-	-	110	106
Total	276	-	-	-	-	-	276	230
Total	276	-	4,836	1,239	-	-	6,351	5,589
Deferred tax assets (note K)	109	-	1,594	123	362	-	2,188	2,708
Other non investment and non-cash assets	2,749	651	3,285	999	4,159	(5,761)	6,082	5,425
Investment of long term business and other operations:								
Investment properties	8,993	745	1,509	-	-	-	11,247	10,905
Investments accounted for using the equity method	-	-	71	-	-	-	71	6
Financial investments:								
Loans (note T)	2,144	-	5,699	1,418	-	-	9,261	8,754
Equity securities and portfolio holdings in unit trusts	31,371	54,274	839	151	-	-	86,635	69,354
Debt securities (note U)	53,261	9,054	52,463	1,574	-	-	116,352	101,751
Other investments	3,887	131	1,561	59	141	-	5,779	5,132
Deposits	7,272	749	1,851	80	-	-	9,952	12,820
Total investments	106,928	64,953	63,993	3,282	141	-	239,297	208,722
Properties held for sale	254	-	3	-	-	-	257	3
Cash and cash equivalents	1,915	1,490	1,267	1,436	523	-	6,631	5,307
Total assets	112,231	67,094	74,978	7,079	5,185	(5,761)	260,806	227,754

	Shareholder-backed business						2010 Group total £m	2009 Group total £m
	Participating funds £m	Unit-linked and variable annuity £m	Non-linked business £m	Asset management operations £m	Unallocated to a segment (central operations) £m	Intra-group eliminations £m		
Equity and liabilities								
Equity								
Shareholders' equity	-	-	8,112	1,787	(1,868)	-	8,031	6,271
Non-controlling interests	35	-	5	4	-	-	44	32
Total equity	35	-	8,117	1,791	(1,868)	-	8,075	6,303
Liabilities								
Policyholder liabilities and unallocated surplus of with-profits funds:								
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	92,544	65,598	56,585	-	-	-	214,727	186,398
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)	10,253	-	-	-	-	-	10,253	10,019
Total policyholder liabilities and unallocated surplus of with-profits funds	102,797	65,598	56,585	-	-	-	224,980	196,417
Core structural borrowings of shareholder-financed operations: (note W)								
Subordinated debt	-	-	-	-	2,718	-	2,718	2,691
Other	-	-	159	250	549	-	958	703
Total	-	-	159	250	3,267	-	3,676	3,394
Operational borrowings attributable to shareholder financed operations (note X)	-	-	441	3	2,560	-	3,004	2,751
Borrowings attributable to with-profits operations (note X)	1,522	-	-	-	-	-	1,522	1,284
Deferred tax liabilities	1,576	25	2,408	5	210	-	4,224	3,872
Other non-insurance liabilities	6,301	1,471	7,268	5,030	1,016	(5,761)	15,325	13,733
Total liabilities	112,196	67,094	66,861	5,288	7,053	(5,761)	252,731	221,451
Total equity and liabilities	112,231	67,094	74,978	7,079	5,185	(5,761)	260,806	227,754

O Statement of financial position at 31 December 2010

(i) UK insurance operations

Overview

- In order to reflect the different types of UK business and fund structure, the statement of financial position of the UK insurance operations analyses 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 (principally PRIL) and other long-term business.
- £94.8 billion of the £141.4 billion of investments are held by SAIF and the PAC WPSF. Shareholders are exposed only indirectly to value movements on these assets.

	PAC with-profits fund (note (i))				Other funds and subsidiaries			2010 Total £m	2009 Total £m
	Scottish Amicable Insurance Fund (note (ii)) £m	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited (note (iii)) £m	Total (note (iv)) £m	Unit-linked assets and liabilities £m	Annuity and other long-term business £m	Total £m		
By operating segment									
Assets									
Intangible assets attributable to shareholders:									
Deferred acquisition costs and other intangible assets	-	-	-	-	-	118	118	118	127
Total	-	-	-	-	-	118	118	118	127
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	-	166	-	166	-	-	-	166	124
Deferred acquisition costs	-	13	-	13	-	-	-	13	9
Total	-	179	-	179	-	-	-	179	133
Total	-	179	-	179	-	118	118	297	260
Deferred tax assets	2	93	14	107	-	105	105	214	292
Other non investment and non-cash assets	412	1,810	322	2,132	557	1,532	2,089	4,633	3,074
Investment of long term business and other operations:									
Investment properties	673	7,589	731	8,320	745	1,474	2,219	11,212	10,861
Investments accounted for using the equity method	-	-	-	-	-	69	69	69	4
Financial investments:									
Loans (note T)	153	979	138	1,117	-	1,032	1,032	2,302	1,815
Equity securities and portfolio holdings in unit trusts	3,105	23,716	229	23,945	13,434	35	13,469	40,519	37,051
Debt securities (note U)	4,704	29,013	12,785	41,798	6,045	21,757	27,802	74,304	67,772
Other investments (note (v))	276	3,241	178	3,419	73	230	303	3,998	3,630
Deposits	793	6,038	435	6,473	498	1,258	1,756	9,022	11,557
Total investments	9,704	70,576	14,496	85,072	20,795	25,855	46,650	141,426	132,690
Properties held for sale	-	254	-	254	-	-	-	254	-
Cash and cash equivalents	170	1,127	82	1,209	1,153	307	1,460	2,839	2,265
Total assets	10,288	74,039	14,914	88,953	22,505	27,917	50,422	149,663	138,581

	PAC with-profits fund (note (i))				Other funds and subsidiaries			2010 Group Total £m	2009 Group Total £m
	Scottish Amicable Insurance Fund (note (ii)) £m	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited (note (iii)) £m	Total (note (iv)) £m	Unit-linked assets and liabilities £m	Annuity and other long-term business £m	Total £m		
Equity and liabilities									
Equity									
Shareholders' equity	-	-	-	-	-	2,148	2,148	2,148	1,939
Non-controlling interests	-	35	-	35	-	-	-	35	28
Total equity	-	35	-	35	-	2,148	2,148	2,183	1,967
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	9,759	59,545	12,282	71,827	21,671	22,273	43,944	125,530	116,229
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds) (note (vi))	-	8,363	1,824	10,187	-	-	-	10,187	9,966
Total	9,759	67,908	14,106	82,014	21,671	22,273	43,944	135,717	126,195
Operational borrowings attributable to shareholder financed operations	-	-	-	-	-	162	162	162	158
Borrowings attributable to with-profits funds	118	1,404	-	1,404	-	-	-	1,522	1,284
Deferred tax liabilities	80	903	252	1,155	-	503	503	1,738	1,606
Other non-insurance liabilities	331	3,789	556	4,345	834	2,831	3,665	8,341	7,371
Total liabilities	10,288	74,004	14,914	88,918	22,505	25,769	48,274	147,480	136,614
Total equity and liabilities	10,288	74,039	14,914	88,953	22,505	27,917	50,422	149,663	138,581

Notes

- (i) For the purposes of this table and subsequent explanation, references to the WPSF also include, for convenience, the amounts attaching to the Defined Charges Participating Sub-fund which comprises 3.5 per cent of the total assets of the WPSF and includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 1 December 2007 (with assets of approximately £1.7 billion). Profits to shareholders on this with-profits annuity business emerge on a 'charges less expenses' basis and policyholders are entitled to 100 per cent of the investment earnings.
- (ii) SAIF is a separate sub-fund within the PAC long-term business fund.
- (iii) Wholly-owned subsidiary of the PAC WPSF that writes annuity business.
- (iv) Excluding policyholder liabilities of the Hong Kong branch of PAC.
- (v) Other investment comprise:

	2010 £m	2009 £m
Derivative assets*	926	910
Partnerships in investment pools and other**	3,072	2,720
	3,998	3,630

* 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 £792 million (2009: £709 million), which are also included in the statement of financial position, the overall derivative position was a net asset of £134 million (2009: £201 million).

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

(vi) 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 of investments.

(ii) US insurance operations

	2010			2009
	Variable annuity separate account assets and liabilities (note (i)) £m	Fixed annuity, GIC and other business (note (i)) £m	Total £m	Total £m
Assets				
Intangible assets attributable to shareholders:				
Deferred acquisition costs	-	3,543	3,543	3,092
Total	-	3,543	3,543	3,092
Deferred tax assets	-	1,391	1,391	1,944
Other non-investment and non-cash assets	-	1,241	1,241	1,404
Investments of long-term business and other operations:				
Investment properties	-	26	26	33
Financial investments:				
Loans ^(note T)	-	4,201	4,201	4,319
Equity securities and portfolio holdings in unit trusts ^{(note (iv))}	31,203	298	31,501	20,984
Debt securities ^(note U)	-	26,366	26,366	22,831
Other investments ^{(note (ii))}	-	1,199	1,199	955
Deposits	-	212	212	454
Total investments	31,203	32,302	63,505	49,576
Properties held for sale	-	3	3	3
Cash and cash equivalents	-	232	232	340
Total assets	31,203	38,712	69,915	56,359
Equity and liabilities				
Equity				
Shareholders' equity ^{(note (iii))}	-	3,815	3,815	3,011
Total equity	-	3,815	3,815	3,011
Liabilities				
Policyholder:				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	31,203	29,320	60,523	48,311
Total	31,203	29,320	60,523	48,311
Core structural borrowings of shareholder-financed operations	-	159	159	154
Operational borrowings attributable to shareholder-financed operations	-	90	90	203
Deferred tax liabilities	-	1,776	1,776	1,858
Other non-insurance liabilities	-	3,552	3,552	2,822
Total liabilities	31,203	34,897	66,100	53,348
Total equity and liabilities	31,203	38,712	69,915	56,359

Notes

- (i) Assets and liabilities attaching to variable annuity business that are not held in the separate account are shown within other business.
(ii) Other investments comprise:

	2010	2009
	£m	£m
Derivative assets*	645	519
Partnerships in investment pools and other**	554	436
	1,199	955

* 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 £799 million (2009: £461 million), which is also included in the statement of financial position, the derivative position for US operations is a net liability of £154 million (2009: £58 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 in 161 (2009: 159) other partnerships by independent money managers that generally invest in various equities and fixed income loans and securities.

- (iii) *Changes in shareholders' equity*

	2010	2009*
	£m	£m
Operating profits based on longer-term investment returns ^(note C)	833	618
Short-term fluctuations in investment returns ^(note F)	(378)	(132)
Profit before shareholder tax	455	486
Tax ^(note K)	(117)	102
Profit for the year	338	588

	2010	2009
	£m	£m
Profit for the year (as above)	338	588
Items recognised directly in equity:		
Exchange movements	85	(231)
Unrealised valuation movements on securities classified as available-for sale:		
Unrealised holding gains arising during the year	1,170	2,249
Less losses included in the income statement	51	420
Total unrealised valuation movements	1,221	2,669
Related change in amortisation of deferred income and acquisition costs ^(note R)	(496)	(1,069)
Related tax	(247)	(557)
Total other comprehensive income	563	812
Total comprehensive income for the year	901	1,400
Dividends, interest payments to central companies and other movements	(97)	(87)
Net increase in equity	804	1,313
Shareholders' equity at beginning of year	3,011	1,698
Shareholders' equity at end of year	3,815	3,011

*The Group has amended the presentation of operating profit for its US insurance operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. The 2009 comparatives have been amended accordingly. Note C explains the effect of the change.

- (iv) Equity securities and portfolio holdings in unit trusts includes investments in mutual funds, the majority of which are equity based.

(iii) Asian insurance operations

	2010				2009
	With-profits business (note (i))	Unit-linked assets and liabilities	Other	Total	Total
	£m	£m	£m	£m	£m
Assets					
Intangible assets attributable to shareholders:					
Goodwill	-	-	236	236	80
Deferred acquisition costs and other intangible assets	-	-	939	939	822
Total	-	-	1,175	1,175	902
Intangible assets attributable to with-profits funds:					
Deferred acquisition costs and other intangible assets	97	-	-	97	97
Deferred tax assets	-	-	98	98	132
Other non-investment and non-cash assets	205	94	512	811	880
Investments of long-term business and other operations:					
Investment properties	-	-	9	9	11
Investments accounted for using the equity method	-	-	2	2	2
Financial investments:					
Loans ^(note T)	874	-	466	1,340	1,207
Equity securities and portfolio holdings in unit trusts	4,321	9,637	506	14,464	11,182
Debt securities ^(note U)	6,759	3,009	4,340	14,108	9,984
Other investments	192	58	132	382	258
Deposits	6	251	381	638	746
Total investments	12,152	12,955	5,836	30,943	23,390
Cash and cash equivalents	536	337	728	1,601	837
Total assets	12,990	13,386	8,349	34,725	26,238
Equity and liabilities					
Equity					
Shareholders' equity	-	-	2,149	2,149	1,462
Non-controlling interests	-	-	5	5	1
Total equity	-	-	2,154	2,154	1,463
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds:					
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	10,958	12,724	4,992	28,674	21,858
Unallocated surplus of with-profits funds	66	-	-	66	53
Total	11,024	12,724	4,992	28,740	21,911
Operational borrowings attributable to shareholders-financed operations					
Deferred tax liabilities	341	25	129	495	384
Other non-insurance liabilities	1,625	637	885	3,147	2,270
Total liabilities	12,990	13,386	6,195	32,571	24,775
Total equity and liabilities	12,990	13,386	8,349	34,725	26,238

Notes

- (i) The statement of financial position for with-profits business comprises the with-profits assets and liabilities of the Hong Kong, Malaysia and Singapore with-profits operations. Assets and liabilities of other participating business are included in the column for 'other business'.

(iv) Asset management operations

	M&G (note (i)) £m	US £m	Asia £m	Total 2010 £m	Total 2009 £m
Assets					
Intangible assets:					
Goodwill ^{(note (iii))}	1,153	16	61	1,230	1,230
Deferred acquisition costs	9	-	-	9	8
Total	1,162	16	61	1,239	1,238
Other non-investment and non-cash assets ^{(note (iii))}	854	174	94	1,122	850
Financial investments:					
Loans ^(note T)	1,418	-	-	1,418	1,413
Equity securities and portfolio holdings in unit trusts	141	-	10	151	137
Debt securities ^(note U)	1,560	-	14	1,574	1,164
Other investments ^{(note (iii))}	51	1	7	59	113
Deposits	33	22	25	80	63
Total financial investments	3,203	23	56	3,282	2,890
Cash and cash equivalents ^{(note (iii))}	1,269	39	128	1,436	970
Total assets	6,488	252	339	7,079	5,948
Equity and liabilities					
Equity					
Shareholders' equity	1,407	122	258	1,787	1,659
Non-controlling interests	4	-	-	4	3
Total equity	1,411	122	258	1,791	1,662
Liabilities					
Core structural borrowing of shareholder-financed operations	250	-	-	250	-
Intra-group debt represented by operational borrowings at Group level ^{(note (ii))}	2,560	-	-	2,560	2,038
Net asset value attributable to external holders of consolidated unit trusts and similar funds ^{(note (iii))}	458	-	-	458	410
Other non-insurance liabilities ^{(note (iii))}	1,809	130	81	2,020	1,838
Total liabilities	5,077	130	81	5,288	4,286
Total equity and liabilities	6,488	252	339	7,079	5,948

Notes

(i) M&G includes those assets and liabilities in respect of Prudential Capital.

(ii) *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 £2,311 million (2009: £2,031 million) of commercial paper and £249 million (2009: £7 million) of medium-term notes.

(iii) *Consolidated investment funds*

The M&G statement of financial position shown above includes investment funds which are managed on behalf of third-parties. In respect of these funds, the statement of financial position includes cash and cash equivalents of £304 million (2009: £269 million), £167 million (2009: £158 million) of other investments, £(13) million (2009: £(17) million) of other net assets and liabilities and the net asset value attributable to external unit holders of £458 million (2009: £410 million), which are non-recourse to M&G and the Group.

P Acquisition of United Overseas Bank Life Assurance Limited

On 1 February 2010, the Group acquired from United Overseas Bank (UOB) its 100 per cent interest in UOB Life Assurance Limited in Singapore for total cash consideration, after post-completion adjustments of SGD67 million (£32 million), of SGD495 million (£220 million). As part of the transaction the Group also entered into a long-term strategic partnership to develop a major regional bancassurance business with UOB.

In addition to the amounts above the Group incurred £2 million of acquisition-related costs (excluding integration costs). These have been excluded from the consideration transferred and have been recognised as an expense in the period, in the consolidated income statement.

Goodwill arising on acquisition

	£m
Cash consideration	220
Less: fair value of identifiable net assets acquired	(79)
Goodwill arising on acquisition	141

Goodwill arose on the acquisition of UOB Life Assurance Limited in Singapore because the acquisition included revenue and cost synergies. These synergies could not be recognised as assets separately from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts and did not arise from contractual or other legal rights.

None of the goodwill arising on this transaction is expected to be deductible for tax purposes.

Assets acquired and liabilities assumed at the date of acquisition

	£m
Assets:	
Intangible assets attributable to shareholders: Present value of acquired in-force business	12
Other non-investment and non-cash assets	16
Investments of long-term business and other operations	1,004
Cash and cash equivalents	89
Total assets	1,121
Liabilities:	
Policyholder liabilities	968
Other non-insurance liabilities	74
Total liabilities	1,042
Fair value of identifiable net assets acquired	79

Total assets include loans and receivables with a fair value of £15 million. This value represents the gross contractual amount and all amounts have been collected.

The consolidated statement of cash flows contains a £133 million net cash outflow in respect of this acquisition representing cash consideration of £220 million, acquisition related costs paid of £2 million less cash and cash equivalents acquired of £89 million.

Impact of acquisition on the results of the Group

Included in the Group's consolidated profit before tax for the year is £8 million attributable to UOB Life Assurance Limited in Singapore. Consolidated revenue, including investment returns, for the year includes £125 million in respect of UOB Life Assurance Limited in Singapore.

Had the acquisition been effected at 1 January 2010, the revenue and profit of the Group from continuing operations for the year ended 31 December 2010 would not have been materially different.

Q Goodwill attributable to shareholders

	2010 £m	2009 £m
Cost		
At 1 January	1,430	1,461
Disposal of Taiwan Agency business	-	(44)
Additional consideration paid on previously acquired businesses	-	13
Acquisition of UOB Life Assurance Limited in Singapore ^(note P)	141	-
Exchange differences	15	-
At 31 December	1,586	1,430
Aggregate impairment		
At 1 January and 31 December	(120)	(120)
Net book amount at 31 December	1,466	1,310

R Deferred acquisition costs and other intangible assets attributable to shareholders

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

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

The deferred acquisition costs and other intangible assets attributable to shareholders comprise:

	2010 £m	2009 £m
Deferred acquisition costs (DAC) related to insurance contracts as classified under IFRS 4	4,316	3,823
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	110	107
	4,426	3,930
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4	70	52
Present value of future profits of acquired investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	-	1
Distribution rights	113	66
	183	119
Total of deferred acquisition costs and other intangible assets	4,609	4,049

	Deferred acquisition costs					Total 2010 £m	Total 2009 £m
	UK £m	US ⁽ⁱ⁾ £m	Asia £m	Asset management £m	Other intangibles ⁽ⁱⁱ⁾ £m		
Balance at 1 January	124	3,092	706	8	119	4,049	5,349
Additions	19	851	210	5	50	1,135	1,071
Acquisition of UOB Life Assurance Ltd	-	-	-	-	12	12	-
Amortisation to the income statement:							
Operating profit	(20)	(334)	(208)	(4)	(13)	(579)	(469)
Amortisation related to short-term fluctuations in investment returns	-	358	-	-	-	358	153
Exchange differences	(20)	24	(208)	(4)	(13)	(221)	(316)
Change in shadow DAC related to movement in unrealised appreciation of Jackson's securities classified as available-for-sale	-	(496)	-	-	-	(496)	(1,069)
Dilution of holding in PruHealth	(7)	-	-	-	-	(7)	-
DAC movement on sale of Taiwan agency business	-	-	-	-	-	-	(436)
Balance at 31 December	116	3,543	758	9	183	4,609	4,049

- (i) The DAC amount in respect of US insurance operations includes £2,834 million (2009: £1,938 million) in respect of variable annuity business, £1,229 million (2009: £1,164 million) in respect of other business and £(520) million (2009: £(10) million) in respect of cumulative shadow DAC.
- (ii) In addition to the acquired assets and liabilities of UOB Life Assurance in 2010 as explained in note P, the Group entered into distribution agreements with UOB for consideration of SGD 110 million (£50 million). The distribution rights have been accounted for as an intangible asset.

Under IFRS 4, the Group applies grandfathered US GAAP for measuring the insurance assets and liabilities of Jackson. In the case of Jackson term business, acquisition costs are deferred and amortised in line with expected premiums. For annuity and interest-sensitive life business, acquisition costs are deferred and amortised in line with a combination of historical and future expected gross profits on the relevant contracts. For fixed and indexed annuity and interest-sensitive life business, the key assumption is the long-term spread between the earned rate on investments and the rate credited to policyholders, which is based on an annual spread analysis. Expected gross profits also 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 mortality, lapse, and expense experience is performed using internally developed experience studies.

As with fixed and indexed annuity and interest-sensitive life business, acquisition costs for Jackson's variable annuity products are amortised in line with the emergence of profits. The measurement of the amortisation in part reflects current period fees (including those for guaranteed minimum death, income, or withdrawal benefits) earned on assets covering liabilities to policyholders, and the historical and expected level of future gross profits which depends on the assumed level of future fees, as well as components related to mortality, lapse, and expense.

Under US GAAP (as grandfathered under IFRS 4) the projected gross profits reflect an assumed long-term level of equity return which, for Jackson, is 8.4 per cent after deduction of net external fund management fees. This is applied to the period end level of separate account equity assets after application of a mean reversion technique that removes a portion of the effect of levels of short-term variability in current market returns. Under the mean reversion technique applied by Jackson, the projected level of return for each of the next five years is adjusted from period to period so that in combination with the actual rates of return for the preceding two years and the current year, the 8.4 per cent annual return is realised on average over the entire eight year period. Projected returns after the mean reversion period revert back to the 8.4 per cent target. A capping feature, which currently applies due to the very sharp market falls in 2008, is that the projected rates of return for the next five years can be no more than 15 per cent (gross of asset management fees) per annum. If Jackson had not applied the mean reversion methodology and had instead applied a constant 8.4 per cent annual return from today's asset values, of the Jackson DAC balance of £3,543 million would fall approximately £80 million to £3,463 million at 31 December 2010.

The amortisation charge to the income statement is reflected in operating profit and short-term fluctuations in investment returns. The amortisation charge to the operating profit in a reporting period will incorporate an element of acceleration or deceleration that reflects the variance between the actual level of return attained and the assumed level in the mean reversion calculation. In 2010, the element of DAC amortisation charge included in operating profit includes £11 million of accelerated amortisation. This amount reflects actual separate account return shortfalls in the periods compared with the assumed level of 15 per cent for the year. For 2009, reflecting the excess of actual separate account returns over the 15 per cent assumed level, the operating profit incorporates a credit for decelerated amortisation of £39 million.

For 2010, the separate account return (gross of asset management fees) was approximately 13 per cent. In 2011, while the capping feature is in effect, each one per cent divergence of the actual separate account return below or above the assumed return of 15 per cent is estimated to give rise to accelerated or decelerated amortisation, respectively, of approximately £6 million (£3 million if the projected rate falls below the 15% cap).

In the absence of significant market declines between now and the end of 2011, Jackson would expect to see higher amortisation levels than normal in 2011. This would essentially represent a reversal of the mean reversion benefits to date, as at that point highly negative returns from 2008 will no longer be included in the mean reverting return calculation.

S Valuation bases for Group assets

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') as described further below. The basis applied for the assets section of the statement of financial position at 31 December 2010 is summarised below:

	2010			2009		
	At fair value £m	Cost / Amortised cost (note (ii)) £m	Total £m	At fair value £m	Cost / Amortised cost (note (ii)) £m	Total £m
Intangible assets attributable to shareholders:						
Goodwill ^(note Q)	-	1,466	1,466	-	1,310	1,310
Deferred acquisition costs and other intangible assets ^(note R)	-	4,609	4,609	-	4,049	4,049
Total	-	6,075	6,075	-	5,359	5,359
Intangible assets attributable to with-profits funds:						
In respect of acquired subsidiaries for venture fund and other investment purposes	-	166	166	-	124	124
Deferred acquisition costs and other intangible assets	-	110	110	-	106	106
Total	-	276	276	-	230	230
Total	-	6,351	6,351	-	5,589	5,589
Other non-investment and non-cash assets:						
Property, plant and equipment	-	612	612	-	367	367
Reinsurers' share of insurance contract liabilities	-	1,344	1,344	-	1,187	1,187
Deferred tax assets ^(note K)	-	2,188	2,188	-	2,708	2,708
Current tax recoverable	-	555	555	-	636	636
Accrued investment income	-	2,668	2,668	-	2,473	2,473
Other debtors	-	903	903	-	762	762
Total	-	8,270	8,270	-	8,133	8,133
Investments of long-term business and other operations:						
Investment properties	11,247	-	11,247	10,905	-	10,905
Investments accounted for using the equity method	-	71	71	-	6	6
Financial investments:						
Loans ^{(notes (iii) and T)}	227	9,034	9,261	-	8,754	8,754
Equity securities and portfolio holdings in unit trusts ^{(note (iii))}	86,635	-	86,635	69,354	-	69,354
Debt securities ^{(notes (iii) and U)}	116,352	-	116,352	101,751	-	101,751
Other investments ^{(note (iii))}	5,779	-	5,779	5,132	-	5,132
Deposits ^{(note (i))}	-	9,952	9,952	-	12,820	12,820
Total	220,240	19,057	239,297	187,142	21,580	208,722
Properties held for sale	257	-	257	3	-	3
Cash and cash equivalents ^{(note (i))}	-	6,631	6,631	-	5,307	5,307
Total assets	220,497	40,309	260,806	187,145	40,609	227,754
Percentage of Group total assets	85%	15%	100%	82%	18%	100%

Notes

- (i) Under IAS 39, deposits and cash and cash equivalents are classified as loans and receivables and carried at amortised cost in the statement of financial position. There is no difference between their carrying values and fair values. Including these amounts as being at their fair values, the percentage of the Group's total assets held on the statement of financial position which were at fair value at 31 December 2010 was 91 per cent (2009: 90 per cent).
- (ii) Assets carried at cost or amortised cost are subject to impairment testing where appropriate under IFRS requirements. This category also includes assets which are valued by reference to specific IFRS standards such as reinsurers' share of insurance contract liabilities, deferred tax assets and investments accounted for under the equity method.
- (iii) These assets comprise financial instruments requiring fair value valuation under IAS 39 with a value of £209.0 billion (2009: £176.2 billion).

Determination of fair value

The fair values of the financial assets and liabilities of the Group have been determined on the following bases.

The fair values of the financial instruments for which fair valuation is required under IFRS are determined by the use of current market bid prices for exchange-quoted investments, or by using quotations from independent third-parties, such as brokers and pricing services or by using appropriate valuation techniques. Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades 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. When determining the inputs into the valuation techniques used 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 judgments 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 from selling the financial instrument being fair valued. In some cases the disclosed value cannot be realised in immediate settlement of the financial instrument.

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 quoted prices if exchange listed, 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 assessment against external counterparties' valuations.

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.

Level 1, 2 and 3 fair value measurement hierarchy of Group financial instruments

The table below includes financial instruments carried at fair value analysed by level of the IFRS 7 defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

The classification criteria and its application to Prudential can be summarised as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 1 principally includes exchange listed equities, mutual funds with quoted prices, exchange traded derivatives such as futures and options, and national government bonds unless there is evidence that trading in a given instrument is so infrequent that the market could not possibly be considered active. It also includes other financial instruments (including net assets attributable to unit holders of consolidated unit trusts and similar funds) where there is clear evidence that the year end valuation is based on a traded price in an active market.

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

Level 2 principally includes corporate bonds and other non-national government debt securities which are valued using observable inputs, together with over-the-counter derivatives such as forward exchange contracts and non-quoted investment funds valued with observable inputs. It also includes net assets attributable to unit-holders of consolidated unit trusts and similar funds and investment contract liabilities that are valued using observable inputs.

The nature of Prudential's operations in the US and the UK mean that a significant proportion of the assets backing non-linked shareholder backed business are held in corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing providers in the US and third-party broker quotes in the UK and Asia either directly or via third parties, such as IDC or Bloomberg. Such assets are generally classified as level 2 as the nature of these quotations means that they do not strictly meet the definition of level 1 assets. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied.

When prices are not available from pricing services, quotes are sourced directly from brokers. Prudential seeks to obtain a number of quotes from different brokers so as to obtain the most comprehensive information available on their executability.

Where quotes are sourced directly from brokers, the price used in the valuation is normally selected from one of the quotes based on a number of factors, including the timeliness and regularity of the quotes and the accuracy of the quotes considering the spreads provided. The selected quote is the one which best represents an executable quote for the security at the measurement date.

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (e.g. either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those as described above in this note 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 techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. Prudential measures the input assumptions based on the best available information at the measurement dates. Securities valued in such manner are classified as level 3 where these significant inputs are not based on observable market data.

In addition level 2 includes debt securities that are valued internally using standard market practices. Of the total level 2 debt securities of £89,948 million at 31 December 2010 (2009: £83,301 million), £6,638 million are valued internally (2009: £6,426 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these 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.

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

Level 3 principally includes investments in private equity funds, investments in property funds which are exposed to bespoke properties or risks, investments which are internally valued or subject to a significant number of unobservable assumptions and certain derivatives which are bespoke or long dated. It also includes debt securities which are rarely traded or traded only in privately negotiated transactions and hence where it is difficult to assert that these have been based on observable market data. The inherent nature of the vast majority of these assets means that, in normal market conditions, there is unlikely to be significant change in the specific underlying assets classified as level 3.

At 31 December 2010 the Group held £4,194 million (2009: £5,190 million), two per cent of the fair valued financial instruments (2009: three per cent), within level 3. Of these amounts £3,359 million (2009: £3,510 million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments. Total level 3 assets represented 3.3 per cent of the total assets of the participating funds at 31 December 2010 (2009: 3.7 per cent). Total level 3 liabilities at 31 December 2010 were £371 million out of total participating fund liabilities of £112,196 million (2009: £348 million out of £104,817 million).

Of the £866 million level 3 fair valued financial investments at 31 December 2010 (2009: £1,684 million), net of derivative liabilities which support non-linked shareholder-backed business (1.6 per cent of the total financial investments net of derivative liabilities backing this business) (2009: 3.6 per cent), £728 million are externally valued and £138 million are internally valued (2009: £1,653 million and £31 million respectively). Internal valuations, which represent 0.2 per cent of the total financial investments net of derivative liabilities supporting non-linked shareholder-backed business at 31 December 2010 (2009: 0.04 per cent), are inherently more subjective than external valuations.

31 December 2010

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
With-profits				
Equity securities and portfolio holdings in unit trusts	29,675	1,281	415	31,371
Debt securities	11,114	41,375	772	53,261
Other investments (including derivative assets)	137	1,207	2,543	3,887
Derivative liabilities	(56)	(626)	(25)	(707)
Total financial investments, net of derivative liabilities	40,870	43,237	3,705	87,812
Borrowings attributable to the with-profits fund held at fair value	-	(82)	-	(82)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(519)	(511)	(346)	(1,376)
Total	40,351	42,644	3,359	86,354
Percentage of total	47%	49%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	54,272	2	-	54,274
Debt securities	3,784	5,268	2	9,054
Other investments (including derivative assets)	43	88	-	131
Total financial investments, net of derivative liabilities	58,099	5,358	2	63,459
Investment contracts liabilities without discretionary participation features held at fair value	-	(13,841)	-	(13,841)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,360)	-	-	(1,360)
Total	56,739	(8,483)	2	48,258
Percentage of total	118%	(18)%	-	100%
Non-linked shareholder-backed				
Loans	-	227	-	227
Equity securities and portfolio holdings in unit trusts	808	21	161	990
Debt securities	10,389	43,305	343	54,037
Other investments (including derivative assets)	52	1,146	563	1,761
Derivative liabilities	(80)	(1,049)	(201)	(1,330)
Total financial investments, net of derivative liabilities	11,169	43,650	866	55,685
Investment contracts liabilities without discretionary participation features held at fair value	-	(1,981)	-	(1,981)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(220)	(383)	(33)	(636)
Total	10,949	41,286	833	53,068
Percentage of total	20%	78%	2%	100%
Group total				
Loans	-	227	-	227
Equity securities and portfolio holdings in unit trusts	84,755	1,304	576	86,635
Debt securities	25,287	89,948	1,117	116,352
Other investments (including derivative assets)	232	2,441	3,106	5,779
Derivative liabilities	(136)	(1,675)	(226)	(2,037)
Total financial investments, net of derivative liabilities	110,138	92,245	4,573	206,956
Borrowings attributable to the with-profits fund held at fair value	-	(82)	-	(82)
Investment contracts liabilities without discretionary participation features held at fair value	-	(15,822)	-	(15,822)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(2,099)	(894)	(379)	(3,372)
Total	108,039	75,447	4,194	187,680
Percentage of total	58%	40%	2%	100%

31 December 2009

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
With-profits				
Equity securities and portfolio holdings in unit trusts	28,688	799	475	29,962
Debt securities	7,063	39,051	1,213	47,327
Other investments (including derivative assets)	79	1,199	2,170	3,448
Derivative liabilities	(54)	(504)	(25)	(583)
Total financial investments, net of derivative liabilities	35,776	40,545	3,833	80,154
Borrowings attributable to the with-profits fund held at fair value	–	(105)	–	(105)
Investment contracts liabilities without discretionary participation feature held at fair value	–	–	–	–
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,354)	(305)	(323)	(1,982)
Total	34,422	40,135	3,510	78,067
Percentage of total	44%	51%	5%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	38,616	4	–	38,620
Debt securities	3,283	5,525	40	8,848
Other investments (including derivative assets)	30	80	–	110
Derivative liabilities	–	–	–	–
Total financial investments, net of derivative liabilities	41,929	5,609	40	47,578
Investment contracts liabilities without discretionary participation features held at fair value	–	(12,242)	–	(12,242)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,324)	(7)	(2)	(1,333)
Total	40,605	(6,640)	38	34,003
Percentage of total	119%	-19%	0%	100%
Non-linked shareholder-backed				
Equity securities and portfolio holdings in unit trusts	557	36	179	772
Debt securities	5,783	38,725	1,068	45,576
Other investments (including derivative assets)	155	787	632	1,574
Derivative liabilities	(20)	(703)	(195)	(918)
Total financial investments, net of derivative liabilities	6,475	38,845	1,684	47,004
Investment contracts liabilities without discretionary participation features held at fair value	–	(1,598)	–	(1,598)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(110)	(342)	(42)	(494)
Total	6,365	36,905	1,642	44,912
Percentage of total	14%	82%	4%	100%
Group total				
Equity securities and portfolio holdings in unit trusts	67,861	839	654	69,354
Debt securities	16,129	83,301	2,321	101,751
Other investments (including derivative assets)	264	2,066	2,802	5,132
Derivative liabilities	(74)	(1,207)	(220)	(1,501)
Total financial investments, net of derivative liabilities	84,180	84,999	5,557	174,736
Borrowings attributable to the with-profits fund held at fair value	–	(105)	–	(105)
Investment contracts liabilities without discretionary participation features held at fair value	–	(13,840)	–	(13,840)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(2,788)	(654)	(367)	(3,809)
Total	81,392	70,400	5,190	156,982
Percentage of total	52%	45%	3%	100%

T Loans portfolio

Loans are accounted for at amortised cost net of impairment except for certain mortgage loans of the UK insurance operations which have been designated at fair value through profit and loss as this loan portfolio is managed and evaluated on a fair value basis. The amounts included in the statement of financial position are analysed as follows:

	2010 £m	2009 £m
Insurance operations		
UK ^{(note(i))}	2,302	1,815
US ^{(note(ii))}	4,201	4,319
Asia ^{(note(iii))}	1,340	1,207
Asset management operations		
M&G ^{(note(iv))}	1,418	1,413
Total	9,261	8,754

Notes

(i) UK insurance operations

The loans of the Group's UK insurance operations of £2,302 million (2009: £1,815 million) comprise loans held by the PAC WPSF of £1,270 million (2009: £1,106 million) and loans held by shareholder-backed business of £1,032 million (2009: £709 million). The loans held by the PAC WPSF comprise mortgage loans of £256 million, policy loans of £21 million and other loans of £993 million (2009: £145 million, £24 million and £937 million respectively). The mortgage loans are collateralised by properties. Other loans held by the PAC WPSF are all commercial loans and comprise mainly syndicated loans.

The loans held by the UK shareholder-backed business comprise mortgage loans collateralised by properties of £1,027 million (2009: £702 million) and other loans of £5 million (2009: £7 million).

(ii) US insurance operations

The loans of the Group's US insurance operations of £4,201 million (2009: £4,319 million) comprise mortgage loans of £3,641 million, policy loans of £548 million and other loans of £12 million (2009: £3,774 million, £530 million and £15 million respectively). 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. The breakdown by property type is as follows:

	2010 %	2009 %
Industrial	31	32
Multi-family residential	18	18
Office	19	20
Retail	21	19
Hotels	10	10
Other	1	1
	100	100

The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £6.6 million (2009: £6.3 million). The portfolio has a current estimated average loan to value of 73 per cent (2009: 74 per cent) which provides significant cushion to withstand substantial declines in value.

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.

(iii) Asian insurance operations

The loans of the Group's Asian insurance operations of £1,340 million at 31 December 2010 (2009: £1,207 million) comprise mortgage loans of £25 million, policy loans of £528 million and other loans of £787 million (2009: £13 million, £437 million and £757 million respectively). 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.

(iv) M&G

The M&G loans of £1,418 million (2009: £1,413 million) relate to loans and receivables managed by Prudential Capital. These assets are generally secured but have no external credit ratings. Internal ratings prepared by the Group's asset management operations, as part of the risk management process, are: £213 million A+ to A- (2009: £92 million), £873 million BBB+ to BBB- (2009: £835 million), £219 million BB+ to BB- (2009: £330 million) and £113 million B+ to B- (2008: £156 million).

U Debt securities portfolio

Debt securities are carried at fair value. The amounts included in the statement of financial position are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 31 December 2010 provided in the notes below.

	2010 £m	2009 £m
Insurance operations		
UK ^{(note(i))}	74,304	67,772
US ^{(note (ii))}	26,366	22,831
Asia ^{(note (iii))}	14,108	9,984
Asset management operations ^{(note (iv))}	1,574	1,164
Total	116,352	101,751

(i) UK insurance operations

	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	PRIL	Other annuity and long-term business	2010 Total	2009 Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
S&P – AAA	1,128	5,741	3,315	9,056	2,459	5,224	966	18,833	16,091
S&P – AA+ to AA-	346	2,045	1,334	3,379	608	2,299	253	6,885	6,472
S&P – A+ to A-	1,211	7,568	3,778	11,346	1,672	6,467	812	21,508	19,693
S&P – BBB+ to BBB-	1,011	6,960	1,153	8,113	836	2,464	424	12,848	12,183
S&P – Other	359	2,662	178	2,840	34	149	21	3,403	2,667
	4,055	24,976	9,758	34,734	5,609	16,603	2,476	63,477	57,106
Moody's – Aaa	78	428	56	484	80	93	30	765	463
Moody's – Aa1 to Aa3	9	81	51	132	52	141	26	360	276
Moody's – A1 to A3	27	169	214	383	33	169	20	632	801
Moody's – Baa1 to Baa3	63	358	248	606	92	155	33	949	815
Moody's – Other	16	116	31	147	10	57	3	233	339
	193	1,152	600	1,752	267	615	112	2,939	2,694
Fitch	28	207	118	325	48	208	21	630	1,022
Other	428	2,678	2,309	4,987	121	1,622	100	7,258	6,950
Total debt securities	4,704	29,013	12,785	41,798	6,045	19,048	2,709	74,304	67,772

Where no external ratings are available, internal ratings produced by the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. Of the £7,258 million total debt securities held in 2010 (2009: £6,950 million) which are not externally rated, £2,210 million were internally rated AAA to A-, £3,861 million were internally rated BBB to B- and £1,187 million were rated below B- or unrated (2009: £2,190 million, £3,445 million and £1,315 million respectively). 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. Of the £1,722 million PRIL and other annuity and long-term business investments which are not externally rated, £7 million were internally rated AAA, £92 million AA, £496 million A, £899 million BBB, £82 million BB and £146 million were internally rated B+ and below.

(ii) US insurance operations

US insurance operations held total debt securities with a carrying value of £26,366 million at 31 December 2010 (2009: £22,831 million). The table below provides information relating to the credit risk of the aforementioned debt securities.

	2010 £m	2009 £m
Summary		
Corporate and government security and commercial loans:		
Government	2,440	379
Publicly traded and SEC Rule 144A securities	14,747	12,959
Non-SEC Rule 144A securities	3,044	3,117
Total	20,231	16,455
Residential mortgage-backed securities	2,784	3,316
Commercial mortgage-backed securities	2,375	2,104
Other debt securities	976	956
Total debt securities	26,366	22,831

The following table summarises the securities detailed above by rating as at 31 December 2010 using Standard and Poor's (S&P), Moody's, Fitch and implicit ratings of MBS based on NAIC valuations:

	2010 £m	2009 £m
S&P – AAA	4,187	3,287
S&P – AA+ to AA-	801	846
S&P – A+ to A-	5,156	5,192
S&P – BBB+ to BBB-	8,202	7,659
S&P – Other	866	895
	19,212	17,879
Moody's – Aaa	34	273
Moody's – Aa1 to Aa3	32	43
Moody's – A1 to A3	36	32
Moody's – Baa1 to Baa3	73	64
Moody's – Other	135	57
	310	469
Implicit ratings of MBS based on NAIC valuations (see below)		
NAIC 1	3,083	747
NAIC 2	181	105
NAIC 3-6	232	473
	3,496	1,325
Fitch	176	281
Other *	3,172	2,877
Total debt securities	26,366	22,831

In the table above, with the exception of some residential mortgage-backed securities and commercial mortgage-backed securities for 2010, and for residential mortgage-backed securities for 2009 commercial mortgage-backed securities, 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. During 2009, the NAIC in the US revised the regulatory rating process for more than 20,000 residential mortgage-backed securities. In addition in 2010, the NAIC extended the revised process to include commercial mortgage-backed securities. The table above includes these securities, where held by Jackson, using the regulatory rating levels established by external third parties (PIMCO for residential mortgage-backed securities and BlackRock Solutions for commercial mortgage-backed securities).

*The amounts within Other which are not rated by S&P, Moody or Fitch, nor are MBS securities using the revised regulatory ratings, have the following NAIC classifications:

	2010 £m	2009 £m
NAIC 1	1,193	1,102
NAIC 2	1,849	1,623
NAIC 3-6	130	152
	3,172	2,877

(iii) Asia insurance operations

	With-profits business £m	Unit-linked business £m	Other business £m	2010 Total £m	2009 Total £m
S&P – AAA	2,199	349	386	2,934	2,259
S&P – AA+ to AA-	744	100	1,294	2,138	1,594
S&P – A+ to A-	1,337	861	645	2,843	1,496
S&P – BBB+ to BBB-	729	24	160	913	682
S&P – Other	649	465	659	1,773	917
	5,658	1,799	3,144	10,601	6,948
Moody's – Aaa	49	10	6	65	134
Moody's – Aa1 to Aa3	44	48	23	115	349
Moody's – A1 to A3	55	16	59	130	309
Moody's – Baa1 to Baa3	50	10	35	95	40
Moody's – Other	31	-	18	49	15
	229	84	141	454	847
Fitch	4	33	12	49	39
Other	868	1,093	1,043	3,004	2,150
Total debt securities	6,759	3,009	4,340	14,108	9,984

Of the £1,043 million (2009: £517 million) of debt securities for other business which are not rated in the table above, £350 million (2009: £225 million) are in respect of government bonds, £666 million (2009: £265 million) are in respect of corporate bonds rated as investment grade by local external ratings agencies, and £5 million (2009: £22 million) are structured deposits issued by banks which are themselves rated but where the specific deposits have not been.

(iv) *Asset Management Operations*

Of the total debt securities of £1,574 million at 31 December 2010 (2009: £1,164 million) £1,560 million relates to M&G (2009: £1,149 million), of which £1,468 million were rated AAA to A– by Standard and Poor's or Aaa rated by Moody's (2009: £1,072 million).

(v) *Group exposure to holdings in 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 2010 is as follows:

	2010 £m	2009 £m
Shareholder-backed operations (excluding assets held in unit-linked funds):		
UK insurance operations (note (a))	1,181	2,044
US insurance operations (note (b))	6,135	6,376
Asian insurance operations (note (c))	113	59
Other operations (note (d))	437	326
	7,866	8,805
With-profits operations:		
UK insurance operations (note (a))	5,237	6,451
Asian insurance operations (note (c))	435	378
	5,672	6,829
Total	13,538	15,634

(a) *UK insurance operations*

The UK insurance operations' exposure to asset-backed securities at 31 December 2010 comprises:

	2010 £m	2009 £m
Shareholder-backed business (2010: 51% AAA, 23% AA)	1,181	2,044
With-profits operations (2010: 52% AAA, 13% AA)	5,237	6,451
Total	6,418	8,495

All of the £1,181 million (2009: £2,044 million) exposure of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL. £3,685 million of the £5,237 million (2009: £4,695 million of the £6,451 million) exposure of the with-profits operations relates to exposure to the UK market while the remaining £1,552 million (2009: £1,756 million) relates to exposure to the US market.

(b) *US insurance operations*

US insurance operations' exposure to asset-backed securities at 31 December 2010 comprises:

	2010 £m	2009 £m
RMBS Sub-prime (2010: 40% AAA, 11% AA)**	224	194
Alt-A (2010: 15% AAA, 6% AA)	415	443
Prime including agency (2010: 79% AAA, 2% AA)	2,145	2,679
CMBS (2010: 36% AAA, 15% AA)**	2,375	2,104
CDO funds (2010: 4% AAA, 4% AA)*, including £1m exposure to sub-prime	162	79
Other ABS (2010: 26% AAA, 20% AA), including £37m exposure to sub-prime	814	877
Total	6,135	6,376

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

** MBS ratings refer to the ratings implicit within NAIC risk-based capital valuation (see note C (a)).

(c) *Asian insurance operations*

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

The £435 million (2009: £378 million) asset-backed securities exposure of the Asian with-profit operations comprises:

	2010 £m	2009 £m
CMBS	251	91
CDO funds and ABS	184	287
Total	435	378

The £435 million (2009: £378 million) includes £341 million (2009: £228 million) held by investment funds consolidated under IFRS in recognition of the control arrangements for those funds and include an amount not owned by the Group with a corresponding liability of £7 million (2009: £61 million) on the statement of financial position for net asset value attributable to external unit-holders in respect of these funds, which are non-recourse to the Group. Of the £435 million, 43 per cent (2009: £378 million, 72 per cent) are investment graded by Standard and Poor's.

(d) Other operations

Other operations' exposure to asset-backed securities at 31 December 2010 is held by Prudential Capital and comprises:

	2010	2009
	£m	£m
RMBS Prime (2010: 96% AAA, 4% AA)	197	91
CMBS (2010: 30% AAA, 23% AA)	184	193
CDO funds and ABS - all without sub-prime exposure (2010: 98% AAA)	56	42
Total	437	326

V Debt securities of US insurance operations: Valuation basis, accounting presentation of gains and losses and securities in an unrealised loss position

(i) Valuation basis

Under IAS 39, unless categorised as 'held to maturity' or 'loans and receivables' debt securities are required to be fair valued. Where available, quoted market prices are used. However, where securities do not have an externally quoted price based on regular trades or are quoted in markets that are no longer active as a result of market conditions, IAS 39 requires that valuation techniques be applied. IFRS 7 requires classification of the fair values applied by the Group into a three level hierarchy. At 31 December 2010, 0.3 per cent of Jackson's debt securities were classified as level 3 (2009: three per cent) comprised of fair values where there are significant inputs which are not based on observable market data.

(ii) Accounting presentation of gains and losses

With the exception of debt securities of 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 with-profits operations, such value movements are reflected in changes to asset share liabilities to policyholders or the liability for unallocated surplus. For shareholder-backed operations, the unrealised value movements form part of the total return for the year booked in the profit before tax attributable to shareholders. Separately, as noted elsewhere and in note C in this announcement, and as applied previously, the Group provides an analysis of this profit distinguishing operating profit based on longer-term investment return and short-term fluctuations in investment returns.

However, for debt securities classified as 'available-for-sale', unless impaired, fair value movements are recognised in other comprehensive income. Realised gains and losses, including impairments, recorded in the income statement are as shown in note F of this announcement. This classification is applied for most of the debt securities of the Group's US insurance operations.

(iii) 2010 movements in unrealised gains and losses

In 2010 there was a movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised gain of £4 million to a net unrealised gain of £1,210 million (2009: net unrealised loss of £2,897 million to a net unrealised gain of £4 million). This increase reflects the effects of tightening credit spreads in the US bond market and lower interest rates. During 2010, the gross unrealised gain in the statement of financial position increased from £970 million at 31 December 2009 to £1,580 million at 31 December 2010, while the gross unrealised loss decreased from £966 million at 31 December 2009 to £370 million at 31 December 2010.

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

	2010	Changes in		2009
		Unrealised appreciation**	Foreign exchange translation	
	Reflected as part of movement in comprehensive income			
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	4,372			8,220
Unrealised gain (loss) ^{(iv)(a), (b)}	(370)	634	(38)	(966)
Fair value (as included in statement of financial position)	4,002			7,254
Assets fair valued at or above book value				
Book value*	20,743			14,444
Unrealised gain /(loss)	1,580	587	23	970
Fair value (as included in statement of financial position)	22,323			15,414
Total				
Book value*	25,115			22,664
Net unrealised gain/(loss)	1,210	1,221	(15)	4
Fair value (as included in statement of financial position)***	26,325			22,668
Reflected as part of movement in comprehensive income				
Movement in unrealised appreciation	1,221			2,669
Exchange movements	(15)			232
	1,206			2,901

* Book value represents cost/amortised cost of the debt securities.

** Translated at the average rate of \$1.55: £1.

*** Debt securities for US operations included in the statement of financial position at 31 December 2010 of £26,366 million (2009: £22,831 million), and as referred to in note U, comprise £26,325 million (2009: £22,668 million) for securities classified as available-for-sale, as shown above, and £41 million (2009: £163 million) for securities of consolidated investment funds classified as fair value through profit and loss.

Included within the movement in gross unrealised losses for the debt securities of Jackson of £634 million (2009: £1,925 million) as shown above was a net increase in value of £84 million (2009: £72 million decrease) relating to sub-prime and Alt-A securities for which the carrying values are shown in table (iv)(a) below.

(iv) Debt securities classified as available-for-sale in an unrealised loss position

The following tables show some key attributes of those securities that are in an unrealised loss position at 31 December 2010.

(a) Fair value of securities as a percentage of book value

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

	2010		2009	
	Fair value £m	Unrealised loss £m	Fair value £m	Unrealised loss £m
Between 90% and 100%	3,390	(102)	5,127	(169)
Between 80% and 90%	273	(44)	1,201	(203)
Below 80% (note(d))	339	(224)	926	(594)
Total	4,002	(370)	7,254	(966)

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

	2010		2009	
	Fair value £m	Unrealised loss £m	Fair value £m	Unrealised loss £m
Between 90% and 100%	98	(6)	102	(3)
Between 80% and 90%	55	(9)	160	(28)
Below 80% (note(d))	56	(25)	159	(88)
Total	209	(40)	421	(119)

(b) Unrealised losses by maturity of security

	2010 £m	2009 £m
1 year to 5 years	(6)	(29)
5 years to 10 years	(47)	(127)
More than 10 years	(49)	(92)
Mortgage-backed and other debt securities	(268)	(718)
Total	(370)	(966)

(c) Age analysis of unrealised losses for the years indicated

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

	2010			2009		
	Non investment grade £m	Investment grade £m	Total £m	Non investment grade £m	Investment grade £m	Total £m
Less than 6 months	(3)	(67)	(70)	(7)	(51)	(58)
6 months to 1 year	(2)	-	(2)	(25)	(59)	(84)
1 year to 2 years	(13)	(20)	(33)	(59)	(234)	(293)
2 years to 3 years	(27)	(55)	(82)	(125)	(199)	(324)
More than 3 years	(58)	(125)	(183)	(35)	(172)	(207)
Total	(103)	(267)	(370)	(251)	(715)	(966)

At 31 December 2010, the gross unrealised losses in the statement of financial position for the sub-prime and Alt-A securities in an unrealised loss position were £40 million (2009: £119 million), as shown above in note (a). Of these losses £1 million (2009: £21 million) relate to securities that have been in an unrealised loss position for less than one year and £39 million (2009: £98 million) to securities that have been in an unrealised loss position for more than one year.

(d) Securities whose fair value were below 80 per cent of the book value

As shown in the table (a) above, £224 million of the £370 million of gross unrealised losses at 31 December 2010 (2009: £594 million of the £966 million of gross unrealised losses) related to securities whose fair value was below 80 per cent of the book value. The analysis of the £224 million (2009: £594 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:

Category analysis	2010		2009	
	Fair value £m	Unrealised loss £m	Fair value £m	Unrealised loss £m
Residential mortgage-backed securities				
Prime (including agency)	88	(39)	322	(153)
Alt - A	15	(4)	77	(33)
Sub-prime	41	(20)	82	(55)
	144	(63)	481	(241)
Commercial mortgage-backed securities	8	(29)	87	(86)
Other asset-backed securities	123	(105)	183	(188)
Total structured securities	275	(197)	751	(515)
Corporates	64	(27)	175	(79)
Total	339	(224)	926	(594)

Age analysis of fair value being below 80 per cent for the years indicated:

Age analysis	2010		2009	
	Fair value £m	Unrealised loss £m	Fair value £m	Unrealised loss £m
Less than 3 months	-	(1)	153	(45)
3 months to 6 months	-	-	5	(3)
More than 6 months	339	(223)	768	(546)
	339	(224)	926	(594)

W Net core structural borrowings of shareholder-financed operations

	2010 £m	2009 £m
Core structural borrowings of shareholder-financed operations:		
Perpetual subordinated capital securities (Innovative Tier 1) ^{note (i)}	1,463	1,422
Subordinated notes (Lower Tier 2) ^{note (i)}	1,255	1,269
Subordinated debt total	2,718	2,691
Senior debt ^{note (ii)}		
2023	300	300
2029	249	249
Holding company total ^{note (iii)}	3,267	3,240
PruCap bank loan ^{note (iv)}	250	-
Jackson surplus notes (Lower Tier 2) ^{note (i)}	159	154
Total (per consolidated statement of financial position)	3,676	3,394
Less: Holding company cash and short-term investments (recorded within the consolidated statement of financial position) ^{note (v)}	(1,232)	(1,486)
Net core structural borrowings of shareholder-financed operations	2,444	1,908

Notes

- (i) These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the FSA handbook.
- (ii) The senior debt ranks above subordinated debt in the event of liquidation.
- (iii) In addition to the debt listed above, £200 million Floating Rate Notes were issued by Prudential plc in October 2010 which mature in April 2011. These Notes have been wholly subscribed by a Group subsidiary and accordingly have been eliminated on consolidation in the Group financial statements. These notes were originally issued in October 2008 and have been reissued upon their maturity.
- (iv) The £250 million PruCap bank loan was made in two tranches: £135 million maturing in June 2014, currently drawn at a cost of six month £LIBOR plus 1.2 per cent and £115 million maturing in August 2012, currently drawn at a cost of twelve month £LIBOR plus 1.41 per cent.
- (v) Including central finance subsidiaries.

X Other borrowings

	2010 £m	2009 £m
Operational borrowings attributable to shareholder-financed operations		
Borrowings in respect of short-term fixed income securities programmes	2,560	2,038
Non-recourse borrowings of US operations	90	203
Other borrowings ^{note (i)}	354	510
Total	3,004	2,751
Borrowings attributable to with-profits operations		
Non-recourse borrowings of consolidated investment funds	1,287	1,016
£100m 8.5% undated subordinated guaranteed bonds of the Scottish Amicable Insurance Fund	100	100
Other borrowings (predominantly obligations under finance leases)	135	168
Total	1,522	1,284

Note

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

Y Defined benefit pension schemes

The Group liability in respect of defined benefit pension schemes is as follows:

	2010	2009
	£m	£m
Economic position:		
Deficit, gross of deferred tax, based on scheme assets held, including investments in Prudential insurance policies:		
Attributable to the PAC with-profits fund (i.e. absorbed by the liability for unallocated surplus)	(106)	(122)
Attributable to shareholder-backed operations (i.e. shareholders' equity)	(114)	(128)
Economic deficit	(220)	(250)
Exclude: investments in Prudential insurance liabilities (offset on consolidation in the Group financial statements against insurance liabilities)	(227)	(187)
Deficit under IAS 19 included in Provisions in the statement of financial position	(447)	(437)

The Group business operations operate a number of pension schemes. The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS). The Group also operates two smaller defined benefit schemes for UK employees in respect of Scottish Amicable and M&G. 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 but as part of the sale of the Taiwan agency business completed in June 2009, the Group settled the majority of the obligations under the scheme as a significant number of employees transferred out.

The underlying position on an economic basis reflects the assets (including investments in Prudential policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes. At 31 December 2010, the investments in Prudential policies comprise £118 million (2009: £101 million) for PSPS and £227 million (2009: £187 million) for the M&G scheme.

Separately, the economic financial position also includes the effect of the application of IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. For PSPS, where there are constraints in the trust deed to prevent the company access, the surplus is not recognised and a liability for additional funding is established.

Under IFRIC 14, at 31 December 2010, the Group has not recognised the underlying PSPS surplus of £485 million, gross of deferred tax (2009: £513 million) and has recognised a liability for deficit funding to 30 June 2012 for PSPS of £47 million gross of deferred tax (2009: £75 million).

Defined benefit schemes in the UK are generally required to be subject to full actuarial valuation every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. PSPS was last actuarially valued as at 5 April 2008. This valuation demonstrated the scheme to be 106 per cent funded by reference to the Scheme Solvency Target that forms the basis of the scheme's statutory funding objective. No formal deficit plan was required. However, in recognition of the fall in value of the Scheme's investments between 5 April 2008 and the completion of the actuarial valuation, an additional funding akin to deficit funding was agreed by the Trustees. This is subject to a reassessment when the next valuation is completed. The total contributions being currently made by the Group into the scheme, representing the annual accrual cost and deficit funding, are £50 million per annum. Deficit funding for PSPS is apportioned in the ratio of 70/30 between the PAC life fund and shareholder-backed operations following detailed consideration in 2005 of the sourcing of previous contributions.

The valuation of the Scottish Amicable Pension Scheme as at 31 March 2008 demonstrated the scheme to be 91 per cent funded. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a seven year period were made from July 2009 of £7.3 million per annum. Since the valuation date, there has been deterioration in the funding level. During 2010, the Group agreed to pay additional funding of £5.8 million per annum from October 2010 until the conclusion of the next formal valuation, or until the funding level reaches 90 per cent, whichever is the earlier. The IAS 19 deficit of the Scottish Amicable Pension Scheme at 31 December 2010 of £146 million (2009: £139 million) has been allocated approximately 50 per cent to the PAC with-profits fund and 50 per cent to the shareholders' fund.

The valuation of the M&G pension scheme as at 31 December 2008 was finalised in January 2010 and demonstrated the scheme to be 76 per cent funded. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a five year period have been made from January 2010 of £14.1 million per annum for the first two years and £9.3 million per annum for the subsequent three years. The IAS 19 deficit of the M&G pension scheme on an economic basis at 31 December 2010 was £27 million (2009: £36 million) and is wholly attributable to shareholders.

The next triennial valuations for the PSPS, Scottish Amicable and M&G pension schemes are scheduled to take place as at 5 April 2011, 31 March 2011 and 31 December 2011, respectively.

(i) Assumptions

The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the years ended 31 December were as follows:

	2010	2009
	%	%
Discount rate*	5.45	5.8
Rate of increase in salaries	5.55	5.7
Rate of inflation	3.55	3.7
Rate of increase of pensions in payment for inflation:		
Guaranteed (maximum 5%)	3.55	3.7
Guaranteed (maximum 2.5%)**	2.5	2.5
Discretionary**	2.5	2.5
Expected returns on plan assets	5.9	4.5

* The discount rate has been determined by reference to an "AA" corporate bond index adjusted, where applicable, to allow for the difference in duration between the index and the pension liabilities.

** The rates of 2.5 per cent are those for PSPS. Assumed rates of increase of pensions in payments for inflation for all other schemes are 3.55 per cent in 2010 (2009: 3.7 per cent).

The calculations are based on current actuarially calculated mortality estimates with a specific allowance made for future improvements in mortality. The 2010 specific allowance is in line with a custom calibration of the 2009 mortality model from the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries ("CMI").

The tables used for PSPS immediate annuities in payment at 31 December 2010 were:

Male: 108.6 per cent PNMA 00 with improvements in line with a custom calibration of the CMI's 2009 mortality model, with a long-term mortality improvement rate of 1.75 per cent per annum; and

Female: 103.4 per cent PNFA 00 with improvements in line with a custom calibration of the CMI's 2009 mortality model, with a long-term mortality improvement rate of 1.00 per cent per annum.

In July 2010, the UK Government announced plans to use the Consumer Price Index (CPI) in place of the Retail Price Index (RPI) in its determination of the statutory minimum pension increases for private sector occupational pension schemes. In December 2010, the Government published the statutory revaluation order for 2011 which confirms the change to use CPI. In addition, the Government has also published in December 2010 a consultation paper which sets out the Government's views on the impact of the switch from RPI to CPI will have on the private sector occupational pension schemes. The consultation period closed on 2 March 2011.

For the Group's UK defined benefit schemes, the pensions in deferment and/or pensions in payment for certain tranches of these schemes are subject to statutory increases in accordance with the schemes' rules and may therefore be affected by the Government's decision to change the indexation from RPI to CPI. Other tranches, where RPI is specified in the scheme rules, are unaffected.

The above has no impact on the results for the year ended 31 December 2010. The impact of this change, if and when made, will be recognised in a future period. Using the underlying information as at 31 December 2010 the estimated effect of such a change would give rise to an accounting benefit of approximately £30 million to the Group's operating profit based on longer-term investment returns and profit attributable to shareholders before tax and £20 million to shareholders' equity.

(ii) Estimated pension scheme deficit – economic basis

Movements on the pension scheme deficit (determined on the 'economic basis') are as follows, with the effect of the application of IFRIC 14 being shown separately:

2010

(Charge) credit to income statement

	Operating results (based on longer-term investment returns) (note a)	Actuarial and other gains and losses (note b)	Contributions paid	Surplus (deficit) in scheme at 31 Dec 2010 (note c)
	Surplus (deficit) in scheme at 1 January 2010			
	£m	£m	£m	£m
All schemes				
Underlying position (without the effect of IFRIC 14)				
Surplus (deficit)	338	(7)	90	312
Less: amount attributable to PAC with-profits fund	(285)	(11)	(39)	(264)
Shareholders' share:				
Gross of tax surplus (deficit)	53	(18)	51	48
Related tax	(15)	5	(14)	(13)
Net of shareholders' tax	38	(13)	37	35
Effect of IFRIC 14				
Surplus (deficit)	(588)	(38)	-	(532)
Less: amount attributable to PAC with-profits fund	407	29	-	370
Shareholders' share:				
Gross of tax surplus (deficit)	(181)	(9)	-	(162)
Related tax	51	2	-	44
Net of shareholders' tax	(130)	(7)	-	(118)
With the effect of IFRIC 14				
Surplus (deficit)	(250)	(45)	90	(220)
Less: amount attributable to PAC with-profits fund	122	18	(39)	106
Shareholders' share:				
Gross of tax surplus (deficit)	(128)	(27)	51	(114)
Related tax	36	7	(14)	31
Net of shareholders' tax	(92)	(20)	37	(83)

Notes

(a) The components of the (charge) credit to operating results (gross of allocation of the share attributable to the PAC with-profits fund) are as follows:

	2010	2009
	£m	£m
Service cost	(38)	(34)
Finance (expense) income:		
Interest on pension scheme liabilities	(294)	(277)
Expected return on assets	325	240
Total charge without the effect IFRIC 14	(7)	(71)
Effect of IFRIC 14 for pension schemes	(38)	23
Total charge after the effect of IFRIC 14	(45)	(48)

The net charge to operating profit (gross of the share attributable to the PAC with-profits fund) of £45 million (2009: £48 million) is made up of a charge of £27 million (2009: £29 million) relating to PSPS and a charge of £18 million (2009: £19 million) for other schemes. This net charge represents:

	2010	2009
	£m	£m
Underlying IAS 19 charge for other pension schemes	(18)	(19)
Cash costs for PSPS	(23)	(25)
Unwind of discount on opening provision for deficit funding for PSPS	(4)	(4)
	(45)	(48)

Consistent with the derecognition of the Company's interest in the underlying IAS 19 surplus of PSPS, the charge to operating profit on longer-term investment returns for PSPS reflects the cash cost of contributions for ongoing service of active members. In addition, the charge to the operating results also includes a charge for the unwind of discount on the opening provision for deficit funding for PSPS.

- (b) The components of the credit (charge) for actuarial and other gains and losses (gross of allocation of the share attributable to the PAC with-profits fund (but for 2009 excluding the charge relating to the Taiwan agency business sold in that year)) are as follows:

	2010 £m	2009 £m
Actual less expected return on assets	306	108
Losses on changes of assumptions for plan liabilities	(411)	(521)
Experience (losses) gains on liabilities	(4)	76
Total charge without the effect of IFRIC 14	(109)	(337)
Effect of IFRIC 14 for pension schemes	94	182
Actuarial and other gains and losses after the effect of IFRIC 14	(15)	(155)

The net charge for actuarial and other gains and losses is recorded within the income statement but, within the segmental analysis of profit, the shareholders' share of actuarial and other gains and losses (i.e. net of allocation of the share to the PAC with-profits funds) is excluded from operating profit based on longer-term investment returns.

The 2010 actuarial losses of £109 million primarily reflects the effect of decrease in risk discount rates and the change in the economic assumptions underlying PSPS commutation factors partially offset by the effect of decreases in inflation rates and the excess of market returns over long-term assumption.

Consistent with the derecognition of the Company's interest in the underlying IAS 19 surplus of PSPS, the actuarial gains and losses do not include those of PSPS. In addition, as a result of applying of IFRIC 14, the Group has recognised a provision for deficit funding in respect of PSPS. The change in 2010 in relation to this provision recognised above as other gains and losses on defined benefit pension schemes was £nil (2009: £48 million).

- (c) On the 'economic basis', after including the underlying assets represented by the investments in Prudential insurance policies as scheme assets, the underlying statements of financial position of the schemes at 31 December were:

	2010 £m	2009 £m
Equities	825	1,096
Bonds	4,203	3,686
Properties	228	287
Cash-like investments	748	443
Total value of assets	6,004	5,512
Present value of benefit obligations	(5,692)	(5,174)
	312	338
Effect of the application of IFRIC 14 for pension schemes:		
Derecognition of PSPS surplus	(485)	(513)
Adjust for deficit funding for PSPS	(47)	(75)
Pre-tax deficit	(220)	(250)

(iii) Sensitivity of the pension scheme liabilities of the PSPS, Scottish Amicable and M&G pension schemes to key variables

The table below shows the sensitivity of the underlying PSPS, Scottish Amicable and M&G pension scheme liabilities at 31 December 2010 of £4,866 million, £572 million and £254 million respectively (2009: £4,436 million, £515 million and £223 million) to changes in discount rates and inflation rates. In addition, the table below shows the sensitivity of the underlying PSPS, Scottish Amicable and M&G pension scheme liabilities at 31 December 2010 to changes to mortality rate assumptions.

2010		
Assumption	Change in assumption	Impact on scheme liabilities on IAS 19 basis
Discount rate	Decrease by 0.2% from 5.45% to 5.25%	Increase in scheme liabilities
		by:
		PSPS 3.6% Scottish Amicable 5.2% M&G 5.1%
Discount rate	Increase by 0.2% from 5.45% to 5.65%	Decrease in scheme liabilities
		by:
		PSPS 3.5% Scottish Amicable 4.9% M&G 4.8%
Rate of inflation	Decrease by 0.2% from 3.55% to 3.35% with consequent reduction in salary increases	Decrease in scheme liabilities
		by:
		PSPS 1.0% Scottish Amicable 5.0% M&G 4.5%
Mortality rate	Increase life expectancy by 1 year	Increase in scheme liabilities
		by:
		PSPS 2.1% Scottish Amicable 2.5% M&G 2.9%
2009		
Assumption	Change in assumption	Impact on scheme liabilities on IAS 19 basis
Discount rate	Decrease by 0.2% from 5.8% to 5.6%	Increase in scheme liabilities
		by:
		PSPS 3.50% Scottish Amicable 5.20% M&G 4.90%
Discount rate	Increase by 0.2% from 5.8% to 6.0%	Decrease in scheme liabilities
		by:
		PSPS 3.20% Scottish Amicable 4.80% M&G 4.90%
Rate of inflation	Decrease by 0.2% from 3.7% to 3.5% with consequent reduction in salary increases	Decrease in scheme liabilities
		by:
		PSPS 0.90% Scottish Amicable 4.90% M&G 4.50%

The sensitivity of the underlying pension scheme liabilities to changes in discount, inflation and mortality rates as shown above does not directly equate to an impact on the profit or loss attributable to shareholders or shareholders' equity due to the effect of the application of IFRIC 14 on PSPS and the allocation of a share of the interest in financial position of the PSPS and Scottish Amicable schemes to the PAC with-profits fund as described above.

The sensitivity to the changes in the key variables as shown in the table above has no significant impact on the pension costs included in the Group's operating results. This is due to the pension costs charged in each of the periods presented being derived largely from market conditions at the beginning of the period. After applying IFRIC 14 and to the extent attributable to shareholders, any residual impact from the changes to these variables is reflected as actuarial gains and losses on defined benefit pension schemes within the supplementary analysis of profits. The relevance of this to each of the three UK schemes is described further below.

For PSPS, the underlying surplus of the scheme of £485 million (2009: £513 million) has not been recognised under IFRIC 14. Any change in the underlying scheme liabilities to the extent that it is not sufficient to alter PSPS into a liability in excess of the deficit funding provision will not have an impact on the Group's results and financial position. Based on the underlying financial position of PSPS as at 31 December 2010, none of the changes to the underlying scheme liabilities for the changes in the variables shown in the table above have had an impact on the Group's 2010 results and financial position.

In the event that a change in the PSPS scheme liabilities results in a deficit position for the scheme which is recognisable, the deficit recognised affects the Group's results and financial position only to the extent of the amounts attributable to shareholder

operations. The amounts attributable to the PAC with-profits fund are absorbed by the liability for unallocated surplus and have no direct effect on the profit or loss attributable to shareholders or shareholders' equity.

The deficit of the Scottish Amicable pension scheme has been allocated 50 per cent to the PAC with-profits fund and 50 per cent to the shareholders. Accordingly, half of the changes to the scheme liabilities for the changes in the variables shown in the table above would have had an impact on the Group's shareholder results and financial position. The M&G pension scheme is wholly attributable to shareholders.

Z Policyholder liabilities

Analysis of movement in policyholder liabilities and unallocated surplus of with-profits funds

Group insurance operations

	Insurance operations			
	UK £m	US £m	Asia £m	Total £m
At 1 January 2009	115,961	45,361	21,069	182,391
Premiums	6,867	9,177	3,807	19,851
Surrenders	(3,971)	(3,255)	(1,201)	(8,427)
Maturities/Deaths	(7,239)	(733)	(342)	(8,314)
Net flows	(4,343)	5,189	2,264	3,110
Shareholders transfers post tax	(202)	-	(20)	(222)
Change in reserving basis in Malaysia	-	-	(63)	(63)
Assumption changes (shareholder-backed business)	(46)	-	(4)	(50)
Investment-related items and other movements	14,118	2,986	4,242	21,346
Foreign exchange translation differences	707	(5,225)	(2,069)	(6,587)
Disposal of Taiwan agency business	-	-	(3,508)	(3,508)
At 31 December 2009 / 1 January 2010	126,195	48,311	21,911	196,417
Comprising:				
- Policyholder liabilities	116,229	48,311	21,858	186,398
- Unallocated surplus of with-profits funds	9,966	-	53	10,019
Premiums	7,890	11,735	4,308	23,933
Surrenders	(3,779)	(3,598)	(2,241)	(9,618)
Maturities/Deaths	(7,303)	(769)	(498)	(8,570)
Net flows	(3,192)	7,368	1,569	5,745
Shareholders transfers post tax	(223)	-	(24)	(247)
Assumption changes (shareholder-backed business)	(46)	-	19	(27)
Investment-related items and other movements	13,218	3,464	2,216	18,898
Foreign exchange translation differences	(208)	1,380	2,081	3,253
Dilution of holding in PruHealth	(27)	-	-	(27)
Acquisition of UOB Life Assurance Limited	-	-	968	968
As at 31 December 2010	135,717	60,523	28,740	224,980
Comprising:				
- Policyholder liabilities	125,530	60,523	28,674	214,727
- Unallocated surplus of with-profits funds	10,187	-	66	10,253
Average policyholder liability balances*				
2010	120,880	54,417	25,750	201,047
2009	111,969	46,837	19,630	178,436

* Adjusted for acquisition and disposals in the period and excluding unallocated surplus of with-profits funds.

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

Premiums, surrenders and maturities / deaths represent the amounts impacting policyholder liabilities and may not represent the total cash paid / received (for example, premiums are net of any deductions to cover acquisition costs and claims represents the policyholder liabilities released).

UK insurance operations

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of UK insurance operations is as follows:

	Other shareholder-backed funds and subsidiaries			Total £m
	SAIF and PAC with-profits sub- fund £m	Unit-linked liabilities £m	Annuity and other long-term business £m	
At 1 January 2009	82,108	16,318	17,535	115,961
Premiums	3,271	1,860	1,736	6,867
Surrenders	(2,394)	(1,535)	(42)	(3,971)
Maturities/Deaths	(5,147)	(670)	(1,422)	(7,239)
Net flows ^{(note (a))}	(4,270)	(345)	272	(4,343)
Shareholders transfers post tax	(202)	-	-	(202)
Switches	(270)	270	-	-
Assumption changes (shareholder-backed business) ^{(note (c))}	-	-	(46)	(46)
Investment-related items and other movements ^{(note (b))}	9,365	2,849	1,904	14,118
Foreign exchange translation differences	764	(57)	-	707
At 31 December 2009 / 1 January 2010	87,495	19,035	19,665	126,195
Comprising:				
- Policyholder liabilities	77,529	19,035	19,665	116,229
- Unallocated surplus of with-profits funds	9,966	-	-	9,966
Premiums	3,311	2,301	2,278	7,890
Surrenders	(2,453)	(1,272)	(54)	(3,779)
Maturities/Deaths	(5,079)	(726)	(1,498)	(7,303)
Net flows ^{(note (a))}	(4,221)	303	726	(3,192)
Shareholders transfers post tax	(223)	-	-	(223)
Switches	(236)	236	-	-
Assumption changes (shareholder-backed business) ^{(note (c))}	-	-	(46)	(46)
Investment-related items and other movements ^{(note (b))}	9,165	2,097	1,956	13,218
Dilution of holding in PruHealth	-	-	(27)	(27)
Foreign exchange translation differences	(207)	-	(1)	(208)
At 31 December 2010	91,773	21,671	22,273	135,717
Comprising:				
- Policyholder liabilities	81,586	21,671	22,273	125,530
- Unallocated surplus of with-profits funds	10,187	-	-	10,187
Average policyholder liability balances*				
2010	79,558	20,353	20,969	120,880
2009	75,692	17,677	18,600	111,969

*Excluding the unallocated surplus of the with-profits funds and as adjusted for corporate transactions in the period.

Notes

- (a) Net flows of negative £3,192 million have improved from negative £4,343 million in 2009, principally as a result of increased premiums due to the bulk annuity transaction in 2010 and improved unit-linked flows.
- (b) Investment-related items and other movements of £13,218 million across fund types reflected the continued strong performance of UK equity markets in 2010, as well as the continued increase in value of debt securities.
- (c) Assumption changes principally represent the net impact of changes to the mortality assumptions and expense assumptions.

US insurance operations

	Variable annuity separate account liabilities £m	Fixed annuity, GIC and other business £m	Total £m
At 1 January 2009	14,538	30,823	45,361
Premiums	4,667	4,510	9,177
Surrenders	(882)	(2,373)	(3,255)
Maturities/Deaths	(199)	(534)	(733)
Net flows ^{(note (b))}	3,586	1,603	5,189
Transfers from general to separate account	984	(984)	-
Investment-related items and other movements ^{(note (c))}	3,368	(382)	2,986
Foreign exchange translation differences ^{(note (a))}	(1,837)	(3,388)	(5,225)
At 31 December 2009 / 1 January 2010	20,639	27,672	48,311
Premiums	7,420	4,315	11,735
Surrenders	(1,403)	(2,195)	(3,598)
Maturities/Deaths	(259)	(510)	(769)
Net flows ^{(note (b))}	5,758	1,610	7,368
Transfers from general to separate account	1,411	(1,411)	-
Investment-related items and other movements ^{(note (c))}	2,875	589	3,464
Foreign exchange translation differences ^{(note (a))}	520	860	1,380
At 31 December 2010	31,203	29,320	60,523
Average policyholder liability balances			
2010	25,921	28,496	54,417
2009	17,589	29,248	46,837

Notes

- (a) Movements in the year have been translated at an average rate of 1.55 (2009: 1.57). The closing balance has been translated at closing rate of 1.57 (2009: 1.61). Differences upon retranslation are included in foreign exchange translation differences of £1,380 million (2009: £5,525 million).
- (b) Net flows for the year were £7,368 million compared with £5,189 million in 2009, driven largely by increased new business volumes for the variable annuity business.
- (c) Positive investment-related items and other movements in variable annuity separate account liabilities of £2,875 million in 2010 and £3,368 million in 2009 represent increases in the US equity market during the respective periods. Fixed annuity, GIC and other business investment and other movements primarily reflects the movement in the valuation of the product guarantees and interest credited to policyholder accounts. In 2010, interest credited exceeded the small reduction in the guarantee valuation to give an overall increase in liabilities. In 2009, there was a more significant fall in the valuation of guarantees.

Asian insurance operations

	With-profits business	Unit-linked liabilities	Other	Total
	£m	£m	£m	£m
At 1 January 2009	8,094	7,220	5,755	21,069
Premiums				
New business ^{(note (b))}	46	643	517	1,206
In-force	777	1,223	601	2,601
	823	1,866	1,118	3,807
Surrenders	(361)	(666)	(174)	(1,201)
Maturities/Deaths	(253)	(19)	(70)	(342)
Net flows	209	1,181	874	2,264
Shareholders transfers post tax	(20)	-	-	(20)
Change in reserving basis in Malaysia ^{(note (d))}	-	(9)	(54)	(63)
Change in other reserving basis	-	-	(4)	(4)
Investment-related items and other movements ^{(note (e))}	1,431	2,661	150	4,242
Foreign exchange translation differences ^{(note (a))}	(853)	(612)	(604)	(2,069)
Disposal of Taiwan agency business ^{(note (f))}	-	(724)	(2,784)	(3,508)
At 31 December 2009 / At 1 January 2010	8,861	9,717	3,333	21,911
Comprising:				
- Policyholder liabilities	8,808	9,717	3,333	21,858
- Unallocated surplus of with-profits funds	53	-	-	53
Premiums				
New business ^{(note (b))}	141	1,072	452	1,665
In-force	897	1,130	616	2,643
	1,038	2,202	1,068	4,308
Surrenders ^{(note (c))}	(441)	(1,572)	(228)	(2,241)
Maturities/Deaths	(326)	(40)	(132)	(498)
Net flows ^{(note (b))}	271	590	708	1,569
Shareholders transfers post tax	(24)	-	-	(24)
Change in other reserving basis	-	-	19	19
Investment-related items and other movements ^{(note (e))}	693	1,405	118	2,216
Foreign exchange translation differences ^{(note (a))}	719	1,009	353	2,081
Acquisition of UOB Life Assurance Limited ^{(note (g))}	504	3	461	968
At 31 December 2010	11,024	12,724	4,992	28,740
Comprising:				
- Policyholder liabilities	10,958	12,724	4,992	28,674
- Unallocated surplus of with-profits funds	66	-	-	66
Average policyholder liability balances*				
2010	10,135	11,222	4,393	25,750
2009	8,371	8,107	3,152	19,630

* Adjusted for transactions in the period and excluding the unallocated surplus of with-profits funds.

Notes

- (a) Movements in the year have been translated at the average exchange rate for the year ended 31 December 2010. The closing balance has been translated at the closing spot rates as at 31 December 2010. Differences upon retranslation are included in foreign exchange translation differences of positive £2,081 million in 2010 (2009: negative £2,069 million).
- (b) The increase in policyholder liabilities due to new business premium for the unit-linked business was predominantly driven by an increase in sales during the year of individual linked products.
- (c) Following the recovery of the stock markets in Asia in late 2009 and 2010, policyholders in Asia took the opportunity to capitalise on the increased value of their unit-linked policies through withdrawals, principally in Indonesia, Malaysia, and India. The depressed state of the investment markets in late 2008 and 2009 resulted in both the number of, and average value of, withdrawals of investment related products decreasing.
- (d) The change in reserving basis in Malaysia of £63 million reflects the change made following the adoption of a risk based capital (RBC) approach to the local regulatory reporting in that country.
- (e) The positive investment related items and other movements in 2010 for with-profits (£693 million) and unit-linked business (£1,405 million) are mainly driven from Asian equity market gains in the period.
- (f) The disposal of Taiwan agency business reflects the liabilities transferred at the date of disposal.
- (g) The acquisition of UOB Life Assurance Limited reflects the liabilities acquired at the date of acquisition.

Duration of policyholder liabilities

	2010				2009			
	UK insurance operations (note (i))	US insurance operations (note (ii))	Asian insurance operations (note (iii))	Total	UK insurance operations	US insurance operations	Asian insurance operations	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Insurance contract liabilities	84,152	58,641	28,498	171,291	77,655	46,346	21,712	145,713
Investment contract liabilities with discretionary participation features	25,613	-	119	25,732	24,780	-	100	24,880
Investment contract liabilities without discretionary participation features	15,765	1,882	57	17,704	13,794	1,965	46	15,805
	125,530	60,523	28,674	214,727	116,229	48,311	21,858	186,398

The tables above show the carrying value of the policyholder liabilities. Separately, the Group uses cash flow projections of expected benefit payments as part of the determination of the value of in-force business when preparing EEV basis results. The tables in the accompanying notes below show the maturity profile of the cash flows used for that purpose for insurance contracts, as defined by IFRS, i.e. those containing significant insurance risk, and investment contracts, which do not. The cash flow projections of expected benefit payments used in the maturity profile tables are from value of in-force business and exclude the value of future new business, including vesting of internal pension contracts. The maturity tables have been prepared on a discounted basis.

Notes

(i) UK insurance operations

	With-profits business			Annuity business (insurance contracts)			Other			Total
	Insurance contracts	Investment contracts	Total	PAL	PRIL	Total	Insurance contracts	Investments contracts	Total	
2010	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Policyholders liabilities	43,691	25,613	69,304	12,282	16,442	28,724	11,737	15,765	27,502	125,530
	%	%	%	%	%	%	%	%	%	%
Expected maturity:										
0 to 5 years	46	31	40	32	29	30	35	29	32	36
5 to 10 years	25	25	25	25	23	24	26	21	23	24
10 to 15 years	13	19	16	18	17	18	18	20	19	17
15 to 20 years	7	14	10	12	13	12	10	11	11	11
20 to 25 years	4	8	6	7	8	8	6	8	7	7
over 25 years	5	3	3	6	10	8	5	11	8	5

	With-profits business			Annuity business (Insurance contracts)			Other			Total
	Insurance contracts	Investment contracts	Total	PAL	PRIL	Total	Insurance contracts	Investments contracts	Total	
2009	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Policyholders liabilities	40,780	24,780	65,560	11,969	14,292	26,261	10,614	13,794	24,408	116,229
	%	%	%	%	%	%	%	%	%	%
Expected maturity:										
0 to 5 years	50	29	41	32	31	32	34	35	35	38
5 to 10 years	26	25	26	25	23	24	25	22	23	25
10 to 15 years	13	19	15	18	17	17	18	19	18	16
15 to 20 years	6	14	9	11	12	12	11	11	11	10
20 to 25 years	3	9	6	7	8	7	7	6	6	6
over 25 years	2	4	3	7	9	8	5	7	7	5

Notes

- The cash flow projections of expected benefit payments used in the maturity profile table above are from value of in-force business and exclude the value of future new business, including vesting of internal pension contracts.
- Benefit payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.
- Investment contracts under Other comprise certain unit-linked and similar contracts accounted for under IAS 39 and IAS 18.
- For business with no maturity term included within the contracts, for example with-profits investment bonds such as Prudence Bonds, an assumption is made as to likely duration based on prior experience.

(ii) US insurance operations

	2010			2009		
	Fixed annuity and other business (including GICs and similar contracts)	Variable annuity	Total	Fixed annuity and other business (including GICs and similar contracts)	Variable annuity	Total
	£m	£m	£m	£m	£m	£m
Policyholder liabilities	29,320	31,203	60,523	27,672	20,639	48,311
	%	%	%	%	%	%
Expected maturity:						
0 to 5 years	50	50	50	52	50	51
5 to 10 years	27	29	28	27	28	28
10 to 15 years	11	12	12	10	12	11
15 to 20 years	5	6	5	5	6	5
20 to 25 years	3	2	3	3	2	2
Over 25 years	4	1	2	3	2	3

(iii) Asian insurance operations

	2010	2009
	£m	£m
Policyholder liabilities	28,674	21,858
Expected maturity:	%	%
0 to 5 years	24	24
5 to 10 years	20	21
10 to 15 years	15	15
15 to 20 years	12	12
20 to 25 years	10	9
Over 25 years	19	19

AA Sensitivity analysis

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

Overview of risks by business unit

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

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

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

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

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

Three key points are to be noted, namely:

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

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

Market and credit risk

Type of business	Investments/derivatives	Liabilities/unallocated surplus	Other exposure	Insurance and lapse risk
<i>UK insurance operations</i>				
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 Credit risk Interest rate risk for assets in excess of liabilities i.e. representing shareholder capital			Mortality experience and assumptions for longevity
<i>US insurance operations</i>				
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 annuities, Fixed annuities and GIC business	Credit risk Interest rate risk		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
	These risks are reflected in volatile profit or loss and shareholders' equity for derivative value movements and impairment losses, and, in addition, for shareholders' equity for value movements on fixed income securities classified as 'available for sale' under IAS 39			
<i>Asian insurance operations</i>				
All business	Currency risk			Mortality 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	Interest rate and price risk	Long-term interest rates		

IFRS shareholder results – Exposures for market and other risk

Key Group exposures

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 not mitigated by the interest derivative programmes and second order equity-based exposure in respect of variable annuity asset management fees. Further information is given below under the US operations section of market and credit risk.

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 (as grandfathered under IFRS 4) for the asset and liabilities for the insurance contract liabilities, 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, the operating profit based on longer-term investment returns 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 by the effect any impairment on the loan book and fair value movements on debt securities held by Prudential Capital.

Market and credit risk

UK insurance operations

With-profits business

- **With-profits business**
Shareholder results of UK with-profits business are sensitive to market risk only through the indirect effect of investment performance on declared policyholder bonuses.
The investment assets of the PAC with-profits fund are subject to market risk. However, changes in their carrying value, net of related changes to asset-share liabilities of with-profit contracts, affect the level of unallocated surplus of the fund. As unallocated surplus is accounted for as a liability under IFRS, movements in its value do not affect shareholders' profit or equity.
The shareholder results of the UK with-profits fund correspond to the shareholders' share of the cost of bonuses declared on the with-profits business. This currently corresponds to one-ninth of the cost of bonuses declared.
Investment performance is a key driver of bonuses, and hence the shareholders' share of cost of bonuses. Due to the 'smoothed' basis of bonus declaration the sensitivity to investment performance in a single year is low. However, over multiple periods it is important.
- **Prudential Annuities Limited (PAL)**
PAL's business is not with-profits, it writes annuity business. However, as PAL is owned by the PAC with-profits sub-fund, changes in the carrying value of PAL's assets and liabilities are reflected in the liability for unallocated surplus which as described above, do not affect shareholder results.
- **Scottish Amicable Insurance Fund (SAIF)**
SAIF is a ring-fenced fund in which, apart from asset management fees, shareholders have no interest. Accordingly, the Group's IFRS profit and equity are insensitive to the direct effects of market risk attaching to SAIF's assets and liabilities.

Shareholder-backed business

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

- **Prudential Retirement Income Limited (PRIL)**
The assets covering PRIL's liabilities are principally debt securities and other investments that are held to match the expected duration and payment characteristics of the policyholder liabilities. 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 to the extent of any asset/liability duration mismatch which is reviewed regularly, and exposure to credit risk, the sensitivity of the Group's results to market risk for movements in the carrying value of PRIL's liabilities and covering assets is broadly neutral on a net basis.
The main market risk sensitivity for PRIL arises from interest rate risk on the debt securities which substantially represent IFRS equity. This equity comprises the net assets held within the long-term fund of the company that cover regulatory basis liabilities that are not 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 asset management fees.

US insurance operations

Jackson

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

Invested assets covering liabilities (other than the separate accounts) and related capital comprise principally debt securities classified as available-for-sale. Value movements for these securities are reflected as movements in shareholders' equity through the statement of comprehensive income. 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 business written by Jackson, by the application of grandfathered GAAP under IFRS 4, are measured on US GAAP bases which with the exception of certain items covered by the equity hedging programme, are generally insensitive to temporary changes in market conditions or the short-term returns on the attaching asset portfolios.

These differences in carrying value of debt securities, other invested assets, derivatives and insurance liabilities give rise to potentially significant volatility in the IFRS income statement and shareholders' equity. As with other shareholder-backed business the profit or loss for Jackson is presented by distinguishing the result for the year between an operating result based on longer-term investment returns and short-term fluctuations in investment returns. In this way the most significant direct effect of market changes that have taken place to the Jackson result are separately identified.

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

- Variable annuity business – effect of market risk arising from the variability of asset management fees
- Fixed annuity business – the spread differential between the earned rate and the rate credited to policyholders; and
- Fixed index annuity business – the spread differential between the earned rate and the rate credited to policyholders.

In addition, the total profit for Jackson is affected by the level of impairment losses on the debt securities portfolio, net effect of market risk arising from the incidence and valuation of guarantee features, guaranteed benefit payments and equity index participation features, offset by variability of benefit related fees and equity derivative hedging performance, short-term value movements on derivatives held to manage the fixed annuity and other general account business, and other temporary value movements on portfolio investments classified as fair value through profit and loss.

The Group has amended its presentation of operating profit for its US insurance operations to remove the net equity hedge accounting effect and include it in short-term fluctuations as explained further in note C. Following this change the operating profit based on longer-term investment returns of the US insurance operations of £833 million for 2010 (2009: £618 million) excludes £367 million (2009: £159 million) negative net equity hedge accounting effects, net of related change to amortisation of deferred acquisition costs. The presentation of results for 2009 has been amended accordingly.

Following this change the US insurance operating profit of £833 million for 2010 excludes the market related impacts comprised of £367 million of net equity hedging losses, net of related change to amortisation of deferred acquisition costs (2009: losses of £159 million), representing the movement in fair value of free standing equity derivatives and the movement in the accounting value of Jackson's liabilities for variable and fixed index annuity guarantees, for which a significant proportion are not fair valued, together with the associated fees and claims included in reserves. These net amounts are highly variable and not representative of underlying performance based on longer-term investment returns and have therefore been included in short-term fluctuations. The presentation of results for 2009 has been amended accordingly.

Asian insurance operations

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

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

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

Insurance and lapse risk

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

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

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

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

In Asia adverse persistency experience can impact the IFRS profitability of certain business written in the region. This risk is managed at a business unit level through monthly monitoring of experience and the implementation of management actions as necessary. These actions could include product enhancements, increased management focus on premium collection as well as other customer retention efforts. The potential financial impact of lapses is often mitigated through the specific features of the products, e.g. surrender charges.

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.

(i) UK insurance operations

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

With-profits business

SAIF

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

With-profits sub-fund business

For with-profits business (including non-participating business of PAL which is owned by the WPSF) adjustments to liabilities and any related tax effects are 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.

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 £53 million (2009: £44 million). A decrease in credit default assumptions of five basis points would increase gross profits by £119 million (2009: £91 million). A decrease in renewal expenses (excluding asset management expenses) of five per cent would increase gross profits by £23 million (2009: £17 million). The effect on profits would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above.

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 timing of death. 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.

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 ameliorated by virtue of the close matching of assets with appropriate duration. The level of matching from period to period can vary depending on management actions and economic factors so it is possible for a degree of mis-matching profits or losses to arise.

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

The estimated sensitivity of the UK non-linked shareholder-backed business (principally pension annuities business) to a movement in interest rates is as follows.

	2010 £m				2009 £m			
	A decrease of 2%	A decrease of 1%	An increase of 1%	An increase of 2%	A decrease of 2%	A decrease of 1%	An increase of 1%	An increase of 2%
Carrying value of debt securities and derivatives	6,547	2,938	(2,434)	(4,481)	5,372	2,422	(2,020)	(3,731)
Policyholder liabilities	(5,977)	(2,723)	2,109	3,929	(5,125)	(2,304)	1,905	3,498
Related deferred tax effects	(154)	(58)	88	149	(69)	(33)	32	65
Net sensitivity of profit after tax and shareholders' equity	416	157	(237)	(403)	178	85	(83)	(168)

In addition the shareholder-backed portfolio of UK non-linked insurance operations covering liabilities and shareholders' equity includes equity securities and investment property. Excluding any second order effects on the measurement of the liabilities for future cash flows to the policyholder, a fall in their value would have given rise to the following effects on pre-tax profit, profit after tax, and shareholders' equity.

	2010 £m		2009 £m	
	A decrease of 20%	A decrease of 10%	A decrease of 20%	A decrease of 10%
Pre-tax profit	(302)	(151)	(292)	(146)
Related deferred tax effects	82	41	82	41
Net sensitivity of profit after tax and shareholders' equity	(220)	(110)	(210)	(105)

A 10 or 20 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 segmental analysis of profits, be included within the short-term fluctuations in investment returns.

In the equity risk sensitivity analysis given above, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather this would be expected to occur over a period of time during which the Group would be able to put in place mitigating management actions.

(ii) US insurance operations

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 2010, the rates were US\$1.55 (2009: US\$1.57) and US\$1.57 (2009: US\$1.61) to £1 sterling, respectively. A 10 per cent increase or decrease in these rates would reduce or increase profit (loss) before tax attributable to shareholders, profit (loss) 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	
	2010	2009	2010	2009
	£m	£m	£m	£m
Profit (loss) before tax attributable to shareholders (note (i))	(41)	(44)	50	54
Profit (loss) for the year	(31)	(54)	37	65
Shareholders' equity attributable to US insurance operations	(347)	(274)	424	335

Note

- (i) Sensitivity on profit (loss) before tax i.e. aggregate of the operating profit based on longer-term investment returns and short-term fluctuations.

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;
- Variations in fees and other income, offset by variations in market value adjustment payments and, where necessary, strengthening of liabilities;
- Spread returns for the difference between investment returns and rates credited to policyholders; and
- 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 2010 and 2009 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. The projected rates of return are capped at no more than 15 per cent for each of the next five years.

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.

Exposure to equity risk

Variable annuity contracts related

Jackson issues variable contracts through its separate accounts for which investment income and investment gains and losses accrue to, and investment risk is borne by, the contract holder (traditional variable annuities). It also issues variable annuity and life contracts through separate accounts where it contractually guarantees to the contract holder (variable contracts with guarantees) either a) return of no less than deposits made to the contract adjusted for any partial withdrawals, b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return, or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the contract anniversary. These guarantees include benefits that are payable in the event of death (GMDB), annuitisation (GMIB), at specified dates during the accumulation period (GMWB) or at the end of a specified period (GMAB).

At 31 December 2010 and 2009, Jackson had variable annuity contracts with guarantees, for which the net amount at risk ("NAR") is generally the amount of guaranteed benefit in excess of current account value, as follows:

31 December 2010

	Minimum return	Account value £m	Net amount at risk £m	Weighted average attained age	Period until expected annuitisation
Return of net deposits plus a minimum return					
GMDB	0-6%	25,540	2,106	64.0 years	
GMWB - Premium only	0%	2,742	149		
GMWB - For life	0-5%**	1,996	415*		
GMAB - Premium only	0%	48	1		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		3,742	466	63.3 years	
GMWB - Highest anniversary only		2,010	343		
GMWB - For life		852	196*		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	1,768	311	65.7 years	
GMIB	0-6%	1,933	418		5.1 years
GMWB -For life	0-8%**	15,025	672*		

31 December 2009

	Minimum return	Account value £m	Net amount at risk £m	Weighted average attained age	Period until expected annuitisation
Return of net deposits plus a minimum return					
GMDB	0-6%	16,915	2,834	63.8 years	
GMWB - Premium only	0%	2,505	277		
GMWB - For life	0-5%**	1,240	471*		
GMAB - Premium only	0%	27	2		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		2,933	691	62.8 years	
GMWB - Highest anniversary only		1,694	496		
GMWB - For life		811	258*		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	1,307	384	65.1 years	
GMIB	0-6%	1,815	488		5.9 years
GMWB -For life	0-7%**	6,934	568*		

* The NAR for GMWB "For life" has been estimated as the present value of future expected benefit payments remaining after the amount of the "not for life" guaranteed benefit is zero.

** Ranges shown based on simple interest. The upper limits of five per cent, seven per cent and eight per cent simple interest are approximately equal to 4.1 per cent, 5.5 per cent and six per cent respectively, on a compound interest basis over a typical 10-year bonus period.

Account balances of contracts with guarantees were invested in variable separate accounts as follows:

	2010 £m	2009 £m
Mutual fund type:		
Equity	23,841	15,477
Bond	3,417	2,340
Balanced	3,345	2,186
Money market	451	522
Total	31,054	20,525

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 as illustrated above. 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 further in the future, 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 equity market movements as the free-standing derivatives reset immediately while the hedged liabilities reset more slowly and fees are recognised prospectively. The opposite impacts would be observed if the equity markets were to decrease.

At 31 December 2010 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 benefit, net of related DAC amortisation, before tax of up to £100 million (2009: £60 million), excluding the impact on future separate account fees. After related deferred tax there would have been an estimated increase in shareholders' equity at 31 December 2010 of up to £60 million (2009: £40 million). An immediate decrease in the equity markets of 20 per cent is estimated to result in an accounting benefit, net of related DAC amortisation, before tax of up to £170 million (2009: £110 million), excluding the impact on future separate account fees. After related deferred tax there would have been an estimated increase in shareholders' equity at 31 December 2010 of up to £110 million (2009: £80 million). An immediate increase in the equity markets of 10 and 20 per cent is estimated to result in an approximately equal and opposite estimated effect on profit and shareholders' equity as that disclosed above for a decrease.

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.

Other exposure to equity risk

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

A range of reasonably possible movements in the value of equity securities, partnerships in investment pools and other financial derivatives have been applied to Jackson's holdings at 31 December 2010 and 31 December 2009. The table below shows the sensitivity to a 10 and 20 per cent fall in value and the impact that this would have on pre-tax profit, net of related changes in amortisation of DAC, profit after tax and shareholders' equity.

	2010 £m		2009 £m	
	A decrease of 20%	A decrease of 10%	A decrease of 20%	A decrease of 10%
Pre-tax profit, net of related changes in amortisation of DAC	(143)	(72)	(117)	(58)
Related deferred tax effects	50	25	41	20
Net sensitivity of profit after tax and shareholders' equity	(93)	(47)	(76)	(38)

A 10 or 20 per cent increase in their value is estimated to have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above.

In the equity risk sensitivity analysis given above, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather this would be expected to occur over a period of time during which the Group would be able to put in place mitigating management actions.

Exposure to interest rate risk

Notwithstanding the market risk exposure previously described, 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 (as 'grandfathered' under IFRS 4) basis of measurement. The GMWB features attaching to variable annuity business (other than "for-life") 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 other comprehensive income. The estimated sensitivity of these items and policyholder liabilities to a one per cent and two per cent decrease and increase in interest rates at 31 December 2010 and 2009 is as follows:

	2010 £m				2009 £m			
	A 2% decrease	A 1% decrease	A 1% increase	A 2% increase	A 2% decrease	A 1% decrease	A 1% increase	A 2% increase
Profit and loss								
Direct effect								
Derivatives value change	842	363	(277)	(529)	(319)	(148)	159	370
Policyholder liabilities	(547)	(243)	219	416	(418)	(185)	170	334
Related effect on amortisation of DAC	47	23	(34)	(63)	364	162	(156)	(328)
Pre-tax profit effect								
Operating profit based on longer-term investment returns	579	245	(181)	(345)	(144)	(62)	56	109
Short-term fluctuations in investment returns	(237)	(102)	89	169	(229)	(109)	117	267
	342	143	(92)	(176)	(373)	(171)	173	376
Related effect on charge for deferred tax	(120)	(50)	32	62	131	60	(60)	(131)
Net profit effect	222	93	(60)	(114)	(242)	(111)	113	245
Other comprehensive income								
Direct effect on carrying value of debt securities	2,663	1,454	(1,454)	(2,663)	2,183	1,179	(1,179)	(2,183)
Related effect on amortisation of DAC	(1,174)	(641)	641	1,174	(764)	(413)	413	764
Related effect on movement in deferred tax	(521)	(285)	285	521	(497)	(268)	268	497
Net effect	968	528	(528)	(968)	922	498	(498)	(922)
Total net effect on IFRS equity	1,190	621	(588)	(1,082)	680	387	(385)	(677)

(iii) Asian insurance operations

Sensitivity of IFRS basis profit and equity to market and other risks

Currency translation

Consistent with the Group's accounting policies, the profits of the Asian insurance 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 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	
	2010 £m	2009 £m	2010 £m	2009 £m
Profit before tax attributable to shareholders (note(i))	(65)	(40)	80	49
Profit for the year	(58)	(35)	71	43
Shareholders' equity, excluding goodwill, attributable to Asian operations	(193)	(129)	236	158

Note

- (i) 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 but excluding the loss on sale and results for Taiwan agency business.

Other risks

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.

Unit-linked business

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

Other business

Interest rate risk

Asian operations offer a range of insurance and investment products, predominately with-profits and non-participating term, whole life endowment and unit-linked. Excluding with-profit and unit-linked business, the results of the Asian business are sensitive to the vagaries of routine movements in interest rates.

For the purposes of analysing sensitivity to variations in interest rates, it has been determined for the majority of territories that a movement of 1 per cent in the 10 year government bond rate can be considered reasonably possible. At 31 December 2010, 10 year government bond rates vary from territory to territory and range from 1.1 per cent to 12.25 per cent (2009: 1.3 per cent to 11.45 per cent). Exception to this arises in Japan and Taiwan where reasonably possible interest rate movements have been determined as 0.5 per cent (2009: Japan and Taiwan 0.5 per cent). These reasonably possible changes would have the following impact:

	2010 £m	2009 £m
	A decrease of 1% (note (i))	A decrease of 1% (note (i))
Pre-tax profit	110	91
Related deferred tax (where applicable)	(41)	(22)
Net effect on profit and equity	69	69

Note

- (i) One per cent sensitivity has been used in all territories (except Japan and Taiwan (0.5 per cent)) (2009: Japan and Taiwan 0.5 per cent). The pre-tax impacts, if they arose, would mostly be recorded within the category short-term fluctuations in investments returns in the Group's segmental analysis of profit before tax.

At 31 December 2010, an increase in the rates of one per cent (Japan and Taiwan (0.5 per cent)) (2009: one per cent except Japan and Taiwan 0.5 per cent) is estimated to have the effect of decreasing pre-tax profit by £112 million (2009: £109 million). After adjusting these results for deferred tax the reasonable possible effect on shareholders' equity is a decrease of £82 million (2009: £83 million).

Equity price risk

The non-linked shareholder business has limited exposure to equity and property investment (£515 million at 31 December 2010). Generally changes in equity and property investment values are not automatically matched by investments in policyholder liabilities. However for the Vietnam business, to the extent that equity investment appreciation is realised through sales of securities then policyholders' liabilities are adjusted to the extent that policyholders participate.

The estimated sensitivity to a 10 and 20 per cent change in equity and property prices for shareholder-backed Asian other business, which would be reflected in the short-term fluctuation component of the Group's segmental analysis of profit before tax, at 31 December 2010 and 2009 would be as follows:

	2010 £m		2009 £m	
	A decrease of 20%	A decrease of 10%	A decrease of 20%	A decrease of 10%
Pre-tax profit	(103)	(52)	(58)	(29)
Related deferred tax (where applicable)	10	5	8	4
Net effect on profit and equity	(93)	(47)	(50)	(25)

A 10 or 20 per cent increase in their value is estimated to have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above.

In the equity risk sensitivity analysis given above the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather this would be expected to occur over a period of time during which the Group would be able to put in place mitigating management actions.

Insurance risk

Many of the territories in Asia are exposed to mortality/morbidity risk and provision is made within IFRS policyholder liabilities on a prudent regulatory basis to cover the potential exposure. If these prudent assumptions were strengthened by five per cent (estimated at one in ten year shock) then it is estimated that post tax IFRS profit would be impacted by approximately £21 million (2009: £9 million) (with a corresponding change to IFRS shareholders' equity). Mortality/morbidity has a symmetrical effect on portfolio and so a weakening of mortality/morbidity assumptions would have an approximately equal and opposite similar impact.

(iv) Asset management operations

Currency translation

Consistent with the Group's accounting policies, the profits of the Asia and PPM America asset management operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. The rates for the most significant operations are given in note VII.

A 10 per cent increase in the relevant exchange rates would have reduced reported profit before tax attributable to shareholders and shareholders' equity, excluding goodwill attributable to Asia and PPM America asset management operations, by £9 million (2009: £5 million) and £28 million (2009: £23 million) respectively.

Other sensitivities to other financial risks for asset management operations

The principal sensitivities to other financial risk of asset management operations are credit risk on the bridging loan portfolio of the Prudential Capital operation and the indirect effect of changes to market values of funds under management. Due to the nature of the asset management operations there is limited direct sensitivity to movements in interest rates. Total debt securities held at 31 December 2010 by asset management operations were £1,574 million (2009: £1,164 million), the majority of which are held by the Prudential Capital operation. Debt securities held by M&G and Prudential Capital are in general variable rate bonds and so market value is limited in sensitivity to interest rate movements and consequently any change in interest rates would not have a material impact on profit or shareholder's equity. Asset management operations do not hold significant investments in property or equities.

AB Share capital, share premium and own shares

		2010	
	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:			
At 1 January 2010	2,532,227,471	127	1,843
Shares issued under share option schemes	2,455,227	-	13
Shares issued in lieu of cash dividends	10,911,808	-	62
Reserve movements in respect of shares issued in lieu of cash dividends	-	-	(62)
At 31 December 2010	2,545,594,506	127	1,856
		2009	
	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:			
At 1 January 2009	2,496,947,688	125	1,840
Shares issued under share option schemes	605,721	-	3
Shares issued in lieu of cash dividends	34,674,062	2	136
Reserve movements in respect of shares issued in lieu of cash dividends	-	-	(136)
At 31 December 2009	2,532,227,471	127	1,843

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account. Shares issued in lieu of cash dividends are considered to take the legal form of bonus issue shares and have been accounted for as such.

At 31 December 2010, there were options outstanding under Save As You Earn schemes to subscribe for 12,802,482 (2009: 12,230,833) shares at prices ranging from 288 pence to 572 pence (2009: 266 pence to 572 pence) and exercisable by the year 2016 (2009: 2016).

The cost of own shares of £75 million as at 31 December 2010 (2009: £75 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans and savings-related share option schemes. At 31 December 2010, 4.5 million (2009: 5.3 million) Prudential plc shares with a market value of £30 million (2009: £34 million) were held in such trusts. Of this total, 4.4 million (2009: 4.8 million) shares were held in trusts under employee incentive plans. In 2010, the Company purchased 5.7 million (2009: 3.4 million) shares in respect of employee incentive plans at a cost of £32 million (2009: £17 million). The maximum number of shares held in the year was 5.3 million which was at the beginning of the year.

Of the total shares held in trust 0.1 million (2009: 0.5 million) were held by a qualifying employee share ownership trust. These shares are expected to be fully distributed in the future on maturity of savings-related share option schemes.

The shares purchased each month are as follows:

2010	Number of shares	Share Price		Cost
		Low	High	
		£	£	£
January	9,338	6.38	6.38	59,530
February	11,638	5.68	5.68	66,046
March	3,908,274	5.16	6.09	20,884,460
April	11,129	5.63	5.63	62,601
May	14,638	5.59	5.59	81,753
June	190,991	5.26	5.66	1,075,712
July	13,457	5.14	5.14	69,102
August	10,016	5.86	5.86	58,644
September	13,727	5.25	5.84	78,539
October	11,634	6.37	6.37	74,108
November	385,321	5.74	6.49	2,244,770
December	1,153,611	6.04	6.65	7,445,358
2010 Total	5,733,774			32,200,623

The shares purchased each month are as follows:

2009	Number of shares	Share Price		Cost
		Low	High	
		£	£	£
January	19,852	3.83	3.94	76,575
February	19,926	3.52	3.52	70,140
March	1,112,209	2.02	3.50	3,837,968
April	22,164	3.38	3.38	74,859
May	32,416	4.45	6.59	173,242
June	26,594	4.44	7.31	145,230
July	342,062	3.86	4.03	1,374,929
August	14,059	4.85	4.85	68,144
September	12,435	5.50	5.50	68,393
October	10,332	6.34	6.34	65,453
November	10,576	6.04	6.04	63,879
December	1,739,591	6.06	6.35	10,941,847
2009 Total	3,362,216			16,960,659

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 31 December 2010 was 9.8 million (2009: 10.6 million) and the cost of acquiring these shares of £47 million (2009: £50 million) is included in the cost of own shares. The market value of these shares as at 31 December 2010 was £65 million (2009: £67 million).

During 2010 and 2009 respectively, these funds made 833,618 net disposals and 1,414,263 net acquisitions of Prudential shares for a net decrease of £3 million and a net increase of £3 million to book cost.

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

The Company did not buy back any of its own shares during 2010 or 2009.

AC Post balance sheet events

In January 2011, the Company issued US\$550 million 7.75 per cent Tier 1 subordinated debt, primarily to retail investors. The proceeds, net of costs, were US\$539 million and are intended to finance the repayments of the €500 million Tier 2 subordinated notes in December 2011.

Additional Unaudited Financial Information

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

This schedule classifies the Group's pre-tax operating earnings from long-term insurance operations into the underlying drivers of those profits, using the following categories:

- (i) **Spread income** represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to policyholder accounts. It excludes the longer-term investment return on assets in excess of those covering shareholder-backed policyholder liabilities, which has been separately disclosed as **expected return on shareholder assets**.
- (ii) **Fee income** represents profits driven by net investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses.
- (iii) **With-profits** business represents the shareholders' transfer from the with-profits fund in the period.
- (iv) **Insurance margin** primarily represents profits derived from the insurance risks of mortality, morbidity and persistency.
- (v) **Margin on revenues** primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses.
- (vi) **Acquisition costs and administration expenses** represent expenses incurred in the period attributable to shareholders. It excludes items such as restructuring costs and Solvency II costs which are not included in the segment profit for insurance as well as items that are more appropriately included in other source of earnings lines (e.g. investment expenses are netted off investment income as part of spread income or fee income as appropriate).
- (vii) **DAC adjustments** comprises DAC amortisation for the period, excluding amounts related to short-term fluctuations, net of costs deferred in respect of new business.

Analysis of pre-tax IFRS operating profit by source

	2010				
	Asia	US	UK	Unallocated	Total
	£m	£m	£m	£m	£m
Spread income	70	692	251	-	1,013
Fee income	122	506	60	-	688
With-profits	32	-	310	-	342
Insurance margin	392	188	12	-	592
Margin on revenues	1,018	-	223	-	1,241
Expenses					
Acquisition costs	(656)	(851)	(167)	-	(1,674)
Administration expenses	(467)	(344)	(113)	-	(924)
DAC adjustments	2	517	(1)	-	518
Expected return on shareholder assets	19	125	98	-	242
Long-term business operating profit	532	833	673	-	2,038
Asset management operating profit	72	22	284	-	378
GI commission	-	-	46	-	46
Other income and expenditure*	-	-	-	(521)	(521)
Total operating profit based on longer-term investment returns	604	855	1,003	(521)	1,941

	2009 ⁽ⁱ⁾				
	Asia	US	UK	Unallocated	Total
	£m	£m	£m	£m	£m
Spread income	31	524	198	-	753
Fee income	80	324	54	-	458
With-profits	29	-	281	-	310
Insurance margin	253	154	41	-	448
Margin on revenues	766	-	275	-	1,041
Expenses					
Acquisition costs	(605)	(690)	(192)	-	(1,487)
Administration expenses	(382)	(259)	(173)	-	(814)
DAC adjustments	150	467	(3)	-	614
Expected return on shareholder assets	25	98	125	-	248
Non-recurrent release of reserves for Malaysia life operations	63	-	-	-	63
Long-term business operating profit	410	618	606	-	1,634
Asset management operating profit	55	4	238	-	297
GI commission	-	-	51	-	51
Other income and expenditure*	-	-	-	(418)	(418)
Total operating profit based on longer-term investment returns	465	622	895	(418)	1,564

*Including restructuring and Solvency II implementation costs.

2008 ⁽ⁱ⁾

	Asia	US	UK	Unallocated	Total
	£m	£m	£m	£m	£m
Spread income	38	461	35	-	534
Fee income	54	292	57	-	403
With-profits	30	-	395	-	425
Insurance margin	198	161	(12)	-	347
Margin on revenues	672	-	314	-	986
Expenses					
Acquisition costs	(619)	(451)	(172)	-	(1,242)
Administration expenses	(331)	(217)	(212)	-	(760)
DAC adjustments	173	-	32	-	205
Expected return on shareholder assets	16	89	108	-	213
Long-term business operating profit	231	335	545	-	1,111
Asset management operating profit	52	7	286	-	345
GI commission	-	-	44	-	44
Other income and expenditure*	-	-	-	(288)	(288)
Total operating profit based on longer-term investment returns	283	342	875	(288)	1,212

*Including restructuring and Solvency II implementation costs.

- (i) During 2010 the Group amended its presentation of operating profit for its US insurance operations to remove the net equity hedge accounting effect associated with Jackson's variable annuity and fixed index annuity products, which are now classified in the Group's supplementary analysis of profit before tax attributable to shareholders as part of short term fluctuations in investment returns. 2009 and 2008 operating profit have been amended accordingly and so net equity hedge effects of £159 million negative and £71 million positive have been removed from the previously stated operating profits of £1,405 million and £1,283 million to give a restated value of £1,564 million and £1,212 million, respectively.

Margin analysis of long-term insurance business

The following analysis expresses certain of the Group's sources of operating profit as a margin of policyholder liabilities or other suitable driver. Details of the Group's average policyholder liability balances are given in note Z.

Long-term business	Total								
	2010			2009			2008		
	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps
Spread income	1,013	53,858	188	753	51,000	148	534	44,281	121
Fee income	688	57,496	120	458	43,373	106	403	38,850	104
With-profits	342	89,693	38	310	84,063	37	425	89,075	48
Insurance margin	592			448			347		
Margin on revenues	1,241			1,041			986		
Expenses									
Acquisition costs*	(1,674)	3,492	(48%)	(1,487)	2,896	(51%)	(1,242)	2,879	(43%)
Administration expenses	(924)	111,354	(83)	(814)	94,373	(86)	(760)	83,131	(91)
DAC adjustments	518			614			205		
Expected return on shareholder assets	242			248			213		
Non-recurrent release of reserve for Malaysia Life	-			63			-		
Operating profit	2,038			1,634			1,111		

Long-term business	Asia								
	2010			2009			2008		
	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps
Spread income	70	4,393	159	31	3,152	98	38	2,421	157
Fee income	122	11,222	109	80	8,107	99	54	6,419	84
With-profits	32	10,135	32	29	8,371	35	30	7,168	42
Insurance margin	392			253			198		
Margin on revenues	1,018			766			672		
Expenses									
Acquisition costs*	(656)	1,508	(44%)	(605)	1,261	(48%)	(619)	1,216	(51%)
Administration expenses	(467)	15,615	(299)	(382)	11,259	(339)	(331)	8,840	(374)
DAC adjustments	2			150			173		
Expected return on shareholder assets	19			25			16		
Non-recurrent release of reserve for Malaysia Life	-			63			-		
Operating profit	532			410			231		

* The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales and Japan (2010: £7 million; 2009: £52 million). Acquisition costs include only those relating to shareholders.

Analysis of Asian operating profit drivers

- **Spread income** has increased from £31 million in 2009 to £70 million in 2010. This increase arises primarily as a result of improved investment return in Vietnam (where the return in 2009 was particularly low compared to both 2008 and 2010) and additional dividend income received in Japan.
- **Fee income** has increased both in absolute terms by £42 million and as an improvement in margin, which has increased 10bps to 109bps. This primarily relates in a change in mix towards those countries with a higher asset management fee margin (e.g. Indonesia) from countries where fees charged are lower.
- **Insurance margin** has increased by £139 million from £253 million in 2009 to £392 million in 2010. This reflects the continued growth in the in-force book, which has a relatively high proportion of risk-based products. 2010 includes £19 million relating to reserving changes in India and China.
- **Margin on revenues** has increased by £252 million reflecting the growth in the size of the portfolio and changes in country mix.
- **Acquisition costs** – the costs as a percentage of APE new business sales has fallen over the period 2008-2010 reflecting management's continued focus on capital management activities, such as the closure of Japan to new business in the first quarter of 2010 and changes to business and country mix. The analysis above uses shareholder acquisition costs as a proportion of total APE, excluding with profits sales from the denominator the margin would become 2010: 53 per cent, 2009: 56 per cent and 2008: 58 per cent.

- **Administration expense** margin has reduced from 339 bps in 2009 in part reflecting operational leverage benefit and a shift in mix towards countries with highly efficient business models (e.g. Indonesia).

	US								
	2010			2009			2008		
	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps
Long-term business									
Spread income	692	28,496	243	524	29,248	179	461	25,322	182
Fee income	506	25,921	195	324	17,589	184	292	14,783	198
With-profits	-			-			-		
Insurance margin	188			154			161		
Margin on revenues	-			-			-		
Expenses									
Acquisition costs	(851)	1,164	(73%)	(690)	912	(76%)	(451)	716	(63%)
Administration expenses	(344)	54,417	(63)	(259)	46,837	(55)	(217)	40,105	(54)
DAC adjustments	517			467			-		
Expected return on shareholder assets	125			98			89		
Operating profit	833			618			335		

Analysis of US operating profit drivers:

- **Spread income** benefited from the effect of transactions to more closely match the overall asset and liability duration in 2010. Excluding this effect (£108 million), spread margin in 2010 would have been 205 bps. The increase over the 2009 margin of 179 bps is due in part to decreased crediting rates on fixed annuities.
- **Fee income** margins are based on the average of the opening and closing separate account balances. In normal years this is expected to be a reasonable proxy for the average balances throughout the year. In 2009 separate account flows were weighted towards the end of the year artificially lowering the 2009 margin. Using an average based on end of month balances, margins show little movement between years, (2010: 200bps; 2009: 203bps; 2008: 200bps) indicating that absolute revenue amounts are growing in line with separate accounts values. Separate account values increased between 2008 and 2010 both as a result of strong sales and improving equity markets.
- **Insurance margin** represents operating profits from insurance risks, including variable annuity guarantees and other sundry net income. Positive net flows into variable annuity business with life contingent and other guarantees have helped improved the margin from £154 million in 2009 to £188 million in 2010.
- **Acquisition costs** have increased in 2010 in absolute terms compared to 2009 following an increase in sales volumes. However acquisition costs as a percentage of APE has fallen from 76 per cent in 2009 to 73 per cent in 2010 as more advisors are electing to take asset based commission, which is paid over the life of the policy based on fund value. This asset based-commission is treated as an administration expense in this analysis as opposed to a cost of acquisition, resulting in a lower acquisition cost ratio but a higher administration expenses margin.

2008 acquisition costs as a percentage of APE sales was 63 per cent, lower than 2009 and 2010. This is primarily because sales of GICs in 2008 (APE £120 million), on which no acquisition costs are incurred, reduces the margin for that year. Excluding GIC APE sales the acquisition cost ratio for 2008 becomes 76 per cent, in line with 2009.
- **Administration expenses** margin has increased to 63 bps in 2010 partly as a result of higher asset based commission, which lowers acquisition costs but increases the expenses classified as administration expenses in the table above.

UK

	2010			2009			2008		
	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps	Profit £m	Average Liability £m	Margin bps
Long-term business									
Spread income	251	20,969	120	198	18,600	106	35	16,538	21
Fee income	60	20,353	29	54	17,677	31	57	17,648	32
With-profits	310	79,558	39	281	75,692	37	395	81,907	48
Insurance margin	12			41			(12)		
Margin on revenues	223			275			314		
Expenses									
Acquisition costs*	(167)	820	(20%)	(192)	723	(27%)	(172)	947	(18%)
Administration expenses	(113)	41,322	(27)	(173)	36,277	(48)	(212)	34,186	(62)
DAC adjustments	(1)			(3)			32		
Expected return on shareholder assets	98			125			108		
Operating profit	673			606			545		

* The ratio for acquisition costs is calculated as a percentage of APE including with-profits sales. Acquisition costs include only those relating to shareholders.

Analysis of UK operating profit drivers:

- **Spread income** has increased by £53 million to £251 million in 2010 reflecting in a higher margin of 120 bps, up from 106 bps last year. The improved margin primarily reflects the beneficial impacts of the bulk annuity deal written in 2010, improved margins on retail annuity new business and improved spread on equity release business following its closure to new business. Spread income was lower in 2008 due to lower margins on new business and the establishment of credit default and deflation reserves in that year in light of the credit crisis offset by the impact of actions to rebalance the credit portfolio.
- **Fee income** has increased by 11 per cent to £60 million broadly in line with the value of unit-linked liabilities following the improvement in equity markets.
- **Margin on revenues** represents premiums charges for expenses and other sundry net income received by the UK. Lower amounts were recorded in 2010 (£223 million) compared to 2009 (£275 million) reflecting, in part, lower premiums from shareholder-backed retail business in 2010 as compared to 2009.
- **Insurance margin** has fallen by £29 million to £12 million in 2010 reflecting that 2009 included a one-off benefit of £34 million in respect of a longevity swap on certain aspects of the UK's annuity back-book liabilities, which was not repeated in 2010.
- **Acquisition costs** as a percentage of new business sales has fallen from 27 per cent in 2009 to 20 per cent in 2010. This reflects in part the impact of the bulk annuity deal which contributed £88 million APE in the period with a relatively low level of acquisition costs, together with the closure of equity release to new business as well as on-going cost saving initiatives.

The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. It is therefore impacted by the level of with-profit sales in the year. Acquisition costs as a percentage of shareholder-backed new business sales were 36 per cent in 2010 (49 per cent in 2009), with the most significant impact being the effect of the bulk annuity deal.

- **Administration expenses** have fallen by £60 million to £113 million and the ratio from 48 bps in 2009 to 27 bps in 2010. This is primarily the result of cost savings initiatives initiated by the UKIO in line with the business's stated objectives.

2 Asian operations – analysis of operating profit by territory

Operating profit based on longer-term investment returns for Asian operations are analysed as follows:

	2010	2009
	£m	£m
China ^{(note (ii))}	(12)	4
Hong Kong	51	48
India ^{(note (iii))}	60	12
Indonesia	157	102
Japan	(6)	(18)
Korea	12	6
Malaysia		
– Underlying results	97	65
– Exceptional credit ^{(note (i))}		63
Philippines	2	2
Singapore	129	112
Taiwan bancassurance business ^{(note (iv))}	(4)	(7)
Thailand	2	(1)
Vietnam	43	30
Other	5	(2)
Total insurance operations ^{(note (v))}	536	416
Development expenses	(4)	(6)
Total long-term business operating profit	532	410
Asset management	72	55
Total Asian operations	604	465

Notes

- (i) For the Malaysia life business, under the basis applied previously, 2008 IFRS basis liabilities were determined on the local regulatory basis using prescribed interest rates such that a high degree of prudence resulted. As of 1 January 2009, the local regulatory basis has been replaced by the Malaysian authority's risk-based capital (RBC) framework. In the light of this development; the Company has re-measured the liabilities by reference to the method applied under the new RBC framework, which is more realistic than the previous approach, but with an overlay constraint to the method such that negative reserves derived at an individual policyholder level are not included. This change has resulted in a one-off release from liabilities at 1 January 2009 of £63 million.
- (ii) China's operating loss of £12 million is after a net charge of £17 million for local reserving changes and associated impacts that have been reflected in the Group's IFRS accounts. Excluding this effect, China's underlying result is a £5 million profit.
- (iii) The operating profit of £60 million from India, a joint venture, includes £36 million arising from changes that improve the reserving estimation technique. Excluding this effect, India's underlying result is a profit of £24 million.
- (iv) *Sale of Taiwan agency business*
In order to facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the Taiwan agency business for which the sale process was completed in June 2009 are excluded from analysis of operating profit.
- (v) *Analysis of operating profit between new and in-force business*
The result for insurance operations comprises amounts in respect of new business and business in-force as follows:

	2010	2009
	£m	£m
New business strain (excluding Japan)	(56)	(72)
Japan	(1)	(6)
New business strain (including Japan)	(57)	(78)
Business in force	593	494
Total	536	416

The IFRS new business strain corresponds to approximately four per cent of new business APE premiums for 2010 (2009: approximately six per cent of new business APE).

The strain reflects the aggregate of the pre-tax regulatory basis strain to net worth after IFRS adjustments for deferral of acquisition costs and deferred income where appropriate.

3 Analysis of asset management operating profit based on longer-term investment returns

2010

	M&G ⁽¹⁾	Asia ⁽¹⁾	PruCap	US	Total
	£m	£m	£m	£m	£m
Operating income before performance-related fees	615	185	88	229	1,117
Performance-related fees	17	6	-	-	23
Operating income*	632	191	88	229	1,140
Operating expense	(386)	(119)	(50)	(207)	(762)
Operating profit based on longer-term investment returns	246	72	38	22	378
Average funds under management (FUM)**	186.5 bn	47.2 bn			
Margin based on operating income**	34 bps	40 bps			
Cost / income ratio***	63%	64%			

2009

	M&G ⁽¹⁾	Asia ⁽¹⁾	PruCap	US	Total
	£m	£m	£m	£m	£m
Operating income before performance-related fees	470	157	89	183	899
Performance-related fees	12	3	-	-	15
Operating income*	482	160	89	183	914
Operating expense	(305)	(105)	(28)	(179)	(617)
Operating profit based on longer-term investment returns	177	55	61	4	297
Average funds under management (FUM)**	157.5 bn	39.6 bn			
Margin based on operating income**	31 bps	40 bps			
Cost / income ratio***	65%	67%			

2008

	M&G ⁽¹⁾	Asia ⁽¹⁾	PruCap	US	Total
	£m	£m	£m	£m	£m
Operating income before performance-related fees	480	144	123	139	886
Performance-related fees	43	3	-	-	46
Operating income*	523	147	123	139	932
Operating expense	(295)	(95)	(65)	(132)	(587)
Operating profit based on longer-term investment return	228	52	58	7	345
Average funds under management (FUM)**	154.0 bn	36.9 bn			
Margin based on operating income**	34 bps	40 bps			
Cost / income ratio***	61%	66%			

(i) M&G and Asia asset management businesses can be further analysed as follows:

	M&G						Asia						
	Operating income*						Operating income*						
	Retail	Margin of FUM**	Institutional*	Margin of FUM**	Total	Margin of FUM**	Retail	Margin of FUM**	Institutional*	Margin of FUM**	Total	Margin of FUM**	
£m	bps	£m	bps	£m	bps	£m	bps	£m	bps	£m	bps	£m	bps
2010	345	93	287	19	632	34	2010	120	62	71	26	191	40
2009	255	102	227	17	482	31	2009	98	60	62	27	160	40
2008	243	122	280	21	523	34	2008	91	59	56	26	147	40

* Operating income is net of commissions and includes performance related fees.

** Margin represents operating income as a proportion of the related funds under management (FUM). Opening and closing internal and external funds managed by the respective entity have been used to derive the average. Any funds held by the Group's insurance operations which are managed by third parties outside of the Prudential Group are excluded from these amounts.

*** Cost / income ratio is calculated as cost as a percentage of income excluding performance-related fees.

+ Institutional includes internal funds.

4 Shareholders' funds summary by business unit and net asset value per share

(i) Shareholders' fund summary

	2010 £m	2009 £m
Asian operations		
Insurance operations		
Net assets of operation	1,913	1,382
Acquired goodwill	236	80
Total	2,149	1,462
Asset management		
Net assets of operation	197	161
Acquired goodwill	61	61
Total	258	222
Total	2,407	1,684
US operations		
Jackson (net of surplus note borrowings)	3,815	3,011
Broker-dealer and asset management operations:		
Net assets of operation	106	95
Acquired goodwill	16	16
Total	122	111
Total	3,937	3,122
UK operations		
Insurance operations:		
Long-term business operations	2,115	1,902
Other	33	37
Total	2,148	1,939
M&G		
Net assets of operation	254	173
Acquired goodwill	1,153	1,153
Total	1,407	1,326
Total	3,555	3,265
Other operations		
Holding company net borrowings	(2,035)	(1,754)
Shareholders' share of provision for future deficit funding of the Prudential Staff Pension Scheme (net of tax)	(10)	(16)
Other net assets (liabilities)	177	(30)
Total	(1,868)	(1,800)
Total of all operations	8,031	6,271

(ii) Net asset value per share

	2010 £m	2009 £m
Closing equity shareholders' funds	8,031	6,271
Net asset value per share attributable to equity shareholders ^{(note (i))}	315 p	248 p

Note

(i) Based on the closing issued share capital as at 31 December 2010 of 2,546 million shares (2009: 2,532 million shares).

5 Memorandum fair value of Jackson's GMDB and GMWB liabilities

The IFRS accounting for minimum death and withdrawal benefits guarantees of the Group's US insurance operations has a mixed measurement approach.

'Not for life' Guaranteed Minimum Withdrawal Benefits (GMWB) are accounted for as 'embedded derivatives'. Where the economic characteristics and risks of embedded derivatives are not closely related to the economic characteristics and risks of the host insurance contract, and where the contract 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, the embedded derivative liabilities for GMWB liabilities are fair valued using the economic assumptions shown below, in line with IAS 39 (FAS 157 – Fair Value Measurements.)

Where a significant insurance element is present, such as for Guaranteed Minimum Death Benefit (GMDB) and 'for life' GMWB, the guarantees are accounted for as part of the accounting applied to the host insurance contracts. Under IFRS4, the insurance contract accounting applied prior to IFRS adoption has continued to be applied. Accordingly for US variable annuity business the US GAAP standards applicable to insurance contract accounting are applied. Consistent with that approach, the GMDB and 'for life' GMWB guarantees are valued under FASB ASC Topic 944 (sub-topics 944-20, 944-40 and 944-80) Financial Services – Insurance – Separate Accounts, formerly known as "SOP03-1" (Statement of Position 03-1: "Accounting and Reporting by Insurance Enterprises Contracts and for Separate Accounts").

The two reserving methodologies typically produce quite different patterns of results. It is the variation in assumptions, and the way the two reserving methods react to emerging experience, that produces potentially significant differences in reserve patterns through time.

Both methods determine a hypothetical fee or charge (referred to in the rest of this note as "fee assessment") that is anticipated to fund future projected benefit payments arising using the assumptions applicable for that method. After determination at issue, the FAS 157 fee assessment is fixed for the life of the policy, so that variations in experience from that assumed at issue, as well as cash flow timing issues, will create a liability or asset as the value of future benefits becomes more or less, respectively, than the value of the fee assessments.

The SOP 03-1 fee assessment, on the other hand, is recomputed at each valuation date to take into account emerging experience and cash flow timing differences. After redetermination based on valuation date parameters, the new fee assessment is applied retrospectively from issue date to recompute the current reserve provision. This retrospective aspect of the calculation is not present in the FAS 157 methodology.

The chart below compares the assumption bases for the two methods in general terms as well as showing representative comparative values as of December 31, 2010. The comparative values for the projected earned rate and AA corporate bond rate are the 10-year rate in both cases, and the comparative value for volatility is the 5-year rate.

<u>Assumption</u>	<u>SOP 03-1</u>	<u>IAS 39 (FAS 157)</u>
Fund earned rate	8.4 % before fees	Quoted rate swap curve (10-year rate:- 3.4% before fees)
Discount rate	8.4%	AA corporate rate curve (10-year rate:- 4.8%)
Equity volatility	15%	Implied curve (5 year volatility:- 24%)

To provide an approximate translation of values from the SOP 03-1 basis to the IAS 39 basis, the table below shows estimates of the impact of changing each primary economic assumption from the SOP 03-1 values to the IAS 39 values.

Two other items are shown in addition: a reconciling item to account for the difference in how each method adjusts for emerging economic experience (labelled as the "method" component below), and a further adjustment to recognise the impact of additional fees collected over and above those considered for reserving purposes (i.e. the difference between fees actually collected and the hypothetical fee assessment referenced earlier).

Guaranteed Benefit Liability Supplemental Disclosure as of 31 December 2010

	Note	GMDB	GMWB "for life"	GMWB "not for life"	Total
		£m	£m	£m	£m
As recorded in I the 31 December 2010 financial statements:					
--SOP 03-1	1	220	29		249
--IAS 39 fair value	1			201	201
Total per 31 December 2010 financial statements					450
Change in assumed fund earned rate	2	375	25	n/a	400
Change in discount rate	3	200	50	n/a	250
Change in equity volatility assumption	4	225	0	n/a	225
Change in method	5	(150)	(25)	n/a	(175)
					700
Hypothetical IAS 39 basis fair value	6	870		280	1,150
Adjustment to full fees	7	(200)		(600)	(800)
Hypothetical fair value with full fee recognition	8	670		(320)	350

Notes

- Note GMWB benefits have reported components on both an SOP 03-1 and IAS 39 basis.
- Change in fund earned rate: 8.4 per cent to 3.4 per cent, producing significantly higher values of future benefit payments due to lower future assumed fund growth and therefore greater potential for future guaranteed benefit payouts. For GMWBs, future fee income is less dramatically affected, given that for most benefit forms fee income is based on a more stable benefit base rather than a current account value.
- Change in discount rate: 8.4 per cent to 4.8 per cent, producing significantly higher values, both for future benefit payments and future fees, with a net increase in liability. The absolute impact of this item will be influenced not only by the rate difference, but also by current market conditions, as the proportional impact of a particular rate change will be diluted if applied to a lower absolute value of future cash flows.
- Change in equity volatility assumption: 15 per cent to 24 per cent, producing higher values, primarily for future benefit payments. The impact is muted for GMWBs due primarily to the length of time until benefit payments occur, and also by the SOP 03-1 methodology itself.
- Generally, it is expected that the SOP 03-1 methodology will "lag" market events in terms of reflecting their impact in the reserve calculation. This is because of the retrospective aspect of the calculation described above. This line item is also the balancing item in the reconciliation so contains any cross-effects from other variables.
- Representation of an approximate hypothetical IAS 39 (FAS 157) value were all guaranteed benefits to be reported on this basis.
- Value of actual fees collected, on an IAS 39 assumption basis, over and above those already considered in the reserve calculation. The reserve calculation restricts the level of future guarantee fees to a level that is sufficient to meet the expected benefit payments at issue using at issue assumptions to avoid profit recognition at inception.
- Resulting modified hypothetical IAS 39 (FAS 157) value including adjustment for the value of fees in excess of those considered in the reserve calculation.

In all cases, values shown above, were they to be reflected in actual financial statements, would be significantly offset by an adjustment to deferred acquisition costs, which is impacted by changes in gross profit elements of the variable annuity product. Thus, for example, it might be expected that the GMDB impacts shown would be offset by some 70 to 75 per cent of the change illustrated, and the GMWB impacts shown would be offset by some 50-55% of the change illustrated. The table below illustrates the approximate impact on shareholders' equity.

Estimated impact on Shareholders' Equity

	Accounts carrying value to hypothetical IAS 39 basis fair value	Accounts carrying value to hypothetical fair value with full fee recognition
Estimated increase/(decrease) in liability	700	(100)
Related adjustments to:		
DAC	(475)	(50)
Deferred tax	(75)	50
Estimated Decrease/(increase) in Shareholders' Equity	150	(100)

All numbers rounded to the nearest £25 million.

6 Funds under management

(i) Summary

	2010	2009
	£bn	£bn
Business area		
Asian operations	30.9	23.7
US operations	63.6	49.6
UK operations	145.2	135.6
Internal funds under management	239.7	208.9
External funds ^{(note (i))}	100.4	80.9
Total funds under management	340.1	289.8

Note

- (i) External funds shown above for 2010 of £100.4 billion (2009: £80.9 billion) comprise £111.4 billion (2009: £89.8 billion) in respect of investment products, as published in the New Business schedules (see schedule VIII) less £11.0 billion (2009: £8.9 billion) that are classified within internal funds.

(ii) Internal funds under management – analysis by business area

	Asian operations		US operations		UK operations		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Investment properties ^{(note (i))}	-	-	0.1	0.1	11.5	11.0	11.6	11.1
Equity securities	14.5	11.4	31.5	21.0	40.7	37.0	86.7	69.4
Debt securities	14.1	10.0	26.4	22.8	75.9	69.1	116.4	101.9
Loans and receivables	1.3	1.2	4.2	4.3	3.8	3.3	9.3	8.8
Other investments	1.0	1.1	1.4	1.4	13.3	15.2	15.7	17.7
Total	30.9	23.7	63.6	49.6	145.2	135.6	239.7	208.9

Note

- (i) As included in the investments section of the consolidated statement of financial position at 31 December 2010 except for £0.4 billion (2009: £0.2 billion) investment properties which are held-for-sale or occupied by the Group and, accordingly under IFRS, are included in other statement of financial position captions.

7 Foreign currency translation

(i) Rates of exchange

The profit and loss accounts of foreign subsidiaries are translated at average exchange rates for the year. Assets and liabilities of foreign subsidiaries are translated at closing exchange rates. Foreign currency borrowings that have been used to provide a hedge against Group equity investments in overseas subsidiaries are also translated at closing exchange rates. The impact of these translations is recorded as a component of the movement in shareholders' equity.

The following translation rates have been applied:

Local currency: £	Closing 2010	Average 2010	Closing 2009	Average 2009
Hong Kong	12.17	12.01	12.52	12.14
Indonesia	14,106.51	14,033.41	15,171.52	16,173.28
Malaysia	4.83	4.97	5.53	5.51
Singapore	2.01	2.11	2.27	2.27
India	70.01	70.66	75.15	75.70
Vietnam	30,526.26	29,587.63	29,832.74	27,892.39
USA	1.57	1.55	1.61	1.57

(ii) Effect of rate movements on results

	As published 2010 (note (i)) £m	Memorandum 2009 (note (i) and (ii)) £m
IFRS basis results		
Asian operations:		
Long-term operations	536	451
Development expenses	(4)	(6)
Total Asian insurance operations after development costs	532	445
Asset management	72	58
Total Asia operations	604	503
US operations		
Jackson ^{(note (iii))}	833	626
Broker-dealer, asset management and Curian operations	22	4
Total US operations	855	630
UK operations		
Long-term business	673	606
General insurance commission	46	51
Total UK insurance operations	719	657
M&G	284	238
Total UK operations	1,003	895
Total segment profit	2,462	2,028
Other income and expenditure	(450)	(396)
Solvency II implementation costs	(45)	(23)
Restructuring costs	(26)	-
Operating profit from continuing operations based on longer-term investment returns	1,941	1,609
Shareholders' funds	8,031	6,473

	As published 2010 (note (i)) £m	Memorandum 2009 (note (i) and (ii)) £m
EEV basis results		
Asian operations:		
New business:		
Excluding Japan	902	783
Japan	(1)	(13)
Total	901	770
Business in force	549	420
Long-term operations	1,450	1,190
Asset management	72	58
Development expenses	(4)	(6)
Total Asia operations	1,518	1,242
US operations		
New business	761	673
Business in force	697	576
Jackson	1,458	1,249
Broker-dealer, asset management and Curian operations	22	4
Total US operations	1,480	1,253
UK operations		
New business	365	230
Business in force	571	640
Long-term business	936	870
General insurance commission	46	51
Total insurance	982	921
M&G	284	238
Total UK operations	1,266	1,159
Other income and expenditure	(494)	(434)
Solvency II implementation costs	(46)	-
Restructuring costs	(28)	(27)
Operating profit from continuing operations based on longer-term investment returns	3,696	3,193
Shareholders' funds	18,207	15,904

Notes

- (i) The 'as published' operating profit for 2010 and 'memorandum' operating profit for 2009 have been calculated by applying average 2010 exchange rates (CER).
The 'as published' shareholders' funds for 2010 and memorandum' shareholders' funds for 2009 have been calculated by applying closing period end 2010 exchange rates.
- (ii) The 2009 operating profit of Asian long-term operations excludes the results of the Taiwan agency business for which the sale process was completed in June 2009.
- (iii) The Company has amended the presentation of IFRS operating profit for its US insurance operations to remove the net equity hedge accounting credit/charge (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations. The 2009 'memorandum' operating profit amounts have been amended accordingly.

8 New Business Schedules

BASIS OF PREPARATION

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

The format of the schedules is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. Products categorised as "insurance" refer to those classified as contracts of long-term insurance business for regulatory reporting purposes, i.e. falling within one of the classes of insurance specified in part II of Schedule 1 to the Regulated Activities Order under FSA regulations.

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

New business premiums for regular premium products are shown on an annualised basis. Department of Work and Pensions rebate business is classified as single recurrent business. Internal vesting business is classified as new business where the contracts include an open market option.

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

Notes to Schedules 8(a) – 8(f)

- (1a) Insurance and investment new business for overseas operations has been calculated using average exchange rates. The applicable rate for Jackson is 1.55.
- (1b) Insurance and investment new business for overseas operations for 2009 has been calculated using constant exchange rates. The applicable rate for Jackson is 1.55.
- (2) New business values are all presented pre-tax.
- (3) Annual Equivalents, calculated as regular new business contributions plus ten per cent of single new business contributions, are subject to roundings. PVNBPs are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business. In determining the present value, allowance is made for lapses and other assumptions applied in determining the EEV new business profit.
- (4) Balance includes segregated and pooled pension funds, private finance assets and other institutional clients. Other movements reflect the net flows arising from the cash component of a tactical asset allocation fund managed by PPM South Africa.
- (5) New business in India is included at Prudential's 26 per cent interest in the India life operation.
- (6) Balance Sheet figures have been calculated at the closing exchange rate.
- (7) Sales are converted using the year to date average exchange rate applicable at the time. The sterling results for individual quarters represent the difference between the year to date reported sterling results at successive quarters and will include foreign exchange movements from earlier periods.
- (8) New business in China is included at Prudential's 50 per cent interest in the China life operation.
- (9) Mandatory Provident Fund (MPF) product sales in Hong Kong are included at Prudential's 36 per cent interest in Hong Kong MPF operation.

**Schedule 8(a) – Reported Exchange Rates
Prudential plc – NEW BUSINESS –2010
INSURANCE OPERATIONS**

	Single			Regular			Annual Equivalents ⁽³⁾			PVNBP		
	2010 YTD £m	2009 YTD £m	+/- (%)	2010 YTD £m	2009 YTD £m	+/- (%)	2010 YTD £m	2009 YTD £m	+/- (%)	2010 YTD £m	2009 YTD £m	+/- (%)
Group Insurance Operations												
Asia – ex Japan ^(1a)	1,104	785	41%	1,391	1,131	23%	1,501	1,209	24%	7,493	5,982	25%
US ^(1a)	11,417	8,885	29%	22	24	(8%)	1,164	912	28%	11,572	9,048	28%
UK	5,656	4,768	19%	254	246	3%	820	723	13%	6,842	5,902	16%
Group Total – ex Japan	18,177	14,438	26%	1,667	1,401	19%	3,485	2,844	23%	25,907	20,932	24%
Japan	13	57	(77%)	6	46	(87%)	7	52	(87%)	39	263	(85%)
Group Total	18,190	14,495	26%	1,673	1,447	16%	3,492	2,896	21%	25,946	21,195	22%
Asian Insurance Operations^(1a)												
Hong Kong	107	94	14%	276	232	19%	287	241	19%	1,693	1,414	20%
Indonesia	141	41	244%	269	186	45%	283	190	49%	1,011	671	51%
Malaysia	58	63	(8%)	198	140	41%	204	146	40%	1,153	814	42%
Philippines	64	14	357%	17	10	70%	23	11	109%	108	39	177%
Singapore	318	297	7%	143	98	46%	175	128	37%	1,357	1,033	31%
Thailand	15	14	7%	25	14	79%	26	16	63%	100	54	85%
Vietnam	1	1	0%	41	35	17%	41	35	17%	148	128	16%
SE Asia Operations inc. Hong Kong	704	524	34%	969	715	36%	1,039	767	35%	5,570	4,153	34%
China ⁽⁸⁾	103	72	43%	48	38	26%	58	45	29%	336	253	33%
India ⁽⁵⁾	85	47	81%	180	163	10%	188	168	12%	582	581	0%
Korea	66	38	74%	89	118	(25%)	96	122	(21%)	486	568	(14%)
Taiwan	146	104	40%	105	97	8%	120	107	12%	519	427	22%
Total Asia Operations - ex Japan	1,104	785	41%	1,391	1,131	23%	1,501	1,209	24%	7,493	5,982	25%
US Insurance Operations^(1a)												
Fixed Annuities	836	1,053	(21%)	-	-	0%	84	105	(20%)	836	1,053	(21%)
Fixed Index Annuities	1,089	1,433	(24%)	-	-	0%	109	143	(24%)	1,089	1,433	(24%)
Life	11	10	10%	22	24	(8%)	23	25	(8%)	166	173	(4%)
Variable Annuities	9,481	6,389	48%	-	-	0%	948	639	48%	9,481	6,389	48%
Total US Insurance Operations	11,417	8,885	29%	22	24	(8%)	1,164	912	28%	11,572	9,048	28%
UK & Europe Insurance Operations												
Direct and Partnership Annuities	593	590	1%	-	-	0%	59	59	0%	593	590	1%
Intermediated Annuities	221	242	(9%)	-	-	0%	22	24	(8%)	221	242	(9%)
Internal Vesting Annuities	1,235	1,357	(9%)	-	-	0%	124	136	(9%)	1,235	1,357	(9%)
Total Individual Annuities	2,049	2,189	(6%)	-	-	0%	205	219	(6%)	2,049	2,189	(6%)
Corporate Pensions	228	192	19%	198	191	4%	221	210	5%	1,099	1,007	9%
On-shore Bonds	1,660	1,444	15%	-	-	0%	166	145	15%	1,660	1,444	15%
Other Products	774	881	(12%)	56	55	2%	133	143	(7%)	1,089	1,200	(9%)
Wholesale	945	62	1,424%	-	-	0%	95	6	1,483%	945	62	1,424%
Total UK & Europe Insurance Ops	5,656	4,768	19%	254	246	3%	820	723	13%	6,842	5,902	16%
Group Total – ex Japan	18,177	14,438	26%	1,667	1,401	19%	3,485	2,844	23%	25,907	20,932	24%

The Prudential's European operation is based in Ireland and sells products into Jersey, Guernsey, Isle of Man, Gibraltar, Cyprus, Malta, Belgium, Spain and UK.

Schedule 8(b) – Current Exchange Rates
Prudential plc – NEW BUSINESS –2010
INSURANCE OPERATIONS

	Single			Regular			Annual Equivalents ⁽³⁾			PVNBP		
	2010 YTD £m	2009 YTD £m	+/- (%)	2010 YTD £m	2009 YTD £m	+/- (%)	2010 YTD £m	2009 YTD £m	+/- (%)	2010 YTD £m	2009 YTD £m	+/- (%)
Group Insurance Operations												
Asia – ex Japan ^(1b)	1,104	840	31%	1,391	1,216	14%	1,501	1,300	15%	7,493	6,407	17%
US ^(1b)	11,417	9,000	27%	22	24	(8%)	1,164	924	26%	11,572	9,165	26%
UK	5,656	4,768	19%	254	246	3%	820	723	13%	6,842	5,902	16%
Group Total – ex Japan	18,177	14,608	24%	1,667	1,486	12%	3,485	2,947	18%	25,907	21,474	21%
Japan	13	61	(79%)	6	50	(88%)	7	56	(88%)	39	284	(86%)
Group Total	18,190	14,669	24%	1,673	1,536	9%	3,492	3,003	16%	25,946	21,758	19%
Asian Insurance Operations^(1b)												
Hong Kong	107	95	13%	276	234	18%	287	244	18%	1,693	1,429	18%
Indonesia	141	47	200%	269	214	26%	283	219	29%	1,011	773	31%
Malaysia	58	70	(17%)	198	156	27%	204	163	25%	1,153	901	28%
Philippines	64	14	357%	17	11	55%	23	12	92%	108	42	157%
Singapore	318	320	(1%)	143	106	35%	175	138	27%	1,357	1,115	22%
Thailand	15	16	(6%)	25	15	67%	26	17	53%	100	59	69%
Vietnam	1	1	0%	41	33	24%	41	33	24%	148	121	22%
SE Asia Operations inc.												
Hong Kong	704	563	25%	969	769	26%	1,039	826	26%	5,570	4,440	25%
China ⁽⁸⁾	103	74	39%	48	39	23%	58	46	26%	336	259	30%
India ⁽⁵⁾	85	51	67%	180	174	3%	188	179	5%	582	622	(6%)
Korea	66	42	57%	89	131	(32%)	96	135	(29%)	486	633	(23%)
Taiwan	146	110	33%	105	103	2%	120	114	5%	519	453	15%
Total Asia Operations - ex Japan	1,104	840	31%	1,391	1,216	14%	1,501	1,300	15%	7,493	6,407	17%
US Insurance Operations^(1b)												
Fixed Annuities	836	1,067	(22%)	-	-	0%	84	107	(21%)	836	1,067	(22%)
Fixed Index Annuities	1,089	1,452	(25%)	-	-	0%	109	145	(25%)	1,089	1,452	(25%)
Life	11	10	10%	22	24	(8%)	23	25	(8%)	166	175	(5%)
Variable Annuities	9,481	6,471	47%	-	-	0%	948	647	47%	9,481	6,471	47%
Total US Insurance Operations	11,417	9,000	27%	22	24	(8%)	1,164	924	26%	11,572	9,165	26%
UK & Europe Insurance Operations												
Direct and Partnership												
Annuities	593	590	1%	-	-	0%	59	59	0%	593	590	1%
Intermediated Annuities	221	242	(9%)	-	-	0%	22	24	(8%)	221	242	(9%)
Internal Vesting Annuities	1,235	1,357	(9%)	-	-	0%	124	136	(9%)	1,235	1,357	(9%)
Total Individual Annuities	2,049	2,189	(6%)	-	-	0%	205	219	(6%)	2,049	2,189	(6%)
Corporate Pensions	228	192	19%	198	191	4%	221	210	5%	1,099	1,007	9%
On-shore Bonds	1,660	1,444	15%	-	-	0%	166	145	15%	1,660	1,444	15%
Other Products	774	881	(12%)	56	55	2%	133	143	(7%)	1,089	1,200	(9%)
Wholesale	945	62	1,424%	-	-	0%	95	6	1,483%	945	62	1,424%
Total UK & Europe Insurance Ops	5,656	4,768	19%	254	246	3%	820	723	13%	6,842	5,902	16%
Group Total – ex Japan	18,177	14,608	24%	1,667	1,486	12%	3,485	2,947	18%	25,907	21,474	21%

Schedule 8(c) - Reported Exchange Rates
PRUDENTIAL PLC - NEW BUSINESS - 2010
TOTAL INSURANCE NEW BUSINESS APE - BY QUARTER

	2009				2010			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Insurance Operations								
Asia – ex Japan ^{(1a)(7)}	276	248	282	403	359	354	353	435
US ^{(1a)(7)}	184	208	249	272	255	305	290	314
UK	180	197	158	189	193	189	166	272
Group Total - ex Japan	640	652	689	864	807	848	809	1,021
Japan ^{(1a)(7)}	17	12	11	12	7	-	-	-
Group Total	656	664	700	876	814	848	809	1,021
Asian Insurance Operations^{(1a)(7)}								
Hong Kong	46	49	55	91	68	62	65	92
Indonesia	38	46	43	64	61	68	59	95
Malaysia	24	29	32	62	36	41	52	75
Philippines	2	2	3	4	5	5	6	7
Singapore	22	30	29	48	33	42	43	57
Thailand	4	3	4	4	5	8	7	6
Vietnam	5	9	9	11	8	10	10	13
SE Asia Operations inc. Hong Kong	141	168	175	284	216	236	242	345
China ⁽⁸⁾	11	11	13	11	14	13	15	16
India ⁽⁵⁾	56	20	40	52	73	46	48	21
Korea	37	29	30	26	22	24	23	27
Taiwan	31	20	26	30	34	35	25	26
Total Asian Insurance Operations - ex Japan	276	248	282	403	359	354	353	435
US Insurance Operations^{(1a)(7)}								
Fixed Annuities	48	22	14	21	18	24	24	18
Fixed Index Annuities	25	33	48	38	30	30	24	25
Life	6	6	6	6	6	5	6	6
Variable Annuities	105	147	180	207	201	246	236	265
Total US Insurance Operations	184	208	249	272	255	305	290	314
UK & Europe Insurance Operations								
Direct and Partnership Annuities	13	14	15	17	20	16	14	9
Intermediated Annuities	6	8	6	5	6	6	5	5
Internal Vesting annuities	39	34	30	33	33	31	29	31
Total Individual Annuities	58	56	50	55	59	53	48	45
Corporate Pensions	52	62	41	55	60	62	48	51
On-shore Bonds	34	42	34	35	33	36	41	56
Other Products	35	35	33	41	40	38	27	28
Wholesale	1	1	1	3	1	-	2	92
Total UK & Europe Insurance Operations	180	197	158	189	193	189	166	272
Group Total – ex Japan	640	652	689	864	807	848	809	1,021

Schedule 8(d) - Current Exchange Rates
PRUDENTIAL PLC - NEW BUSINESS – 2010
TOTAL INSURANCE NEW BUSINESS APE - BY QUARTER

	2009				2010			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Insurance Operations								
Asia – ex Japan ^{(1b)(7)}	285	267	314	434	359	354	353	435
US ^{(1b)(7)}	171	207	261	285	255	305	290	314
UK	180	197	158	189	193	189	166	272
Group Total - ex Japan	636	671	733	908	807	848	809	1,021
Japan ^{(1b)(7)}	17	14	13	13	7	-	-	-
Group Total	653	685	746	921	814	848	809	1,021
Asian Insurance Operations^{(1b)(7)}								
Hong Kong	43	49	58	94	68	62	65	92
Indonesia	45	53	50	71	61	68	59	95
Malaysia	25	32	36	70	36	41	52	75
Philippines	2	2	3	5	5	5	6	7
Singapore	22	32	32	52	33	42	43	57
Thailand	4	4	5	4	5	8	7	6
Vietnam	5	8	9	11	8	10	10	13
SE Asia Operations inc. Hong Kong	146	180	193	307	216	236	242	345
China ⁽⁸⁾	10	11	13	12	14	13	15	16
India ⁽⁵⁾	56	23	45	55	73	46	48	21
Korea	42	32	34	27	22	24	23	27
Taiwan	31	21	29	33	34	35	25	26
Total Asian Insurance Operations - ex Japan	285	267	314	434	359	354	353	435
US Insurance Operations^{(1b)(7)}								
Fixed Annuities	45	23	16	23	18	24	24	18
Fixed Index Annuities	23	33	50	39	30	30	24	25
Life	6	6	6	7	6	5	6	6
Variable Annuities	97	145	189	216	201	246	236	265
Total US Insurance Operations	171	207	261	285	255	305	290	314
UK & Europe Insurance Operations								
Direct and Partnership Annuities	13	14	15	17	20	16	14	9
Intermediated Annuities	6	8	6	5	6	6	5	5
Internal Vesting annuities	39	34	30	33	33	31	29	31
Total Individual Annuities	58	56	50	55	59	53	48	45
Corporate Pensions	52	62	41	55	60	62	48	51
On-shore Bonds	34	42	34	35	33	36	41	56
Other Products	35	35	33	41	40	38	27	28
Wholesale	1	1	1	3	1	-	2	92
Total UK & Europe Insurance Operations	180	197	158	189	193	189	166	272
Group Total – ex Japan	636	671	733	908	807	848	809	1,021

Schedule 8(e) - Reported Exchange Rates
PRUDENTIAL PLC - NEW BUSINESS – 2010
INVESTMENT OPERATIONS - BY QUARTER

	2009				2010			
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m	Q3 £m	Q4 £m
Group Investment Operations								
Opening FUM	62,279	61,703	72,336	85,016	89,780	96,746	96,015	104,451
Net Flows	2,725	7,344	2,898	2,450	1,203	3,173	1,802	2,712
- Gross Inflows	19,154	25,567	26,394	24,942	24,173	27,182	25,727	29,887
- Redemptions	(16,429)	(18,223)	(23,496)	(22,492)	(22,970)	(24,009)	(23,925)	(27,175)
Other Movements	(3,301)	3,289	9,782	2,314	5,763	(3,904)	6,634	4,211
Total Group Investment Operations	61,703	72,336	85,016	89,780	96,746	96,015	104,451	111,374
M&G								
Retail								
Opening FUM	19,142	19,671	23,324	28,504	31,059	34,069	33,724	38,232
Net Flows	2,207	1,863	1,656	1,790	1,454	1,922	1,742	2,298
- Gross Inflows	3,325	3,126	3,315	3,802	4,190	4,450	3,986	5,285
- Redemptions	(1,118)	(1,263)	(1,659)	(2,012)	(2,736)	(2,528)	(2,244)	(2,987)
Other Movements	(1,678)	1,790	3,524	765	1,556	(2,267)	2,766	1,976
Closing FUM	19,671	23,324	28,504	31,059	34,069	33,724	38,232	42,506
Institutional⁽⁴⁾								
Opening FUM	27,855	26,865	32,597	37,731	39,247	42,155	41,946	44,694
Net Flows	336	4,219	856	551	435	863	(206)	597
- Gross Inflows	1,083	5,097	2,495	2,632	2,151	2,581	1,630	2,099
- Redemptions	(747)	(878)	(1,639)	(2,081)	(1,716)	(1,718)	(1,836)	(1,502)
Other Movements	(1,326)	1,513	4,278	965	2,473	(1,072)	2,954	1,529
Closing FUM	26,865	32,597	37,731	39,247	42,155	41,946	44,694	46,820
Total M&G Investment Operations	46,536	55,921	66,235	70,306	76,224	75,670	82,926	89,326
Asia								
Equity/Bond/Other⁽⁹⁾								
Opening FUM	10,570	10,038	10,636	12,492	13,122	14,923	14,497	15,825
Net Flows	(370)	174	322	57	166	1,031	446	103
- Gross Inflows	911	1,083	1,725	1,512	1,713	3,414	3,248	3,423
- Redemptions	(1,281)	(909)	(1,403)	(1,455)	(1,547)	(2,383)	(2,802)	(3,320)
Other Movements	(162)	424	1,534	573	1,635	(1,457)	882	430
Closing FUM	10,038	10,636	12,492	13,122	14,923	14,497	15,825	16,358
Third Party Institutional Mandates								
Opening FUM	789	799	859	1,008	1,450	1,549	1,604	1,680
Net Flows	1	2	(2)	372	5	125	(39)	-
- Gross Inflows	24	10	5	378	12	137	14	12
- Redemptions	(23)	(8)	(7)	(6)	(7)	(12)	(53)	(12)
Other Movements	9	58	151	70	94	(70)	115	127
Closing FUM	799	859	1,008	1,450	1,549	1,604	1,680	1,807
MMF								
Opening FUM	3,873	4,286	4,882	5,281	4,902	4,050	4,244	4,020
Net Flows	554	1,095	115	(321)	(857)	(768)	(141)	(286)
- Gross Inflows	13,808	16,248	18,854	16,618	16,107	16,600	16,849	19,068
- Redemptions	(13,254)	(15,153)	(18,739)	(16,939)	(16,964)	(17,368)	(16,990)	(19,354)
Other Movements	(141)	(499)	284	(58)	5	962	(83)	149
Closing FUM	4,286	4,882	5,281	4,902	4,050	4,244	4,020	3,883
Total Asian Investment Operations	15,123	16,377	18,781	19,474	20,522	20,345	21,525	22,048
US								
Retail								
Opening FUM	50	44	38	-	-	-	-	-
Net Flows	(3)	(9)	(49)	1	-	-	-	-
- Gross Inflows	3	3	-	-	-	-	-	-
- Redemptions	(6)	(12)	(49)	1	-	-	-	-
Other Movements	(3)	3	11	(1)	-	-	-	-
Closing FUM	44	38	-	-	-	-	-	-
Curian Capital - FUM	1,613	1,646	2,041	2,260	2,708	2,781	3,038	3,457

Schedule 8(f) - Reported Exchange Rates
PRUDENTIAL PLC - NEW BUSINESS – 2010
TOTAL INSURANCE NEW BUSINESS PROFIT AND MARGIN (% APE AND % PVNBP)

	2009				2010			
	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m	Q1 YTD £m	Q2 YTD £m	Q3 YTD £m	Q4 YTD £m
Annual Equivalent⁽³⁾								
Total Asian Insurance Operations - ex Japan	276	524	806	1,209	359	713	1,066	1,501
Total US Insurance Operations	184	392	640	912	255	560	850	1,164
Total UK & Europe Insurance Operations	180	376	534	723	193	382	548	820
Group Total - ex Japan	640	1,292	1,980	2,844	807	1,655	2,464	3,485
Japan	17	29	40	52	7	7	7	7
Group Total	657	1,321	2,020	2,896	814	1,662	2,471	3,492
New business profit⁽²⁾								
Total Asian Insurance Operations - ex Japan	136	286	465	725	183	396	621	902
Total US Insurance Operations	140	292	482	664	175	361	532	761
Total UK & Europe Insurance Operations	60	122	169	230	69	135	192	365
Group Total - ex Japan	336	700	1,116	1,619	427	892	1,345	2,028
Japan	(4)	(9)	(12)	(12)	(1)	(1)	(1)	(1)
Group Total	332	691	1,104	1,607	426	891	1,344	2,027
New business margin (% of APE)								
Total Asian Insurance Operations - ex Japan	49%	55%	58%	60%	51%	56%	58%	60%
Total US Insurance Operations	76%	74%	75%	73%	69%	64%	63%	65%
Total UK & Europe Insurance Operations	33%	32%	32%	32%	36%	35%	35%	45%
Group Total - ex Japan	53%	54%	56%	57%	53%	54%	55%	58%
Japan	(24%)	(31%)	(30%)	(23%)	(14%)	(14%)	(14%)	(14%)
Group Total	51%	52%	55%	56%	52%	54%	54%	58%
PVNBP⁽³⁾								
Total Asian Insurance Operations - ex Japan	1,297	2,551	3,987	5,982	1,581	3,316	5,071	7,493
Total US Insurance Operations	1,840	3,889	6,360	9,048	2,538	5,569	8,457	11,572
Total UK & Europe Insurance Operations	1,490	3,062	4,372	5,902	1,557	3,081	4,463	6,842
Group Total - ex Japan	4,627	9,502	14,719	20,932	5,676	11,966	17,991	25,907
Japan	82	155	212	263	32	34	36	39
Group Total	4,709	9,657	14,931	21,195	5,708	12,000	18,027	25,946
New business profit⁽²⁾								
Total Asian Insurance Operations - ex Japan	136	286	465	725	183	396	621	902
Total US Insurance Operations	140	292	482	664	175	361	532	761
Total UK & Europe Insurance Operations	60	122	169	230	69	135	192	365
Group Total - ex Japan	336	700	1,116	1,619	427	892	1,345	2,028
Japan	(4)	(9)	(12)	(12)	(1)	(1)	(1)	(1)
Group Total	332	691	1,104	1,607	426	891	1,344	2,027
New business margin (% of PVNBP)								
Total Asian Insurance Operations - ex Japan	10.5%	11.2%	11.7%	12.1%	11.6%	11.9%	12.2%	12.0%
Total US Insurance Operations	7.6%	7.5%	7.6%	7.3%	6.9%	6.5%	6.3%	6.6%
Total UK & Europe Insurance Operations	4.0%	4.0%	3.9%	3.9%	4.4%	4.4%	4.3%	5.3%
Group Total - ex Japan	7.3%	7.4%	7.6%	7.7%	7.5%	7.5%	7.5%	7.8%
Japan	(4.9%)	(5.8%)	(5.7%)	(4.6%)	(3.1%)	(2.9%)	(2.8%)	(2.6%)
Group Total	7.1%	7.2%	7.4%	7.6%	7.5%	7.4%	7.5%	7.8%